STRATUS PROPERTIES INC
Form 10-Q
August 14, 2013

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 June 30, 2013
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 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 or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer ¨ Accelerated filer ¨ Non-accelerated filer ¨ Smaller reporting company þ

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 July 31, 2013, there were issued and outstanding 8,056,437 shares of the registrant’s common stock, par value $0.01 per share.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements.

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

	June 30, 2013	December 31, 2012
ASSETS		
Cash and cash equivalents	$17,785	$12,784
Restricted cash	31,401	17,657
Real estate held for sale	29,318	60,244
Real estate under development	46,250	31,596
Land available for development	41,334	49,569
Real estate held for investment, net	185,302	189,331
Investment in unconsolidated affiliates	4,214	3,402
Other assets	13,590	14,545
Total assets	$369,194	$379,128
LIABILITIES AND EQUITY		
Accounts payable	$29,251	$13,845
Accrued liabilities	6,312	8,605
Deposits	1,960	2,073
Debt	123,792	137,035
Other liabilities and deferred gain	9,053	8,675
Total liabilities	170,368	170,233
Commitments and contingencies		
Equity:		
Stratus stockholders’ equity:		
Common stock	91	90
Capital in excess of par value of common stock	203,480	203,298
Accumulated deficit	(61,524)	(63,309)
Common stock held in treasury	(19,114)	(18,392)
Total Stratus stockholders’ equity	122,933	121,687
Noncontrolling interests in subsidiaries	75,893	87,208
Total equity	198,826	208,895
Total liabilities and equity	$369,194	$379,128

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Revenues:				
Real estate	$28,043	$6,801	$46,905	$21,087
Hotel	9,816	8,607	19,895	17,624
Entertainment	3,424	2,832	6,632	6,103
Rental	1,242	1,129	2,552	2,055
Total revenues	42,525	19,369	75,984	46,869
Cost of sales:				
Real estate	23,833	7,385	39,785	20,838
Hotel	7,538	6,781	14,812	13,432
Entertainment	2,979	2,317	5,435	4,794
Rental	685	529	1,347	1,015
Depreciation	2,308	2,166	4,538	4,283
Total cost of sales	37,343	19,178	65,917	44,362
Insurance settlement	(1,785)	—	(1,785)	—
General and administrative expenses	2,014	1,857	3,778	3,328
Total costs and expenses	37,572	21,035	67,910	47,690
Operating income (loss)	4,953	(1,666)	8,074	(821)
Interest expense, net	(2,008)	(2,967)	(4,307)	(6,608)
Other income, net	95	11	1,345	40
Income (loss) from continuing operations before income taxes and equity in unconsolidated affiliates' income	3,040	(4,622)	5,112	(7,389)
Equity in unconsolidated affiliates' income	149	147	111	75
Provision for income taxes	(222)	(141)	(425)	(299)
Income (loss) from continuing operations	2,967	(4,616)	4,798	(7,613)
Income from discontinued operations	—	—	—	4,805
Net income (loss) and total comprehensive income (loss)	2,967	(4,616)	4,798	(2,808)
Net (income) loss and total comprehensive (income) loss attributable to noncontrolling interests in subsidiaries	(2,335)	1,058	(3,013)	953
Net income (loss) and total comprehensive income (loss) attributable to Stratus common stock	$632	$(3,558)	$1,785	$(1,855)
Basic and diluted net income (loss) per share attributable to Stratus common stock:				
Continuing operations	$0.08	$(0.44)	$0.22	$(0.85)
Discontinued operations	—	—	—	0.61
Basic and diluted net income (loss) per share attributable to Stratus common stock	$0.08	$(0.44)	$0.22	$(0.24)
Weighted-average shares of common stock outstanding:				

