

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

For the Quarter Ended June 30, 1998

Commission File Number: 0-19989

Stratus Properties Inc.

Incorporated in Delaware
72-1211572
(IRS Employer Identification No.)

98 San Jacinto Blvd., Suite 220, Austin, Texas 78701

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

FM Properties Inc.
1615 Poydras Street
New Orleans, Louisiana 70112
(Former name and address, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes X No

On June 30, 1998, there were issued and outstanding 14,288,270 shares of the registrant's Common Stock, par value \$0.01 per share.

STRATUS PROPERTIES INC.
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STRATUS PROPERTIES INC.
Part I. FINANCIAL INFORMATION

Item 1. Financial Statements.

STRATUS PROPERTIES INC.
CONDENSED BALANCE SHEETS (Unaudited)

	June 30, 1998	December 31, 1997
	-----	-----
	(In Thousands)	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 1,900	\$ 873
Accounts receivable:		
Property sales	766	1,265
Other, including income tax of \$140,000	724	316
Prepaid expenses	301	473
	-----	-----
Total current assets	3,691	2,927
Real estate and facilities, net	103,411	105,274
Other assets	6,934	4,553
	-----	-----
Total assets	\$114,036	\$ 112,754
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
Accounts payable and accrued liabilities	\$ 1,558	\$ 1,231
Accrued interest, property taxes and other	1,091	1,789
	-----	-----
Total current liabilities	2,649	3,020
Long-term debt	31,118	37,118
Other liabilities	5,704	6,009
Mandatorily redeemable preferred stock	10,000	-
Stockholders' equity	64,565	66,607
	-----	-----
Total liabilities and stockholders' equity	\$114,036	\$ 112,754
	=====	=====

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

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STRATUS PROPERTIES INC.
STATEMENTS OF OPERATIONS (Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	1998	1997	1998	1997
	-----	-----	-----	-----
	(In Thousands, Except Per Share Amounts)			
Revenues	\$ 3,408	\$ 5,191	\$ 6,063	\$20,261
Costs and expenses:				
Cost of sales	3,005	2,752	4,653	14,535
General and administrative expenses	1,107	683	2,499	1,479
	-----	-----	-----	-----
Total costs and expenses	4,112	3,435	7,152	16,014
	-----	-----	-----	-----
Operating income (loss)	(704)	1,756	(1,089)	4,247
Interest expense, net	(478)	(524)	(985)	(1,061)
Other income, net	22	736	31	758

Income (loss) before income taxes and minority interest	(1,160)	1,968	(2,043)	3,944
Income tax provision	-	(220)	-	(220)
Minority interest	-	(4)	-	(8)
Net income (loss)	<u>\$ (1,160)</u>	<u>\$ 1,744</u>	<u>\$ (2,043)</u>	<u>\$ 3,716</u>
Net income (loss) per share:				
Basic	<u>\$ (0.08)</u>	<u>\$ 0.12</u>	<u>\$ (0.14)</u>	<u>\$ 0.26</u>
Diluted	<u>\$ (0.08)</u>	<u>\$ 0.12</u>	<u>\$ (0.14)</u>	<u>\$ 0.26</u>
Average shares outstanding:				
Basic	<u>14,288</u>	<u>14,286</u>	<u>14,288</u>	<u>14,286</u>
Diluted	<u>14,288</u>	<u>14,468</u>	<u>14,288</u>	<u>14,444</u>

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

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STRATUS PROPERTIES INC.
STATEMENTS OF CASH FLOW (Unaudited)

	Six Months Ended June 30,	
	1998	1997
(In Thousands)		
Cash flow from operating activities:		
Net income (loss)	\$ (2,043)	\$ 3,716
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	36	58
Cost of real estate sold	4,939	16,207
Minority interest share of net income	-	8
(Increase) decrease in working capital:		
Accounts receivable and other	263	1,619
Accounts payable and accrued liabilities	(370)	(3,296)
Other	(2,687)	(226)
Net cash provided by operating activities	<u>138</u>	<u>18,086</u>
Cash flow from investing activities:		
Real estate and facilities	(3,111)	(4,891)
Net cash used in investing activities	<u>(3,111)</u>	<u>(4,891)</u>
Cash flow from financing activities:		
Proceeds from preferred stock issuance	10,000	-
Repayment of debt, net	(6,000)	(12,632)
Net cash provided by (used in) financing activities	<u>4,000</u>	<u>(12,632)</u>
Net increase in cash and cash equivalents	1,027	563
Cash and cash equivalents at beginning of year	873	2,108
Cash and cash equivalents at end of period	<u>\$ 1,900</u>	<u>\$ 2,671</u>

