STRATUS PROPERTIES INC
Form 10-Q
May 10, 2018

UNITED STATES
SECURITIES AND
EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

[X]	QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 For the quarterly period ended March 31, 2018 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: 001-37716

Stratus Properties Inc.
(Exact name of registrant as specified in its charter)

Delaware	72-1211572
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

212 Lavaca St., Suite 300

Austin, Texas	78701
(Address of principal executive offices)	(Zip Code)

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

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.
þ Yes ¨ No
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). þ Yes ¨ No
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company,” and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ¨	Accelerated filer þ
Non-accelerated filer ¨ (Do not check if a smaller reporting company)	Smaller reporting company ¨
Emerging growth company ¨	

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ¨
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). ¨ Yes þ No
On April 30, 2018, there were issued and outstanding 8,153,370 shares of the registrant’s common stock, par value $0.01 per share.

Table of Contents

STRATUS PROPERTIES INC.
TABLE OF CONTENTS

Table of Contents

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements.

STRATUS PROPERTIES INC.
CONSOLIDATED BALANCE SHEETS (Unaudited)
(In Thousands)

	March 31, 2018	December 31, 2017
ASSETS		
Cash and cash equivalents	$15,883	$ 14,611
Restricted cash	17,352	24,779
Real estate held for sale	22,306	22,612
Real estate under development	144,352	118,484
Land available for development	15,407	14,804
Real estate held for investment, net	187,859	188,390
Deferred tax assets	11,965	11,461
Other assets	11,304	10,852
Total assets	$426,428	$ 405,993
LIABILITIES AND EQUITY		
Liabilities:		
Accounts payable	$22,239	$ 22,809
Accrued liabilities, including taxes	7,282	13,429
Debt	249,113	221,470
Deferred gain	11,036	11,320
Other liabilities	11,244	9,575
Total liabilities	300,914	278,603
Commitments and contingencies		
Equity:		
Stockholders' equity:		
Common stock	93	93
Capital in excess of par value of common stock	185,592	185,395
Accumulated deficit	(38,991)	(37,121)
Common stock held in treasury	(21,260)	(21,057)
Total stockholders' equity	125,434	127,310
Noncontrolling interests in subsidiaries	80	80
Total equity	125,514	127,390
Total liabilities and equity	$426,428	$ 405,993

The accompanying Notes to Consolidated Financial Statements (Unaudited) are an integral part of these consolidated financial statements.

STRATUS PROPERTIES INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS (Unaudited)
(In Thousands, Except Per Share Amounts)

	Three Months Ended March 31,	
	2018	2017
Revenues:		
Real estate operations	$1,194	$2,164
Leasing operations	2,004	2,281
Hotel	9,322	10,314
Entertainment	5,245	5,905
Total revenues	17,765	20,664
Cost of sales:		
Real estate operations	1,566	1,976
Leasing operations	1,182	1,685
Hotel	7,029	7,165
Entertainment	3,968	4,377
Depreciation	1,942	2,141
Total cost of sales	15,687	17,344
General and administrative expenses	2,981	3,396
Profit participation in sale of The Oaks at Lakeway	—	2,538
Gain on sales of assets	—	(1,115)
Total	18,668	22,163
Operating loss	(903)	(1,499)
Interest expense, net	(1,559)	(1,975)
Gain on interest rate derivative instruments	178	86
Loss on early extinguishment of debt	—	(532)
Other income, net	11	5
Loss before income taxes and equity in unconsolidated affiliates' loss	(2,273)	(3,915)
Equity in unconsolidated affiliates' loss	(3)	(17)
Benefit from income taxes	406	1,262
Net loss and total comprehensive loss attributable to common stockholders	$(1,870)	$(2,670)
Basic and diluted net loss per share attributable to common stockholders	$(0.23)	$(0.33)
Basic and diluted weighted average common shares outstanding	8,137	8,101
Dividends declared per share of common stock	$—	$1.00

The accompanying Notes to Consolidated Financial Statements (Unaudited) are an integral part of these consolidated financial statements.

