

SECURITIES AND EXCHANGE COMMISSION

FORM 10-K405

Annual report pursuant to section 13 and 15(d), Regulation S-K Item 405

Filing Date: **1999-03-26** | Period of Report: **1998-12-31**
SEC Accession No. **0000885508-99-000001**

([HTML Version](#) on secdatabase.com)

FILER

STRATUS PROPERTIES INC

CIK: **885508** | IRS No.: **721211572** | State of Incorpor.: **DE** | Fiscal Year End: **1231**
Type: **10-K405** | Act: **34** | File No.: **000-19989** | Film No.: **99574611**
SIC: **6552** Land subdividers & developers (no cemeteries)

Mailing Address
*1615 POYDRAS ST
NEW ORLEANS LA 70112*

Business Address
*98 SAN JACINTO BLVD
SUITE 220
AUSTIN TX 78701
5124785788*

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

(Mark One)

X ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 1998
OR
TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the Transition Period From to
Commission file number 0-19989

Stratus Properties Inc.

(Exact name of Registrant as specified in Charter)

Delaware

72-1211572

(State or other jurisdiction of
incorporation or organization)

(I.R.S. Employer
Identification No.)

98 San Jacinto Blvd., Suite 220

Austin, Texas

78701

(Address of principal executive offices)

(Zip Code)

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

Securities registered pursuant to Section 12(b) of the Act:

None

Securities registered pursuant to Section 12(g) of the Act:

Common Stock Par Value \$0.01 per Share

Preferred Stock Purchase Rights

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 _

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein,

and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. X

The aggregate market value of the voting stock held by non-affiliates of the registrant was approximately \$43,880,000 on March 16, 1999.

On March 16, 1999, 14,288,270 shares of Common Stock, par value \$0.01 per share, of the registrant were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's Proxy Statement to be submitted to the registrant's stockholders in connection with its 1999 Annual Meeting to be held on May 13, 1999, are incorporated by reference into Part III of this Report.

TABLE OF CONTENTS

	Page
Part I.....	1
Item 1 Business.....	1
Overview.....	1
Company Strategies.....	1
Credit Facility and IGL Debt Guarantee.....	2
Transactions with Olympus.....	2
Regulation and Environmental Matters.....	3
Employees.....	3
Cautionary Statements.....	3
Item 2. Properties.....	5
Item 3 Legal Proceedings.....	5
Item 4. Submission of Matters to a Vote of Security Holders....	7
Executive Officers of the Registrant	7
Part II.....	7
Item 5. Market for Registrant's Common Equity and Related Stockholder Matters	7
Item 6. Selected Financial Data.....	8
Items 7. and 7A.	

Management's Discussion and Analysis of Financial Condition and Results of Operations and Disclosures about Market Risks	8
Item 8. Financial Statements and Supplementary Data.....	14
Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	26
Part III.....	26
Item 10. Directors and Executive Officers of the Registrant...	26
Item 11. Executive Compensation.....	26
Item 12. Security Ownership of Certain Beneficial Owners and Management.....	26
Item 13. Certain Relationships and Related Transactions	26
Part IV.....	26
Item 14. Exhibits, Financial Statement Schedules and Reports on Form 8-K	26
Signatures.....	S-1
Financial Statement Schedules.....	F-1
Exhibits.....	E-1

PART I

Item 1. Business
Overview

Stratus Properties Inc., a Delaware corporation (STRS), was organized in March 1992 by the former parent company, Freeport-McMoRan Inc. (FTX), and operates through Stratus Properties Operating Co., a Delaware general partnership (the Partnership), which is owned by STRS and a wholly owned subsidiary of STRS. STRS was formed to hold, operate and develop substantially all domestic oil and gas properties of, and substantially all domestic real estate then held for development by, FTX and certain of its subsidiaries. STRS also assumed substantially all of the liabilities related to such assets, including approximately \$500 million of indebtedness, substantially all of which was guaranteed by FTX (see "Credit Facility and IGL Debt Guarantee" below). STRS sold all of its oil and gas properties and currently is engaged solely in the development and marketing

of real estate in the Austin, Dallas, Houston and San Antonio, Texas areas.

STRS' principal real estate holdings are currently in the Austin, Texas area and consist of approximately 2,450 acres of undeveloped residential, multi-family and commercial property within the Barton Creek development, 1,300 acres of undeveloped property within the Circle C Ranch development, and 500 acres of undeveloped residential, multi-family and commercial property known as the Lantana tract, south of and adjacent to the Barton Creek development.

STRS also owns 99 developed lots, 169 acres of undeveloped residential property and 75 acres of undeveloped commercial and multi-family property located in Dallas, Houston and San Antonio, Texas that are being actively marketed. See Item 2, "Properties." These real estate interests are managed by unaffiliated professional real estate developers who have been retained to provide master planning, zoning, permitting, development, construction and marketing services for the properties. Under the terms of these agreements, STRS funds operating expenses and development costs, net of revenues, and the developers are entitled to a management fee and a 25 percent interest in the net profits, after recovery by STRS of its investments and a stated return, resulting from the sale of properties under their management.

Pursuant to a joint venture agreement between STRS and IMC-Agrico Company (IMC-Agrico), a joint venture between Phosphate Resource Partners Limited Partnership, an affiliate of IMC Global Inc. (IGL), and IGL, STRS may also participate in the potential future development of up to approximately 171,000 acres of land in Florida owned by IMC-Agrico that has been or will be reclaimed following completion of IMC-Agrico's phosphate mining activities on the properties. No significant development activity is expected in Florida in the near future.

Company Strategies

Since the formation of STRS, the primary objective of managing, developing and operating its assets has been the reduction of its indebtedness and the elimination of the debt guarantee. During 1996 and 1997, STRS was able to sell a substantial number of properties in the Austin area because of several positive legislative and judicial developments. As a result, STRS generated significantly higher operating cash flows, which enabled it to reduce its debt by \$63 million during 1996 and \$21.2 million during 1997. Outstanding debt totaled \$29.2 million at December 31, 1998.

In December 1997 in connection with the merger of FTX and IGL, STRS restructured its credit agreement and purchased the portion

of the Partnership that it did not previously own. These events enabled STRS to become an autonomous company, reduced restrictions on its business activities and allowed it to pursue its long standing objective of establishing a long-term, self-supporting capital structure. In May 1998, STRS formed a strategic alliance with Olympus Real Estate Corporation (Olympus) to develop certain of STRS' existing properties and to jointly pursue new real estate acquisition and development activities. These transactions are discussed in more detail below under the headings, "Credit Facility and IGL Debt Guarantee" and "Transactions with Olympus."

STRS continues to focus its efforts on reducing and/or restructuring its debt, developing its properties, and increasing its return on stockholders' equity. Key factors in accomplishing these goals include:

- . STRS' overall strategy is to enhance the value of its Austin properties by securing and maintaining development entitlements, developing and building its own real estate projects for sale or investment and limiting the need for tract sales to subdevelopers, thereby increasing STRS' potential returns from its core assets. These future developments may be through joint ventures or wholly owned by STRS. To that end, STRS has recently completed construction at the ABC West Joint Venture project and is currently developing the first phase of an office project at its Lantana Corporate Center and several new subdivisions surrounding a new Tom Fazio designed golf course being constructed on its Barton Creek project.

1

- . STRS believes that it has the right to receive in the future up to \$40 million in reimbursement of certain of its prior municipal utility development costs. Substantial additional costs eligible for reimbursement will be incurred in the future as development continues. STRS received approximately \$4.7 million of Municipal Utility District (MUD) reimbursements during 1998. Approximately \$1.0 million of these reimbursements were associated with the Barton Creek MUDs while the remaining \$3.7 million was received from the Circle C MUDs. STRS is continuing litigation to enforce its entitlement rights to almost approximately \$18 million in Circle C MUD reimbursements. See Item 3, "Legal Proceedings," for more details on that matter.

- . STRS faces significant challenges to the development entitlements of its core properties in Austin, which are more fully discussed under Item 3, "Legal Proceedings." STRS will

continue to vigorously defend its rights to the development entitlements of all its properties, but the City of Austin's (the City) aggressive attempts to restrict growth in the area of STRS' holdings have had and are expected to continue to have a negative effect on near term development and sales activities.

. During 1998 STRS acquired a 50 percent interest in a partnership with Olympus to manage the development of Olympus' Walden on Lake Houston project near Houston, Texas. STRS will continue to evaluate new opportunities in its existing markets, including Dallas, Houston and San Antonio, as well as elsewhere, in an effort to diversify its holdings both geographically and by type of product.

The transactions described under the heading "Transactions with Olympus" and "Credit Facility and IGL Debt Guarantee" below have increased STRS' autonomy over its operations and short-term financial flexibility and enabled STRS to further develop its core assets in Austin. However, significant capital resources will be required to fund STRS' further development expenditures and debt reduction requirements under its existing credit agreement. See "Capital Resources and Liquidity" included herein under Items 7 and 7A. In addition, STRS anticipates continued challenges to its development entitlements from the City and special interest groups that may result in delays and higher development costs requiring additional capital unless resolved. See Item 3, "Legal Proceedings." STRS will continue to explore options for restructuring or refinancing its credit agreement and various means of raising capital, including equity and subordinated debt investments and additional joint ventures with Olympus. The future performance of STRS continues to be dependent on its cash flows from real estate sales, which will be significantly affected by future real estate values, regulatory issues, development costs, future interest rate levels and the ability of STRS to continue to protect its land use and development entitlements. STRS will be required to actively pursue all of its alternatives in order to generate sufficient cash flow or obtain sufficient funds to carry out its development programs and reduce its bank debt from \$27.1 million at December 31, 1998 to \$15 million by January 1, 2000 as required by its existing credit facility.

Credit Facility and IGL Debt Guarantee

On December 22, 1997, FTX merged into IGL (the Merger). In connection with the Merger, FTX sold its 0.2 percent interest as managing general partner of the Partnership to STRS and a wholly owned subsidiary of STRS for \$100,000. In addition, STRS restructured its bank credit agreement to extend its term to January 1, 2001, with staged reductions of credit available through the term. STRS had available credit of \$50 million

through December 31, 1998. On January 1, 1999 the available credit was reduced to \$35 million through December 31, 1999, and will be further reduced to \$15 million on January 1, 2000. On January 1, 2001, availability under this credit agreement will be terminated. As a result of the Merger, IGL became guarantor under this credit agreement in place of FTX. As financial guarantor of STRS' credit agreement, IGL receives an annual fee equal to the difference between STRS' cost of LIBOR-funded borrowings before the assumption of the guarantee by IGL and the rate on LIBOR-funded loans under the restructured agreement. This fee was 60 basis points (0.6 percent) annually as of December 31, 1998. STRS has granted liens in favor of IGL on certain of its properties as security for the guarantee. These liens would be released for property sales, subject to certain restrictions. Additionally, under the guarantee terms STRS cannot amend or refinance the credit facility without IGL's consent.

Transactions with Olympus

On May 22, 1998, STRS and Olympus, an affiliate of Hicks, Muse, Tate and Furst Incorporated, formed a strategic alliance to develop certain of STRS' existing properties and to pursue new real estate acquisition and development opportunities. Under terms of the agreement, Olympus purchased \$10 million of STRS' mandatorily redeemable preferred stock, provided a \$10 million convertible debt facility to STRS and agreed to make available up to \$50 million of additional capital representing its share of direct investments in joint STRS/Olympus projects. Olympus has the right to nominate one member or up to 20 percent of STRS' Board of Directors, whichever is greater.

On September 30, 1998, STRS entered into two separate transactions with Olympus. The first provided for the development of a 75 residential lot project at the Barton Creek ABC West Phase I subdivision. STRS sold the land to the joint

2

venture for approximately \$3.2 million and paid approximately \$0.5 million for its 50 percent equity interest in the ongoing project. The other transaction involved approximately 700 developed lots and 80 acres of platted but undeveloped real estate at the Walden on Lake Houston project, which Olympus purchased in April 1998 and STRS has managed ever since. STRS acquired its 50 percent interest in the related partnership utilizing \$2.0 million of funds available under the Olympus convertible debt facility. For further discussion of transactions see "Transactions with Olympus" included in Items 7 and 7A below.

Regulation and Environmental Matters

STRS' real estate investments are subject to extensive local, city, county and state rules and regulations regarding permitting, zoning, subdivision, utilities and water quality as well as federal rules and regulations regarding air and water quality and protection of endangered species and their habitats.

Such regulation has delayed and will likely continue to delay development of STRS' properties and result in higher developmental and administrative costs. See Item 3, "Legal Proceedings."

STRS is making, and will continue to make, expenditures with respect to its real estate development for the protection of the environment. Emphasis on environmental matters will result in additional costs in the future. Upon analysis of its operations in relation to current and presently anticipated environmental requirements, STRS does not anticipate that these costs will have a material adverse effect on its future operations or financial condition.

Employees

Since January 1, 1996, a corporation currently owned 10 percent by STRS (the Services Company), has provided executive, accounting, legal, financial, tax, insurance, personnel and management information and similar services pursuant to a services agreement between STRS and the Services Company, which STRS may terminate at any time upon 90 days notice. Effective January 1, 1998, the Services Company provides these services on a cost reimbursement basis, which totaled \$1.0 million in 1998. Previously the Services Company provided these services to STRS for a fixed annual fee of \$500,000. At December 31, 1998, STRS had 14 employees, who manage its operations and supervise the functions of Services Company personnel under the Services Agreement.

Cautionary Statements

This report includes "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Forward-looking statements are all statements other than statements of historical fact included in this report, including, without limitation, the statements under the headings "Business," "Properties," "Market for Registrant's Common Equity and Related Stockholder Matters," and "Management's Discussion and Analysis of Financial Condition and Results of Operations and Disclosures about Market Risks" regarding STRS' financial position and liquidity, payment of dividends, strategic plans, future financing plans, development and capital expenditures, business strategies, and other plans and objectives of the management of STRS for future operations and activities.

Forward-looking statements are based on certain assumptions and analysis made by STRS in light of its experience and its perception of historical trends, current conditions, expected future developments and other factors it believes are appropriate under the circumstances. These statements are subject to a number of assumptions, risks and uncertainties, including the risk factors discussed below and in STRS' other filings with the Securities and Exchange Commission, general economic and business conditions, the business opportunities that may be presented to and pursued by STRS, changes in laws or regulations and other factors, many of which are beyond the control of STRS. Readers are cautioned that these statements are not guarantees of future performance, and actual results or developments may differ materially from those projected, predicted or assumed in the forward-looking statements. All subsequent written and oral forward-looking statements attributable to STRS or persons acting on its behalf are expressly qualified in their entirety by these cautionary statements. Important factors that could cause actual results to differ materially from those projected in the forward-looking statements include, among others:

Financing and Liquidity. Substantial reductions in STRS' debt have been made since its formation in 1992. However, significant capital resources will be required to fund STRS' development expenditures and its debt reduction requirements under its credit agreement. STRS continues to explore options for restructuring or refinancing its credit agreement and various means of raising capital, including equity sales, formation of joint ventures with Olympus, various forms of debt financing and other means. STRS' performance continues to be dependent on future cash flows from real estate sales, and there can be no assurance that STRS will generate sufficient cash flow or otherwise obtain sufficient funds to make the required debt reduction to \$15 million by January 1, 2000 under its credit agreement.

3

Although all of STRS' outstanding bank debt subject to the terms of the bank credit facility is currently guaranteed by IGL, there is no commitment by IGL to guarantee any such debt after December 2000, and there is no expectation that IGL will provide any further guarantee.

STRS' real estate operations are also dependent upon the availability and cost of mortgage financing for potential customers, to the extent they finance their purchases, and for buyers of the potential customers' existing residences.

Performance of the Real Estate Industry. The real estate activities of STRS are subject to numerous factors outside of the

control of management, including local real estate market conditions (both where its properties are located and in areas where its potential customers reside), substantial existing and potential competition, the cyclical nature of the real estate business, general national, regional and local economic conditions, fluctuations in interest rates and mortgage availability and changes in demographic conditions. Real estate markets have historically been subject to strong periodic cycles driven by numerous factors beyond the control of market participants.

Real estate investments are relatively illiquid and market values may be adversely affected by these economic circumstances, market fundamentals, competition and demographic conditions. Because of the effect of these factors on real estate values, it is difficult to predict with certainty the level of future sales or sales prices that will be realized for individual assets.

Regulatory Approval. Before STRS can develop a property it must obtain a variety of approvals from local and state governments with respect to such matters as zoning, density, parking, subdivision, architectural design and environmental issues. Because of the discretionary nature of these approvals and the concerns about development in the areas where STRS' properties are located that are often raised by government agencies and special interest groups during the approval and development processes, STRS' ability to develop properties and realize future income from its projects could be delayed, reduced, prevented or made more expensive.

The City and certain special interest groups have long opposed certain of STRS' plans in the Austin area and have taken various actions to partially or completely restrict development in certain areas, including areas where some of STRS' most valuable properties are located. These actions are being actively opposed by STRS and other interested parties, and management does not believe unfavorable rulings will have a significant long-term adverse effect on the overall value of STRS' property holdings. However, because of the regulatory environment that continues to exist in the Austin area and the intensive opposition of certain interest groups, there can be no assurance that such expectations will prove correct. A more complete discussion of these matters is set forth under Item 3, "Legal Proceedings."

Environmental Regulation. Real estate development is subject to state and federal regulations and to possible interruption or termination on account of environmental considerations, including, without limitation, air and water quality and protection of endangered species and their habitats. Certain of the Barton Creek properties include nesting territories for the Golden Cheek Warbler, a federally listed endangered species. In

February 1995 STRS received a permit from the U.S. Wildlife Service pursuant to the Endangered Species Act (the ESA), which to date has allowed the development of the Barton Creek properties, free of restrictions under the ESA related to the maintenance of habitat for the Golden Cheek Warbler. Additionally, in April 1997, the U.S. Department of Interior (DOI) listed the Barton Springs Salamander as an endangered species after a federal court overturned a March 1997 decision by the DOI not to list the Barton Springs Salamander based on a conservation agreement between the State of Texas and federal agencies. The listing of the Barton Springs Salamander hasn't affected, nor does STRS anticipate it will affect, its Barton Creek and Lantana properties for several reasons, including the results of technical studies and STRS' U.S. Fish and Wildlife Service 10(a) permit obtained in 1995. STRS' Circle C properties may, however, be affected, although the extent of any impact cannot be determined at this time. Special interest groups provided written notice of their intention to challenge STRS' 10(a) permit and compliance with water quality regulations, but no challenge has yet to occur.

