

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, 1997

Commission File Number: 0-19989

FM Properties Inc.

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

1615 Poydras Street, New Orleans, Louisiana 70112

Registrant's telephone number, including area code: (504) 582-4000

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, 1997, there were issued and outstanding 14,285,770 shares of the registrant's Common Stock, par value \$0.01 per share.

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FM PROPERTIES INC.
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FM PROPERTIES INC.
Part I. FINANCIAL INFORMATION

Item 1. Financial Statements.

CONDENSED BALANCE SHEETS (Unaudited)

	June 30, 1997	December 31, 1996
	-----	-----
	(In Thousands)	
ASSETS		
Current assets:		
Accounts receivable and other	\$ -	\$ 56
Income tax receivable	489	503
Amounts receivable from the Partnership	4,167	4,371
	-----	-----
Total current assets	4,656	4,930
Investment in the Partnership	60,081	56,055
	-----	-----
Total assets	\$ 64,737	\$ 60,985
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
Other liabilities	\$ 1,422	\$ 1,386
Stockholders' equity	63,315	59,599
	-----	-----
Total liabilities and stockholders' equity	\$ 64,737	\$ 60,985
	=====	=====

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

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FM PROPERTIES INC.
STATEMENTS OF OPERATIONS (Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	-----	-----	-----	-----
	1997	1996	1997	1996
	-----	-----	-----	-----
	(In Thousands, Except Per Share Amounts)			
Income (loss) from the Partnership	\$ 2,024	\$ 559	\$ 4,026	\$ (306)
General and administrative expenses	(60)	(59)	(90)	(88)
	-----	-----	-----	-----
Operating income (loss)	1,964	500	3,936	(394)
Income tax provision	220	-	220	-
	-----	-----	-----	-----
Net income (loss)	\$ 1,744	\$ 500	\$ 3,716	\$ (394)
	=====	=====	=====	=====
Net income (loss) per share	\$0.12	\$0.03	\$0.26	\$ (0.03)
	=====	=====	=====	=====
Average shares outstanding	14,468	14,394	14,444	14,368
	=====	=====	=====	=====

FM PROPERTIES INC.
STATEMENTS OF CASH FLOW (Unaudited)

Six Months Ended June 30,

	----- 1997 -----	----- 1996 -----
(In Thousands)		
Cash flow from operating activities:		
Net income (loss)	\$ 3,716	\$ (394)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Excess of equity in (income) losses of the Partnership over distributions received	(4,026)	306
Decrease in working capital	310	88
	-----	-----
Net cash provided by operating activities	-	-
Cash flow from investing activities	-	-
Cash flow from financing activities	-	-
	-----	-----
Net increase in cash and cash equivalents	-	-
Cash and cash equivalents at beginning of year	-	-
	-----	-----
Cash and cash equivalents at end of period	\$ -	\$ -
	=====	=====

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

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FM PROPERTIES INC.
NOTES TO FINANCIAL STATEMENTS

1. BASIS OF PRESENTATION

FM Properties Inc. (FMPO) operates through its 99.8 percent interest in FM Properties Operating Co. (the Partnership), with 0.2 percent owned by the Managing General Partner, Freeport-McMoRan Inc. (FTX). FTX guarantees the Partnership's debt. Because of the rights that FTX retains in connection with its guarantee of the Partnership's debt, FMPO reflects its interest in the Partnership under the equity basis of accounting. However, if the FTX guarantee is eliminated, FMPO will have the authority to remove FTX as the Managing General Partner and FTX's rights with respect to the Partnership and FMPO would be eliminated. FMPO has no significant operations or source of funds other than its interest in the Partnership. The Partnership's financial statements follow: (certain prior year amounts have been reclassified to conform to the 1997 presentation):

BALANCE SHEETS

	June 30, 1997 -----	December 31, 1996 -----
(In Thousands)		
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 2,671	\$ 2,108
Accounts receivable and other	2,456	4,133
	-----	-----
Total current assets	5,127	6,241
Real estate and facilities, net	106,806	118,029