Table of Contents

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

	Three Months Ended March 31,	
	2018	2017
Cash flow from operating activities:		
Net loss	$(1,870)	$(2,670)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation	1,942	2,141
Cost of real estate sold	403	1,032
Gain on sale of assets	—	(1,115)
Gain on interest rate derivative contracts	(178)	(86)
Loss on early extinguishment of debt	—	532
Debt issuance cost amortization and stock-based compensation	412	442
Equity in unconsolidated affiliates' loss	3	17
Increase (decrease) in deposits	205	(1,156)
Deferred income taxes	(504)	(9,775)
Purchases and development of real estate properties	(3,612)	(3,668)
Municipal utility district reimbursement	—	2,172
(Increase) decrease in other assets	(822)	299
(Decrease) increase in accounts payable, accrued liabilities and other	(4,963)	812
Net cash used in operating activities	(8,984)	(11,023)
Cash flow from investing activities:		
Capital expenditures	(24,376)	(2,301)
Proceeds from sale of assets	—	117,261
Payments on master lease obligations	(388)	(322)
Other, net	(30)	(100)
Net cash (used in) provided by investing activities	(24,794)	114,538
Cash flow from financing activities:		
Borrowings from credit facility	16,300	15,200
Payments on credit facility	(1,075)	(48,746)
Borrowings from project loans	13,164	3,698
Payments on project and term loans	(563)	(62,080)
Stock-based awards net payments	(203)	(236)
Net cash provided by (used in) financing activities	27,623	(92,164)
Net (decrease) increase in cash, cash equivalents and restricted cash	(6,155)	11,351
Cash, cash equivalents and restricted cash at beginning of year	39,390	25,489
Cash, cash equivalents and restricted cash at end of period	$33,235	$36,840

The accompanying Notes to Consolidated Financial Statements (Unaudited), which include information regarding noncash transactions, are an integral part of these consolidated financial statements.

Table of Contents

STRATUS PROPERTIES INC.
CONSOLIDATED STATEMENTS OF EQUITY (Unaudited)
(In Thousands)

	Stockholders’ Equity								
	Common Stock		Capital in Excess of Par Value	Accum-ulated Deficit	Common Stock Held in Treasury		Total Stockholders' Equity	Noncontrolling Interests in Subsidiaries	Total Equity
	Number of Shares	At Par Value			Number of Shares	At Cost			
Balance at December 31, 2017	9,250	$ 93	$ 185,395	$ (37,121)	1,117	$ (21,057)	$ 127,310	$ 80	$ 127,390
Issued stock-based awards	27	—	—	—	—	—	—	—	—
Stock-based compensation	—	—	197	—	—	—	197	—	197
Tender of shares for stock-based awards	—	—	—	—	7	(203)	(203)	—	(203)
Total comprehensive loss	—	—	—	(1,870)	—	—	(1,870)	—	(1,870)
Balance at March 31, 2018	9,277	$ 93	$ 185,592	$ (38,991)	1,124	$ (21,260)	$ 125,434	$ 80	$ 125,514
Balance at December 31, 2016	9,203	$ 92	$ 192,762	$ (41,143)	1,105	$ (20,760)	$ 130,951	$ 75	$ 131,026
Adjustment for cumulative effect of change in accounting for stock-based compensation	—	—	—	143	—	—	143	—	143
Cash dividend declared	—	—	(8,127)	—	—	—	(8,127)	—	(8,127)
Exercised and issued stock-based awards	40	1	62	—	—	—	63	—	63
Stock-based compensation	—	—	192	—	—	—	192	—	192
Tender of shares for stock-based awards	—	—	—	—	12	(297)	(297)	—	(297)
Total comprehensive loss	—	—	—	(2,670)	—	—	(2,670)	—	(2,670)
Balance at March 31, 2017	9,243	$ 93	$ 184,889	$ (43,670)	1,117	$ (21,057)	$ 120,255	$ 75	$ 120,330

The accompanying Notes to Consolidated Financial Statements (Unaudited) are an integral part of these consolidated financial statements.