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

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STRATUS PROPERTIES INC.
NOTES TO THE FINANCIAL STATEMENTS

1. BASIS OF PRESENTATION

Stratus Properties Inc. (STRS or the Company) formerly FM Properties Inc., operates through a partnership in which STRS owned a 99.8 percent interest until December 1997 when STRS acquired the remaining 0.2 percent interest from the outside managing partner (See Note 1 of "Notes to Financial Statements" in the 1997 Annual Report on Form 10-K). As a result of this acquisition, STRS restated previously reported interim 1997 financial results to reflect application of consolidation accounting for its partnership investment rather than the equity method.

2. NEW ACCOUNTING STANDARDS

In February 1997, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) 128, "Earnings Per Share," which simplifies the computation of earnings per share (EPS). STRS adopted SFAS 128 in the fourth quarter of 1997 and restated prior years' EPS data as required by SFAS 128.

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 period. 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 period plus the net effect of dilutive stock options, which represented approximately 182,000 and 158,000 shares in the second quarter and six months of 1997, respectively. The Company had options outstanding to purchase a total of approximately 320,000 and 345,000 common shares excluded from the calculation as anti-dilutive considering the losses reported in the second quarter and six month periods of 1998, respectively.

Outstanding options to purchase 514,000 and 225,000 shares of common stock at average exercise prices of \$5.78 and \$5.25 per share for the second quarter of 1998 and 1997, respectively, and outstanding options to purchase 289,000 and 225,000 shares of common stock at average exercise prices of \$6.19 and \$5.25 per share for the six months ended June 30, 1998 and 1997, respectively, were not included in the computation of diluted net income (loss) per share because exercise prices were greater than the average market price for the periods presented.

In June 1998, the FASB issued SFAS 133, "Accounting for Derivative Instruments and Hedging Activity," which establishes accounting and reporting standards requiring that every derivative instrument (including certain derivative instruments embedded in other contracts) be recorded in the balance sheet as either an asset or liability measured at its fair value. SFAS 133 is effective for fiscal years beginning after June 15, 1999 with earlier application permitted beginning as early as July 1, 1998. As STRS does not currently have any derivative instruments adoption of this standard would not have any impact on its financial statements, financial position or results of operations.

3. LONG-TERM DEBT

In December 1997, STRS entered into a restructured credit facility consisting of a \$35.0 million revolving credit facility and a \$15.0 million term loan facility, with individual borrowings bearing interest at rates based on the lead lender's prime rate or LIBOR, at STRS' option. The aggregate commitment will decline to \$35.0 million on January 1, 1999, \$15.0 million on January 1, 2000 and will be eliminated on January 1, 2001.

Accordingly, the Company would classify any borrowings in excess of \$35 million as current maturities of long-term debt during 1998. As of June 30, 1998, borrowings totaled \$31.1 million. IMC Global Inc. (IGL) has guaranteed amounts borrowed under the facility in exchange for 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 rate on the LIBOR-funded loans under the new facility. STRS cannot amend or refinance the facility without IGL's consent. As of June 30, 1998, \$17.9 million of additional borrowing was available under the facility through December 31, 1998. For further discussion of the restructured credit facility, see Note 4 of "Notes to the Financial Statements" in STRS' 1997 Annual Report on Form 10-K.

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4. OLYMPUS TRANSACTION

On May 26, 1998, STRS and Olympus Real Estate Corporation, an affiliate of Hicks, Muse, Tate & Furst 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 up to 20 percent of STRS' Board of Directors.

The \$10 million mandatorily redeemable preferred stock was issued at a stated 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 5 below.

The \$10 million convertible debt facility is available to STRS in whole or in part for a period of six years from May 22, 1998 and is intended to fund STRS' equity investment in new STRS/Olympus joint venture opportunities involving properties not currently owned by STRS. There have been no borrowings on this convertible debt facility through July 20, 1998. The interest rate on any amounts outstanding under this facility is 12 percent per year and is payable quarterly or accrued and added to principal at Olympus' option. 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 must mature 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 non-recourse 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 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.