Other assets	7,088	5,922
	-----	-----
Total assets	\$ 119,021	\$ 130,192
	=====	=====
LIABILITIES AND PARTNERS' CAPITAL		
Current liabilities:		
Accounts payable and accrued liabilities		
	\$ 2,206	\$ 5,754
Amounts due to FMPO	4,167	4,371
Short-term debt	45,693	-
	-----	-----
Total current liabilities	52,066	10,125
Long-term debt	-	58,325
Other liabilities	6,753	5,574
Partners' capital	60,202	56,168
	-----	-----
Total liabilities and partners' capital	\$ 119,021	\$ 130,192
	=====	=====

STATEMENTS OF OPERATIONS

	Three Months Ended June 30,		Six Months Ended June 30,	
	1997	1996	1997	1996
	-----	-----	-----	-----
	(In Thousands)			
Revenues	\$ 5,191	\$ 23,764	\$ 20,261	\$ 37,593
Costs and expenses:				
Cost of sales	2,245a	21,771	14,458a	35,427
General and administrative expenses	622	617	1,389	1,223
	-----	-----	-----	-----
Total costs and expenses	2,867	22,388	15,847	36,650
	-----	-----	-----	-----
Operating income	2,324	1,376	4,414	943
Interest expense, net	(525)	(1,158)	(1,061)	(1,892)
Other income, net	229	341	681	643
	-----	-----	-----	-----
Net income (loss)	\$ 2,028	\$ 559	\$ 4,034	\$ (306)
	=====	=====	=====	=====

a. Includes a \$3.1 million reimbursement for previously expensed infrastructure costs.

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STATEMENTS OF CASH FLOW

	Six Months Ended June 30,	
	1997	1996
	-----	-----
	(In Thousands)	
Cash flow from operating activities:		
Net income (loss)	\$ 4,034	\$ (306)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Cost of real estate sales and depreciation and amortization	16,113	31,910

(Increase) decrease in working capital:		
Accounts receivable and other	512	(2,636)
Accounts payable and accrued liabilities	(2,573)	(3,063)
	-----	-----
Net cash provided by operating activities	18,086	25,905
	-----	-----
Cash flow from investing activities:		
Real estate and facilities (a)	(4,891)	(4,175)
	-----	-----
Net cash used in investing activities	(4,891)	(4,175)
	-----	-----
Cash flow from financing activities:		
Proceeds from debt	-	1,000
Repayment of debt	(12,632)	(23,201)
	-----	-----
Net cash used in financing activities	(12,632)	(22,201)
	-----	-----
Net increase (decrease) in cash and cash equivalents	563	(471)
Cash and cash equivalents at beginning of year	2,108	2,282
	-----	-----
Cash and cash equivalents at end of period	\$ 2,671	\$ 1,811
	=====	=====

a. Includes capitalized interest of \$0.9 million in the 1997 period and \$2.3 million in the 1996 period.

2. NEW ACCOUNTING STANDARDS

In February 1997, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 128 (SFAS 128), "Earnings Per Share", which simplifies the computation of earnings per share. SFAS 128 is effective for financial statements issued for periods ending after December 15, 1997 and requires restatement for all prior period earnings per share data presented. Earnings per share calculated in accordance with SFAS 128 would be unchanged for the periods presented.

In June 1997, the FASB issued SFAS 130, "Reporting Comprehensive Income," and SFAS 131, "Disclosures About Segments of an Enterprise and Related Information." SFAS 130 establishes standards for the reporting and display of comprehensive income in the financial statements. Comprehensive income is the total of net income and all other non-owner changes in equity. SFAS 131 requires that companies disclose segment data based on how management makes decisions about allocating resources to segments and measuring their performance. SFAS 130 and 131 are effective for 1998. Adoption of these standards is not expected to have an effect on FMPO's financial statements, financial position or results of operations.

Remarks

The information furnished herein should be read in conjunction with FMPO's financial statements contained in its 1996 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.

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

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

We have reviewed the accompanying condensed consolidated balance sheet of FM Properties Inc. (the Company), a Delaware Corporation, as of June 30, 1997, and the related condensed statements of operations for the three-month and six-month periods ended June 30, 1997 and 1996 and the condensed statements of and cash flow for the six-month periods ended June 30, 1997 and 1996. These financial statements are the responsibility of the Company's management.