STRS is making, and will continue to make, expenditures with respect to its real estate development for the protection of the environment. Emphasis on environmental matters will result in additional costs in the future.

Competition. STRS' business is highly competitive. A large number of companies and individuals are engaged in the real estate business, and many of them possess financial resources greater than those of STRS. In each of STRS' markets it competes against local developers who are committed primarily to particular markets and also against national developers who acquire properties throughout the United States.

Geographic Concentration and Dependence on the Texas Economy. STRS' real estate activities are located entirely in the Austin, Dallas, Houston and San Antonio, Texas areas. Because of STRS' geographic concentration and limited number of projects, its

4

operations are more vulnerable to local economic downturns and adverse project-specific risks than those of larger, more diversified companies.

The performance of the Texas economy affects sales of STRS' properties and consequently has an impact on the income derived from STRS' real estate activities and the underlying values of property owned by STRS. While the Texas economy has remained healthy in recent years, current concerns relating to the oil and

gas industry may have a negative effect on this trend.

Natural Risks. STRS' performance may be adversely affected by weather conditions that delay development or damage property.

Item 2. Properties

The following table provides information on STRS' holdings, including its inventory of finished lots and acreage to be developed. The acreage to be developed is broken down into anticipated uses for single family lots, multi-family units and commercial development based upon STRS' understanding of the properties' existing entitlements. However, there is no assurance that the undeveloped acreage will be so developed due to the nature of the approval and development process and market demand for a particular use. See Item 3, "Legal Proceedings," for more details. For information concerning STRS' real estate holdings in its unconsolidated affiliates, see "Transaction with Olympus" above and "Managements Discussion and Analysis of Financial Condition and Results of Operations and Disclosures of Market Risk" in Items 7 and 7A below.

<TABLE>

<CAPTION>

	Developed Lots	Potential Development Acreage			
		Single Family	Multi- family	Commercial	Total
<S>	<C>	<C>	<C>	<C>	<C>
Austin					
Barton Creek	6	1,525	249	673	2,447
Lantana	-	154	36	323	513
Circle C	-	-	212	1,062	1,274
Dallas					
Bent Tree	8	-	18	-	18
Willow Bend	6	-	-	-	-
Houston					
Copper Lakes	68	169	-	-	169
San Antonio					
Camino Real	17	-	57	-	57
Total	105	1,848	572	2,058	4,478

</TABLE>

Item 3. Legal Proceedings

Various regulatory matters and litigation involving STRS' development of its Austin properties are summarized below.

Save our Springs (SOS) Ordinance Litigation: Quick, et al. v. City of Austin, et al., Cause No. 92-0637 (Hays County 22nd

Judicial District Court, Texas filed 10/1/92). In 1992, the City promoted, and a public initiative enacted, a restrictive water quality ordinance, the SOS Ordinance. In 1994, the Hays County Court declared the ordinance unconstitutional. In 1996, the Austin Court of Appeals reversed the lower court's decision but upheld the lower court's ruling on certain grandfathered rights for land previously platted. STRS may benefit from the grandfathered rights decision because a significant portion of STRS' Austin area properties was previously platted. On May 8, 1998, the Texas Supreme Court ruled that the SOS ordinance is valid. At this point, the adverse effect of the Supreme Court's ruling on STRS' Austin properties is uncertain for two reasons: (1) the grandfathered rights referenced above, if valid, should protect previously platted land; and (2) most of STRS' property has been removed from Austin's jurisdiction because of the creation of Water Quality Protection Zones (WQPZ), if valid, and the creation of the Southwest Travis County Water District (the STCWD) at Circle C, both authorized by Texas state legislation in 1995. However, the STCWD legislation has been declared unconstitutional by a district court in Austin. Additionally, the grandfathered rights are affected by the inadvertent repeal of S.B. 1704 in the 1997 session of the Texas State legislature and the City has challenged the constitutionality of the legislation authorizing the creation of the WQPZs, as well as the validity of the WQPZs, each further described below.

The City's WQPZ Action: The City of Austin, Texas v. Horse Thief Hollow Ranch, Ltd., et al., Cause No. 98-00248 (Travis County 345th Judicial District Court, Texas filed 1/9/98). On January 9, 1998, the City filed suit in Travis County District Court against 14 WQPZ and the their owners, including the Barton Creek WQPZ, challenging the constitutionality of the legislation authorizing the creation of water quality zones. The Attorney General of Texas intervened in

5

this suit and the Circle C WQPZ litigation, described below, to defend the legislation. The City filed a motion for partial summary judgment against one defendant and against the State of Texas. All defendant parties filed motions with regard to summary judgment. A summary judgment hearing was conducted in the Travis County District Court on July 9, 1998. The District Court entered an order granting the City's motion for summary judgment motion and declaring the WQPZ legislation unconstitutional. All parties agreed to the form of an order which permitted an expedited appeal directly to the Texas Supreme Court. STRS and other defendants filed appeals. The Texas Supreme Court noted probable jurisdiction and set an expedited briefing and hearing schedule. Oral argument was presented to the Texas Supreme Court on December 9, 1998. A ruling is

expected in 1999.

Circle C WQPZ Litigation: L.S. Ranch, Ltd. And Circle C Land Corp., v. The City of Austin, Texas, Cause No. 97-1048 (Hays County 207th Judicial District Court, Texas filed 10/31/97). Circle C Land Corp., a wholly owned subsidiary of STRS, filed a WQPZ (Circle C WQPZ) covering all of its 553 acres in the Circle C development located outside the boundaries of any MUD. In November 1997, STRS sought a declaratory judgment in the Hays County District Court to confirm the validity of the Circle C WQPZ. The District Court denied the City's motion to deny jurisdiction and transfer venue and, the City appealed the trial court's decision to the Third Court of Appeals. The City also requested that the Third Court of Appeals stay any action in the Hays County District Court, including STRS' motion for summary judgment, pending the Court of Appeals' review of the District Court's denial of the decision on jurisdiction. The Court of Appeals refused to stay the summary judgment proceeding and, in response, the City filed a writ with the Texas Supreme Court. The Texas Supreme Court accepted the writ and stayed all underlying litigation. Subsequently, the Court of Appeals confirmed the trial court's decision on jurisdiction. STRS then filed a motion to lift the stay with the Supreme Court which was granted. On September 4, 1998, the Hays County District Court ruled that the WQPZ enabling legislation was constitutional and that the Circle C WQPZ was validly created. The City filed a petition for writ of injunction with the Texas Supreme Court requesting a stay of the District Court's ruling. On October 22, 1998, the Supreme Court granted a temporary stay. It is anticipated that the merits of Hays County District Court's ruling concerning the constitutionality of the enabling legislation and the validity of the Circle C WQPZ will be appealed or resolved in connection with the Supreme Court's resolution of the City's WQPZ action described above.

Annexation/Circle C MUD Reimbursement Suit: Circle C Land Corp. v. The City of Austin, Texas, Cause No. 97-13994 (Travis County 53rd Judicial District Court, Texas filed 12/19/97). On December 19, 1997, the City annexed all land formerly lying within the Circle C project. If the City's annexation is valid, STRS' property located within Circle C's municipal utility districts (MUD) and annexed by the City is subject to the City's zoning and development regulations. Additionally, the City is required to assume all MUD debt and reimburse STRS for a significant portion of the costs incurred for water, wastewater and drainage infrastructure. Because the City failed to pay these costs upon annexation, as required by statute, STRS sued the City. The City's total reimbursement obligation to the Circle C developers is currently estimated at \$22 million, of which STRS' share is currently estimated at approximately \$18 million. These proceeds are also subject to the Phoenix litigation described below. The City's

and STRS' engineers and auditors are reviewing financial and engineering materials in an effort to reach agreement on the proper amount of STRS' reimbursement claim. A trial has been set for May 24, 1999. STRS will continue to pursue this action vigorously.

Phoenix Litigation: Circle C Land Corp. v. Phoenix Holdings, Ltd., Cause No. 97-10388 (Travis County 261st Judicial District Court, Texas filed 2/5/97). In February 1997, Circle C filed a petition for declaratory judgment against Phoenix, which purchased the residential portion of Circle C's lands, seeking a declaration that Circle C is entitled to most of the MUD reimbursements for infrastructure cost incurred at Circle C. Phoenix filed a counterclaim in June 1997. In February 1998, the District Court granted Circle C's summary judgment motion on the primary case and Phoenix dismissed its counterclaim with prejudice, but reserved the right to appeal the summary judgment of the primary case. On April 10, 1998, Phoenix appealed. In March 1999, the Texas Third Court of Appeals upheld the District Court's ruling in favor of Circle C. On March 18, 1999, Phoenix filed a motion for rehearing with the Texas Third Court of Appeals, which STRS expects will be denied. See "Annexation litigation" above for the estimated amount of MUD reimbursement currently due to STRS.

Legislative Matters. In the 1997 Texas State legislative session, a bill to reorganize a state governmental agency inadvertently repealed the provisions of law (H.B. 4 and S.B. 1704), which established the grandfathered rights for previously platted lands. Trial counsel has advised STRS, that in his opinion, this inadvertent repeal should not affect STRS' rights to develop its properties. In response to the legislature's inadvertent repeal, the City enacted an ordinance establishing regulations on land development that effectively eliminated the grandfathered rights. The City likely will attempt to apply these regulations to portions of STRS' Circle C property and Lantana. If the City takes this position, STRS will assert and defend its grandfathered entitlements. STRS expects the Texas State Legislature to remedy this inadvertent repeal in 1999.

SOS Notices of Intent. The SOS coalition (the Coalition) has issued notices of intent to sue under the Endangered Species Act and the Clean Water Act. The notice relative to the Endangered Species Act alleges a non-authorized take of Golden Cheek Warbler habitat under STRS' Section 10(a) Permit of the Barton Creek development. The second notice relates to alleged violations of the Clean Water Act pertaining to the Barton Creek wastewater treatment plant. This facility is operated pursuant to a "no

discharge" permit from the Texas Natural Resource Conservation Commission. The Coalition alleges that there is, in fact, an ongoing discharge of treated effluent into Barton Creek. No suit has been filed but if suit is brought, STRS will vigorously defend against these allegations.

STRS maintains liability insurance to cover some, but not all, potential liabilities normally incident to the ordinary course of its businesses as well as other insurance coverage customary in its business, with such coverage limits as management deems prudent.

Item 4. Submission of Matters to a Vote of Security Holders
Not applicable.

Executive Officers of the Registrant

Certain information, as of March 16, 1999, regarding the executive officers of STRS is set forth in the following table and accompanying text.

Name	Age	Position or Office
----	---	-----
William H. Armstrong III	34	Chairman of the Board, President and Chief Executive Officer
Kenneth N. Jones	39	General Counsel

Mr. Armstrong has been employed by STRS since its inception in 1992. He has served as STRS' Chairman of the Board since August 1998, Chief Executive Officer since May 1998 and President since August 1996. Previously Mr. Armstrong served as Chief Operating Officer from August 1996 to May 1998 and as Chief Financial Officer from May 1996 to August 1996. He served as Executive Vice President from August 1995 to August 1996. Previously, Mr. Armstrong was a member of the Finance and Business Development Group of FTX with responsibility for real estate activities.

Mr. Jones has served as General Counsel of STRS since August 1998. Mr. Jones is a partner with the law firm of Armbrust Brown & Davis, L.L.P. and provides legal and business advisory services to STRS under a consulting arrangement with his firm.

PART II

Item 5. Market for Registrant's Common Equity and Related Stockholder Matters

STRS's common stock trades on the Nasdaq National Market under the symbol STRS. The following table sets forth, for the periods indicated, the range of high and low sales prices, as reported by

Nasdaq.

<TABLE>

<CAPTION>

	1998		1997	
	High	Low	High	Low
<S>	<C>	<C>	<C>	<C>
First Quarter	\$ 7.13	\$ 4.63	\$ 3.94	\$ 2.06
Second Quarter	6.63	3.88	3.94	2.31
Third Quarter	4.75	3.00	5.44	2.81
Fourth Quarter	4.13	2.63	5.75	3.03

</TABLE>

STRS has not in the past and does not anticipate in the foreseeable future paying cash dividends on its common stock. The decision whether or not to pay dividends and in what amounts is solely within the discretion of STRS' Board of Directors. STRS' ability to pay dividends is restricted by the terms of its credit agreement. As of March 16, 1998 there were 9,015 record holders of STRS common stock.

Item 6. Selected Financial Data

The following table sets forth selected historical financial data for STRS for each of the five years in the period ended December 31, 1998. The historical financial information is derived from the audited financial statements of STRS and is not necessarily indicative of future results. The following data should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations and Disclosures about Market Risks" and STRS' historical financial statements and notes thereto contained elsewhere in this Form 10-K.

7

<TABLE>

<CAPTION>

	1998	1997 a	1996	1995	1994 b
<S>	<C>	<C>	<C>	<C>	<C>
Years Ended December 31:					
Revenues	\$ 17,590	\$ 30,953	\$ -	\$ -	\$ -
Loss from Partnership	-	-	(346)	(571)	(118,741)
Operating income (loss)	(572)	3,907	(566)	(2,367)	(122,869)
Net income (loss)	(2,638)	7,006 ^c	76	153	(86,290)
Basic net income (loss) per share	(0.18)	0.49	0.01	0.01	(6.04)
Diluted net income (loss) per share	(0.18)	0.48	0.01	0.01	(6.04)

Basic average shares outstanding	14,288	14,288	14,286	14,286	14,286
Diluted average shares outstanding	14,288	14,517	14,390	14,312	14,286
At December 31:					
Real estate and facilities, net	96,556	105,274	-	-	-
Investment in the Partnership	-	-	56,055	56,401	56,972
Total assets	111,829	112,754	60,985	60,897	60,903
Stockholders' equity	63,969	66,607	59,599	59,523	59,370

</TABLE>

- a. Prior to 1997, reflects STRS' investment in the Partnership under the equity basis of accounting. See discussion under "Overview" in Items 7 and 7A below and Note 1 to the financial statements.
- b. Includes a \$115.0 million (\$8.05 per share) charge for a write-down of real estate assets.
- c. Includes a \$4.5 million (\$0.31 per share) gain from sale of oil and gas properties.

Items 7. and 7A. Management's Discussion and Analysis of Financial Condition and Results of Operations and Disclosures about Market Risks

Overview

Stratus Properties Inc. (STRS) is engaged in the acquisition, development and sale of commercial and residential real estate properties. STRS' principal real estate holdings are currently in the Austin, Texas area and consist of approximately 2,450 acres of undeveloped residential, multi-family and commercial property within the Barton Creek development, approximately 1,300 acres of undeveloped property within the Circle C Ranch development, and approximately 500 acres of undeveloped residential, multi-family and commercial property known as the Lantana tract, south of and adjacent to the Barton Creek development.

STRS also owns 99 developed lots, 169 acres of undeveloped residential property and 75 acres of undeveloped commercial and multi-family property located in Dallas, Houston and San Antonio, Texas which are being actively marketed. These real estate interests are managed by unaffiliated professional real estate developers who have been retained to provide master planning, zoning, permitting, development, construction and marketing services for the properties. Under the terms of these agreements, operating expenses and development costs, net of revenues, are funded by STRS, and the developers are entitled to a management fee and a 25 percent interest in the net profits, after recovery by STRS of its investments and a stated return, resulting from the sale of properties under their management. As of December 31, 1998 no amounts have been or are expected to be

paid in connection with these agreements.

On December 22, 1997 Freeport-McMoRan Inc. (FTX) merged into IMC Global Inc. (IGL) (the Merger). Prior to the Merger, STRS operated through its 99.8 percent general partnership interest in STRS Properties Operating Co., a Delaware general partnership (the Partnership). The remaining 0.2 percent general partnership interest was held by FTX, which also served as the Partnership's managing general partner. STRS reflected its investment in the Partnership on the equity basis of accounting because of certain rights held by FTX as managing general partner regarding the Partnership's operations as long as it guaranteed any of the Partnership's debt. In connection with the Merger, FTX sold its 0.2 percent general partnership interest to STRS and a wholly owned subsidiary of STRS for \$100,000. STRS also restructured and consolidated its existing debt in December 1997, extending its availability until January 1, 2001 and provided for staged reductions in available credit. IGL became guarantor of this restructured debt in place of FTX. See "Capital Resources and Liquidity" below. As a result of FTX's sale of its interest, elimination of its rights as a partner and replacement of the FTX guarantee with the IGL guarantee, STRS' financial statements reflect the Partnership's assets, liabilities and operating results under consolidation accounting effective January 1, 1997 (see Note 1 of Notes to Financial Statements). All subsequent references to "Notes" refer to the Notes to Financial Statements located in Item 8 found elsewhere in this Form 10-K.

Transactions With Olympus Real Estate Corporation (Olympus)

On September 30, 1998, STRS and Olympus, an affiliate of Hicks, Muse, Tate & Furst Incorporated, agreed to enter into two

8

separate joint real estate transactions, pursuant to a strategic alliance entered into on May 22, 1998 (see Note 2).

The first transaction involved the sale of STRS' ABC West Phase I subdivision tract in Barton Creek to a joint venture owned 50 percent each by STRS and Olympus. The joint venture, Oly Stratus ABC West I Joint Venture (ABC Joint Venture), agreed to pay \$3.3 million for the 28 acre tract. This tract has subsequently been developed into 75 single-family lots which are currently being marketed. STRS received cash of \$2.1 million, a note for \$1.2 million and made an equity contribution of \$0.5 million upon formation of the joint venture. Under terms of the joint venture, STRS will continue as developer and manager of the project, receiving management fees and commissions as well as other incentives for its services. The joint venture closed on a project development loan with a commercial bank for \$3.9 million

in November 1998. The loan is secured by the property held in the joint venture. Upon closing of the project loan STRS was reimbursed \$1.9 million for development costs already incurred for the project and for certain Travis County fiscal deposits previously funded by STRS.

The second transaction involved STRS acquiring a 50 percent interest in the Oly Walden General Partnership (the Walden Partnership), which owns the Walden on Lake Houston project in Houston, Texas that Olympus purchased in April 1998. STRS has managed this project since April 1998 on Olympus' behalf under the terms of a management agreement. STRS paid \$2.0 million for its share of the Walden Partnership, borrowing funds available under its \$10 million convertible debt facility with Olympus (see Note 2). STRS will continue to manage this property, which currently includes approximately 700 developed lots and 80 acres of platted but undeveloped real estate, and will receive management fees and commissions for its services. As of December 31, 1998, STRS had negotiated agreements that provide for the sale of approximately 90 percent of the developed lots. These agreements require the purchasers to close on the lots pursuant to a specific schedule, which STRS anticipates will result in the sale of all such lots over a four year period. Approximately 230 lots have already closed and funded under these agreements.