Basic	8,099	8,095	8,102	7,836
Diluted	8,131	8,095	8,133	7,836

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

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

	Six Months Ended June 30, 2013	2012
Cash flow from operating activities:		
Net income (loss)	$4,798	$(2,808)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation	4,538	4,283
Cost of real estate sold	31,375	14,614
Gain on sale of 7500 Rialto	—	(5,146)
Stock-based compensation	157	109
Equity in unconsolidated affiliates' income	(111)	(75)
Deposits	(113)	12
Development of real estate properties	(8,728)	(6,571)
Recovery of land previously sold	(485)	—
Municipal utility districts reimbursement	208	—
Increase in other assets	(12,631)	(3,083)
Increase (decrease) in accounts payable, accrued liabilities and other	1,366	(3,775)
Net cash provided by (used in) operating activities	20,374	(2,440)
Cash flow from investing activities:		
Capital expenditures:		
Commercial leasing properties	(510)	(2,806)
Entertainment	(119)	(164)
Hotel	(3)	—
Proceeds from sale of 7500 Rialto	—	5,697
Investment in unconsolidated affiliates	(700)	(185)
Net cash (used in) provided by investing activities	(1,332)	2,542
Cash flow from financing activities:		
Borrowings from credit facility	9,000	9,500
Payments on credit facility	(23,368)	(9,909)
Borrowings from project and term loans	1,568	9,019
Payments on project and term loans	(443)	(6,861)
Noncontrolling interests (distributions) contributions	(103)	341
Common stock issuance	—	4,817
Repurchase of treasury stock	(623)	—
Net payments for stock-based awards	(72)	(19)
Net cash (used in) provided by financing activities	(14,041)	6,888
Net increase in cash and cash equivalents	5,001	6,990
Cash and cash equivalents at beginning of year	12,784	8,085
Cash and cash equivalents at end of period	$17,785	$15,075

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

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

	Stratus Stockholders' Equity								
	Common Stock				Common Stock Held in Treasury				
	Number of Shares	At Par Value	Capital in Excess of Par Value	Accum-ulated Deficit	Number of Shares	At Cost	Total Stratus Stockholders' Equity	Noncontrolling Interests in Subsidiaries	Total Equity
Balance at December 31, 2012	9,037	$90	$203,298	$ (63,309)	940	$(18,392)	$ 121,687	$ 87,208	$208,895
Common stock repurchases	—	—	—	—	52	(623)	(623)	—	(623)
Exercised and issued stock-based awards	31	1	25	—	—	—	26	—	26
Stock-based compensation	—	—	157	—	—	—	157	—	157
Tender of shares for stock-based awards	—	—	—	—	8	(99)	(99)	—	(99)
Noncontrolling interests distributions	—	—	—	—	—	—	—	(14,328)	(14,328)
Total comprehensive income	—	—	—	1,785	—	—	1,785	3,013	4,798
Balance at June 30, 2013	9,068	$91	$203,480	$ (61,524)	1,000	$(19,114)	$ 122,933	$ 75,893	$198,826
Balance at December 31, 2011	8,387	$84	$198,175	$(61,723)	935	$(18,347)	$118,189	$99,493	$217,682
Common stock issuance	625	6	4,811	—	—	—	4,817	—	4,817
Exercised and issued stock-based awards	23	—	26	—	—	—	26	—	26
Stock-based compensation	—	—	109	—	—	—	109	—	109
Tender of shares for stock-based awards	—	—	—	—	5	(45)	(45)	—	(45)
Noncontrolling interests contributions	—	—	—	—	—	—	—	341	341
Total comprehensive loss	—	—	—	(1,855)	—	—	(1,855)	(953)	(2,808)
Balance at June 30, 2012	9,035	$90	$203,121	$(63,578)	940	$(18,392)	$121,241	$98,881	$220,122

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

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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, 2012, included in Stratus Properties Inc.'s (Stratus) Annual Report on Form 10-K (Stratus 2012 Form 10-K) filed with the Securities and Exchange Commission. In the opinion of management, the accompanying consolidated financial statements reflect all adjustments (consisting only of normal recurring items) considered necessary for a fair statement of the results for the interim periods. Operating results for the three-month and six-month periods ended June 30, 2013, are not necessarily indicative of the results that may be expected for the year ending December 31, 2013.