We conducted our review 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 review, 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 FM Properties Inc. as of December 31, 1996, 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 21, 1997, 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, 1996, is fairly stated, in all material respects, in relation to the balance sheet from which it has been derived.

ARTHUR ANDERSEN LLP

New Orleans, Louisiana
July 22, 1997

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

OVERVIEW

FM Properties Inc. (FMPO) operates through its 99.8 percent interest in FM Properties Operating Co. (the Partnership), with 0.2 percent owned by the Managing General Partner, Freeport-McMoRan Inc. (FTX). The Partnership's most significant investments are located near Austin, Texas and include approximately 3,300 acres of primarily undeveloped land in and around the Barton Creek Community and approximately 1,000 acres of undeveloped commercial and multi-family property in the Circle C development. The Partnership is also engaged in the development and marketing of real estate in the Dallas, Houston and San Antonio, Texas areas.

FTX guarantees the Partnership's debt. Because of the rights that FTX retains in connection with its guarantee of the Partnership's debt, FMPO reflects its interest in the Partnership under the equity basis of accounting. However, if the FTX guarantee is eliminated, FMPO will have the authority to remove FTX as the Managing General Partner and FTX's rights with respect to the Partnership and FMPO would be eliminated.

RESULTS OF OPERATIONS

	Second Quarter		Six Months	
	1997	1996	1997	1996
	(In Thousands)			
Income (loss) from the Partnership	\$ 2,024	\$ 559	\$ 4,026	\$ (306)
Operating income (loss)	1,964	500	3,936	(394)
Net income (loss)	1,744	500	3,716	(394)

FMPO has no significant operations or source of funds other than its interest in the Partnership. Accordingly, the following discussion and analysis addresses the results of operations and the capital resources and liquidity of the Partnership. The Partnership's summary operating results follow:

	Second Quarter		Six Months	
	1997	1996	1997	1996
	(In Thousands)			
Revenues:				
Developed properties	\$ 1,351	\$ 8,014	\$ 5,190	\$ 12,291
Undeveloped properties and other	3,840	15,750	15,071	25,302
Total revenues	5,191	23,764	20,261	37,593
Operating income	2,324a	1,376	4,414a	943
Net income (loss)	2,028a	559	4,034a	(306)

a. Includes a \$3.1 million reimbursement for previously expensed infrastructure costs.

Revenues from developed properties represented the sale of 24 and 85 single-family homesites during the second-quarter and six-month periods of 1997, respectively, compared with the sale of 206 and 282 single-family homesites during the 1996 periods. Revenues from undeveloped properties for the second-quarter and six-month periods of 1997 represented the sale of 68 and 194 acres of undeveloped commercial and multi-family property, respectively, compared with the sale of 447 and 603 undeveloped acres for the year-ago periods.

During 1995, legislation was enacted which enabled the Partnership to create a series of municipal utility districts (MUDs) to serve the Barton Creek development. The MUDs, through the issuance of bonds, may reimburse the Partnership for costs related to the installation of major utility, drainage and water quality infrastructure. During the second quarter, the Partnership received \$3.1 million cash from MUD bond proceeds representing the reimbursement of infrastructure costs relating to previously sold properties. The funds were used to reduce the Partnership's debt. The Partnership expects to receive additional reimbursements for past infrastructure costs related to the Barton Creek development through MUD bond proceeds in the future. However, the timing and the amount of future reimbursements are uncertain.

Interest costs incurred by the Partnership totaled \$0.5 million in the second quarter of 1997 and \$1.1 million during the first six months of 1997 compared with \$1.2 million and \$1.9 million during the respective 1996 periods, decreasing primarily because of lower average debt levels.

Other income includes Partnership oil and gas overriding royalty proceeds from previously discontinued operations of \$0.2 million and \$0.6 million for the 1997 three and six-month periods, respectively, compared with \$0.3 million and \$0.7 million for the same periods in

1996.