Table of Contents

STRATUS PROPERTIES INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

1. GENERAL
The accompanying unaudited consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto for the year ended December 31, 2017, included in Stratus Properties Inc.'s (Stratus) Annual Report on Form 10-K (Stratus 2017 Form 10-K) filed with the United States (U.S.) Securities and Exchange Commission. The information furnished herein reflects all adjustments that are, in the opinion of management, necessary for a fair statement of the results for the interim periods reported. With the exception of the accounting for the deferred gain on the sale of The Oaks at Lakeway, all such adjustments are, in the opinion of management, of a normal recurring nature. Operating results for the three-month period ended March 31, 2018, are not necessarily indicative of the results that may be expected for the year ending December 31, 2018.

2. EARNINGS PER SHARE
Stratus' net loss per share of common stock was calculated by dividing the net loss attributable to common stockholders by the weighted-average shares of common stock outstanding during the period. The weighted-average shares exclude approximately 107 thousand shares of common stock for first-quarter 2018 and 128 thousand shares for first-quarter 2017, associated with restricted stock units that were anti-dilutive because of the net losses and outstanding stock options with exercise prices less than the average market price of Stratus' common stock.

3. DISPOSITIONS
The Oaks at Lakeway. On February 15, 2017, Stratus sold The Oaks at Lakeway to FHF I Oaks at Lakeway, LLC for $114.0 million in cash. Net cash proceeds were $50.8 million after repayment of the Lakeway construction loan. Stratus used a portion of these net cash proceeds to pay indebtedness outstanding under the Comerica Bank credit facility. The parties entered into three master lease agreements at closing: (1) one covering unleased in-line retail space, with a 5-year term, (2) one covering four unleased pad sites, three of which have 10-year terms, and one of which has a 15-year term, and (3) one covering the hotel pad with a 99-year term. As specified conditions are met, primarily consisting of the tenant executing a lease, commencing payment of rent and taking occupancy, leases will be assigned to the purchaser and the corresponding property will be removed from the master lease, reducing Stratus' master lease payment obligations. Stratus' master lease payment obligation, which currently approximates $180 thousand per month, is expected to decline over time until leasing is complete and all leases are assigned to the purchaser.

Stratus agreed to guarantee the obligations of its selling subsidiary under the sales agreement, up to a liability cap of two percent of the purchase price. This cap does not apply to Stratus' obligation to satisfy the selling subsidiary's indemnity obligations for its broker commissions or similar compensation or Stratus' liability in guaranteeing the selling subsidiary's obligations under the master leases. To secure its obligations under the master leases, Stratus has provided a $1.5 million irrevocable letter of credit with a three-year term.

At the date of sale, Stratus allocated the purchase price for The Oaks at Lakeway between two performance obligations based on the relative fair values of each. The first performance obligation, to deliver the completed and leased portion of the property, was performed on the date of sale. The second performance obligation was to complete construction of the remaining buildings and leasing of the vacant space. The obligations under master leases were considered variable consideration and are recorded as reductions to the contract liability. The hotel pad was leased to a hotel operator under a ground lease at the date of sale. However, the hotel tenant had not commenced rent payments or construction of the hotel. At the date of the sale, primarily because of the uncertainty related to the hotel tenant's performance under its ground lease, the probability-weighted estimate of the obligations under the master leases reduced the sale consideration such that no gain was recognized on the sale.

Once the hotel tenant began paying rent in May 2017 and obtained construction financing and commenced construction of the hotel in August 2017, the probability-weighted estimate of Stratus’ obligations under the master leases was significantly reduced, and a gain of $24.3 million related to the first performance obligation was recognized in third-quarter 2017. A contract liability of $11.0 million is presented as a deferred gain in the consolidated balance sheets at March 31, 2018. The contract liability was reduced in first-quarter 2018 by $0.3 million primarily related to master lease payments. The contract liability, as reduced by future master lease payments, will be recognized as additional gain as Stratus fulfills the remaining performance obligation.

Table of Contents

Upon the sale of The Oaks at Lakeway, HEB earned a profit participation of $2.5 million (of which $2.2 million was paid at closing), which is presented separately in the consolidated statements of comprehensive loss.

Barton Creek Village. On February 28, 2017, Stratus completed the sale of its 3,085-square-foot bank building and an adjacent undeveloped 4.1 acre tract of land in Barton Creek, for $3.1 million and recorded a gain on the sale of $1.1 million. In connection with the sale, a $2.1 million paydown was made on the Barton Creek Village term loan and Stratus plans to use the gross sale proceeds on a deferred basis to acquire qualifying replacement property.