5. 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.

6. LITIGATION

STRS is involved in numerous pending litigation matters with the City of Austin and others, which may affect its property development entitlements and ability to secure reimbursement of approximately \$25 million relating to development of its Circle C property. Refer to Item 3 "Legal Proceedings" and Note 3 "Real Estate" in the Company's Annual Report on Form 10-K for the year ended December 31, 1997 for a detailed discussion of such litigation matters. For discussion of litigation events subsequent to the Annual Report on Form 10-K refer to "Capital Resources and Liquidity" and Part II - Other information, "Legal Proceedings" included elsewhere in this interim report on Form 10-Q.

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Remarks

The information furnished herein should be read in conjunction with STRS' financial statements contained in its 1997 Annual Report to stockholders included in its Annual Report on Form 10-K.

The information furnished herein reflects all adjustments which are, in the opinion of management, necessary for a fair statement of the results for the periods. All such adjustments are, in the opinion of management, of a normal recurring nature.

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REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

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

We have reviewed the accompanying condensed balance sheet of Stratus Properties Inc. (the Company), a Delaware corporation, as of June 30, 1998, and the related statements of operations for the three and six-month periods ended June 30, 1998 and 1997, and the statements of cash flow for the six-month periods ended June 30, 1998 and 1997. These financial statements are the responsibility of the Company's management.

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

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

We have previously audited, in accordance with generally accepted auditing standards, the balance sheet of Stratus Properties Inc. as of December 31, 1997, and the related statements of operations, stockholders' equity and cash flow for the year then ended (not presented herein), and in our report dated January 20, 1998, based on our audit, we expressed an unqualified opinion on those financial statements. In our opinion, the information set forth in the accompanying condensed balance sheet as of December 31, 1997, is fairly stated, in all material respects, in relation to the balance sheet from which it has been derived.

/s/ ARTHUR ANDERSEN LLP

San Antonio, Texas
July 21, 1998

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

OVERVIEW

Stratus Properties Inc. (STRS or the Company) is engaged in the acquisition, development and sale of commercial and residential real estate properties. STRS' principal real estate holdings are in the Austin, Texas area and consist of approximately 2,500 acres of undeveloped residential, multifamily 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 also owns or has interests in approximately 190 developed lots, 200 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 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.

DEVELOPMENT ACTIVITIES

STRS is currently developing ABC West-Phase I of its Barton Creek project, which is expected to yield approximately 85 new single-family homesites in early 1999. Development is progressing at several other sections of the Barton Creek project, including the construction of utility infrastructure which will serve a significant portion of the 2,500 acres of undeveloped property at Barton Creek, and preliminary development of approximately 200 new single-family homesites, located adjacent to a new Tom Fazio-designed golf course. STRS expects these homesites to be available for sale in 1999. STRS expects to complete these projects as scheduled, however permitting and entitlement issues now being litigated raise uncertainty about the timing of completion of the projects.

At the Lantana project, STRS is nearing completion on construction of a water system that will provide the required water volume and pressure to serve the approximately 500 undeveloped acres remaining in the project. 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 expects to commence site work in August on the 70,000 square foot first phase of its 140,000 square foot Lantana Corporate Center. The project has received from the City of Austin final zoning, subdivision plat and site plan approvals. STRS is currently pursuing the final development permits for the 330 lots which represent the residential component of the Lantana project. STRS anticipates the first phase of this project being completed during 1999.

RESULTS OF OPERATIONS

STRS' summary operating results follow (In Thousands):

	Second Quarter		Six Months	
	1998	1997	1998	1997
Revenues:				
Developed properties	\$ 3,408	\$ 1,351	\$ 5,793	\$ 5,190
Undeveloped properties and other	-	3,840	270	15,071
Total revenues	3,408	5,191	6,063	20,261
Operating income (loss)	(704)	1,756	(1,089)	4,247
Net income (loss)	(1,160)	1,744	(2,043)	3,716