Development Activities

Development is progressing at several sections of the Barton Creek project, including the construction of utility infrastructure which will serve a significant portion of the 2,450 acres of undeveloped property at Barton Creek, and preliminary development of approximately 200 new single-family homesites surrounding a new Tom Fazio-designed golf course, which is expected to be completed in the third quarter of 1999. STRS expects these homesites to be available for sale by late 2000. Permitting and entitlement issues now being litigated, however, raise uncertainty about the timing of completion of the projects at Barton Creek.

At the Lantana project, STRS has completed construction of a \$3.0 million water system to serve the approximate 500 undeveloped acres remaining in the project. The City of Austin (the City) has approved the completion of this water system and reimbursed STRS \$1.0 million of the system's costs in December 1998, with the remaining balance to be paid ratably in 1999 and 2000. The property is planned to accommodate up to 2.5 million square feet of commercial space, 1,100 multi-family units, and 330 single-family lots. STRS has commenced site work and received a \$6.6 million project loan commitment for the 70,000 square foot first phase of its 140,000 square foot Lantana Corporate Center. STRS anticipates entering into a joint venture with Olympus for this project and finalizing the project development loan during the

second quarter of 1999.

STRS is currently entitling approximately 250 acres within Barton Creek for the development of 54 single family homesites. The proposed development is being permitted pursuant to the Save Our Spring (SOS) ordinance (see Note 6). The developed lots could be marketed as early as year-end 1999 pending timely approval of the project by the City.

STRS has finalized plans for the development of its 46 acre Bee Cave tract, which is outside of the City's jurisdictional area. This development project is anticipated to yield 39 developed lots and 30,000 square feet of commercial space.

Results Of Operations

As noted above, STRS operates through the Partnership and, prior to January 1, 1997, reflected the Partnership's results of operations using the equity method of accounting. Accordingly, the following discussion and analysis addresses the results of operations and the capital resources and liquidity of STRS for 1998 and 1997 and of the Partnership for 1996, collectively referred to as "STRS" hereafter.

During 1997 and 1996 STRS was able to capitalize on sales opportunities at its properties in the Austin area brought about by several positive legislative and judicial developments that occurred during 1995. Previously, development of the STRS' Austin area properties had been delayed principally because of disagreements with the City over ordinances governing development activities in the Barton Creek and Circle C areas. Summary operating results follow (in thousands):

9

<TABLE>

<CAPTION>

	1998	1997	1996
	-----	-----	-----
<S>	<C>	<C>	<C>
Revenues			
Developed properties	\$ 14,457	\$ 17,723	\$ 44,016
Undeveloped properties and other	2,667	13,230	35,161
Commissions, management fees and other	466	-	-
	-----	-----	-----
Total revenues	17,590	30,953	79,177
	-----	-----	-----
Operating income (loss)	(572) a	3,907a	3,534
Net income (loss)	(2,638) a	7,006a,b	(346)

</TABLE>

- a. Includes reimbursement of \$0.8 million and \$3.1 million for previously expensed infrastructure costs in 1998 and 1997, respectively.
- b. Includes a \$4.5 million gain from sale of oil and gas property interests.

Revenues from developed properties in 1998 represented the sale of 213 single family homesites. Revenues from undeveloped properties for 1998 represented the sale of 2 acres of commercial property in Dallas and 72 acres of residential land, including the sale of 28 acres of Barton Creek residential property to the Oly Stratus ABC West I Joint Venture (see Note 4), 27 acres of residential property in San Antonio and 17 acres of undeveloped property within the ABC Midsection subdivision of Barton Creek. STRS is committed to the long-term strategy of developing single-family homesites and evaluating commercial development opportunities rather than selling undeveloped tracts, especially those located in the Barton Creek development. The ABC Midsection subdivision tract sold in 1998 had limited development potential and STRS will continue as developer of the property sold to the ABC Joint Venture. Revenues from developed properties for 1997 consisted of \$5.4 million from the sale of 146 acres of residential properties and \$12.3 million from the sale of 198 single-family homesites. Revenues from undeveloped properties for 1997 represented the sale of 72 acres of commercial and multi-family land. Revenues from developed properties during 1996 included the sale of the Barton Creek Country Club and Conference Resort for \$25.0 million and the sale of 393 single-family homesites located in the Austin, Houston and San Antonio areas for \$19.0 million. Revenues from undeveloped properties during 1996 included two separate sales of undeveloped tracts within the Barton Creek development totaling 105 acres for \$4.8 million; the sale of several undeveloped, commercial and multi-family tracts in the Dallas area totaling 79 acres for \$12.6 million; and the sale of 535 other undeveloped acres in the Austin, Dallas and San Antonio areas for \$17.8 million.

General and administrative expenses were \$4.0 million in 1998 compared with \$2.8 million in 1997 and \$2.5 million in 1996. The increase in 1998 over the prior two years primarily reflects the costs associated with STRS' ongoing efforts to resolve, through litigation, attempts by the City to restrict STRS' development entitlements and to secure reimbursements of approximately \$18 million of infrastructure costs incurred in the development of the Circle C property. Legal expenses totaled \$1.5 million, \$0.6 million, and \$0.4 million for 1998, 1997 and 1996, respectively.

Additionally, the 1998 expenses reflect the allocation of actual general and administrative expense relating to services provided by an affiliated services company, which were charged at a fixed annual amount of \$0.5 million prior to 1998 (see Note 9).

In September 1997, STRS sold several working interests and numerous overriding royalty interests in oil and gas properties, which had been held since its formation, to McMoRan Oil & Gas Co. (MOXY), and Phosphate Resource Partners Limited Partnership (PLP), for \$4.5 million cash, resulting in a gain of \$4.5 million. At the time of the sale MOXY and PLP were affiliates of STRS because of FTX's former role as administrative managing general partner of PLP and because of common management and a common director shared with MOXY. These interests, which had no cost basis and included all of STRS' remaining oil and gas interests, remained with STRS after the sale of substantially all of its oil and gas properties in 1993. The gain is reflected in Other Income, and proceeds were used to reduce debt. Other Income also includes royalty income generated by these properties totaling \$0.8 million for 1997 (prior to the sale) and \$1.4 million in 1996.

Net interest expense totaled \$2.0 million, \$2.2 million and \$3.9 million for 1998, 1997 and 1996, respectively. The decrease represents STRS' repayment of debt over the three-year period resulting in substantially lower average debt outstanding in each of the three years. The lower average debt balances were offset in part by the reduction in capitalized interest, which totaled \$0.4 million, \$1.4 million, and \$3.1 million for 1998, 1997 and 1996, respectively.

During 1996, STRS agreed to sell the remaining assets of Circle C for \$34.0 million. STRS received a \$1.0 million non-refundable cash deposit, with the balance of the purchase price due in January 1997. However, the investor group was unable to complete the sale and the agreement expired. The cash deposit was recorded as a reduction in the related carrying value of these

10

properties.

STRS is evaluating the development of income producing properties on certain of its tracts and continues to consider opportunities to enter into significant transactions involving its properties. As a result, and because of numerous other factors inherent in STRS' business activities as described herein, past operating results are not necessarily indicative of future trends in profitability.

Capital Resources And Liquidity

Net cash provided by operating activities totaled \$11.1 million in 1998, \$29.5 million in 1997 and \$68.7 million in 1996. The decrease in the 1998 amount from the prior two years reflects the

substantial decrease in sales of STRS' undeveloped properties, which reflects STRS' commitment to develop its undeveloped tracts in an effort to maximize the long-term earnings potential associated with its lands. Operating cash flows in 1997 include the \$4.5 million gain on the sale of oil and gas properties (see discussion in "Results of Operations" above) and \$3.1 million for reimbursement of previously expensed infrastructure costs, while operating cash flows during 1996 included \$25.0 million from the sale of the Barton Creek Country Club and Conference Resort.

Net cash used in investing activities totaled \$8.8 million in 1998, \$9.5 million in 1997 and \$5.9 million in 1996. Investing activities for all three years reflect payments for real estate and facilities capital expenditures, net of any related municipal utility district (MUD) reimbursements. In addition, 1998 investing activities include a \$2.5 million investment in two joint ventures (see "Transactions with Olympus" above and Note 4). Decreased 1998 real estate and facility capital expenditures reflect the constraints on development entitlements resulting from disputes with the City and others. Additionally, ABC Joint Venture capital expenditures are not reflected directly in the accompanying financial statements, as the joint venture's results are presented using the equity method of accounting. The increased 1997 expenditures resulted from increased development requirements for the properties currently being marketed and a \$1.5 million acquisition of Austin-area land. Expenditures incurred during 1996 reflect the impact of reduced development restrictions resulting from favorable legislative and judicial events that occurred in 1995, which enabled STRS to secure land use and development entitlements, and STRS' success in marketing and selling undeveloped tracts to sub-developers.

Financing activities consisted of net reductions in outstanding borrowings totaling \$7.9 million in 1998, \$21.2 million in 1997 and \$63.0 million in 1996. Additionally, STRS' financing activities in 1998 reflect \$10.0 million and \$2.0 million in proceeds from the issuance of mandatorily redeemable preferred stock and borrowings on the convertible debt facility, respectively (see Notes 2 and 3). The mandatorily redeemable preferred stock proceeds were used to reduce outstanding bank debt, and the convertible debt proceeds were used to fund STRS' investment in the Walden Partnership (see Note 4).

Sales and limited development activities during the three years ended December 31, 1998 enabled STRS to generate operating cash flows that it used to reduce its outstanding debt from \$121.3 million at December 31, 1995 to \$29.2 million on December 31, 1998. Historically, STRS' funding needs were met largely from borrowings under its revolving credit facility and term loan, which provided for an aggregate \$50 million of available proceeds through December 31, 1998. The facility bears interest at rates

tied to the lending bank's prime rate or LIBOR at STRS' option. On January 1, 1999, STRS' available credit under this agreement was reduced to \$35 million for the duration of 1999. On January 1, 2000 the availability will be further reduced to \$15 million. The facility terminates on January 1, 2001. Under the terms of the Merger, IGL assumed FTX's guarantee of this credit facility for a fee (see Note 5). At December 31, 1998, \$27.1 million was outstanding under this facility and \$2.1 million was outstanding under the Olympus convertible debt facility.

During 1998 STRS pursued financing opportunities available through its relationship with Olympus. On September 30, 1998, the Walden Partnership, a 50 percent owned, unconsolidated subsidiary of STRS (see "Transactions with Olympus" above and Note 4), entered into an \$8.2 million project loan agreement with a commercial bank to fund the remaining development of the Walden on Lake Houston project. The three-year, variable rate loan is secured by the assets of the Walden Partnership and is non-recourse to the partners. In addition, the loan is secured by cash (see discussion below). Interest is payable monthly and is based on the bank's prime rate or the LIBOR rate at the Walden Partnership's option. On October 1, 1998, the Walden Partnership borrowed \$6.1 million on this loan and used the proceeds to repay its outstanding bank debt associated with land acquisition and development costs incurred on the project.

In November 1998, the ABC Joint Venture closed on a \$3.9 million project development loan facility with the same bank as the Walden Partnership loan. The three year, variable rate loan is secured by the assets of the ABC Joint Venture and is non-recourse to the partners. In addition, the loan is secured by cash (see discussion below). Interest is payable monthly and accrues based on the bank's prime rate or LIBOR at the ABC Joint Venture's option. Upon closing of the project loan STRS was reimbursed \$1.9 million for previously incurred development costs associated with the project and certain Travis County fiscal deposits.

11

The Walden Partnership and ABC Joint Venture loan agreements required a cash deposit as additional collateral for the respective loans. As required under the loan agreements upon closing of the loans, a wholly owned subsidiary of STRS deposited a total of \$3.0 million with the bank. The Walden Partnership loan agreement provides that the restricted cash balance (\$2.5 million) may be reduced by \$0.30 for every \$1.00 in principal reduction. The ABC Joint Venture loan's restricted cash requirement (\$0.5 million) will remain in effect until the loan has been repaid in its entirety, which is expected to occur no

later than the end of 2000. Olympus has agreed to pay STRS interest at 12 percent per annum for its 50 percent share of such restricted cash, net of related interest earned. At December 31, 1998 STRS had \$2.8 million of restricted cash deposited with the bank. STRS may be required to deposit additional restricted cash for similar joint venture loans in the future.

STRS' future operating cash flows and, ultimately, its ability to develop its properties and expand its business will be largely dependent on the level of its real estate sales. In turn, these sales will be significantly affected by future real estate values, regulatory issues, development costs, interest rate levels and the ability of STRS to continue to protect its land use and development entitlements. Significant development expenditures remain to be incurred for STRS' Austin-area properties prior to their eventual sale. STRS' anticipated 1999 capital expenditures will be limited to essential levels as STRS works to preserve its land use and related rights in various disputes with the City and others, as more fully explained in Item 3, "Legal Proceedings." As a result, property sales during 1999 are expected to be lower than in previous years. STRS believes its near-term capital resource needs can be met adequately during 1999 from operating cash flows. However, the debt reduction required under its revolving credit facility will require raising additional capital by no later than January 1, 2000. STRS therefore is considering other capital raising alternatives, including various forms of debt and/or equity financing and other means. STRS is able to obtain up to \$50 million in capital from Olympus for the development of existing properties in which it desires third-party equity participation, and also believes it can obtain bank financing at a reasonable cost for refinancing its existing credit facility. However, while financing for development of STRS' existing properties is available, obtaining land acquisition financing is generally expensive and uncertain. While STRS believes it can meet the capital resource needs discussed above, there can be no assurance that STRS will generate sufficient cash flow or obtain sufficient funds to make the required debt reduction to \$15 million by January 1, 2000 under its existing revolving credit facility.

Impact Of Year 2000 Compliance

The Year 2000 ("Y2K") issue is the result of computerized systems being written to store and process the year portion of dates using two digits rather than four. Date-aware systems (i.e. any system or component that performs calculations, comparisons, sequencing or other operations involving dates) may fail or produce erroneous results on or before January 1, 2000 because the year 2000 will be interpreted as the year 1900.

STRS' State of Readiness. STRS has been pursuing a strategy to ensure all its significant computer systems will be Y2K

compliant, i.e., able to process dates from and after January 1, 2000, including leap years, without critical systems failure (Y2K Compliant or Y2K Compliance). Certain computerized business systems and related services are provided under contract by a services company currently owned 10 percent by STRS (the Services Company) which is responsible for ensuring Y2K Compliance for the systems it manages. The Services Company has separately prepared a plan for its Y2K Compliance. Progress of the Y2K plan is being monitored by STRS' executive management and reported to the Audit Committee of the STRS Board of Directors. In addition, the independent accounting firm functioning as STRS' internal auditors is assisting management in monitoring the progress of the Y2K plan. STRS believes all critical components of the plan are on schedule for completion by the end of the second quarter of 1999. Like other companies, STRS cannot, however, make Y2K Compliance certifications because the ability of any organization's systems to operate reliably after midnight on December 31, 1999 is dependent upon factors that may be outside the control of, or unknown to, the organization.

The majority of computerized date-sensitive hardware and software components used by STRS or the Services Company are covered by maintenance contracts with the vendors who originally implemented them. Almost all of these vendors have already been contacted regarding Y2K Compliance of their products. Where necessary, software modifications to ensure compliance will be provided by the appropriate vendors under their maintenance contracts.

Information Technology (IT) Systems. The major STRS system that is not fully Y2K Compliant is its accounting system. The Services Company has installed, for an affiliated entity, a Y2K compliant version of the same accounting system used by STRS. This will allow any installation issues to be identified and rectified prior to installation of this system at STRS in the second quarter of 1999. The Services Company also provides payroll and cash disbursements processing for STRS. The Services Company has implemented the Y2K version of the payroll interface software and will conduct Y2K Compliance testing of third party-provided payroll services in early 1999. The Services Company

12

will also conduct Y2K testing of the interfaces to its primary bank and bank-provided computerized disbursement services in early 1999 after the bank has completed its internal Y2K Compliance work.

Non-IT Systems. With a few minor exceptions involving water quality and other environmental monitoring and associated laboratory analysis systems, STRS does not rely upon process

control, engineering, or other "Non-IT" systems in its business.

STRS expects to complete an assessment of its risks in this area during the first quarter of 1999.

Third Party Risks. STRS computer systems are not widely integrated with the systems of their suppliers or customers. The primary potential risk attributable to third parties would be from a temporary disruption of STRS operations due to a failure by a supplier to meet its contractual obligations for services and/or materials (rather than a failure associated with integrated computer systems). An assessment of third party risk has been completed. Based on this assessment, STRS does not believe overall risk from third parties is significant.

The Costs to Address STRS' Y2K Issues Expenditures for the necessary Y2K related modifications will largely be funded by routine software and hardware maintenance fees paid by STRS or the Services Company to the related software providers. Based on current information, STRS believes that the incremental cost of Y2K Compliance not covered by routine software and hardware maintenance fees will be less than \$0.1 million, most of which is expected to be incurred in 1999. If the software modifications and conversions referred to above are not made, or are delayed, the Y2K issue could have a material impact on STRS' operations. Additionally, current estimates are based on management's best estimates, which are derived using numerous assumptions of future events including the continued availability of certain resources, third party modification plans and other factors. There also can be no assurance that the systems of other companies will be converted on a timely basis or that failure to convert will not have a material adverse effect on STRS.

The Risks of STRS Y2K Issues Based on its detailed risk assessment work conducted thus far, STRS believes the most likely Y2K-related failures would probably be temporary disruption in certain materials and services provided by third parties, which would not be expected to have a material adverse effect on STRS' financial condition or results of operations.

STRS' Contingency Plans Although STRS believes the likelihood of any or all of the above risks occurring to be low, specific contingency plans are being developed to address certain risk areas. The schedule for contingency plan development has a projected completion date of March, 1999. While there can be no assurances that STRS will not be materially adversely affected by Y2K problems, it is committed to ensuring that it is fully Y2K ready and believes its plans adequately address the above-mentioned risks.

Disclosures About Market Risks

STRS' revenues are derived from the management, development and

sale of its real estate holdings. STRS' net income can vary significantly with fluctuations in the market prices of real estate in these areas, which are influenced by numerous factors, including interest rate levels. Changes in interest rates also affect STRS' interest expense on its debt. At the present time STRS does not hedge its exposure to changes in interest rates. Based on December 31, 1998 outstanding bank debt and interest rates, a change of 100 basis points in applicable annual interest rates would have an approximate \$0.3 million impact on 1999 net income.