FMPO's business strategy includes the sale of larger undeveloped tracts of land. The timing of these transactions can cause significant variations in operating results between accounting periods and may result in future operating losses. Consequently, past operating results are not necessarily indicative of future trends in profitability. The Partnership continues to develop single-family homesites in Austin, Dallas and Houston and evaluate the development of income-producing properties on certain tracts. Management believes that these types of development activities have the potential to add significant value to FMPO.

In January 1997, an investor group was unable to complete the previously announced agreement for the purchase of FMPO's Circle C assets for \$34.0 million and the agreement expired. The Partnership retained a \$1.0 million non-refundable cash deposit and has no further obligation to the investor group. FMPO is proceeding with developing and marketing the Circle C properties.

CAPITAL RESOURCES AND LIQUIDITY

During the first six months of 1997, the Partnership generated operating cash flow of \$18.1 million which, after funding capital additions, enabled the Partnership to reduce its debt from the beginning of the year by \$12.6 million to \$45.7 million.

The Partnership amended its credit agreements in late 1996, extending maturities until February 1998, lowering interest rates and eliminating the debt guarantee of Freeport-McMoRan Copper & Gold Inc., leaving FTX as the sole guarantor through February 1998. On July 28, 1997, FTX and IMC Global, Inc. (IGL) announced that they had entered into a letter of intent providing for, among other things, the merger of FTX with and into IGL.

FMPO continues to seek a permanent financial restructuring, which may include obtaining a new bank credit facility or issuing new debt or equity. An objective in arranging new financing will be to eliminate FTX's guarantee of the Partnership's debt. If the FTX guarantee were eliminated, FMPO would have the authority to remove FTX as Managing General Partner of the Partnership and dissolve the Partnership, thereby enabling FMPO to manage its business without the current restrictions imposed by its contractual relationship with FTX. A new financing that would allow FMPO to establish itself as a stand-alone company by eliminating the FTX guarantee may increase FMPO's financing costs significantly. The extent of any refinancing, including any need to sell properties in connection therewith, will determine the future net cash flow available to FMPO to recover its investment in the Partnership.

The future performance and the financial viability of FMPO are dependent on the future cash flows from the Partnership's assets. These cash flows will be significantly affected by future real estate values and interest rate levels. There can be no assurance that the Partnership will generate cash flow or obtain funds sufficient to make required interest and principal payments.

During 1996, the State Court of Appeals overturned the favorable 1995 District Court ruling which invalidated the City of Austin (the City) "SOS" ordinance; however, the appeals court upheld the lower court's favorable ruling with respect to the interpretation of certain grandfathered rights for previously platted land. A significant portion of the Partnership's Austin area properties was previously platted and is expected to benefit from these grandfathered rights. An application for Writ of Error was filed with the Texas Supreme Court in January 1997. An unfavorable final judgment is not expected to adversely affect the Partnership's property holdings because of its grandfathered rights and because the Partnership's property was removed from the jurisdiction of the City pursuant to the water quality protection zone at Barton Creek and the Southwest Travis County Water District (the District) at Circle C, both of which were authorized by Texas state legislation enacted in 1995.

In October 1996, the City filed a petition for declaratory judgment asserting that the legislation that created the District is unconstitutional. The District is defending itself against the City's claim. Court-ordered mediation held in June 1997 was unsuccessful. Approximately 1,000 acres owned by Circle C are included in the District. None of the Partnership's other properties are in the District. It is anticipated that regardless of the outcome at the trial court, the non-prevailing party will appeal the decision. An appeal of this suit will likely be protracted. Because a significant portion of the Partnership's Circle C property is expected to be developed under grandfathered entitlements, it is uncertain whether there would be any adverse impact from a final judgment in favor of the City.

In the last legislative session, a bill to reorganize a state governmental agency inadvertently repealed the provisions of law which established grandfathered rights for previously platted land. Under the Texas Code Construction Act, previously vested rights are not affected by the repeal of this statute. FMPO's counsel has advised the Company that in its opinion, this inadvertent repeal should not affect FMPO's rights to develop its properties.

During February 1997, FMPO filed a petition for declaratory judgment against Phoenix Holdings, Ltd. (Phoenix) in order to secure its ownership of certain MUD receivables that pertain to existing infrastructure which serves the Circle C development. Phoenix filed a counterclaim against Circle C in June 1997. A favorable outcome, which FMPO expects to occur, would result in significant refunds of prior capital expenditures to the Partnership over the next several years.