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Revenues from developed properties represented the sale of 64 and 108 single-family units during the second quarter and six-month periods of 1998, respectively, compared with the sale of 24 and 85 single-family homesites, respectively, during the 1997 periods. The increase in sales of single-family homesites from prior years levels represented sales primarily in Houston and Dallas. Undeveloped property revenues for the six-month period of 1998 were the result of the first quarter 1998 sale of two acres of undeveloped commercial property, compared with the sale of 68 and 194 acres of undeveloped commercial and multi-family property during the second-quarter and six-month periods of 1997, respectively. Reduced revenues during the second quarter and six months ended June 30, 1998 resulted from lower sales of undeveloped properties. The Company, has initiated a business strategy to develop single-family homesites and is evaluating several commercial development opportunities rather than selling undeveloped property. This strategy will enable the Company to capture the development profits associated with its undeveloped properties, but will result in relatively low revenues in the short term.

Operating results were adversely affected by an increase in general and administrative expenses resulting primarily from the Company's ongoing efforts to resolve through litigation attempts by the City of Austin to restrict the Company's development entitlements and to secure reimbursements of approximately \$25 million of infrastructure costs incurred in the development of the Circle C property. Legal expenses for the second quarter and six months of 1998 totaled approximately \$0.4 million and \$1.0 million, respectively. The increased general and administrative expenses were partially offset by reimbursement of infrastructure costs, which were previously charged to expense, relating to properties previously sold of approximately \$0.8 million, which reduced cost of sales in the first quarter of 1998 (see discussion below).

During 1995, legislation was enacted that enabled the Company to create a series of municipal utility districts (MUDs)

to serve the Barton Creek development. Once established, the MUDs issue bonds, the proceeds of which are used to reimburse the Company for costs related to the installation of major utility, drainage and water quality infrastructure. During the first six months of 1998, the Company received approximately \$2.8 million in partial reimbursement of infrastructure costs relating to the Barton Creek and Circle C developments. The proceeds were used in part to fund current development expenditures and to repay debt. The Company expects to receive additional reimbursements for previously incurred infrastructure costs related to the Barton Creek development from the proceeds of MUD bonds issued in the future. However, the timing and the amount of future reimbursements are uncertain. See Part II, Item 1, "Legal Proceedings" for information regarding litigation concerning these reimbursable costs.

Net interest expense totaled \$478,000 and \$985,000 in the 1998 second quarter and six-months periods, respectively, compared to \$524,000 and \$1,061,000 during the same periods one year ago. The decrease reflects lower average debt outstanding in the current year. In addition, capitalized interest for the second quarter and six-months periods of 1997 was \$(418,000) and \$(870,000), respectively, compared to \$(144,000) and \$(294,000) for the comparable periods of 1998.

CAPITAL RESOURCES AND LIQUIDITY

Net cash provided by operations totaled \$0.1 million during the six months ended June 30, 1998 compared with \$18.1 million during the six months ended June 30, 1997. The decrease reflects the substantial reduction of undeveloped commercial properties sold during the first six months of 1998. Financing activities provided cash of \$4.0 million during the six months ended June 30, 1998 from the issuance of the mandatorily redeemable preferred stock associated with the Olympus deal (see Note 4) offset in part by net repayments of debt. The excess proceeds were used to fund real estate development expenditures. Debt repayments of \$12.6 million were made during the six months ended June 30, 1997. Higher revenues in the prior year, mainly from the sale of undeveloped properties, allowed the Company to repay outstanding debt.

The Company's sales activity slowed substantially in early 1998 and will continue at reduced levels during the remainder of the year because of the Company's strategy to develop single-family homesites while evaluating certain commercial properties, as indicated in "Results of Operations" above.

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Development expenditures during the first six months of 1998 were funded largely from borrowings under the Company's credit facility, which provides aggregate available credit of \$50 million through December 31, 1998, reducing to \$35 million through December 31, 1999 and \$15 million through December 31, 2000. At June 30, 1998, outstanding debt totaled \$31.1 million and the amount available under the facility through December 31, 1998 was \$17.9 million. Anticipated capital expenditures for the remainder of 1998 are expected to be funded by operating cash flow and additional borrowings, with the level of such capital expenditures subject to change based on the resolution of ownership of certain reimbursements of previously incurred infrastructure costs and other legal and regulatory issues, as further discussed in Part II, Item 1, "Legal Proceedings."