Environmental

Increasing emphasis on environmental matters is likely to result in additional costs, which will be charged against the STRS' operations in future periods when such costs can be estimated. Present and future environmental laws and regulations applicable to the STRS' operations may require substantial capital expenditures, could adversely affect the development of its real estate interests, or may affect its operations in other ways that cannot be accurately predicted at this time.

Cautionary Statement

Management's Discussion and Analysis of Financial Condition and Results of Operations and Disclosures about Market Risks contains forward-looking statements regarding future reimbursement for infrastructure costs, future events related to financing and the IGL guarantee, the anticipated outcome of the litigation and regulatory matters, the expected results of STRS' business strategy, Y2K Compliance and other plans and objectives of management for future operations and activities. Important factors that could cause actual results to differ materially from STRS' expectations include economic and business conditions, business opportunities that may be presented to and pursued by STRS, changes in laws or regulations and other factors, many of which are beyond the control of STRS and other factors that are described in more detail under the heading "Cautionary Statements" under Item 1 in this Form 10-K.

Item 8. Financial Statements and Supplementary Data

REPORT OF MANAGEMENT

Stratus Properties Inc. (STRS) is responsible for the preparation of the financial statements and all other information contained in this Annual Report. The financial statements have been prepared in conformity with generally accepted accounting principles and include amounts that are based on management's

informed judgments and estimates.

STRS maintains a system of internal accounting controls designed to provide reasonable assurance at reasonable costs that assets are safeguarded against loss or unauthorized use, that transactions are executed in accordance with management's authorization and that transactions are recorded and summarized properly. The system is tested and evaluated on a regular basis by STRS' internal auditors, PricewaterhouseCoopers LLP. In accordance with generally accepted auditing standards, STRS' independent public accountants, Arthur Andersen LLP, have developed an overall understanding of our accounting and financial controls and have conducted other tests as they consider necessary to support their opinion on the financial statements.

The Board of Directors, through its Audit Committee composed solely of non-employee directors, is responsible for overseeing the integrity and reliability of STRS' accounting and financial reporting practices and the effectiveness of its system of internal controls. Arthur Andersen LLP and PricewaterhouseCoopers LLP meet regularly with, and have access to, this committee, with and without management present, to discuss the results of their audit work.

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

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

TO THE STOCKHOLDERS AND BOARD OF DIRECTORS OF STRATUS PROPERTIES INC.:

We have audited the accompanying balance sheets of Stratus Properties Inc. (a Delaware Corporation) as of December 31, 1998 and 1997, and the related statements of operations, cash flow and changes in stockholders' equity for each of the three years in the period ended December 31, 1998. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as

well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Stratus Properties Inc. as of December 31, 1998 and 1997 and the results of its operations and its cash flow for each of the three years in the period ended December 31, 1998 in conformity with generally accepted accounting principles.

/s/ Arthur Andersen LLP
Arthur Andersen LLP

Austin, Texas
January 19, 1999

14

<TABLE>
<CAPTION>

STRATUS PROPERTIES INC.
BALANCE SHEETS

	December 31,	
	----- 1998	1997 -----
	(In Thousands)	
<S>	<C>	<C>
ASSETS		
Current assets:		
Cash and cash equivalents, including restricted cash of \$2.8 million at December 31, 1998 (Note 4)	\$ 5,169	\$ 873
Accounts receivable:		
Property sales	525	1,265
Other	408	316
Prepaid expenses	361	473
Total current assets	6,463	2,927
	-----	-----
Real estate and facilities, net (Note 6)	96,556	105,274
Investments in and advances to unconsolidated affiliates (Note 4)	2,468	-
Other assets, including related party receivable (Note 4)	6,342	4,553
	-----	-----
Total assets	\$ 111,829	\$ 112,754
	=====	=====

LIABILITIES AND STOCKHOLDERS' EQUITY

Current liabilities:		
Accounts payable and accrued liabilities	\$ 583	\$ 1,231
Accrued interest, property taxes and other	1,861	1,789
	-----	-----
Total current liabilities	2,444	3,020
Long-term debt	29,178	37,118
Other liabilities	6,238	6,009
Mandatorily redeemable preferred stock (Note 3)	10,000	-
Stockholders' equity:		
Preferred stock, par value \$0.01, 50,000,000 shares authorized, and unissued	-	-
Common stock, par value \$0.01, 150,000,000 shares authorized, 14,288,270 issued and outstanding	143	143
Capital in excess of par value of common stock	176,447	176,447
Accumulated deficit	(112,621)	(109,983)
	-----	-----
Total stockholders equity	63,969	66,607
	-----	-----
Total liabilities and stockholders' equity	\$ 111,829	\$ 112,754
	=====	=====

</TABLE>

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

15

<TABLE>

<CAPTION>

STRATUS PROPERTIES INC.
STATEMENTS OF OPERATIONS

	Years Ended December 31,		
	1998	1997	1996
	-----	-----	-----
	(In Thousands, Except Per Share Amounts)		
<S>	<C>	<C>	<C>
Revenues	\$ 17,590	\$ 30,953	\$ -
Costs and expenses:			
Cost of sales	14,118	24,294	-
General and administrative expenses	4,044	2,752	220
	-----	-----	-----
Total costs and expenses	18,162	27,046	220
	-----	-----	-----
Loss from the Partnership (Note 7)	-	-	(346)
	-----	-----	-----
Operating income (loss)	(572)	3,907	(566)

Other income, net	66	5,375	116
Interest expense, net	(2,019)	(2,181)	-
	-----	-----	-----
Income (loss) before income tax benefit and minority interest	(2,525)	7,101	(450)
Income tax benefit (expense)	(87)	(80)	526
Minority interest in net income of the Partnership	-	(15)	-
Equity in losses of unconsolidated affiliates	(26)	-	-
	-----	-----	-----
Net income (loss)	\$ (2,638)	\$ 7,006	\$ 76
	=====	=====	=====
Net income (loss) per share:			
Basic	\$ (0.18)	\$0.49	\$0.01
Diluted	\$ (0.18)	\$0.48	\$0.01
Average shares outstanding:			
Basic	14,288	14,288	14,286
Diluted	14,288	14,517	14,390

</TABLE>

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

<TABLE>

<CAPTION>

STRATUS PROPERITES INC.
STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
(In Thousands)

	Preferred Stock	Common Stock	Capital in Excess of Par Value	Accumulated Deficit	Total
	-----	-----	-----	-----	-----
<S>	<C>	<C>	<C>	<C>	<C>
Balance at December 31, 1995	\$ -	\$ 143	\$ 176,445	\$ (117,065)	\$ 59,523
Net income	-	-	-	76	76
	-----	-----	-----	-----	-----
Balance at December 31, 1996	-	143	176,445	(116,989)	59,599
Stock options exercised	-	-	2	-	2
Net income	-	-	-	7,006	7,006
	-----	-----	-----	-----	-----
Balance at December 31, 1997	-	143	176,447	(109,983)	66,607
Net loss	-	-	-	(2,638)	(2,638)

Balance at December 31, 1998	\$ -	\$ 143	\$ 176,447	\$ (112,621)	\$ 63,969
	=====	=====	=====	=====	=====

</TABLE>

16

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

<TABLE>

<CAPTION>

STRATUS PROPERTIES INC.
STATEMENTS OF CASH FLOW

	Years Ended December 31,		
	1998	1997	1996
	(In Thousands)		
<S>	<C>	<C>	<C>
Cash flow from operating activities:			
Net income (loss)	\$ (2,638)	\$ 7,006	\$ 76
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	76	104	-
Cost of real estate sales	14,989	23,729	-
Equity in losses of unconsolidated affiliates	26	-	-
Minority interest's share of Partnership net income	-	15	-
Excess of equity in losses of the Partnership over distributions received	-	-	346
(Increase) decrease in working capital:			
Accounts receivable and prepaid expenses	620	2,582	(2,624)
Accounts payable and accrued liabilities	(662)	(2,734)	12
Accrued income and other taxes	87	-	2,190
Other	(1,422)	(1,183)	-
Net cash provided by operating activities	11,076	29,519	-
Cash flow from investing activities:			
Real estate and facilities	(6,346)	(9,547)	-
Investment in ABC West I Joint Venture	(494)	-	-
Investment in Oly Walden Partnership	(1,999)	-	-
Net cash used in investing activities	(8,839)	(9,547)	-
Cash flow from financing activities:			
Proceeds from preferred stock issuance	10,000	-	-

Repayment of debt, net	(9,940)	(21,207)	-
Proceeds from convertible debt facility	1,999	-	-
	-----	-----	-----
Net cash provided by (used in) financing activities	2,059	(21,207)	
	-----	-----	-----
Net increase (decrease) in cash and cash equivalents	4,296	(1,235)	
Cash and cash equivalents at beginning of year	873	2,108	-
	-----	-----	-----
Cash and cash equivalents at end of year	\$ 5,169	\$ 873	\$ -
	=====	=====	=====
Interest paid	\$ 2,338	\$ 3,351	\$ -
	=====	=====	=====
Income taxes paid (refunded)	\$ (118)	\$ 220	\$ -
	=====	=====	=====

</TABLE>

17

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

STRATUS PROPERTIES INC.
NOTES TO FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

Basis of Accounting. The real estate development and marketing operations of STRS Properties Inc. (STRS) are conducted in Austin and other urban areas of Texas through its investment in Stratus Properties Operating Co., a Delaware general partnership (the Partnership). Prior to December 22, 1997, STRS owned a 99.8 percent general partnership interest in the Partnership and Freeport-McMoRan Inc. (FTX), STRS' former parent, owned the remaining 0.2 percent general partnership interest and served as managing general partner. FTX had certain rights regarding the Partnership's operations as long as it guaranteed any of the Partnership's debt (Note 5). Because of FTX's rights, STRS reflected its investment in the Partnership under the equity basis of accounting.

On December 22, 1997 FTX merged into IMC Global Inc. (IGL) (the Merger). In connection with the Merger, FTX sold its 0.2 percent general partnership interest to STRS and a subsidiary of STRS for \$100,000. STRS also restructured and consolidated its existing debt in December 1997, extending its availability until January 1, 2001 and providing for staged reductions in available credit. IGL became guarantor of this restructured debt in place

of FTX. As a result of FTX's sale of its interest and the replacement of the FTX guarantee with the IGL guarantee, the accompanying financial statements and related footnotes reflect the Partnership's financial position and results of operations under consolidation accounting effective January 1, 1997 and under the equity basis of accounting for all previous periods.

Use of Estimates. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in these financial statements and accompanying notes. The more significant estimates include valuation allowances for deferred tax assets, estimates of future cash flows from development and sale of real estate properties, and useful lives for depreciation and amortization. Actual results could differ from those estimates.

Cash and Cash Equivalents. Highly liquid investments purchased with a maturity of three months or less are considered cash equivalents.

Financial Instruments. The carrying amounts of property sales and other receivables, other current assets, accounts payable and long-term borrowings reported in the balance sheet approximate fair value.

Earnings Per Share. Basic net income (loss) per share was calculated by dividing net income applicable to common stock by the weighted-average number of common shares outstanding during the year. Diluted net income (loss) per share of common stock was calculated by dividing net income applicable to common stock by the weighted-average number of common shares outstanding during the year plus the net effect of dilutive stock options, which represented approximately 229,000 shares in 1997 and 104,000 shares in 1996. STRS had options outstanding to purchase a total of approximately 275,000 common shares excluded from the calculation as anti-dilutive considering the loss reported in 1998. STRS' outstanding mandatorily redeemable preferred stock and outstanding convertible debt were not included in the 1998 computation of diluted net loss per share of common stock because the conversion of these shares would have decreased the net loss per share. As a result, the mandatorily redeemable preferred stock and outstanding convertible debt convertible into 1.7 million and 282,000 shares of common stock, respectively, were not considered in the determination of diluted EPS. During 1998 there were no dividends accrued on the mandatorily redeemable preferred stock and interest expense on the convertible debt totaled approximately \$61,000.

Outstanding options to purchase approximately 295,000 shares at an average exercise price of \$6.14 in 1998, 235,000 shares at

an average exercise price of \$5.23 per share in 1997 and 300,000 shares at an average exercise price of \$4.61 per share in 1996 were not included in the computation of diluted net income (loss) per share because their exercise prices were greater than the average market price for the years presented.

Investment in Real Estate. Real estate assets are stated at the lower of cost or net realizable value and include acreage, development, construction and carrying costs, and other related costs through the development stage. Capitalized costs are assigned to individual components of a project, as practicable, whereas interest and other common costs are allocated based on the relative fair value of individual land parcels. Carrying costs are capitalized on properties currently under active development. Revenues are recognized when the risks and rewards of ownership are transferred to the buyer and the consideration received can be reasonably determined.

When events or circumstances indicate that asset carrying amounts may not be recoverable, a reduction of the carrying amount of long-lived assets to fair value is required. Measurement of the impairment loss is based on the fair value of

18

the asset. Generally, STRS determines fair value using valuation techniques such as expected future cash flows. No impairment losses are reflected in the accompanying financial statements.

Investment in Unconsolidated Affiliates. STRS' investment in its affiliated 20 percent to 50 percent owned joint ventures and partnerships are accounted for on the equity method. STRS' real estate sales to these entities are deferred to the extent of its ownership interest in the unconsolidated affiliate. The deferred revenues are recognized ratably as the unconsolidated affiliates sell the real estate to unrelated third parties.

2. Olympus Transaction

On May 22, 1998, STRS and Olympus Real Estate Corporation (Olympus), an affiliate of Hicks, Muse, Tate & Furst Incorporated, formed a strategic alliance to develop certain of STRS' 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 STRS mandatorily redeemable preferred stock, provided a \$10 million convertible debt financing facility to STRS and agreed to make available up to \$50 million of additional capital representing its share of direct investments in joint STRS/Olympus projects. Olympus has the right to nominate one member or up to 20 percent of STRS' Board of Directors, whichever is greater.

The \$10 million mandatorily redeemable preferred stock was issued at a stated value of \$5.84 per share, the average closing price of STRS common stock during the 30 trading days ended March 2, 1998. STRS used the proceeds from the sale of these securities to repay debt. For further discussion about mandatorily redeemable preferred stock see Note 3 below.

The \$10 million convertible debt facility is available to STRS in whole or in part until May 22, 2004 and is intended to fund STRS' equity investment in new STRS/Olympus joint venture opportunities involving properties not currently owned by STRS. On September 30, 1998, STRS borrowed \$2.0 million under this convertible debt facility to fund its investment in the Oly Walden General Partnership (see Note 4). Interest under this facility accrues at 12 percent and is payable quarterly or added to principal at Olympus' option. Through December 31, 1998, Olympus had elected to add the interest to principal, resulting in an outstanding amount on the facility of approximately \$2.1 million on this date. Outstanding principal under the facility is convertible at any time by the holder into STRS common stock at a conversion price of \$7.31, which is 125 percent of the average closing price of STRS common stock during the 30 trading days ended March 2, 1998. If not converted into common stock, the convertible debt matures on May 22, 2004. 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, STRS must pay Olympus additional interest upon retirement of the convertible debt in an amount necessary to yield a 15 percent annual return. The convertible debt is nonrecourse to STRS and will be secured solely by STRS' interest in STRS/Olympus joint venture opportunities financed with the proceeds of the convertible debt.

Through May 22, 2001, Olympus has agreed to make available up to \$50 million, of which it had committed approximately \$3.6 million at December 31, 1998, for its share of capital for direct investments in STRS/Olympus joint acquisition and development activities. In return, STRS has provided Olympus with a right of first refusal to participate for no less than a 50 percent interest in all new acquisition and development projects on properties not currently owned by STRS, as well as development opportunities on existing properties in which STRS seeks third-party equity participation.

3. Mandatorily Redeemable Preferred Stock

STRS has outstanding 1,712,328 shares of mandatorily redeemable preferred stock, stated value of \$5.84 per share. Each share of preferred stock will share dividends and distributions, if any, ratably with STRS common stock. The preferred stock is redeemable at the holder's option at any time after May 22, 2001,

for cash in an amount per share equal to 95 percent of the average closing price per share of common stock for the 10 trading days preceding the redemption date (the "common stock equivalent value") or, at STRS' option, after May 22, 2003 for the greater of the common stock equivalent value or their stated value per share, plus accrued and unpaid dividends, if any. The preferred stock must be redeemed no later than May 22, 2004. STRS has the option to satisfy the redemption with shares of its common stock on a one-for-one share basis, subject to certain limitations.

4. Investment in Unconsolidated Affiliates

On September 30, 1998, STRS entered into a joint venture with Olympus to develop 75 residential lots in the Barton Creek ABC West Phase I subdivision. In the transaction STRS sold its entire interest in the project to the Oly Stratus ABC West I Joint Venture (the ABC Joint Venture) for \$3.3 million, of which \$1.65 million was deferred and will be recognized upon sale of the developed lots by the ABC Joint Venture. STRS received \$2.1

19

million in cash, a \$1.2 million note and made an equity contribution of \$0.5 million representing its 50 percent ownership interest in the joint venture. STRS will continue as developer and manager of the project, receiving management fees, commissions and other incentives for its services. STRS accounts for its investment in the ABC Joint Venture using the equity method.

Also on September 30, 1998, STRS acquired a 50 percent interest in the Oly Walden General Partnership (the Walden Partnership), which owns the Walden on Lake Houston project purchased by Olympus in April 1998. STRS paid approximately \$2.0 million for its investment in the Walden Partnership, borrowing funds available to it under its \$10 million convertible debt facility with Olympus (see Note 2). STRS will continue to manage this property, which currently includes approximately 700 developed lots and 80 acres of platted but undeveloped real estate. STRS will receive management fees and commissions for its services. STRS accounts for its investment in the Walden Partnership using the equity method.

On September 30, 1998, the Walden Partnership, entered into an \$8.2 million project loan agreement with a commercial bank to fund the remaining development of the Walden on Lake Houston project. The three year, variable rate loan is secured by the assets of the Walden Partnership and is non-recourse to the partners. In addition, the loan is secured by cash (see discussion below). Interest is payable monthly and is based on

the bank's prime rate or the LIBOR rate at the Walden Partnership's option. On October 1, 1998, the Walden Partnership borrowed \$6.1 million on this loan and used the proceeds to repay its outstanding bank debt associated with land acquisition and development costs incurred on the project.