In April 1997, the U.S. Department of Interior (DOI) listed the Barton Springs Salamander as an endangered species after a federal court overturned a March 1997 decision by the DOI not to list the Barton Springs Salamander based on a conservation agreement between the State of Texas and federal agencies. The listing of the Barton Springs Salamander does not affect the Partnership's Barton Creek and Lantana properties because of its 10A permit obtained in 1995. The Partnership's Circle C properties could, however, be affected, although the extent of any impact cannot be determined at this time.

CAUTIONARY STATEMENT

Management's Discussion and Analysis contains "forward-looking statements." All statements other than statements of historical fact included in this report, including, without limitation, statements regarding future reimbursement for infrastructure costs, future events related to financing and the FTX guarantee, the anticipated outcome of the litigation and regulatory matters discussed herein, the expected results of FMPO's business strategy, and other plans and objectives of management of the Company for future operations and activities are forward-looking statements.

Important factors that could cause actual results to differ materially from FMPO's expectations include, without limitation, 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. Further information regarding these and other factors that might cause future results to differ from those projected in the forward-looking statements are described in more detail under the heading "Cautionary Statement" in FMPO's Form 10-K for the year ended December 31, 1996.

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

Item 1. Legal Proceedings.

During February 1997, FMPO filed a petition for declaratory judgment against Phoenix Holdings, Ltd. (Phoenix) in order to secure its ownership of certain MUD receivables that pertain to existing infrastructure which serves the Circle C development. Phoenix filed a counterclaim against Circle C in June 1997. A favorable outcome, which FMPO expects to occur, would result in significant refunds of prior capital expenditures to the Partnership over the next several years.

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

(a) The Annual Meeting of Stockholders of the Company was held on May 8, 1997 (the "Annual Meeting"). Proxies were solicited pursuant to Regulation 14A under the Securities Exchange Act of 1934, as amended.

(b) At the Annual Meeting, James C. Leslie was elected to serve until the 2000 annual meeting of stockholders. In addition to the director elected at the Annual Meeting, the terms of Richard C. Adkerson 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
-----	---	-----
James C. Leslie	13,473,927	119,403

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 1997. Holders of 13,510,616 shares voted for, holders of 51,189 shares voted against and holders of 31,525 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 1996 Stock Option Plan for Non-Employee Directors. Holders of 12,341,060 shares voted for, holders of 582,199 shares voted against and holders of 670,071 shares abstained from voting on, such proposal. There were no broker non-votes with respect to such proposal.

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) During the quarter for which this report is filed, the registrant filed one Current Report on Form 8-K and one Current Report on Form 8-K/A dated April 22, 1997 and May 22, 1997, respectively, both under Item 5.

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.

FM PROPERTIES INC.

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

C. Donald Whitmire, Jr.

Vice President & Controller
(authorized signatory and
Principal Accounting Officer)

Date: August 12, 1997

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FM 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 1992 Form 10-K.
- 3.2 By-laws of the Company, as amended. Incorporated by reference to Exhibit 3.2 to the 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 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 1992 Form 10-K.
- 4.3 Amended and Restated Credit Agreement dated as of December 20, 1996 (the "Credit Agreement") among FTX, the Partnership, certain banks, and The Chase Manhattan Bank, as Administrative Agent, FTX Collateral Agent and Documentation Agent. Incorporated by reference to Exhibit 4.3 to the Annual Report on Form 10-K of the Company for the fiscal year ended December 31, 1996 (the "1996 Form 10-K").
- 4.4 Second Amended and Restated Note Agreement dated as of June 30, 1995, among FTX, FCX, the Partnership, Chemical Bank, and Hibernia National Bank, individually and as agent. Incorporated by reference to Exhibit 4.4 to the Quarterly Report on Form 10-Q of FTX for the quarter ended September 30, 1995.
- 4.5 First Amendment to Second Amended and Restated Note Agreement dated as of December 31, 1995, among FTX, FCX, the Partnership, Chemical Bank and Hibernia National Bank, individually and as agent. Incorporated by reference to Exhibit 10.18 to the Annual Report on Form 10-K of FCX for the fiscal year ended December 31, 1995.
- 4.6 Second Amendment to Second Amended and Restated Note Agreement dated as of December 20, 1996, among FTX, the Partnership, The Chase Manhattan Bank and Hibernia National Bank, individually and as agent. Incorporated by reference to Exhibit 4.6 to the 1996 Form 10-K.
- 4.7 Credit Agreement dated as of December 20, 1996, between FTX and the Partnership. Incorporated by reference to Exhibit 4.7 to the 1996 Form 10-K.
- 4.8 Amended and Restated Credit Agreement dated as of December 20, 1996 between Circle C Land Corp. ("Circle C") and Texas Commerce Bank National Association ("TCB"). Incorporated by reference to Exhibit 4.8 to the 1996 Form 10-K.
- 10.1 FMPO Stock Option Plan, as amended.
- 15.1 Letter dated July 22, 1997 from Arthur Andersen LLP regarding unaudited interim financial statements.