2. EARNINGS PER SHARE

Stratus' basic net income per share of common stock was calculated by dividing the net income attributable to Stratus common stock by the weighted-average shares of common stock outstanding during the period. Following is a reconciliation of net income and weighted-average shares of common stock outstanding for purposes of calculating diluted net income per share (in thousands, except per share amounts):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Net income (loss)	$2,967	$(4,616)	$4,798	$(2,808)
Net (income) loss attributable to noncontrolling interests	(2,335)	1,058	(3,013)	953
Net income (loss) attributable to Stratus common stock	$632	$(3,558)	$1,785	$(1,855)
Weighted-average shares of common stock outstanding	8,099	8,095	8,102	7,836
Add shares issuable upon exercise or vesting of:				
Dilutive stock options	8 [a]	—	7 [a]	—
Restricted stock units	24	—	24	—
Weighted-average shares of common stock outstanding for purposes of calculating diluted net income per share	8,131	8,095	8,133	7,836
Diluted net income (loss) per share attributable to Stratus common stock	$0.08	$(0.44)	$0.22	$(0.24)

a. Excludes shares of common stock associated with outstanding stock options with exercise prices less than the average market price of Stratus' common stock that were anti-dilutive based on the treasury stock method totaling approximately 1,300 shares for second-quarter 2013 and approximately 1,900 shares for the six months ended June 30, 2013.

Outstanding stock options with exercise prices greater than the average market price for Stratus' common stock during the period are excluded from the computation of diluted net income per share of common stock. Excluded were approximately 63,100 stock options with a weighted-average exercise price of $21.00 per option for second-quarter 2013 and approximately 65,600 stock options with a weighted average exercise price of $20.69 for the six months ended June 30, 2013. Stock options and restricted stock units representing approximately 136,700 shares for second-quarter 2012 and approximately 140,600 shares for the six months ended June 30, 2012 were excluded from weighted-average common shares outstanding for purposes of calculating diluted net income per share because they were anti-dilutive.

3. JOINT VENTURE WITH CANYON-JOHNSON URBAN FUND II, L.P.

Stratus and Canyon-Johnson Urban Fund II, L.P. (Canyon-Johnson) are participants in a joint venture, CJUF II Stratus Block 21, LLC (the Joint Venture), for a 36-story mixed-use development in downtown Austin, Texas, anchored by a W Hotel & Residences (the W Austin Hotel & Residences project). Stratus is the manager of, and has an approximate 40 percent interest in, the Joint Venture, and Canyon-Johnson has an approximate 60 percent interest in the Joint Venture. As of June 30, 2013, cumulative capital contributions totaled $71.9 million for Stratus and $94.0 million for Canyon-Johnson. Distributions to Stratus of $10.1 million were made in second-quarter 2013 and $14.2 million for the first six months of 2013 ($24.1 million cumulative), and $24.1 million was payable to Canyon-Johnson at June 30, 2013, and reflected as restricted cash in Stratus' consolidated balance sheet. The Joint Venture is consolidated in Stratus’ financial statements based on its assessment that the Joint Venture is a variable interest entity (VIE) and that Stratus is the primary beneficiary. Stratus will continue to evaluate which entity is the primary beneficiary of the Joint Venture in accordance with applicable accounting guidance. See Note 2 of the Stratus 2012 Form 10-K for further discussion.

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Stratus' consolidated balance sheets include the following assets and liabilities of the Joint Venture (in thousands):

	June 30, 2013	December 31, 2012
Assets:		
Cash and cash equivalents	$15,016	$7,461
Restricted cash	31,396	17,657
Real estate held for sale	17,973	45,320
Real estate held for investment, net	159,910	163,666
Other assets	6,675	8,398
Total assets	230,970	242,502
Liabilities:		
Accounts payable	27,660	13,592
Accrued liabilities	4,726	6,322
Deposits	1,523	1,714
Debt[a]	67,340	67,670
Other liabilities	3,170	2,386
Total liabilities	104,419	91,684
Net assets	$126,551	$150,818

a. Stratus guarantees the debt associated with the W Austin Hotel & Residences project.