In November 1998, the ABC Joint Venture closed on a \$3.9 million project development loan facility with the same bank as the Walden Partnership loan. The three year, variable rate loan is secured by the assets of the ABC Joint Venture and is non-recourse to the partners. In addition, the loan is secured by cash (see discussion below). Interest is payable monthly and accrues based on the bank's prime rate or LIBOR at the ABC Joint Venture's option. Upon closing of the project loan STRS was reimbursed \$1.9 million for previously incurred development costs associated with the project and certain Travis County fiscal deposits.

As discussed above, the Walden Partnership and ABC Joint Venture loan agreements required a cash deposit as additional collateral for the respective loans. As required under the loan agreements upon closing, a wholly owned subsidiary of STRS deposited a total of \$3.0 million with the bank. The Walden Partnership loan agreement provides that the restricted cash balance may be reduced by \$0.30 for every \$1.00 in principal reduction. The ABC Joint Venture loan's restricted cash requirement (\$0.5 million) will remain in effect until the loan has been repaid in its entirety, which is expected to occur during 1999. Olympus has agreed to pay STRS interest at 12 percent per annum for its 50 percent share of such restricted cash, net of related interest earned. At December 31, 1998 STRS had \$2.8 million of restricted cash deposited with the bank. STRS may be required to deposit additional restricted cash for similar joint venture loans in the future.

There were no dividends received from either unconsolidated affiliate during 1998. The summarized unaudited financial information of STRS' unconsolidated affiliates is shown below as of December 31, 1998 and for the period from inception (September 30, 1998) to December 31, 1998 (in thousands):

<TABLE>
<CAPTION>

	ABC Joint Venture	Walden Partnership	Total
	-----	-----	-----
<S>	<C>	<C>	<C>
Earnings data (inception to December 31, 1998):			
Revenue	\$ -	\$ 875	\$ 875
Operating loss	-	(75)	(75)

Net loss	-	(51)	(51)
STRS' equity in net losses	-	(26)	(26)

Balance sheet data (at
December 31, 1998):

Current assets	21	726	747
Real estate and facilities, net	4,666	9,859	14,525
Total assets	4,687	10,662	15,349
Current liabilities	103	2,298	2,401
Total liabilities	3,698	9,630a	13,328
Net assets	989	600	2,021
STRS' equity in net assets	494	299	793

</TABLE>

a. Includes a \$1.7 million note payable to STRS.

20

5. Long-Term Debt

<TABLE>

<CAPTION>

	December 31,	
	1998	1997
	-----	-----
	(In Thousands)	
	<C>	<C>
Bank credit facility and term loan, average rate 6.0% in 1998 and 6.6% in 1997	\$ 27,118	\$ 37,118
Convertible debt facility with Olympus, average rate 12% in 1998 (Note 2)	2,060	-
	-----	-----
	\$ 29,178	\$ 37,118
	=====	=====

</TABLE>

STRS has a commercial bank credit facility that provided for borrowings of up to \$50 million as of December 31, 1998. This commitment reduced to \$35 million as of January 1, 1999, and will be further reduced to \$15 million on January 1, 2000, and will terminate on January 1, 2001. Borrowings accrue interest at rates based on either the lender's prime rate or LIBOR at STRS' option. The credit facility contains covenants restricting dividends or other distributions, mergers, additional debt, and certain other activities. IGL has guaranteed amounts borrowed under the facility. As consideration for IGL's guarantee, STRS pays IGL an annual fee, payable quarterly, equal to the difference between STRS' cost of LIBOR-funded borrowings before

the assumption of the guarantee by IGL and the previous rate on LIBOR-funded loans. This fee was 60 basis points (0.6 percent) annually as of December 31, 1998. STRS has granted liens in favor of IGL on certain of its properties as security for the guarantee. This arrangement with IGL provides for the release of these liens in connection with property sales, subject to certain restrictions. Additionally, as long as the IGL guarantee remains outstanding, STRS cannot amend or refinance the credit facility without IGL's consent. Capitalized interest totaled \$0.4 million in 1998, \$1.4 million in 1997 and \$3.1 million in 1996.

6. Real Estate

<TABLE>

<CAPTION>

	December 31,	
	----- 1998	1997 -----
	(In Thousands)	
<S>	<C>	<C>
Land held for development or sale:		
Austin, Texas area, net of accumulated depreciation of \$122,000 for 1998 and \$46,000 for 1997	\$ 87,199	\$ 85,098
Other areas of Texas	9,357	20,176
	-----	-----
	\$ 96,556	\$ 105,274
	=====	=====

</TABLE>

STRS' investment in real estate includes approximately 4,500 acres of land located in Austin, Dallas, Houston and San Antonio, Texas. STRS' principal holdings are in the Austin area and consist of approximately 2,450 acres of undeveloped residential, multi-family and commercial property within the Barton Creek development, approximately 1,300 acres of undeveloped commercial and multi-family property within the Circle C Ranch development, and approximately 500 acres of undeveloped residential, multi-family and commercial property known as the Lantana tract, south of and adjacent to the Barton Creek development.

STRS owns 99 developed lots, 169 acres of undeveloped residential property and 75 acres of undeveloped commercial and multi-family residential property located in Dallas, Houston and San Antonio, Texas, which are being managed and actively marketed by unaffiliated professional real estate developers. Under the terms of the related development agreements, the operating expenses and development costs, net of revenues, are funded by STRS. The developers are entitled to a management fee and a 25 percent interest in the net profits, after recovery by STRS of

its investments and a stated return, resulting from the sale of the managed properties. As of December 31, 1998 no amounts have been or are expected to be paid in connection with these agreement provisions.

During 1996, STRS agreed to sell the remaining assets of Circle C for \$34.0 million and received a \$1.0 million non-refundable cash deposit, with the balance of the purchase price due in January 1997. However, the investor group was unable to complete the sale and the agreement expired. STRS has no further obligation to the investor group and is proceeding with developing and marketing the Circle C commercial and multi-family properties. The cash deposit was recorded as a reduction in the related carrying value of these properties.

Various regulatory matters and litigation involving STRS' development of its Austin-area properties are summarized below.

21

Save our Springs (SOS) Ordinance Litigation - In 1992, the City promoted, and a public initiative enacted, a restrictive water quality ordinance, the SOS Ordinance. In 1994, the Hays County Court declared the ordinance unconstitutional. In 1996, the Austin Court of Appeals reversed the lower court's decision but upheld the lower court's ruling on certain grandfathered rights for land previously platted. STRS may benefit from the grandfathered rights decision because a significant portion of STRS' Austin area properties was previously platted. On May 8, 1998, the Texas Supreme Court ruled that the SOS ordinance is valid. At this point, the adverse effect of the Supreme Court's ruling on STRS' Austin properties is uncertain for two reasons: (1) the grandfathered rights described above, if valid, should protect previously platted land; and (2) most of STRS' property has been removed from Austin's jurisdiction because of the creation of Water Quality Protection Zones (WQPZ), if valid, and the creation of the Southwest Travis County Water District (the STCWD) at Circle C, both authorized by Texas state legislation in 1995. However, the STCWD legislation has been declared unconstitutional by a district court in Austin. Additionally, the grandfathered rights are affected by the inadvertent repeal of S.B. 1704 in the 1997 session of the Texas State legislature and the City has challenged the constitutionality of the legislation authorizing the creation of the WQPZs, as well as the validity of the WQPZs, each further described below.

The City's WQPZ Action - On January 9, 1998, the City filed suit in Travis County District Court against 14 WQPZ and their owners, including the Barton Creek WQPZ, challenging the constitutionality of the legislation authorizing the creation of

water quality zones. The Attorney General of Texas intervened in this suit and the Circle C WQPZ litigation below, to defend the legislation. The City filed a motion for partial summary judgment against one defendant and against the State of Texas. All defendant parties filed motions with regard to summary judgment. A summary judgment hearing was conducted in the Travis County District Court on July 9, 1998. The District Court entered an order granting the City's motion for summary judgment motion and declaring the WQPZ legislation unconstitutional. All parties agreed to the form of an order which permitted an expedited appeal directly to the Texas Supreme Court. STRS and other defendants filed appeals. The Texas Supreme Court noted probable jurisdiction and set an expedited briefing and hearing schedule. Oral argument was presented to the Texas Supreme Court on December 9, 1998. A ruling is expected in 1999.

Circle C WQPZ Litigation - Circle C Land Corp., a wholly owned subsidiary of STRS, filed a WQPZ (Circle C WQPZ) covering all of its 553 acres in the Circle C development located outside the boundaries of any MUD. In November 1997, STRS sought a declaratory judgment in the Hays County District Court to confirm the validity of the Circle C WQPZ. The District Court denied the City's motion to deny jurisdiction and transfer venue and, the City appealed the trial court's decision to the Third Court of Appeals. The City also requested that the Third Court of Appeals stay any action in the Hays County District Court, including STRS' motion for summary judgment, pending the Court of Appeals' review of the District Court's denial of the decision on jurisdiction. The Court of Appeals refused to stay the summary judgment proceeding and, in response, the City filed a writ with the Texas Supreme Court. The Texas Supreme Court accepted the writ and stayed all underlying litigation. Subsequently, the Court of Appeals confirmed the trial court's decision on jurisdiction. STRS then filed a motion to lift the stay with the Supreme Court which was granted. On September 4, 1998, the Hays County District Court ruled that the WQPZ enabling legislation was constitutional and that the Circle C WQPZ was validly created. The City filed a petition for writ of injunction with the Texas Supreme Court requesting a stay of the District Court's ruling. On October 22, 1998, the Supreme Court granted a temporary stay. It is anticipated that the merits of Hays County District Court's ruling concerning the constitutionality of the enabling legislation and the validity of the Circle C WQPZ will be appealed or resolved in connection with the Supreme Court's resolution of the City's WQPZ action described above.

Annexation/Circle C MUD Reimbursement Litigation - On December 19, 1997, the City annexed all land formerly lying within the Circle C project. If the City's annexation is valid, STRS' property located within Circle C's municipal utility districts (MUD) and annexed by the City is subject to the City's

zoning and development regulations. Additionally, the City is required to assume all MUD debt and reimburse STRS for a significant portion of the costs incurred for water, wastewater and drainage infrastructure. Because the City failed to pay these costs upon annexation, STRS sued the City. The City's total reimbursement obligation to the Circle C developers is currently estimated at \$22 million, of which STRS' share is currently estimated at approximately \$18 million. These proceeds are also subject to the Phoenix litigation described below. The City's and STRS' engineers and auditors are reviewing financial and engineering materials in an effort to reach agreement on the proper amount of STRS' reimbursement claim. A trial has been set for May 24, 1999. STRS will continue to pursue this action vigorously.

Phoenix Litigation - In February 1997, Circle C filed a petition for declaratory judgment against Phoenix, which purchased the residential portion of Circle C's lands, seeking a declaration that Circle C is entitled to most of the MUD reimbursements for infrastructure cost incurred at Circle C. Phoenix filed a counterclaim in June 1997. In February 1998, the District Court granted Circle C's summary judgment motion on the primary case and Phoenix dismissed its counterclaim with

22

prejudice, but reserved the right to appeal the summary judgment of the primary case. On April 10, 1998, Phoenix appealed. See "Annexation litigation" above for the estimated amount of MUD reimbursements currently due to STRS.

Legislative Matters - In the 1997 Texas State legislative session, a bill to reorganize a state governmental agency inadvertently repealed the provisions of law (H.B. 4 and S.B. 1704), which established the grandfathered rights for previously platted lands. Trial counsel has advised STRS, that in his opinion, this inadvertent repeal should not affect STRS' rights to develop its properties. In response to the legislature's inadvertent repeal, the City enacted an ordinance establishing regulations on land development that effectively eliminated the grandfathered rights. The City likely will attempt to apply these regulations to portions of STRS' Circle C property and Lantana. If the City takes this position, STRS will assert and defend its grandfathered entitlements. STRS expects the Texas State Legislature to remedy this inadvertent repeal in 1999.

SOS Notices of Intent - The SOS coalition (the Coalition) has issued notices of intent to sue under the Endangered Species Act and the Clean Water Act. The notice relative to the Endangered Species Act alleges a non-authorized take of Golden

Cheek Warbler habitat under STRS' Section 10(a) Permit of the Barton Creek development. The second notice relates to alleged violations of the Clean Water Act pertaining to the Barton Creek wastewater treatment plant. This facility is operated pursuant to a "no discharge" permit from the Texas Natural Resource Conservation Commission. The Coalition alleges that there is, in fact, an ongoing discharge of treated effluent into Barton Creek. No suit has been filed but if suit is brought, STRS will vigorously defend against these allegations.

7. Investment in the Partnership

Shown below are the condensed statements of operations and cash flow for the year ended December 31, 1996 relating to STRS' investment in the Partnership (see Note 1). These statements should be read in conjunction with STRS' financial statements and accompanying footnotes (in thousands).

<TABLE>

<CAPTION>

Statement Of Operations

<S>	<C>
Revenues	\$ 79,177
Costs and expenses:	
Cost of sales	73,347
General and administrative expenses	2,296

Total costs and expenses	75,643

Operating income	3,534
Interest expense, net	(3,896)
Other income, net	16

Net loss	\$ (346)
	=====

Statement Of Cash Flow

Cash flow from operating activities:	
Net loss	\$ (346)
Adjustments to reconcile net loss to net cash provided by operating activities:	
Depreciation and amortization	1,484
Cost of real estate sales	66,466
(Increase) decrease in working capital:	1,134

Net cash provided by operating activities	68,738

Real estate and facilities	(5,943)

Net cash used in investing activities	(5,943)

Repayment of debt, net	(62,969)

Net cash used in financing activities	(62,969)
Net decrease in cash and cash equivalents	\$ (174)
Interest paid	\$ 10,481

</TABLE>

8. Income Taxes

Income taxes are recorded pursuant to SFAS 109 "Accounting for Income Taxes." STRS has provided a valuation allowance equal to its deferred tax assets because of the expectation of incurring tax losses for the near future. The components of deferred taxes follow:

23

<TABLE>

<CAPTION>

	December 31,	
	1998	1997
	(in Thousands)	
<S>	<C>	<C>
Deferred tax assets (liabilities):		
Net operating losses (expire 2001-2018)	\$ 15,355	\$ 12,509
Real estate and facilities, net	(8,945)	(7,511)
Alternative minimum tax credits and depletion allowance (no expiration)	838	800
Other future deduction carryforwards (expire 1999-2003)	390	319
Valuation allowance	(7,638)	(6,117)
	\$ -	\$ -

</TABLE>

STRS recognized a tax benefit of \$0.5 million in 1996 for the carryback of its tax loss to recoup taxes paid in previous years. Income taxes credited (charged) to income follow:

<TABLE>

<CAPTION>

	1998	1997	1996
	(In Thousands)		
<S>	<C>	<C>	<C>
Current income tax benefit (expense)			

Federal	\$ -	\$ -	\$ 526
State	(87)	(80)	-
	-----	-----	-----
	(87)	(80)	526
	-----	-----	-----
Income tax benefit (expense)	\$ (87)	\$ (80)	\$ 526
	=====	=====	=====

</TABLE>

Reconciliations of the differences between the income tax (charges) benefits computed at the federal statutory tax rate and the income tax (expense) benefit recorded follow:

<TABLE>

<CAPTION>

	1998		1997		1996	
	Amount	Percent	Amount	Percent	Amount	Percent
	(Dollars In Thousands)					
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Income tax benefit (expense) computed at the federal statutory income tax rate	\$ 893	35 %	\$ (2,485)	(35)%	\$ 158	35%
Increase (decrease) attributable to:						
Change in valuation allowance	(1,521)	(59)	3,168	45	(169)	(37)
State taxes and other	541	21	(763)	(11)	537	119
	-----	-----	-----	-----	-----	-----
Income tax benefit (expense)	\$ (87)	(3)%	\$ (80)	(1)%	\$ 526	117%
	=====	=====	=====	=====	=====	=====

</TABLE>

9. Transactions with Affiliates

Management Services. FM Services Company (Services Company), owned 10 percent by STRS, provides certain management and administrative services to STRS including technical, administrative, accounting, financial, tax and other services under a management services agreement. Prior to January 1, 1998 services had been provided to STRS at a fixed annual fee of \$0.5 million, subject to annual cost of living increases. Effective January 1, 1998 the Services Company implemented a new management services agreement whereby these same services are provided on a cost reimbursement basis. Fees paid to Services Company totaled \$1.0 million in 1998 and \$0.5 million in 1997 and 1996. STRS believes the costs of these services do not differ materially from those costs that would have been incurred had the relevant personnel providing these services been employed directly by STRS during 1998.

Sale of Oil & Gas Interests. In September 1997, STRS sold several working interests and numerous overriding royalty interests in oil and gas properties which had been held since its formation to McMoRan Oil & Gas Co. (MOXY) and Phosphate Resource Partners Limited Partnership (PLP) for \$4.5 million cash, resulting in a gain of \$4.5 million. PLP was an affiliate of STRS prior to the Merger because of FTX's former role as administrative managing general partner of PLP. MOXY was a STRS affiliate at that time because of common management and a common director shared with STRS. These interests, which had no cost basis, remained with STRS after the sale of substantially all of its oil and gas properties in 1993. The gain is reflected in Other Income and proceeds were used to reduce debt. Other Income also includes royalty income generated by these properties totaling \$0.8 million for 1997 (prior to the sale) and \$1.4 million for 1996.