FM PROPERTIES INC.
STOCK OPTION PLAN

SECTION 1

Purpose. The purposes of the FM Properties Inc. Stock Option Plan (the "Plan") are to promote the interests of FM Properties Inc. and its stockholders by (i) attracting and retaining officers and executive and other key employees or managers of the business of FM Properties Inc. and its subsidiaries; (ii) motivating such individuals by means of performance-related incentives to achieve longer-range performance goals; and (iii) enabling such individuals to participate in the long-term growth and financial success of FM Properties Inc. and its subsidiaries.

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 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 FM Properties Inc.

"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 FM 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 or an executive or key manager of the Company or a Subsidiary, whether or not employed by such entity, (ii) any employee of the Company or a Subsidiary, including any director who is also an employee of the Company or a Subsidiary, and (iii) any person who has agreed in writing to become a person described in clauses (i) or (ii) 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.

"FTX" shall mean Freeport-McMoRan Inc.

"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 own beneficially more than 40% of the Shares outstanding (exclusive of Shares held in the Company's treasury or by the Company's Subsidiaries).

"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.

"Partnership" shall mean FM Properties Operating Co.

"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 promulgated by the SEC under the Exchange Act, or any successor rule or regulation thereto as in effect from time to time.

"SAR" shall mean any Stock Appreciation Right.

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

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

"Shares" shall mean the shares of common stock, par value \$.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 the Partnership and 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.

SECTION 3

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.

SECTION 4

Eligibility. Any Eligible Individual who is not a member of the Committee 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. The number of Shares with respect to which Awards may be granted under the Plan shall be 850,000. If, after the effective date of the Plan, an Award granted under the Plan expires or is exercised, forfeited, canceled or terminated without the delivery of Shares, then the Shares covered by such Award or to which such Award relates, or the number of Shares otherwise counted against the aggregate number of Shares with respect to which Awards may be granted, to the extent of any such expiration, exercise, forfeiture, cancellation or termination without the delivery of Shares, shall again be, or shall become, Shares with respect to which Awards may be granted. Notwithstanding the foregoing and subject to adjustment as provided in Section 5(b), the aggregate number of Shares in respect of which Awards may be granted under the Plan to any Eligible Individual shall not exceed 250,000 in any year.

(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 acquired in the open market or otherwise obtained by the Company or a Subsidiary.

(b) Adjustments. In the event that the Committee determines that any dividend or other distribution (whether in the form of cash, Shares, Partnership interests, 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 or, if deemed appropriate, make provision for a cash payment to the holder of an outstanding Award or, 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 provided further, that the number of Shares subject to any Award denominated in Shares shall always be a whole number.

SECTION 6

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

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

(c) Payment. No Shares shall be delivered pursuant to any exercise of an Option until payment in full of the option price therefor is received by the Company. Such payment may be made in cash, or its equivalent, or, if and to the extent permitted by the Committee, by applying cash amounts payable by the Company upon the exercise of such Option or other Awards by the holder thereof or by exchanging whole Shares owned by such holder (which are not the subject of any pledge or other security interest), or by a combination of the foregoing, provided that the combined value of all cash, cash equivalents, cash amounts so payable by the Company upon exercises of Awards and the fair market value of any such whole Shares so tendered to the Company, valued (in accordance with procedures established by the Committee) as of the effective date of such exercise, is at least equal to such option price.