In April 1998, STRS and Olympus entered into an agreement for STRS to manage Olympus' newly acquired wholly owned Walden on Lake Houston real estate development project in Houston. The development includes 900 developed lots and 80 acres of undeveloped real estate. STRS will receive a fixed management fee plus commissions on new lot sales. As of June 30, 1998, STRS had negotiated agreements that provide for the sale of approximately 90 percent of the developed lots. The agreements require the purchasers to close sales on the lots pursuant to a

specific schedule, which is expected not to exceed four years. Under the terms of the STRS/Olympus alliance, STRS has the option to purchase up to a 50 percent interest in the project, which STRS anticipates would be funded from the \$10 million convertible debt facility available under terms of the Olympus transaction (see Note 4).

The future performance of STRS continues to be dependent on future cash flows from real estate sales, which will be significantly affected by future real estate values, regulatory issues, development costs, the ability of the Company to continue to protect its land use and development entitlements, and interest rate levels. Significant development expenditures remain to be incurred for STRS' Austin-area properties prior to their eventual sale. These factors, combined with the debt reduction requirements under the credit facility, could impede STRS' ability to develop its properties and expand its business. The closing of the Olympus transaction (see Note 4) improved the Company's capital resources by providing the Company \$10 million from equity proceeds and provides for up to an additional \$60 million of capital in the future, subject to certain conditions.

The Company is continuing to consider a number of other capital raising alternatives, including equity sales, various forms of debt financing and other means. While bank financing for development of the Company's existing properties is available, obtaining financing for undeveloped land purchases is generally expensive and remains uncertain. Although STRS believes its efforts will successfully address the capital resource needs discussed above, there can be no assurance that STRS will generate sufficient cash flow or obtain sufficient funds to make required interest and principal payments under the facility.

CAUTIONARY STATEMENT

Management's Discussion and Analysis of Financial Condition and Results of Operations 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, 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 the Company, changes in laws or regulations and other factors, many of which are beyond the control of the Company and other factors that as described in more detail under the heading "Cautionary Statements" in STRS' Form 10-K for the year ended December 31, 1997.

The results of operations reported and summarized above are not necessarily indicative of future operating results.

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PART II. - OTHER INFORMATION

Item 1. Legal Proceedings.

The Company is involved in various regulatory matters and litigation involving development of its Austin properties. For a detailed discussion on these matters see Item 3, "Legal Proceedings" and Note 3, "Real Estate" in STRS' 1997 Annual Report on Form 10-K.

Below is a partial list of the cases in which the Company is currently involved. The current status is summarized and should be read in conjunction with the above referenced sections of the STRS 1997 Annual Report on Form 10-K.

Annexation Litigation: Circle C Land Corp. v. The City of Austin, Texas, Cause No. 97-13994 (Travis County 53rd Judicial District Court, TX filed 12/19/97).

In December 1997, the City of Austin (the "City") enacted an ordinance purporting to annex all land within the Southwest Travis County Water District, including the Company's Circle C lands. The Company filed suit seeking reimbursement of developer funded municipal utility districts ("MUD") infrastructure costs that the City is required to pay the Company as a result of the annexation. A summary judgement hearing has been set for August 26, 1998 to establish the City's liability for developer reimbursements. A jury trial, if necessary, is scheduled for January 20, 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, TX filed 10/31/97).

In November 1997, the Company sought a declaratory judgement in the Hays County District Court confirming the validity of the Circle C Water Quality Protection Zone ("WQPZ"), which includes approximately 553 acres owned by the Company and located outside the boundaries of any MUD. The City contested the Hays County District Court's jurisdiction but was denied in its motion to transfer venue and all other requested relief. 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 the Company's motion for summary judgment, pending the Third Court of Appeals' review of the District Court's denial of the plea to the jurisdiction. The Third Court of Appeals refused to stay the summary judgment and, in response, the City filed a writ with the Texas Supreme Court. The Supreme Court accepted the writ and stayed all underlying litigation. Subsequently, the Third Court of Appeals confirmed the trial court's denial of the plea to the jurisdiction. The Company then filed a motion to lift the stay with the Supreme Court. The Supreme Court issued an order lifting the stay allowing the Hays County District Court litigation to proceed to summary judgment and resolution. A summary judgement hearing is scheduled for September 4, 1998.

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, TX filed 1/9/98).