10. Employee Benefits

Stock Options. STRS' Stock Option Plan and Stock Option Plan for Non-Employee Directors (the Plans) provide for the issuance of up to a total of 1.3 million stock options and stock appreciation rights (SARs) at no less than market value at time of grant. In May 1998, STRS' shareholders approved the 1998 Stock Option Plan (the 1998 Plan). Under terms of the 1998 plan

24

STRS can grant options representing 850,000 shares of common stock, of which 241,500 were granted through December 31, 1998. Generally, stock options are exercisable in 25 percent annual increments beginning one year from the date of grant and expire 10 years after the date of grant. A summary of stock options outstanding, including 150,000 SARs, follows:

<TABLE>

<CAPTION>

	1998		1997		1996	
	Number of Options	Average Option Price	Number of Options	Average Option Price	Number of Options	Average Option Price
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Beginning of year	1,050,000	\$ 2.98	790,000	\$ 2.77	535,000	\$ 3.23
Granted	304,000	6.05	280,000	3.55	305,000	1.79
Exercised	(50,000)	1.75	(2,500)	1.50	-	-
Expired/Forfeited	(236,375)	5.21	(17,500)	2.64	(50,000)	1.81
End of year	1,067,625	3.42	1,050,000	2.98	790,000	2.77

</TABLE>

At December 31, 1998, 1,029,875 shares were available for new grants under the Plans. Summary information of fixed stock options outstanding at December 31, 1998 follows:

<TABLE>

<CAPTION>

Range of Exercise Prices	Options Outstanding		Options Exercisable		
	Number Of Options	Weighted Average Remaining Life	Average Option Price	Number of Option	Weighted Average Option Price
<S>	<C>	<C>	<C>	<C>	<C>
\$1.50 to \$1.81	280,000	7.0 years	\$ 1.57	155,000	\$ 1.59
\$2.63 to \$3.50	342,500	8.2 years	3.32	102,500	3.20
\$4.81 to \$6.19	295,125	9.3 years	6.14	3,125	5.09
	917,625			260,625	

</TABLE>

STRS has adopted the disclosure-only provisions of SFAS 123, "Accounting for Stock Based Compensation," and continues to apply Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations in accounting for its stock-based compensation plans. Accordingly, no compensation cost has been recognized for STRS' fixed stock option grants. Had compensation cost for STRS' fixed stock option grants been determined based on the fair value at the grant dates for awards under those plans consistent with SFAS 123, STRS' net loss would have increased by \$523,000 (\$0.04 per share) in 1998, and its net income would have decreased by \$252,000 (\$0.02 per share) in 1997 and \$104,000 (\$0.01 per share) in 1996. For the pro forma computations, the fair values of the fixed option grants were estimated on the dates of grant using the Black-Scholes option pricing model. These values totaled \$4.35 per option in 1998, \$2.76 per option in 1997, \$1.46 per option in 1996. The weighted average assumptions used include a risk-free interest rate of 5.7 percent in 1998, 6.7 percent in 1997 and 6.4 percent in 1996, expected lives of 10 years and expected volatility of 55 percent in 1998, 62 percent in 1997 and 70 percent in 1996. These pro forma effects are not representative of future years because they do not take into consideration grants made prior to 1995. No other discounts or restrictions related to vesting or the likelihood of vesting of fixed stock options were applied.

11. Commitments and Contingencies

STRS has made, and will continue to make, expenditures at its operations for protection of the environment. Increasing emphasis on environmental matters can be expected to result in additional costs, which will be charged against STRS' operations in future periods. Present and future environmental laws and regulations applicable to the STRS' operations may require substantial capital expenditures, could adversely affect the development of its real estate interests or may affect its operations in other ways that cannot be accurately predicted at this time.

In connection with the sale of one of its oil and gas properties in 1993, the Company indemnified the purchaser for any future abandonment costs in excess of net revenues received by the purchaser. The Company has accrued \$3.0 million relating to this contingent liability, included in Other Liabilities, which it believes to be adequate.

25

12. Quarterly Financial Information (Unaudited)

<TABLE>

<CAPTION>

	Revenues	Operating Income (Loss)	Net Income (Loss)	Net Income (Loss) Per Share	
				Basic	Diluted
	-----	-----	-----	-----	-----
	(In Thousands, Except Per Share Amounts)				
<S>	<C>	<C>	<C>	<C>	<C>
1998					
1st Quarter	\$ 2,655	\$ (385) a	\$ (883) a	\$ (.06) a	\$ (.06) a
2nd Quarter	3,408	(704)	(1,160)	(.08)	(.08)
3rd Quarter	6,239	1,044	566	.04	.03
4th Quarter	5,288	(527)	(1,161)	(.08)	(.08)
	-----	-----	-----		
	\$ 17,590	\$ (572)	\$ (2,638)	(.18)	(.18)
	=====	=====	=====		
1997					
1st Quarter	\$ 15,070	\$ 2,491	\$ 1,972	\$.14	\$.14
2nd Quarter	5,191	1,756b	1,744b	.12b	.12b
3rd Quarter	4,037	(637)	3,455c	.24c	.24c
4th Quarter	6,655	297	(165)	(.01)	(.01)
	-----	-----	-----		
	\$ 30,953	\$ 3,907	\$ 7,006	.49	.48
	=====	=====	=====		

</TABLE>

- a. Includes a \$0.8 million (\$0.06 per share) reimbursement of previously expensed infrastructure costs.
- b. Includes a \$3.1 million (\$0.22 per share) reimbursement of previously expensed infrastructure costs.
- c. Includes a \$4.5 million (\$0.31 per share) gain from sale of oil and gas property interests.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

Not applicable.

PART III

Item 10. Directors and Executive Officers of the Registrant

The information set forth under the caption "Information About Nominees and Directors" of the Proxy Statement submitted to the stockholders of the registrant in connection with its 1999 annual meeting to be held on May 13, 1999, is incorporated herein by reference.

Item 11. Executive Compensation

The information set forth under the captions "Director Compensation" and "Executive Officer Compensation" of the Proxy Statement submitted to the stockholders of the registrant in connection with its 1999 annual meeting to be held on May 13, 1999, is incorporated herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management

The information set forth under the captions "Common Stock Ownership of Certain Beneficial Owners" and "Common Stock Ownership of Directors and Executive Officer" of the Proxy Statement submitted to the stockholders of the registrant in connection with its 1999 annual meeting to be held on May 13, 1999, is incorporated herein by reference.

Item 13. Certain Relationships and Related Transactions

The information set forth under the caption "Certain Transactions" of the Proxy Statement submitted to the stockholders of the registrant in connection with its 1999 annual meeting to be held on May 13, 1999, is incorporated herein by reference.

PART IV

Item 14. Exhibits, Financial Statement Schedules, and Reports on Form 8-K

- (a) (1) Financial Statements. Reference is made to the Financial Statements beginning on page 16 hereof.

(a) (2) Financial Statement Schedules. Reference is made to the Index to Financial Statements appearing on page F-1 hereof.

(a) (3) Exhibits. Reference is made to the Exhibit Index beginning on page E-1 hereof.

(b) Reports on Form 8-K. None.

26

SIGNATURES

Pursuant to the requirements of Section 13 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, on March 26, 1999.

STRATUS PROPERTIES INC.

By: /s/ William H. Armstrong III

William H. Armstrong III
Chairman of the Board, President
And Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities indicated, on March 26, 1999.

/s/ William H. Armstrong III

William H. Armstrong III

Chairman of the Board, President,
and Chief Executive Officer
(principal executive
and financial officer)

*

C. Donald Whitmire

Vice President and Controller
(principal accounting officer)

*

Director

Robert L. Adair III

*

Director

James C. Leslie

*

Director

Michael D. Madden

*By: /s/ William H. Armstrong III

William H. Armstrong III
Attorney-in-Fact

S-1

STRATUS PROPERTIES INC.
EXHIBIT INDEX

Exhibit
Number

- 3.1 Amended and Restated Certificate of Incorporation of STRS.
- 3.2 By-laws of STRS, as amended as of February 11, 1999.
- 4.1 STRS' Certificate of Designations of Series A Participating Cumulative Preferred Stock. Incorporated by reference to Exhibit 4.1 to STRS' 1992 Form 10-K.
- 4.2 Rights Agreement dated as of May 28, 1992 between STRS and Mellon Securities Trust Company, as Rights Agent. Incorporated by reference to Exhibit 4.2 to STRS' 1992 Form 10-K.
- 4.3 Amendment No. 1 to Rights Agreement dated as of April 21, 1997 between STRS and the Rights Agent. Incorporated by reference to Exhibit 4 to STRS' Current

- 4.4 Amended, Restated and Consolidated Credit Agreement dated as of December 15, 1997 among the Partnership, Circle C Land Corp., certain banks, and The Chase Manhattan Bank, as Administrative Agent and Document Agent. Incorporated by reference to Exhibit 4.4 to the 1997 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 STRS' 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 STRS' 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 STRS' Current Report on Form 8-K dated June 3, 1998.
- 10.1 Amended and Restated Services Agreement, dated as of December 23, 1997 between FM Services Company and STRS. Incorporated by reference to Exhibit 10.2 to STRS' 1997 Form 10-K.
- 10.2 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 STRS' 1992 Form 10-K.
- 10.3 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 STRS' 1992 Form 10-K.
- 10.4 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 STRS' 1992 Form 10-K.
- 10.5 STRS Guarantee Agreement dated as of December 15, 1997

by STRS. Incorporated by reference to Exhibit 10.6 to STRS' 1997 Form 10-K.

10.6 Amended and Restated IGL Guarantee Agreement dated as of December 22, 1997 by IMC Global Inc. Incorporated by reference to Exhibit 10.7 to STRS' 1997 Form 10-K.

10.7 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 STRS' Current Report on Form 8-K dated June 3, 1998.

E-1

10.8 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 STRS' Current Report on Form 8-K dated June 3, 1998.

10.9 Oly Stratus ABC West I Joint Venture Agreement between Oly ABC West I, L.P. and Stratus West I.L.P. dated September 30, 1998. Incorporated by reference to Exhibit 10.10 to the Quarterly Report on Form 10-Q of STRS for the Quarter ended September 30, 1998 ("the STRS Third Quarter 10-Q")

10.10 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 STRS Third Quarter 10-Q.

10.11 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 STRS Third Quarter 10-Q.

10.12 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 STRS Third Quarter 10-Q.

10.13 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 STRS Third Quarter 10-Q.

10.14 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 STRS Third Quarter 10-Q.

10.15 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 STRS Third Quarter 10-Q.

10.16 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 STRS Third Quarter 10-Q.

10.17 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 STRS Third Quarter 10-Q.

Executive Compensation Plans and Arrangements (Exhibits 10.18 through 10.21)

10.18 STRS' Performance Incentive Awards Program, as amended effective February 11, 1999.

10.19 STRS Stock Option Plan, as amended. Incorporated by reference to Exhibit 10.9 to STRS's 1997 Form 10-K.

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

10.21 Stratus Properties Inc. 1998 Stock Option Plan as amended effective February 11, 1999.

21.1 List of subsidiaries.

23.1 Consent of Arthur Andersen LLP.

24.1 Certified resolution of the Board of Directors of STRS authorizing this report to be signed on behalf of any officer or director pursuant to a Power of Attorney.

24.2 Powers of Attorney pursuant to which this report has been signed on behalf of certain officers and directors of STRS.

27.1 Financial Data Schedule.

STRATUS PROPERTIES INC.
INDEX TO FINANCIAL STATEMENTS

The financial statements in the schedule listed below should be read in conjunction with the financial statements of STRS contained elsewhere in this Annual Report on Form 10-K.

	Page
Report of Independent Public Accountants	F-1
Schedule III-Real Estate and Accumulated Depreciation	F-2

Schedules other than the one listed above have been omitted since they are either not required, not applicable or the required information is included in the financial statements or notes thereto.

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

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

We have audited, in accordance with generally accepted auditing standards, the financial statements as of December 31, 1998 and 1997 and for each of the three years in the period ended December 31, 1998 included elsewhere in Stratus Properties Inc.'s Annual Report on Form 10-K, and have issued our report thereon dated January 19, 1999. Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedule is the responsibility of the Company's management and is presented for purposes of complying with the Securities and Exchange Commission's rules and is not part of the basic financial statements. This schedule has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, fairly states in all material respects the financial data required to be set forth therein in relation to the basic financial statements taken as a whole.

Arthur Andersen LLP

Austin, Texas
January 19, 1999

<TABLE>
<CAPTION>

Stratus Properties Inc.
REAL ESTATE AND ACCUMULATED DEPRECIATION
December 31, 1998
(In Thousands)

SCHEDULE III

	Intial Cost		Cost Capitalized Subsequent to Acquisitions	Gross Amounts at December 31, 1998	
	Land	Building and Improve- ments	Land	Land	Building and Improv- ements
<S>	<C>	<C>	<C>	<C>	<C>
Developed Lots					
Camino Real, San Antonio, TX	\$ 175	-	\$ 471	\$ 646	-
Bent Tree Marsh, Dallas TX	78	-	157	235	-
Willow Bend, Plano, TX	417	-	362	779	-
Copper Lakes, Houston, TX	279	-	1,150	1,429	-
Barton Creek (North), Austin TX	198	-	710	908	-
Undeveloped Agerage					
Camino Real, San Antonio, TX	825	-	-	825	-
Copper Lakes, Houston, TX	2,225	-	1,980	4,205	-
Bent Tree Addison, Dallas, TX	364	-	-	364	-
Bent Tree Apt./ Retail, Dallas TX	873	-	-	873	-
Barton Creek (North), Austin, TX	5,825	-	28,281	34,106	-
Barton Creek (South), Austin, TX	20,325	-	4,154	24,479	-
Lantana, Austin, TX	3,934	-	2,088	6,022	-
Longhorn Properties, Austin, TX	15,792	-	5,599	21,391	-
Operating Properties					
Barton Creek Utilities, Austin, TX	-	416	-	-	416
	-----	-----	-----	-----	-----
	\$51,310	416	\$ 44,952	\$96,678	416
	=====	=====	=====	=====	=====

</TABLE>

<TABLE>
<CAPTION>

Stratus Properties Inc.
REAL ESTATE AND ACCUMLATED DEPRECIATION (Continued)
December 31, 1998

Number of Lots
and Acres Accumulated

	Total	----- Lots	----- Acres	----- Depre- ciation	----- Year Acquired
<S>	<C>	<C>	<C>	<C>	<C>
Developed Lots					
Camino Real, San Antonio, TX	\$ 646	17	-	-	1990
Bent Tree Marsh, Dallas TX	235	8	-	-	1991
Willow Bend, Plano, TX	779	6	-	-	1991
Copper Lakes, Houston, TX	1,429	68	-	-	1991
Barton Creek (North), Austin TX	908	6	-	-	1997
Undeveloped Acreage					
Camino Real, San Antonio, TX	825	-	57	-	1990
Copper Lakes, Houston, TX	4,205	-	169	-	1991
Bent Tree Addison, Dallas, TX	364	-	8	-	1991
Bent Tree Apt./ Retail, Dallas TX	873	-	10	-	1990
Barton Creek (North), Austin, TX	34,106	-	650	-	1988
Barton Creek (South), Austin, TX	24,479	-	1,797	-	1988
Lantana, Austin, TX	6,022	-	513	-	1994
Longhorn Properties, Austin, TX	21,391	-	1,274	-	1992
Operating Properties					
Barton Creek Utilities, Austin, TX	-	-	-	122	1997
	-----	-----	-----	-----	
	\$96,678	105	4,478	\$ 122	
	=====	=====	=====	=====	

</TABLE>

F-2

Stratus Properties Inc.
Notes to Schedule III
(In Thousands)

(1) Reconciliation of Real Estate Properties:

The changes in real estate assets for the years ended December 31, 1998 and 1997 are as follows:

	1998	1997
	-----	-----
Balance, beginning of year	\$ 105,320	\$ 119,478
Acquisitions	728	1,802
Improvements and other	5,619	10,116
Cost of real estate sold	(14,989)	(26,076)
	-----	-----
Balance, end of year	\$ 96,678	\$ 105,320
	=====	=====

The aggregate net book value for federal income tax purposes as of December 31, 1998 was \$124,560,000.

(2) Reconciliation of Accumulated Depreciation:

The changes in accumulated depreciation for the years ended December 31, 1998 and 1997 are as follows:

	1998	1997
	-----	-----
Balance, beginning of year	\$ 46	\$ 723
Depreciation expense	7	98
Real estate sold	-	(775)
	-----	-----
Balance, end of year	\$ 122	\$ 46
	=====	=====

Depreciation of buildings and improvements reflected in the statements of operations is calculated over estimated lives of 30 years.

(3) Concurrent with certain year-end 1994 debt negotiations, the Partnership analyzed the carrying amount of its real estate assets, using generally accepted accounting principles, and recorded a \$115 million pre-tax, non-cash write-down. The actual amounts that will be realized depend on future market conditions and may be more or less than the amounts recorded in the Partnership's financial statements.

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

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

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

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

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

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

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

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

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

By:/s/ Richard C. Adkerson

Richard C. Adkerson
Chairman of the Board

CORPORATE SEAL

Attest:/s/ Michael Kilanowski Jr.

Michael C. Kilanowski, Jr.
Secretary

Exhibit 3.1 Con't

AMENDED AND RESTATED
CERTIFICATE OF INCORPORATION
OF
FM PROPERTIES INC.

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

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

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

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

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

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

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

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

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

at that meeting shall be elected to hold office for a term expiring at the annual meeting of stockholders held in the third year following the year of their election.

(b) Subject to such rights to elect directors under specified circumstances as may be granted to holders of any shares of the Preferred Stock pursuant to the provision of Article FOURTH, newly created directorships resulting from any increase in the number of directors and any vacancies on the Board of Directors resulting from death, resignation, disqualification, removal or other reason shall be filled solely by the affirmative vote of a majority of the remaining directors then in office, even though less than a quorum of the Board of Directors. Any director elected in accordance with the preceding sentence shall hold office for the remainder of the full term of the class of directors in which the new directorship was created or the vacancy occurred and until such director's successor shall have been elected and qualified. No decrease in the number of directors constituting the Board of Directors shall shorten the term of any incumbent director.

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

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

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

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

those conferred upon it by statute.

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

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

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

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

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

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

The foregoing indemnification shall not be deemed exclusive of any other rights to which those seeking indemnification may be entitled

under any applicable law, by-law, agreement, vote of stockholders or disinterested directors or otherwise.

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

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

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

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

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

For purposes of this Article NINTH:

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

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

(a) which such person or any of its affiliates or

associates beneficially owns, directly or indirectly; or

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

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

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

(iv) The term "Interested Party" shall mean and include (a) any individual, corporation, partnership, trust or other person or entity which, together with its affiliates and associates, is (or with respect to a Business Combination was within two years prior thereto) a beneficial owner of shares aggregating 20 per cent or more of the outstanding Common Stock of the Corporation, and (b) any affiliate or associate of any such individual, corporation, partnership, trust or other person or entity. For the purposes of determining whether a person is an Interested Party the number of shares deemed to be outstanding shall include shares deemed beneficially owned through application of subclause (b) of the foregoing clause (ii) but shall not include any other shares of Common Stock which may be issuable pursuant to any agreement, arrangement or understanding, or upon exercise of conversion rights, warrants or options, or otherwise.

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

assets of such corporation or other entity.

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

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

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

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

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

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

FM PROPERTIES INC.

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

ATTEST:

/s/ Charles E. Holmes
Secretary

Stratus Properties Inc.
(formerly FM Properties Inc.)

By-Laws

ARTICLE I

Name

The name of the corporation is Stratus Properties Inc.