SECTION 7

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

(b) A Limited Right shall entitle the holder thereof to receive 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. 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, Partnership interests, 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. 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 with the holder's consent at any time prior to payment or exercise in any manner not inconsistent with the terms of the Plan, including without limitation, (i) to change the date or dates as of which an Award becomes exercisable, or (ii) to cancel an Award and grant a new Award in substitution therefor under such different terms and conditions as it determines in its sole and complete discretion to be appropriate.

(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) 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.

(b) 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 or any Subsidiary.

(c) Withholding. 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.

(d) Transferability. No Awards granted hereunder may be transferred, pledged, assigned or otherwise encumbered by a Participant except: (i) by will; (ii) by the laws of descent and distribution; (iii) pursuant to a domestic relations order, as defined in the Code, if permitted by the Committee and so provided in the Award Agreement or an amendment thereto; or (iv) if permitted by the Committee and so provided

in the Award Agreement or an amendment thereto, Options and Limited Rights granted in tandem therewith may be transferred or assigned (a) to Immediate Family Members, (b) to a partnership in which Immediate Family Members, or entities in which Immediate Family Members are the owners, members or beneficiaries, as appropriate, are the partners, (c) to a limited liability company in which Immediate Family Members, or entities in which Immediate Family Members are the owners, members or beneficiaries, as appropriate, are the members, or (d) to a trust for the benefit of Immediate Family Members; provided, however, that no more than a de minimus beneficial interest in a partnership, limited liability company or trust described in (b), (c) or (d) above may be owned by a person who is not an Immediate Family Member or by an entity that is not beneficially owned solely by Immediate Family Members. "Immediate Family Members" shall be defined as the spouse and natural or adopted children or grandchildren of the Participant and their spouses. To the extent that an Incentive Stock Option is permitted to be transferred during the lifetime of the Participant, it shall be treated thereafter as a Nonqualified Stock Option. Any attempted assignment, transfer, pledge, hypothecation or other disposition of Awards, or levy of attachment or similar process upon Awards not specifically permitted herein, shall be null and void and without effect. The designation of a Designated Beneficiary shall not be a violation of this Section 11(d).

(e) 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.

(f) 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.

(g) No Right to Employment. The grant of an Award shall not be construed as giving a Participant the right to be engaged or employed by or retained in the employ of FTX, the Company or any Subsidiary. FTX, the Company or any Subsidiary may at any time dismiss a Participant from engagement or employment, free from any liability or any claim under the Plan, unless otherwise expressly provided in the Plan or in any Award Agreement or any agreement relating to the engagement or employment of the Participant by FTX, the Company or any Subsidiary. No Eligible Individual, Participant 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.

(h) 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.

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

(j) 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.

(k) 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.

(l) 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

Effective Date of the Plan. The Plan shall be effective as of the date of its approval by the Board, provided the Plan is approved by the stockholders of the Company at the first annual meeting of stockholders of the Company occurring subsequent to such date.

SECTION 13

Term of the Plan. No Award shall be granted under the Plan after the tenth anniversary of the effective date of the Plan; however, unless otherwise expressly provided in the Plan or in an applicable Award Agreement, any Award theretofore granted may, and the authority of the Committee to amend, alter, adjust, suspend, discontinue, or terminate any such Award or to waive any conditions or rights under any such Award shall, extend beyond such date.

Exhibit 15.1

July 22, 1997

FM Properties Inc.
1615 Poydras Street
New Orleans, LA 70112

Gentlemen:

We are aware that FM 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, 1997, which includes our report dated July 22, 1997 covering the unaudited interim financial information contained therein. Pursuant to Regulation C of the Securities Act of 1993 (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,

Arthur Andersen LLP

<ARTICLE> 5

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Second-quarter and six-month 1996 amounts have been restated to reflect FM Properties Inc.'s accounting for its investment in the Partnership under the equity basis of accounting.

</LEGEND>

<RESTATED>

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