Profits and losses between partners in a real estate venture should be allocated based on how changes in net assets of the venture would affect cash payments to the investors over the life of the venture and on its liquidation. The amount of the ultimate profits earned by the W Austin Hotel & Residences project will affect the ultimate profit sharing ratios because of provisions in the joint venture agreement, which would require Stratus to return certain previously received distributions to Canyon-Johnson under certain circumstances. Because of the uncertainty of the ultimate profits and, therefore, profit-sharing ratios, the W Austin Hotel & Residences project's cumulative profits or losses are allocated based on a hypothetical liquidation of the Joint Venture's net assets as of each balance sheet date. As of June 30, 2013, the cumulative earnings for the W Austin Hotel & Residences project were allocated based on 43 percent for Stratus and 57 percent for Canyon-Johnson.

On October 3, 2012, the Joint Venture and Pedernales Entertainment LLC (Pedernales) formed Stageside Productions (Stageside) to promote, market and commercialize the production, sale, distribution and general oversight of audio and video recordings of events or performances occurring at Austin City Limits Live at the Moody Theater (ACL Live). The Joint Venture's initial capital contributions to Stageside totaled $0.3 million, and the Joint Venture will contribute additional capital as necessary to fund the working capital needs of Stageside. The Joint Venture has a 100 percent capital funding interest and has a 40 percent residual and voting interest in Stageside. The Joint Venture performed an evaluation and concluded Stageside is a VIE and that the Joint Venture is the primary beneficiary. Accordingly, the results of Stageside are consolidated in the Joint Venture's financial statements.

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) approximate 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):

	June 30, 2013		December 31, 2012	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Debt	$123,792	$123,507	$137,035	$136,774

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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.

5. INVESTMENT IN UNCONSOLIDATED AFFILIATES

In April 2013, Stratus formed a joint venture, Stump Fluff LLC (Stump Fluff), with Transmission Entertainment, LLC (Transmission) to own, operate, manage and sell live music and entertainment promotion, booking, production, merchandising, venue services and other related products and services. Stratus' initial capital contributions to Stump Fluff totaled $0.4 million in cash. Stratus also is committed to make additional capital contributions to Stump Fluff of $0.4 million ($0.2 million in July 2013 and $0.2 million in October 2013), and will contribute additional capital to Stump Fluff as necessary to fund its working capital needs. Transmission contributed its existing assets to Stump Fluff. In addition, Stump Fluff assumed specified liabilities of Transmission totaling $0.2 million. Transmission is not required to make any future capital contributions to Stump Fluff. Stratus and Transmission each have a 50 percent voting interest in Stump Fluff. After Stratus is repaid its original capital contributions and a preferred return (10 percent annually) on those contributions, Stratus will receive 33 percent of any distributions from Stump Fluff and Transmission will receive 67 percent.

In May 2013, Stratus and Austin Pachanga Partners, LLC (Pachanga Partners) formed a joint venture, Guapo Enterprises LLC (Guapo) to own, operate, manage and sell the products and services of the Pachanga music festival business. Stratus' initial capital contributions to Guapo totaled $0.3 million in cash. Stratus will contribute additional capital to Guapo as necessary to fund its working capital needs. Pachanga Partners contributed its existing assets to Guapo and is not required to make any future capital contributions. Stratus and Pachanga Partners each have a 50 percent voting interest in Guapo. After Stratus is repaid its original capital contributions and a preferred return (10 percent annually) on those contributions, Stratus will receive 33 percent of any distributions from Guapo and Pachanga Partners will receive 67 percent.

Stratus has concluded that both Stump Fluff and Guapo are VIEs and that no partner in either joint venture is the primary beneficiary because decision-making about the activities that most significantly impact the VIEs' economic performance is shared equally by the partners. Stratus accounts for its investments in Stump Fluff and Guapo using the equity method.