On January 9, 1998, the City filed a lawsuit (the "Travis County Suit") in the Travis County District Court against 14 water quality zones and their owners, including the Barton Creek WQPZ. The City challenges the constitutionality of the legislation authorizing the creation of water quality zones. The Attorney General of Texas agreed to intervene in the Travis County suit and the Circle C WQPZ litigation above, to defend the legislation. The City filed a motion for partial summary judgement against one defendant and against the State of Texas. All defendant parties filed motions with regard to summary judgement. A summary judgment hearing was conducted in the Travis County District Court on July 9, 1998. The Travis County District Court entered an order granting the City of Austin's summary judgment motion and declaring the water quality zone legislation unconstitutional. All parties agreed to the form of an order which permits an expedited appeal directly to the Supreme Court of Texas. The Company, and other defendant parties, have filed appeals. A hearing is expected during the first half of 1999.

MUD Reimbursement Litigation: Circle C Land Corp. v. Phoenix Holdings, Ltd., Cause No. 97-01388 (Travis County 261st Judicial District Court, TX filed 2/5/97).

During February 1997, STRS filed a petition for declaratory judgement against Phoenix Holding Ltd. ("Phoenix") in order to secure its ownership of approximately \$25 million of MUD

serves the Circle C development. Phoenix filed a counter claim against Circle C in June 1997. On February 20, 1998 the District Court granted the Company's motion for summary judgement on the primary case and Phoenix dismissed its counterclaims with prejudice, but reserved the right to appeal the summary judgement of the primary case. On April 10, 1998, Phoenix appealed the summary judgement on the primary case to the Third Court of Appeals. A hearing is expected to be scheduled during the fourth quarter of 1998.

Item 4. Submission of Matters to a Vote of Security Holders

(a) The Annual Meeting of Stockholders of the Company was held on May 14, 1998 (the "Annual Meeting"). Proxies were solicited pursuant to Regulation 14A under the Securities Exchange Act of 1934, as amended.

(b) At the Annual Meeting, Richard C. Adkerson was elected to serve until the 2001 annual meeting of stockholders. In addition to the director elected at the Annual Meeting, the terms of James C. Leslie and Michael D. Madden continued after the Annual Meeting.

(c) At the Annual Meeting, holders of shares of the Company's Common Stock elected one director with the number of votes cast for or withheld from such nominee as follows:

Name	For	Withheld
Richard C. Adkerson	13,366,192	281,580

With respect to the election of the director, there were no abstentions or broker non-votes.

At the Annual Meeting, the stockholders also voted on and approved a proposal to ratify the appointment of Arthur Andersen LLP to act as the independent auditors to audit the financial statements of the Company and its subsidiaries for the year 1998. Holders of 13,610,458 shares voted for, holders of 20,828 shares voted against and holders of 16,486 shares abstained from voting on such proposal. There were no broker non-votes with respect to such proposal.

At the Annual Meeting, the stockholders voted on and approved a proposal to approve the Company's 1998 Stock Option Plan in the form presented in the corporation's proxy statement dated March 30, 1998. Holders of 7,847,198 shares voted for, holders of 811,869 shares voted against and holders of 122,680 shares abstained from voting on such proposal. There were broker non-votes consisting of 4,866,025 shares with respect to such proposal.

At the Annual Meeting, the stockholders voted on and approved the proposal to amend the corporation's Amended and Restated Certificate of Incorporation to change the name of the corporation from FM Properties Inc. to Stratus Properties Inc. Holders of 13,262,002 shares voted for, holders of 332,959 shares voted against and holders of 52,811 shares abstained from voting on such proposal. There were no broker non-votes with respect to such proposal.

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

- (a) The exhibits to this report are listed in the Exhibit Index appearing on page E-1 hereof.
- (b) Two Current Reports on Form 8-K, were filed by the registrant reporting events under Items 5 and 7 on the June 3, 1998 and Item 5 on June 25, 1998, during the period covered by this Quarterly Report on Form 10-Q.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

STRATUS PROPERTIES INC.