4. FAIR VALUE MEASUREMENTS

Fair value accounting guidance includes a hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 inputs) and the lowest priority to unobservable inputs (Level 3 inputs).

The carrying value for certain Stratus financial instruments (i.e., cash and cash equivalents, restricted cash, accounts payable and accrued liabilities) approximates fair value because of their short-term nature and generally negligible credit losses.

A summary of the carrying amount and fair value of Stratus' other financial instruments follows (in thousands):

	March 31, 2018		December 31, 2017	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Assets:				
Interest rate swap agreement	$44	$44	$—	$—
Liabilities:				
Debt	$249,113	$252,451	$221,470	$224,632
Interest rate swap agreement	—	—	134	134

Debt. Stratus' debt is recorded at cost and is not actively traded. Fair value is estimated based on discounted future expected cash flows at estimated current market interest rates. Accordingly, Stratus' debt is classified within Level 2 of the fair value hierarchy. The fair value of debt does not represent the amounts that will ultimately be paid upon the maturities of the loans.

Interest Rate Swap Agreement. The interest rate swap does not qualify for hedge accounting and changes in its fair value are recorded in the consolidated statements of comprehensive loss. Stratus evaluated the counterparty credit risk associated with the interest rate swap agreement, which is considered a Level 3 input, but did not consider such risk to be significant. Therefore, the interest rate swap agreement is classified within Level 2 of the fair value hierarchy.

5. DEBT AND EQUITY

Debt. The components of Stratus' debt are as follows (in thousands):

	March 31, 2018	December 31, 2017
Goldman Sachs loan	$144,692	$ 145,195
Comerica Bank credit facility	40,990	25,765
Santal Phase I construction loan	31,890	31,864
Barton Creek Village term loan	3,352	3,375
Amarra Villas credit facility	6,361	5,247
West Killeen Market construction loan	5,647	5,378
Jones Crossing construction loan	7,656	4,646

Lantana Place construction loan	8,525	—
Total debt[a]	$249,113	$ 221,470

a. Includes net reductions for unamortized debt issuance costs of $2.3 million at March 31, 2018, and $2.1 million at December 31, 2017.

As of March 31, 2018, Stratus had $4.0 million available under its $45.0 million Comerica Bank revolving credit facility. Stratus is in the process of finalizing the terms and documenting a modification and longer-term extension of its Comerica Bank revolving credit facility, which matures in November 2018.

Table of Contents

For a description of Stratus' debt, refer to Note 6 in the Stratus 2017 Form 10-K.

Interest Expense and Capitalization. Interest costs (before capitalized interest) totaled $3.4 million in first-quarter 2018 and $3.3 million in first-quarter 2017. Stratus' capitalized interest costs totaled $1.8 million in first-quarter 2018 and $1.4 million in first-quarter 2017, primarily related to development activities at Barton Creek.

Equity. Stratus' Comerica Bank credit facility requires the bank's prior written consent to pay a dividend on Stratus' common stock. On March 15, 2017, Stratus' Board of Directors (the Board), after receiving written consent from Comerica Bank, declared a special cash dividend of $1.00 per share ($8.1 million), which was paid on April 18, 2017, to stockholders of record on March 31, 2017. The special cash dividend was declared after the Board’s consideration of the results of the sale of The Oaks at Lakeway. Comerica Bank’s consent to the payment of this special dividend is not indicative of the bank’s willingness to consent to the payment of future dividends. The declaration of future dividends is at the discretion of the Board, subject to the restrictions under Stratus' Comerica Bank credit facility, and will depend on Stratus' financial results, cash requirements, projected compliance with covenants in its debt agreements, outlook and other factors deemed relevant by the Board.

6. INCOME TAXES

Stratus’ accounting policy for and other information regarding its income taxes is further described in Notes 1 and 7 in the Stratus 2017 Form 10-K.