6. DEBT

On May 15, 2013, Stratus entered into a loan agreement and promissory note with D.N. Kahn (the Kahn loan documents) to finance the purchase of a tract of land for the future development in Lakeway, Texas. Pursuant to the Kahn loan documents, Stratus borrowed $1.6 million, which bears interest at a per annum rate of 5 percent. The outstanding principal balance of the Kahn promissory note is due and payable on May 15, 2015, and interest is due and payable quarterly, beginning on August 15, 2013. The loan is secured by a lien on the land.

Stratus' loan agreement with Beal Bank USA (the Beal Bank loan), its credit facility with Comerica Bank (the Comerica credit facility) and its American Strategic Income Portfolio (ASIP) unsecured term loans contain customary financial covenants, including a requirement that Stratus maintain a minimum total stockholders' equity balance. On March 21, 2013, Stratus entered into a modification agreement of the Amended and Restated Guaranty Agreement (the Guaranty), by and among (1) the Joint Venture, (2) Stratus and Canyon-Johnson and (3) Beal Bank USA. The modification agreement reduced the amount of the total stockholders' equity required to be maintained by Stratus pursuant to the Guaranty from $120.0 million to $110.0 million. All other terms and conditions remained the same. On May 9, 2013, Stratus entered into a modification agreement of the ASIP unsecured term loans which reduced the amount of the total stockholders' equity required to be maintained by Stratus from $120.0 million to $110.0 million. Concurrently with this modification, the minimum stockholders' equity covenant of the Comerica credit facility was also reduced to $110.0 million, pursuant to the terms of the Comerica credit facility modified on December 31, 2012.

Interest Expense and Capitalization. Interest expense (before capitalized interest) totaled $3.0 million for second-quarter 2013, $3.6 million for second-quarter 2012, $6.0 million for the first six months of 2013 and $8.7 million for the first six months of 2012. Stratus capitalized interest costs totaling $1.0 million for second-quarter 2013, $0.7 million for second-quarter 2012, $1.7 million for the first six months of 2013 and $2.1 million for the first six months of 2012. Capitalized interest is primarily related to development activity at Section N at Barton Creek for the 2013 periods and at the W Austin Hotel & Residences project for the 2012 periods.

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7. STOCKHOLDERS' EQUITY

Stratus' ASIP unsecured term loans generally prohibit common stock purchases by Stratus while any of such loans are outstanding; however, approval was obtained from ASIP for repurchases made in 2013. During second-quarter 2013, Stratus purchased 14,910 shares of its common stock for $0.2 million (or $13.01 per share).

8. INCOME TAXES

Stratus' accounting policy for and other information regarding its income taxes is further described in Notes 1 and 8 of the Stratus 2012 Form 10-K.

Stratus evaluated the recoverability of its deferred tax assets, and considered available positive and negative evidence, giving greater weight to losses in recent years, the absence of taxable income in the carry back period and uncertainty regarding projected future financial results. As a result, Stratus concluded that there was not sufficient positive evidence supporting the realizability of its deferred tax assets beyond an amount totaling $0.3 million at June 30, 2013, and December 31, 2012.

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. Stratus' future results of operations may be favorably impacted by reversals of valuation allowances if Stratus is able to demonstrate sufficient positive evidence that its deferred tax assets will be realized.

The difference between Stratus' consolidated effective income tax rate for the first six months of 2013 and 2012, and the U.S. federal statutory tax rate of 35 percent was primarily attributable to the realization of deferred tax assets for the first six months of 2013 and additional valuation allowances recorded against deferred tax assets for the first six months of 2012.

9. BUSINESS SEGMENTS

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

The Real Estate Operations segment is comprised of Stratus' real estate assets (developed, under development and undeveloped), which consists of its properties in the Barton Creek community, the Circle C community and Lantana, and the condominium units at the W Austin Hotel & Residences project.

The Hotel segment includes the W Austin Hotel located at the W Austin Hotel & Residences project.

The Entertainment segment includes ACL Live, a live music and entertainment venue and production studio at the W Austin Hotel & Residences project. In addition to hosting concerts and private events, this venue is the new 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, and the results of Stageside (see Note 3).