ARTICLE II

Offices

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

2. The corporation shall in addition to its registered office in the State of Delaware establish and maintain an office or offices at such place or places as the Board of Directors may from time to time find necessary or desirable.

ARTICLE III

Corporate Seal

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

ARTICLE IV

Meetings of Stockholders

1. All meetings of the stockholders shall be held at the registered office of the corporation in the State of Delaware, or at any

other place as shall be determined, from time to time, by the Board of Directors.

2. The first annual meeting of stockholders shall be held on Monday, May 17, 1993, at eleven o'clock in the forenoon, or on such other date in that year or at such other time as may be determined by resolution of the Board of Directors. In subsequent years the annual meeting of the stockholders shall be held on the Monday immediately preceding the third Tuesday of May at eleven o'clock in the forenoon, or on such other day or at such other time as may be determined from time to time by resolution of the Board of Directors. At each annual meeting of the stockholders they shall elect by plurality vote, by written ballot, the successors of the class of directors whose term expires at such meeting, to hold office until the annual meeting of the stockholders held in the third year following the year of their election and their successors are respectively elected and qualified or until their earlier resignation or removal. Any other proper business may be transacted at the annual meeting.

3. The holders of a majority of the stock issued and outstanding and entitled to vote thereat, present in person or represented by proxy, shall constitute a quorum at all meetings of the stockholders for the transaction of business, except as otherwise expressly provided by statute, by the Certificate of Incorporation or by these By-Laws. If, however, such majority shall not be present or represented at any meeting of the stockholders, the stockholders entitled to vote thereat, present in person or by proxy, shall have power to adjourn the meeting from time to time, without notice other than announcement at the meeting (except as otherwise provided by statute), until the requisite amount of voting stock shall be present. At such adjourned meeting at which the requisite amount of voting stock shall be represented, any business may be transacted which might have been transacted at the meeting as originally notified.

4. At all meetings of the stockholders each stockholder having the right to vote shall be entitled to vote in person or by proxy appointed by an instrument in writing subscribed by such stockholder and bearing a date not more than three years prior to said meeting, unless such instrument provides for a longer period. All proxies shall be filed with the secretary of the meeting before being voted.

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

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

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

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

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

10. At an annual meeting of the stockholders, only business shall be conducted as shall have been brought before the meeting (a) by or at the direction of the Board of Directors or (b) by any stockholder of the corporation who complies with the notice procedures set forth in this Section 10. For business to be properly brought before an annual meeting by a stockholder, the stockholder must have given timely notice thereof in writing to the Secretary of the corporation. To be timely, a stockholder's notice must be delivered to the Secretary at the principal executive offices of the corporation not later than the close of business on the 120th day nor earlier than the close of business on the 210th day prior to the first anniversary of the preceding year's annual meeting; provided, however, that in the event that the date of the annual meeting is more than 30 days before or more than 90 days after such anniversary date, notice by the stockholder to be timely must be so delivered not earlier than the close of business on the 120th day prior to such annual meeting and not later than the close of business on the later of the 90th day prior to such annual meeting or the 10th day following the day on which public announcement of the date of such meeting is first made. In no event shall the public announcement of an adjournment of an annual meeting commence a new time period for the giving of a stockholder's notice as described above. A stockholder's notice to the Secretary shall set forth as to each matter the stockholder proposes to bring before the annual meeting (a) a brief description of the business desired to be brought before the annual meeting and the reasons for conducting such business at the annual meeting, (b) the name and address, as they appear on the corporation's books, of the stockholder proposing such business, (c) the class and number of shares of the corporation which are beneficially owned by the stockholder and (d) any material interest of the stockholder in such business. Notwithstanding anything in these By-Laws to the contrary, no business shall be conducted at an annual meeting except in accordance with the procedures set forth in

this Section 10. The chairman of an annual meeting shall, if the facts warrant, determine and declare to the meeting that business was not properly brought before the meeting and in accordance with the provisions of these By-Laws, and if he should so determine, he shall so declare to the meeting and any such business not properly brought before the meeting shall not be transacted. Notwithstanding the foregoing provisions of this Section 10, a stockholder seeking to have a proposal included in the corporation's proxy statement shall comply with the requirements of Regulation 14A under the Securities Exchange Act of 1934, as amended (including, but not limited to, Rule 14a-8 or its successor provision).

11. Only persons who are nominated in accordance with the procedures set forth in these By-Laws shall be eligible for election as directors. Nominations of persons for election to the Board of Directors of the corporation may be made at a meeting of stockholders (a) by or at the direction of the Board of Directors or (b) by any stockholder of the corporation entitled to vote for the election of directors at the meeting who complies with the notice procedures set forth in this Section 11. Such nominations, other than those made by or at the direction of the Board of Directors, shall be made pursuant to timely notice in writing to the Secretary of the corporation. To be timely, a stockholder's notice must be delivered to the Secretary at the principal executive offices of the corporation not later than the close of business on the 120th day nor earlier than the close of business on the 210th day prior to the first anniversary of the preceding year's annual meeting; provided, however, that in the event that the date of the annual meeting is more than 30 days before or more than 90 days after such anniversary date, notice by the stockholder to be timely must be so delivered not earlier than the close of business on the 120th day prior to such annual meeting and not later than the close of business on the later of the 90th day prior to such annual meeting or the 10th day following the day on which public announcement of the date of such meeting is first made. In no event shall the public announcement of an adjournment of an annual meeting commence a new time period for the giving of a stockholder's notice as described above. Such stockholder's notice shall set forth (a) as to each person whom the stockholder proposes to nominate for election or reelection as a director all information relating to such person that is required to be disclosed in solicitations of proxies for election of directors, or is otherwise required, in each case pursuant to Regulation 14A under the Securities Exchange Act of 1934, as amended (including such person's written consent to being named in the proxy statement as a nominee and to serve as a director if elected); and (b) as to the stockholder giving the notice (i) the name and address, as they appear on the corporation's books, of such stockholder and (ii) the class and number of shares of the corporation which are beneficially owned by such stockholder. At the request of the Board of Directors any person nominated by the Board of Directors for election as a director shall furnish to the Secretary of the corporation that information required to be set forth in a stockholder's notice of nomination which pertains to the nominee. No person shall be eligible for election as a director of the corporation unless nominated in accordance with the procedures set forth in these By-Laws. The chairman of the

meeting shall, if the facts warrant, determine and declare to the meeting that a nomination was not made in accordance with the procedures prescribed by these By-Laws, and if he should so determine, he shall so declare to the meeting and the defective nomination shall be disregarded.

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

ARTICLE V

Directors

1. The business and affairs of the corporation shall be managed under the direction of a Board of Directors which may exercise all such powers and authority for and on behalf of the corporation as shall be permitted by law, the Certificate of Incorporation or these By-Laws.

2. The directors may hold their meetings and have one or more offices, and, subject to the laws of the State of Delaware, keep the stock ledger and other books and records of the corporation, outside said State, at such place or places as they may from time to time determine.

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

4. Subject to such rights to elect directors under specified circumstances as may be granted to holders of any shares of the Preferred Stock pursuant to the Certificate of Incorporation, newly created directorships resulting from any increase in the number of directors and any vacancies on the Board of Directors resulting from death, resignation,

disqualification, removal or other reason shall be filled solely by the affirmative vote of a majority of the remaining directors then in office, even though less than a quorum of the Board of Directors. Any director elected in accordance with the preceding sentence shall hold office for the remainder of the full term of the class of directors in which the new directorship was created or the vacancy occurred and until such director's successor shall have been elected and qualified. No decrease in the number of directors constituting the Board of Directors shall shorten the term of any incumbent director.

5. Any director may resign at any time by giving written notice of his resignation to the Board of Directors, the Chairman of the Board or the President. Any such resignation shall take effect upon receipt thereof by the Board, the Chairman of the Board or the President, as the case may be, or at such later date as may be specified therein. Any such notice to the Board shall be addressed to it in care of the Secretary.

ARTICLE VI

Committees of Directors

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

ARTICLE VII

Compensation of Directors

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

ARTICLE VIII

Meetings of Directors; Action Without A Meeting

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

ARTICLE IX

Officers

1. The officers of the corporation shall be chosen by the Board of Directors and shall be a President, a Secretary and a Treasurer. The Board may also choose a Chairman of the Board, a General Counsel, a Controller, one or more Executive Vice Presidents, Senior Vice Presidents, Vice Presidents, Assistant Secretaries and Assistant Treasurers, and such other officers as it shall deem necessary, who shall hold their offices for such terms and shall exercise such powers and perform such duties as shall be determined from time to time by the Board. Any number of offices may be held by the same person.
2. The Board of Directors, at its first meeting after the annual

meeting of stockholders, shall choose a Chairman of the Board and a President from among the directors and shall choose the remaining officers who need not be members of the Board.

3. The salaries of all officers of the corporation shall be fixed by the Board of Directors, or in such manner as the Board may prescribe.

4. The officers of the corporation shall hold office until their successors are chosen and qualified, except that any officer may at any time be removed by the Board of Directors. If the office of any officer becomes vacant for any reason, the vacancy may be filled by the Board.

5. Any officer may resign at any time by giving written notice of his resignation to the Board of Directors, the Chairman of the Board or the President. Any such resignation shall take effect upon receipt thereof by the Board, the Chairman of the Board or the President, as the case may be, or at such later date as may be specified therein. Any such notice to the Board shall be addressed to it in care of the Secretary.

ARTICLE X

Chairman of the Board

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

ARTICLE XI

President

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

ARTICLE XII

Executive Vice Presidents, Senior Vice Presidents and Vice Presidents

The Executive Vice Presidents, the Senior Vice Presidents and the

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

ARTICLE XIII

General Counsel, Secretary and Assistant Secretaries

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

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

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

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

ARTICLE XIV

Treasurer and Assistant Treasurer

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

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

Chairman of the Board.

ARTICLE XV

Controller

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

ARTICLE XVI

Certificates of Stock

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

ARTICLE XVII

Transfer of Stock

1. All transfers of shares of the stock of the corporation shall be made on the books of the corporation by the registered holders of such shares in person or by their attorneys lawfully constituted in writing, or by their legal representatives.

2. Certificates for shares of stock shall be surrendered and cancelled at the time of transfer.

ARTICLE XVIII

Fixing Record Date

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

ARTICLE XIX

Registered Stockholders

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

ARTICLE XX

Checks

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

ARTICLE XXI

Fiscal Year

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

ARTICLE XXII

Notices and Waiver

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

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

ARTICLE XXIII

Alteration of By-Laws

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

ARTICLE XXIV

Indemnification of Corporate Personnel

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

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

STRATUS PROPERTIES INC.
PERFORMANCE INCENTIVE AWARDS PROGRAM

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

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

3. Eligibility for Participation. Each year the Chairman of the Board shall select the key managerial, professional or technical employees of the Company or of any of its subsidiaries who shall be eligible for participation in the Plan during that year. The Chairman of the Board may in his discretion make such selection, in whole or in part, on the basis of minimum salary levels, or position-point levels. The selection of an employee for eligibility in a particular year shall not constitute entitlement either to an incentive payment under the Plan for that year or to selection for eligibility in any subsequent year. Selection of employees for eligibility in a particular year will ordinarily be made in January of that year, but selection of any employee or employees may be made at any subsequent time or times in such year.

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

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

6. Optional Deferral of Payments. If, prior to the date established by the Chairman of the Board for any year for which incentive payments are made, an employee selected for participation in the Plan shall so elect, in accordance with procedures established by the Chairman of the Board, all or any part of a cash incentive payment to such employee with respect to such year shall be deferred and paid in one or more periodic installments, not in excess of ten, at such time or times before or after the date of such employee's Termination of Employment (as hereinafter defined), but not later than ten years after such date of Termination of Employment, as shall be specified in such election. If and only if any cash incentive payment or portion thereof is so deferred for payment after December 31 of the year following the year for which the incentive payment is made, such cash incentive payment or portion thereof, as the case may be, shall, commencing with January 1 of the year following the year for

which the incentive payment is made, be increased at a rate equal to the prime commercial lending rate announced from time to time by The Chase Manhattan Bank, N.A. (compounded quarterly) or at such other rate and in such manner as shall be determined from time to time by the Chairman of the Board. If such employee's Termination of Employment occurs for any reason other than early or normal retirement under the retirement plan of this corporation or retirement with the consent of this corporation outside the retirement plan of this corporation and if, on the date of such Termination of Employment, there remain unpaid any installments of cash incentive payments which have been deferred as provided in this Section 6, the Chairman of the Board may, in his discretion, direct the payment to such employee of the aggregate amount of such unpaid installments in a lump sum, notwithstanding such election. Subject to the terms of the Plan and applicable law, the Chairman of the Board may delegate to one or more officers or assistant officers of the Company his authority set forth in the immediately preceding sentence, subject to such terms and limitations as the Chairman of the Board shall determine. Solely for purposes of this Section 6, the term "Termination of Employment" shall mean the cessation of the rendering of services, whether or not as an employee, to any and all of the following entities: the Company; any subsidiary of the Company; Freeport-McMoRan Inc.; any subsidiary of Freeport-McMoRan Inc.; Freeport-McMoRan Copper & Gold Inc.; any subsidiary of Freeport-McMoRan Copper & Gold Inc.; McMoRan Oil & Gas Co.; any subsidiary of McMoRan Oil & Gas Co.; and any corporation or other entity in which any two or more of the aforementioned entities collectively possess, directly or indirectly, equity interests representing at least 50% of the total ordinary voting power or at least 50% of the total value of all classes of equity interests of such corporation or other entity.

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

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

STRATUS PROPERTIES INC.
1998 STOCK OPTION PLAN

SECTION 1

Purpose. The purpose of the Stratus Properties Inc. 1998 Stock Option Plan (the "Plan") is to motivate and reward key employees, consultants and advisers by giving them a proprietary interest in the Company's continued success.

SECTION 2

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

"Award" shall mean any Option, Stock Appreciation Right, Limited Right or Other Stock-Based Award.

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

"Board" shall mean the Board of Directors of the Company.

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

"Committee" shall mean a committee of the Board designated by the Board to administer the Plan and composed of not fewer than two directors, each of whom, to the extent necessary to comply with Rule 16b-3 only, is a "non-employee director" within the meaning of Rule 16b-3 and, to the extent necessary to comply with Section 162(m) only, is an "outside director" under Section 162(m). Until otherwise determined by the Board, the Committee shall be the Corporate Personnel Committee of the Board.

"Company" shall mean Stratus Properties Inc.

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

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

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

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

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

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

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

"Offer Price" shall mean the highest price per Share paid in any Offer that is in effect at any time during the period beginning on the ninetieth day prior to the date on which a Limited Right is exercised and ending on and including the date of exercise of such Limited Right. Any securities or property that comprise all or a portion of the consideration paid for Shares in the Offer shall be valued in determining the Offer Price at the higher of (i) the valuation placed on such securities or property by the person or persons making such Offer, or (ii) the valuation, if any, placed on such securities or property by the Committee or the Board.

"Option" shall mean an Incentive Stock Option or a Nonqualified Stock Option.

"Other Stock-Based Award" shall mean any right or award granted under Section 9 of the Plan.

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

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

"Rule 16b-3" shall mean Rule 16b-3 under the Exchange Act, or any successor rule or regulation thereto as in effect from time to time.

"SAR" shall mean any Stock Appreciation Right.

"SEC" shall mean the Securities and Exchange Commission, including the staff thereof, or any successor thereto.

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

"Shares" shall mean the shares of Common Stock, par value \$0.01 per share, of the Company and such other securities of the Company or a Subsidiary as the Committee may from time to time designate.

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

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

SECTION 3

(a) Administration. The Plan shall be administered by the Committee. Subject to the terms of the Plan and applicable law, and in addition to other express powers and authorizations conferred on the Committee by the Plan, the Committee shall have full power and authority to: (i) designate Participants; (ii) determine the type or types of Awards to be granted to an Eligible Individual; (iii) determine the number of Shares to be covered by, or with respect to which payments, rights or other matters are to be calculated in connection with, Awards; (iv) determine the terms and conditions of any Award; (v) determine whether, to what extent, and under what circumstances Awards may be settled or exercised in cash, whole Shares, other whole securities, other Awards, other property or other cash amounts payable by the Company upon the

exercise of that or other Awards, or canceled, forfeited or suspended and the method or methods by which Awards may be settled, exercised, canceled, forfeited or suspended; (vi) determine whether, to what extent, and under what circumstances cash, Shares, other securities, other Awards, other property, and other amounts payable by the Company with respect to an Award shall be deferred either automatically or at the election of the holder thereof or of the Committee; (vii) interpret and administer the Plan and any instrument or agreement relating to, or Award made under, the Plan; (viii) establish, amend, suspend or waive such rules and regulations and appoint such agents as it shall deem appropriate for the proper administration of the Plan; and (ix) make any other determination and take any other action that the Committee deems necessary or desirable for the administration of the Plan. Unless otherwise expressly provided in the Plan, all designations, determinations, interpretations and other decisions under or with respect to the Plan or any Award shall be within the sole discretion of the Committee, may be made at any time and shall be final, conclusive and binding upon all Persons, including the Company, any Subsidiary, any Participant, any holder or beneficiary of any Award, any stockholder of the Company and any Eligible Individual.

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

SECTION 4

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

SECTION 5

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

(i) Calculation of Number of Shares Available.

(A) The number of Shares with respect to which Awards payable in Shares may be granted under the Plan shall be 850,000, plus, to the extent authorized by the Board, the number of Shares reacquired by the Company in the open market or in private transactions for an aggregate price no greater than the cash proceeds received by the Company from the exercise of options granted under the Plan. Awards that by their terms may be settled only in cash shall not be counted against the maximum number of Shares provided herein.

(B) Grants of Stock Appreciation Rights, Limited Rights and Other Stock-Based Awards not granted in tandem with Options and payable only in cash may relate to no more than 850,000 Shares.

(C) Any Shares granted under the Plan that are forfeited because of failure to meet an Award contingency or condition shall again be available for grant pursuant to new Awards under the Plan.

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

(E) To the extent that Shares are delivered to pay the exercise price of an Option or are delivered or withheld by the Company in payment of the withholding taxes relating to an Award, the number of Shares so delivered or withheld shall become Shares with respect to which Awards may be granted.

(ii) Substitute Awards. Any Shares delivered by the Company, any Shares with respect to which Awards are made by the Company, or any Shares with respect to which the Company becomes obligated to make Awards, through the assumption of, or in substitution for, outstanding awards previously granted by an acquired company or a company with which the Company combines, shall not be counted against the Shares available for Awards under the Plan.