Stratus had deferred tax assets (net of deferred tax liabilities) totaling $12.0 million at March 31, 2018, and $11.5 million at December 31, 2017. Stratus’ income tax benefit for first-quarter 2018 includes a deferred tax benefit of $0.5 million, partly offset by income tax expense of a 0.1 million. Stratus’ future results of operations may be negatively impacted by an inability to realize a tax benefit for future tax losses or for items that will generate additional deferred tax assets.

The difference between Stratus' consolidated effective income tax rate for first-quarter 2018 and first-quarter 2017, and the U.S. Federal statutory income tax rate of 21 percent for 2018 and 35 percent for 2017, was primarily attributable to the Texas state margin tax.

7. BUSINESS SEGMENTS

Stratus currently has four operating segments: Real Estate Operations, Leasing Operations, Hotel and Entertainment.

The Real Estate Operations segment is comprised of Stratus’ real estate assets (developed, under development and available for development), which consists of its properties in Austin, Texas (the Barton Creek community, including Santal Phase II, the Circle C community, Lantana Place and the condominium units at the W Austin Hotel & Residences); in Lakeway, Texas, located in the greater Austin area (Lakeway); in College Station, Texas (Jones Crossing); and in Magnolia, Texas, located in the greater Houston area (Magnolia).

The Leasing Operations segment includes the office and retail space at the W Austin Hotel & Residences, a retail building in Barton Creek Village, Santal Phase I and the West Killeen Market in Killeen, Texas.

The Hotel segment includes the W Austin Hotel located at the W Austin Hotel & Residences in downtown Austin, Texas.

The Entertainment segment includes ACL Live, a live music and entertainment venue and production studio at the W Austin Hotel & Residences. In addition to hosting concerts and private events, this venue is the home of Austin City Limits, a television program showcasing popular music legends. The Entertainment segment also includes revenues and costs associated with events hosted at other venues, including 3TEN ACL Live, which opened in March 2016 on the site of the W Austin Hotel & Residences.

Stratus uses operating income or loss to measure the performance of each segment. General and administrative expenses, which primarily consist of employee salaries, wages and other costs, are managed on a consolidated basis and are not allocated to Stratus' operating segments. The following segment information reflects management determinations that may not be indicative of what the actual financial performance of each segment would be if it were an independent entity.

Table of Contents

Revenues From Contracts with Customers. Stratus' revenues from contracts with customers for the first quarters of 2018 and 2017 follow (in thousands):

	Three Months Ended March 31,	
	2018	2017
Real Estate Operations:		
Developed property sales	$1,155	$2,133
Commissions and other	39	31
	1,194	2,164
Leasing Operations:		
Rental revenue	2,004	2,281
	2,004	2,281
Hotel:		
Rooms, food and beverage	8,694	9,789
Other	628	525
	9,322	10,314
Entertainment:		
Event revenue	4,649	5,295
Other	596	610
	5,245	5,905
Total Revenues from Contracts with Unaffiliated Customers	$17,765	$20,664

Financial Information by Business Segment. The following segment information was prepared on the same basis as Stratus' consolidated financial statements (in thousands).

	Real Estate Operations[a]	Leasing Operations	Hotel	Entertainment	Eliminations and Other[b]	Total
Three Months Ended March 31, 2018:						
Revenues:						
Unaffiliated customers	$ 1,194	$ 2,004	$ 9,322	$ 5,245	$ —	$ 17,765
Intersegment	8	251	72	14	(345)	—
Cost of sales, excluding depreciation	1,566	1,190	7,038	4,136	(185)	13,745
Depreciation	61	633	895	388	(35)	1,942
General and administrative expenses	—	—	—	—	2,981	2,981
Operating (loss) income	$ (425)	$ 432	$ 1,461	$ 735	$ (3,106)	$ (903)
Capital expenditures[c]	$ 3,612	$ 23,799	$ 239	$ 338	$ —	$ 27,988
Total assets at March 31, 2018	210,279	71,092	101,582	36,439	7,036	426,428
Three Months Ended March 31, 2017:						
Revenues:						
Unaffiliated customers	$ 2,164	$ 2,281	$ 10,314	$ 5,905	$ —	$ 20,664
Intersegment	13	210	91	40	(354)	—
Cost of sales, excluding depreciation	1,976	1,693	7,189	4,508	(163)	15,203
Depreciation	57	763	979	376	(34)	2,141
General and administrative expenses	—	—	—	—	3,396	3,396
Profit participation	—	2,538	—	—	—	2,538
Gain on sales of assets	—	(1,115)	—	—	—	(1,115)
Operating income (loss)	$ 144	$ (1,388)	$ 2,237	$ 1,061	$ (3,553)	$ (1,499)