The Commercial Leasing segment includes the office and retail space at the W Austin Hotel & Residences project, a retail building and a bank building in Barton Creek Village, and 5700 Slaughter and Parkside Village in the Circle C community. In February 2012, Stratus sold the two office buildings at 7500 Rialto Boulevard (7500 Rialto). Accordingly, the operating results for 7500 Rialto are reported as discontinued operations in the tables below (see Note 10).

Stratus uses operating income or loss to measure the performance of each segment. Stratus allocates parent company general and administrative expenses that do not directly relate to an operating segment between the Real Estate

Operations and Commercial Leasing segments based on projected annual revenues for each segment. General and administrative expenses related to the W Austin Hotel & Residences project are allocated to the Real Estate Operations, Hotel, Entertainment and Commercial Leasing segments based on projected annual revenues for the W Austin Hotel & Residences project. Prior year general and administrative expense allocations have been revised to exclude the results of 7500 Rialto. Additionally, prior year amounts for individual segments have been revised to reflect intersegment transactions. The following segment information reflects management's determinations that may not be indicative of what actual financial performance of each segment would be if it were an independent entity.

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Segment data presented below were prepared on the same basis as Stratus' consolidated financial statements (in thousands).

	Real Estate Operations[a]	Hotel	Entertainment	Commercial Leasing	Eliminations and Other[b]	Total
Three Months Ended June 30, 2013:						
Revenues:						
Unaffiliated customers	$28,043	$9,816	$3,424	$1,242	$—	$42,525
Intersegment	26	50	15	150	(241)	—
Cost of sales, excluding depreciation	23,861	7,532	3,000	705	(63)	35,035
Depreciation	59	1,558	310	418	(37)	2,308
Insurance settlement	(1,785)	—	—	—	—	(1,785)
General and administrative expenses	1,661	116	51	325	(139)	2,014
Operating income (loss)	$4,273	$660	$78	$(56)	$(2)	$4,953
Capital expenditures	$5,060	$2	$110	$450	$—	$5,622
Total assets at June 30, 2013	165,902	116,750	45,804	46,820	(6,082)	369,194
Three Months Ended June 30, 2012:						
Revenues:						
Unaffiliated customers	$6,801	$8,607	$2,832	$1,129	$—	$19,369
Intersegment	12	49	23	94	(178)	—
Cost of sales, excluding depreciation	7,407	6,781	2,344	544	(64)	17,012
Depreciation	73	1,445	306	378	(36)	2,166
General and administrative expenses	1,448	123	41	362	(117)	1,857
Operating (loss) income	$(2,115)	$307	$164	$(61)	$39	$(1,666)
Capital expenditures	$1,570	$—	$51	$567	$—	$2,188
Total assets at June 30, 2012	199,526	121,236	44,429	45,020	(7,595)	402,616
Six Months Ended June 30, 2013:						
Revenues:						
Unaffiliated customers	$46,905	$19,895	$6,632	$2,552	$—	$75,984
Intersegment	40	132	23	281	(476)	—
Cost of sales, excluding depreciation	39,841	14,812	5,489	1,387	(150)	61,379
Depreciation	123	3,035	617	837	(74)	4,538
Insurance settlement	(1,785)	—	—	—	—	(1,785)
General and administrative expenses	3,164	190	74	627	(277)	3,778
Operating income (loss)	$5,602	$1,990	$475	$(18)	$25	$8,074
Capital expenditures	$8,728	$3	$119	$510	$—	$9,360
Six Months Ended June 30, 2012:						
Revenues:						
Unaffiliated customers	$21,087	$17,624	$6,103	$2,055	$—	$46,869
Intersegment	18	98	29	226	(371)	—
Cost of sales, excluding depreciation	20,883	13,432	4,844	1,041	(121)	40,079
Depreciation	150	2,890	610	704	(71)	4,283
General and administrative expenses	2,677	163	56	676	(244)	3,328
Operating (loss) income	$(2,605)	$1,237	$622	$(140)	$65	$(821)
Income from discontinued operations	$—	$—				