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

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

Date: August 13, 1998

STRATUS PROPERTIES INC.
EXHIBIT INDEX

Exhibit Number	
3.1	Amended and Restated Certificate of Incorporation of the Company. Incorporated by reference to Exhibit 3.1 to the Company's 1992 Form 10-K.
3.2	By-laws of the Company, as amended. Incorporated by reference to Exhibit 3.2 to the Company's 1992 Form 10-K.
4.1	The Company's Certificate of Designations of Series A Participating Cumulative Preferred Stock. Incorporated by reference to Exhibit 4.1 to the Company's 1992 Form 10-K.
4.2	Rights Agreement dated as of May 28, 1992 between the Company and Mellon Securities Trust Company, as Rights Agent. Incorporated by reference to Exhibit 4.2 to the Company's 1992 Form 10-K.
4.3	Amendment No. 1 to Rights Agreement dated as of April 21, 1997 between the Company and the Rights Agent. Incorporated by reference to Exhibit 4 to the Company's Current Report on Form 8-K dated April 21, 1997.
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 the Company's 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 the Company's 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 the Company's Current Report on Form 8-K dated June 3, 1998.
- 10.1 Second Amended and Restated Agreement of General Partnership of FM Properties Operating Co. dated as of December 15, 1997 between the Company and STRS L.L.C. Incorporated by reference to Exhibit 10.1 to the Company's 1997 Form 10-K.
- 10.2 Amended and Restated Services Agreement, dated as of December 23, 1997 between FM Services Company and the Company. Incorporated by reference to Exhibit 10.2 to the Company's 1997 Form 10-K.
- 10.3 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 the Company's 1992 Form 10-K.
- E-1
- 10.4 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 the Company's 1992 Form 10-K.
- 10.5 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 the Company's 1992 Form 10-K.
- 10.6 STRS Guarantee Agreement dated as of December 15, 1997 by the Company. Incorporated by reference to Exhibit 10.6 to the Company's 1997 Form 10-K.
- 10.7 Amended and Restated IGL Guarantee Agreement dated as of December 22, 1997 by IMC Global Inc. Incorporated by reference to Exhibit 10.7 to the Company's 1997 Form 10-K.
- 10.8 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 the Company's Current Report on Form 8-K dated June 3, 1998.
- 10.9 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 the Company's Current Report on Form 8-K dated June 3, 1998.

Executive Compensation Plans and Arrangements
(Exhibits 10.10 through 10.13)

- 10.10 The Company's Performance Incentive Awards Program, as amended. Incorporated by reference to Exhibit 10.21 to the STRS Annual Report on Form 10-K for the fiscal year ended December 31, 1994.
- 10.11 STRS Stock Option Plan, as amended. Incorporated by reference to Exhibit 10.9 to the Company's 1997 Form 10-K.
- 10.12 STRS Stock Option Plan for Non-Employee Directors, as amended. Incorporated by reference to Exhibit 10.10 to the Company's 1997 Form 10-K.
- 10.13 Stratus Properties Inc. 1998 Stock Option Plan.
- 15.1 Letter dated July 21, 1998 from Arthur Andersen LLP regarding unaudited interim financial statement.
- 27.1 Financial Data Schedule.

Exhibit 10.11

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

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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.

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"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.

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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 canceled 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

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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.

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(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.

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(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

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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

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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 canceled under the terms of the Plan and any restrictions imposed on Shares in connection with their issuance under the Plan have lapsed.

Exhibit 15.1

July 21, 1998

Stratus Properties Inc.
98 San Jacinto Blvd.
Suite 220
Austin, TX 78701

Gentlemen:

We are aware that Stratus Properties Inc. has incorporated by reference in its Registration Statements (File Nos. 33-78798 and 333-31059) its Form 10-Q for the quarter ended June 30, 1998, which includes our report dated July 21, 1998 covering the unaudited interim financial information contained therein. Pursuant to Regulation C of the Securities Act of 1933 (the Act), this report is not considered a part of the registration statements prepared or certified by our firm or a report prepared or certified by our firm within the meaning of Sections 7 and 11 of the Act.

Very truly yours,

/s/ Arthur Andersen LLP

<ARTICLE> 5

<LEGEND>

This schedule contains summary financial information extracted from Stratus Properties Inc. financial statements at June 30,1998 and the six months the ended, and is qualified in its entirety by reference to such statements. The earning per share (EPS) data shown was prepared in accordance with FASB No. 128 "Earning Per Share" basic and diluted EPS have been entered in place of primary and fully diluted EPS.

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<CIK> 0000885508

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