Capital expenditures[c]	$ 3,668	$ 2,031	$ 247	$ 23	$ —	$ 5,969
Total assets at March 31, 2017	174,022	65,483	104,498	37,066	20,899	401,968

a. Includes sales commissions and other revenues together with related expenses.
b. Includes consolidated general and administrative expenses and eliminations of intersegment amounts.
c. Also includes purchases and development of residential real estate held for sale.

Table of Contents

8. NEW ACCOUNTING STANDARDS

Revenue Recognition. In May 2014, the Financial Accounting Standards Board (FASB) issued a new Accounting Standards Update (ASU) related to revenue recognition. Stratus adopted this standard effective January 1, 2018, under the modified retrospective approach applied to contracts that remain in force at the adoption date. The adoption of this standard did not result in any changes to Stratus' revenue recognition policies or processes (refer to Note 1 of Stratus' 2017 Form 10-K for disclosure of Stratus' revenue recognition policy) except as follows.

Revenue or gains on sales of real estate are recognized when control of the asset has been transferred to the buyer if collection of substantially all of the consideration to which Stratus will be entitled is probable and Stratus has satisfied all other performance obligations under the contract. Consideration is allocated among multiple performance obligations or distinct nonfinancial assets to be transferred to the buyer based on relative fair value.

Financial Instruments. In January 2016, FASB issued an ASU that amends the guidance on the classification and measurement of financial instruments. This ASU makes limited changes to prior guidance and amends certain disclosure requirements. Stratus adopted this ASU effective January 1, 2018, and the adoption did not have a material impact on Stratus' financial statements.

Statement of Cash Flows: Restricted Cash. In November 2016, FASB issued an ASU that changes the classification and presentation of restricted cash and restricted cash equivalents on the statement of cash flows. The ASU requires that a statement of cash flows include the change during the period in the total of cash, cash equivalents and amounts generally described as restricted cash or restricted cash equivalents. Therefore, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. Stratus adopted this ASU effective January 1, 2018, and adjusted its consolidated statement of cash flows for the three months ended March 31, 2017, to include restricted cash (Stratus has no restricted cash equivalents) with cash and cash equivalents. The impact of adopting this ASU for the three months ended March 31, 2017, follows (in millions):

	Previously Reported	Impact of Adoption	Current Presentation
Net increase in cash, cash equivalents and restricted cash	$ 13,486	$ (2,135)	$ 11,351
Cash, cash equivalents and restricted cash at beginning of year	13,597	11,892	25,489
Cash, cash equivalents and restricted cash at end of period	$ 27,083	$ 9,757	$ 36,840

9. SUBSEQUENT EVENTS

Stratus evaluated events after March 31, 2018, and through the date the financial statements were issued, and determined any events or transactions occurring during this period that would require recognition or disclosure are appropriately addressed in these financial statements.

Table of Contents

Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations.

OVERVIEW

In Management’s Discussion and Analysis of Financial Condition and Results of Operations (MD&A), “we,” “us,” “our” and "Stratus" refer to Stratus Properties Inc. and all entities owned or controlled by Stratus Properties Inc. You should read the following discussion in conjunction with our consolidated financial statements, related MD&A and discussion of our business and properties included in our Annual Report on Form 10-K for the year ended December 31, 2017 (2017 Form 10-K) filed with the United States (U.S.) Securities and Exchange Commission (SEC). The results of operations reported and summarized below are not necessarily indicative of future operating results, and future results could differ materially from those anticipated in forward-looking statements (refer to “Cautionary Statement” for further discussion). All subsequent references to “Notes” refer to Notes to Consolidated Financial Statements (Unaudited) located in Part I, Item 1. “Financial Statements” of this Form 10-Q, unless otherwise stated.
We are a diversified real estate company engaged primarily in the acquisition, entitlement, development, management, operation and sale of commercial, hotel, entertainment, and mu