(iii) Sources of Shares Deliverable Under Awards. Any Shares delivered pursuant to an Award may consist of authorized and unissued Shares or of treasury Shares, including Shares held by the Company or a Subsidiary and Shares acquired in the open market or otherwise obtained by the Company or a Subsidiary. (iv) Individual Limit. Any provision of the Plan to the contrary notwithstanding, no individual may receive in any year Awards under the Plan, whether payable in cash or Shares, that relate to more than 250,000 Shares.

(b) Adjustments. In the event that the Committee determines that any dividend or other distribution (whether in the form of cash, Shares, Subsidiary securities, other securities or other property), recapitalization, stock split, reverse stock split, reorganization, merger, consolidation, split-up, spin-off, combination, repurchase or exchange of Shares or other securities of the Company, issuance of warrants or other rights to purchase Shares or other securities of the Company, or other similar corporate transaction or event affects the Shares such that an adjustment is determined by the Committee to be appropriate to prevent dilution or enlargement of the benefits or potential benefits intended to be made available under the Plan, then the Committee may, in its sole discretion and in such manner as it may deem equitable, adjust any or all of (i) the number and type of Shares (or other securities or property)

with respect to which Awards may be granted, (ii) the number and type of Shares (or other securities or property) subject to outstanding Awards, and (iii) the grant or exercise price with respect to any Award and, if deemed appropriate, make provision for a cash payment to the holder of an outstanding Award and, if deemed appropriate, adjust outstanding Awards to provide the rights contemplated by Section 9(b) hereof; provided, in each case, that with respect to Awards of Incentive Stock Options no such adjustment shall be authorized to the extent that such authority would cause the Plan to violate Section 422(b)(1) of the Code or any successor provision thereto and, with respect to all Awards under the Plan, no such adjustment shall be authorized to the extent that such authority would be inconsistent with the requirements for full deductibility under Section 162(m); and provided further, that the number of Shares subject to any Award denominated in Shares shall always be a whole number.

SECTION 6

(a) Stock Options. Subject to the provisions of the Plan, the Committee shall have sole and complete authority to determine the Eligible Individuals to whom Options shall be granted, the number of Shares to be covered by each Option, the option price therefor and the conditions and limitations applicable to the exercise of the Option. The Committee shall have the authority to grant Incentive Stock Options, Nonqualified Stock Options or both. In the case of Incentive Stock Options, the terms and conditions of such grants shall be subject to and comply with such rules as may be required by Section 422 of the Code, as from time to time amended, and any implementing regulations. Except in the case of an Option granted in assumption of or substitution for an outstanding award of a company acquired by the Company or with which the Company combines, the exercise price of any Option granted under this Plan shall not be less than 100% of the fair market value of the underlying Shares on the date of grant.

(b) Exercise. Each Option shall be exercisable at such times and subject to such terms and conditions as the Committee may, in its sole discretion, specify in the applicable Award Agreement or thereafter, provided, however, that in no event may any Option granted hereunder be exercisable after the expiration of 10 years after the date of such grant. The Committee may impose such conditions with respect to the exercise of Options, including without limitation, any condition relating to the application of Federal or state securities laws, as it may deem necessary or advisable.

(c) Payment. No Shares shall be delivered pursuant to any exercise of an Option until payment in full of the option price therefor is received by the Company. Such payment may be made in cash, or its equivalent, or, if and to the extent permitted by the Committee, by applying cash amounts payable by the Company upon the exercise of such Option or other Awards by the holder thereof or by exchanging whole Shares owned by such holder (which are not the subject of any pledge or other

security interest), or by a combination of the foregoing, provided that the combined value of all cash, cash equivalents, cash amounts so payable by the Company upon exercises of Awards and the fair market value of any such whole Shares so tendered to the Company, valued (in accordance with procedures established by the Committee) as of the effective date of such exercise, is at least equal to such option price.

SECTION 7

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

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

SECTION 8

(a) Limited Rights. Subject to the provisions of the Plan, the Committee shall have sole and complete authority to determine the Eligible Individuals to whom Limited Rights shall be granted, the number of Shares to be covered by each Award of Limited Rights, the grant price thereof and the conditions and limitations applicable to the exercise thereof. Limited Rights may be granted in tandem with another Award, in addition to another Award, or freestanding and unrelated to any Award. Limited Rights granted in tandem with or in addition to an Award may be granted either at the

same time as the Award or at a later time. Limited Rights shall not be exercisable after the expiration of 10 years after the date of grant and shall only be exercisable during a period determined at the time of grant by the Committee beginning not earlier than one day and ending not more than ninety days after the expiration date of an Offer. Except in the case of a Limited Right granted in assumption of or substitution for an outstanding award of a company acquired by the Company or with which the Company combines, the grant price of any Limited Right granted under this Plan shall not be less than 100% of the fair market value of the Shares covered by such Limited Right on the date of grant or, in the case of a Limited Right granted in tandem with a then outstanding Option or other Award, on the date of grant of such related Option or Award.

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

SECTION 9

(a) Other Stock-Based Awards. The Committee is hereby authorized to grant to Eligible Individuals an "Other Stock-Based Award", which shall consist of an Award, the value of which is based in whole or in part on the value of Shares, that is not an instrument or Award specified in Sections 6 through 8 of this Plan. Other Stock-Based Awards may be awards of Shares or may be denominated or payable in, valued in whole or in part by reference to, or otherwise based on or related to, Shares (including, without limitation, securities convertible or exchangeable into or exercisable for Shares), as deemed by the Committee consistent with the purposes of the Plan. The Committee shall determine the terms and conditions of any such Other Stock-Based Award and may provide that such awards would be payable in whole or in part in cash. Except in the case of an Other Stock-Based Award granted in assumption of or in substitution for an outstanding award of a company acquired by the Company or with which the Company combines, the price at which securities may be purchased pursuant to any Other Stock-Based Award granted under this Plan, or the provision, if any, of any such Award that is analogous to the purchase or exercise price, shall not be less than 100% of the fair market value of the securities to which such Award relates on the date of grant.

(b) Dividend Equivalents. In the sole and complete discretion of the Committee, an Award, whether made as an Other Stock-Based Award under this Section 9 or as an Award granted pursuant to Sections 6 through 8 hereof, may provide the holder thereof with dividends or dividend equivalents, payable in cash, Shares, Subsidiary securities, other securities or other property on a current or deferred basis.

SECTION 10

(a) Amendments to the Plan. The Board may amend, suspend or terminate the Plan or any portion thereof at any time, provided that no amendment shall be made without stockholder approval if such approval is necessary to comply with any tax or regulatory requirement, including for these purposes any approval necessary to qualify Awards as "performance based" compensation under Section 162(m) or any successor provision if such qualification is deemed necessary or advisable by the Committee. Notwithstanding anything to the contrary contained herein, the Committee may amend the Plan in such manner as may be necessary for the Plan to conform with local rules and regulations in any jurisdiction outside the United States.

(b) Amendments to Awards. The Committee may amend, modify or terminate any outstanding Award at any time prior to payment or exercise in any manner not inconsistent with the terms of the Plan, including without limitation, to change the date or dates as of which an Award becomes exercisable. Notwithstanding the foregoing, no amendment, modification or termination may impair the rights of a holder of an Award under such Award without the consent of the holder.

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

(d) Cancellation. Any provision of this Plan or any Award Agreement to the contrary notwithstanding, the Committee may cause any Award granted hereunder to be canceled in consideration of a cash payment or alternative Award made to the holder of such canceled Award equal in value to such canceled Award. The determinations of value under this subparagraph shall be made by the Committee in its sole discretion.

SECTION 11

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

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

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

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

(iv) A Participant may also satisfy his or her total tax liability related to the Award by delivering Shares owned by the Participant. The value of the Shares delivered shall be based on the fair market value of the Shares on the Tax Date.

(c) Transferability. No Awards granted hereunder may be transferred, pledged, assigned or otherwise encumbered by a Participant except: (i) by will; (ii) by the laws of descent and distribution; (iii) pursuant to a domestic relations order, as defined in the Code, if permitted by the Committee and so provided in the Award Agreement or an amendment thereto; or (iv) if permitted by the Committee and so provided in the Award Agreement or an amendment thereto, Options and Limited Rights granted in tandem therewith may be transferred or assigned (a) to Immediate Family Members, (b) to a partnership in which Immediate Family Members, or entities in which Immediate Family Members are the owners, members or beneficiaries, as appropriate, are the partners, (c) to a limited liability company in which Immediate Family Members, or entities in which Immediate Family Members are the owners, members or beneficiaries, as appropriate, are the members, or (d) to a trust for the benefit of Immediate Family Members; provided, however, that no more than a de minimus beneficial interest in a partnership, limited liability company or trust described in (b), (c) or (d) above may be owned by a person who is not an Immediate Family Member or by an entity that is not beneficially owned solely by Immediate Family Members. "Immediate Family Members" shall be defined as the spouse and natural or adopted children or grandchildren of the Participant and their spouses. To the extent that an Incentive Stock Option is permitted to be transferred during the lifetime of the Participant, it shall be treated thereafter as a Nonqualified Stock

Option. Any attempted assignment, transfer, pledge, hypothecation or other disposition of Awards, or levy of attachment or similar process upon Awards not specifically permitted herein, shall be null and void and without effect. The designation of a Designated Beneficiary shall not be a violation of this Section 11(c).

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

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

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

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

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

and the remainder of the Plan and any such Award shall remain in full force and effect.

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

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

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

SECTION 12

Term of the Plan. Subject to Section 10(a), the Plan shall remain in effect until all Awards permitted to be granted under the Plan have either been satisfied, expired or cancelled under the terms of the Plan and any restrictions imposed on Shares in connection with their issuance under the Plan have lapsed.

List of Subsidiaries of
STRATUS PROPERTIES INC.

Entity	Organized	Name Under Which It Does Business
----- Stratus Properties Operating Co.	----- Delaware	----- Same
Circle C Land Corp.	Texas	Same

CONSENT OF INDEPENDENT PUBLIC ACCOUNTANTS

As independent public accountants, we hereby consent to the incorporation by reference of our reports included herein or incorporated by reference in this Form 10-K, into Stratus Properties Inc.'s previously filed Registration Statements on Form S-8 (File Nos. 33-78798, 333-31059 and 333-52995).

/s/ Arthur Andersen

New Orleans, Louisiana
March 26, 1999

Stratus Properties Inc.

Secretary's Certificate

I, Michael C. Kilanowski, Jr., Secretary of Stratus Properties Inc. (the "Corporation"), a Delaware corporation, do hereby certify that the following resolution was duly adopted by the Board of Directors of the Corporation at a meeting held on February 10, 1993, and that such resolution has not been amended, modified or rescinded and is in full force and effect:

RESOLVED, That any report, registration statement or other form filed on behalf of this corporation pursuant to the Securities Exchange Act of 1934, or any amendment to any such report, registration statement or other form, may be signed on behalf of any director or officer of this corporation pursuant to a power of attorney executed by such director or officer.

IN WITNESS WHEREOF, I have hereunto set my name and the seal of the Corporation this 19th day of March, 1998.

(Seal)

/s/Michael C. Kilanowski, Jr.
Michael C. Kilanowski, Jr.
Secretary

POWER OF ATTORNEY

BE IT KNOWN: That the undersigned, in his capacity or capacities as an officer and/or a member of the Board of Directors of Stratus Properties Inc., a Delaware corporation (the "Company"), does hereby make, constitute and appoint WILLIAM H. ARMSTRONG III and KENNETH N. JONES, and each of them acting individually, his true and lawful attorney-in-fact with power to act without the others and with full power of substitution, to execute, deliver and file, for and on behalf of him, in his name and in his capacity or capacities as aforesaid, an Annual Report of the Company on Form 10-K for the year ended December 31, 1998, and any amendment or amendments thereto and any other document in support thereof or supplemental thereto, and the undersigned hereby grants to said attorneys, and each of them, full power and authority to do and perform each and every act and thing whatsoever that said attorney or attorneys may deem necessary or advisable to carry out fully the intent of the foregoing as the undersigned might or could do personally or in the capacity or capacities as aforesaid, hereby ratifying and confirming all acts and things which said attorney or attorneys may do or cause to be done by virtue of this Power of Attorney.

EXECUTED this 11th day of February, 1999.

/s/Robert L. Adair III
Robert L. Adair III

POWER OF ATTORNEY

BE IT KNOWN: That the undersigned, in his capacity or capacities as an officer and/or a member of the Board of Directors of Stratus Properties Inc., a Delaware corporation (the "Company"), does hereby make, constitute and appoint KENNETH N. JONES, his true and lawful attorney-in-fact with power to act, to execute, deliver and file, for and on behalf of him, in his name and in his capacity or capacities as aforesaid, an Annual Report of the Company on Form 10-K for the year ended December 31, 1998, and any amendment or amendments thereto and any other document in support thereof or supplemental thereto, and the undersigned hereby grants to said attorney, full power and authority to do and perform each and every act and thing whatsoever that said attorney may deem necessary or advisable to carry out fully the intent of the foregoing as the undersigned might or

could do personally or in the capacity or capacities as aforesaid, hereby ratifying and confirming all acts and things which said attorney may do or cause to be done by virtue of this Power of Attorney.

EXECUTED this 11th day of February, 1999.

/s/William H. Armstrong III
William H. Armstrong III

POWER OF ATTORNEY

BE IT KNOWN: That the undersigned, in his capacity or capacities as an officer and/or a member of the Board of Directors of Stratus Properties Inc., a Delaware corporation (the "Company"), does hereby make, constitute and appoint WILLIAM H. ARMSTRONG III and KENNETH N. JONES, and each of them acting individually, his true and lawful attorney-in-fact with power to act without the others and with full power of substitution, to execute, deliver and file, for and on behalf of him, in his name and in his capacity or capacities as aforesaid, an Annual Report of the Company on Form 10-K for the year ended December 31, 1998, and any amendment or amendments thereto and any other document in support thereof or supplemental thereto, and the undersigned hereby grants to said attorneys, and each of them, full power and authority to do and perform each and every act and thing whatsoever that said attorney or attorneys may deem necessary or advisable to carry out fully the intent of the foregoing as the undersigned might or could do personally or in the capacity or capacities as aforesaid, hereby ratifying and confirming all acts and things which said attorney or attorneys may do or cause to be done by virtue of this Power of Attorney.

EXECUTED this 11th day of February, 1999.

/s/James C. Leslie
James C. Leslie

POWER OF ATTORNEY

BE IT KNOWN: That the undersigned, in his capacity or capacities as an officer and/or a member of the Board of Directors of Stratus Properties Inc., a Delaware corporation (the "Company"), does hereby make, constitute and appoint WILLIAM H. ARMSTRONG III and KENNETH N. JONES, and

each of them acting individually, his true and lawful attorney-in-fact with power to act without the others and with full power of substitution, to execute, deliver and file, for and on behalf of him, in his name and in his capacity or capacities as aforesaid, an Annual Report of the Company on Form 10-K for the year ended December 31, 1998, and any amendment or amendments thereto and any other document in support thereof or supplemental thereto, and the undersigned hereby grants to said attorneys, and each of them, full power and authority to do and perform each and every act and thing whatsoever that said attorney or attorneys may deem necessary or advisable to carry out fully the intent of the foregoing as the undersigned might or could do personally or in the capacity or capacities as aforesaid, hereby ratifying and confirming all acts and things which said attorney or attorneys may do or cause to be done by virtue of this Power of Attorney.

EXECUTED this 11th day of February, 1999.

/s/Michael D. Madden
Michael D. Madden

POWER OF ATTORNEY

BE IT KNOWN: That the undersigned, in his capacity or capacities as an officer and/or a member of the Board of Directors of Stratus Properties Inc., a Delaware corporation (the "Company"), does hereby make, constitute and appoint WILLIAM H. ARMSTRONG III and KENNETH N. JONES, and each of them acting individually, his true and lawful attorney-in-fact with power to act without the others and with full power of substitution, to execute, deliver and file, for and on behalf of him, in his name and in his capacity or capacities as aforesaid, an Annual Report of the Company on Form 10-K for the year ended December 31, 1998, and any amendment or amendments thereto and any other document in support thereof or supplemental thereto, and the undersigned hereby grants to said attorneys, and each of them, full power and authority to do and perform each and every act and thing whatsoever that said attorney or attorneys may deem necessary or advisable to carry out fully the intent of the foregoing as the undersigned might or could do personally or in the capacity or capacities as aforesaid, hereby ratifying and confirming all acts and things which said attorney or attorneys may do or cause to be done by virtue of this Power of Attorney.

EXECUTED this 11th day of February, 1999.

/s/C. Donald Whitmire, Jr.
C. Donald Whitmire, Jr.

<TABLE> <S> <C>

<ARTICLE> 5

<LEGEND>

This schedule contains summary financial information extracted from Stratus Properties Inc. financial statements at December 31, 1998 and the year then ended, and is qualified in its entirety by reference to such statements. The earnings per share (EPS) data shown was prepared in accordance with FASB No. 128 "Earnings Per Share," basic and diluted EPS have been entered in place of primary and fully diluted EPS.

</LEGEND>

<CIK> 0000885508

<NAME> STRATUS PROPERTIES INC.

<MULTIPLIER> 1000

<S>	<C>
<PERIOD-TYPE>	YEAR
<FISCAL-YEAR-END>	DEC-31-1998
<PERIOD-END>	DEC-31-1998
<CASH>	5,169
<SECURITIES>	0
<RECEIVABLES>	525
<ALLOWANCES>	0
<INVENTORY>	0
<CURRENT-ASSETS>	6,463
<PP&E>	96,678
<DEPRECIATION>	122
<TOTAL-ASSETS>	111,829
<CURRENT-LIABILITIES>	2,444
<BONDS>	29,178
<PREFERRED-MANDATORY>	10,000
<PREFERRED>	0
<COMMON>	143
<OTHER-SE>	63,826
<TOTAL-LIABILITY-AND-EQUITY>	111,829
<SALES>	17,590
<TOTAL-REVENUES>	17,590
<CGS>	14,118
<TOTAL-COSTS>	14,118
<OTHER-EXPENSES>	0
<LOSS-PROVISION>	0
<INTEREST-EXPENSE>	2,019
<INCOME-PRETAX>	(2,525)
<INCOME-TAX>	87
<INCOME-CONTINUING>	(2,638)
<DISCONTINUED>	0
<EXTRAORDINARY>	0
<CHANGES>	0
<NET-INCOME>	(2,638)

<EPS-PRIMARY>
<EPS-DILUTED>

(0.18)
(0.18)

</TABLE>