SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM SB-2

REGISTRATION STATEMENT UNDER THE
SECURITIES ACT OF 1933

HOUSTON OPERATING COMPANY

(Name of Small Business Issuer in Its Charter)

Delaware	4789	76-0307819
(State or other jurisdiction of incorporation or organization)	(Primary Standard Industrial Classification Code Number)	(I.R.S. Employer Identification Number)

49 Burlington Avenue, Round Lake, New York 12151, (518) 899-7393

(Address and Telephone Number of Principal Executive Offices)

49 Burlington Avenue, Round Lake, New York 12151, (518) 899-7393

(Address of Principal Place of Business or
Intended Principal Place of Business)

Richard W. Morrell,
49 Burlington Avenue, Round Lake, New York 12151, (518) 899-7393

(Name, Address, and Telephone Number of Agent For Service)

Approximate Date of Commencement of Proposed Sale to the Public: As soon as practicable after the effective date of this Registration Statement.

If this form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.
[ ] _____

If this form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. [ ] _____

If this form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. [ ] _____

If the delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box. [ ]

CALCULATION OF REGISTRATION FEE

TITLE OF SECURITIES TO BE REGISTERED	AMOUNT TO BE REGISTERED	PROPOSED MAXIMUM OFFERING PRICE PER SHARE	PROPOSED MAXIMUM AGGREGATE OFFERING PRICE	AMOUNT OF REGISTRATION FEE
Common Stock, par value $0.001 per share	250,000	$2.00	$500,000	$139.00(2)
Common Stock, par value $0.001 per share, underlying the convertible Preferred Shares	250,000(1)	$2.00(1)	$500,000	$139.00(2)

(1) 250,000 shares of Common Stock are being registered hereby to be issued upon exercise of the right of conversion by the holders of Series A Preferred Stock of the Company.

(2) Paid by electronic transfer.

THE COMPANY HEREBY AMENDS THIS REGISTRATION STATEMENT ON SUCH DATE OR DATES AS MAY BE NECESSARY TO DELAY ITS EFFECTIVE DATE UNTIL THE COMPANY SHALL FILE A FURTHER AMENDMENT WHICH SPECIFICALLY STATES THAT THIS REGISTRATION STATEMENT SHALL THEREAFTER BECOME EFFECTIVE IN ACCORDANCE WITH SECTION 8(A) OF THE SECURITIES ACT OF 1933 OR UNTIL THE REGISTRATION STATEMENT SHALL BECOME EFFECTIVE ON SUCH DATE AS THE COMMISSION, ACTING PURSUANT TO SAID SECTION 8(A), MAY DETERMINE.

PROSPECTUS,
SUBJECT TO COMPLETION,
Dated _____, 1999

HOUSTON OPERATING COMPANY
500,000 Shares of Common Stock

This Registration Statement of which this prospectus is a part relates to the offer and sale of 250,000 shares (the "Shares") of Common Stock, par value $0.001 per share (the "Common Stock"), of Houston Operating Company, a Delaware corporation ("Houston"), which will be issued by Houston to finance the expansion of its primary business. Additionally, through this Registration Statement, the Company is registering 250,000 shares of Common Stock to be delivered to the holders of the Company's Series A Preferred Stock (the "Preferred Stock") upon conversion of the Preferred Stock should such conversion occur. There are no security holders who will be selling their shares of Common Stock in connection with this Registration Statement. No period of time has been fixed within which the Shares may be offered or sold. Unless the context otherwise requires, references herein to the "Company" include Houston Operating Company and its subsidiary, 35 Caroline Corporation, a New York corporation.

SEE "RISK FACTORS" BEGINNING ON PAGE 7 FOR A DISCUSSION OF CERTAIN FACTORS THAT SHOULD BE CONSIDERED BY PROSPECTIVE INVESTORS.

THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION NOR HAS THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

Information contained herein is subject to completion or amendment. A registration statement relating to these securities has been filed with the Securities and Exchange Commission. These securities may not be sold nor may offers to buy be accepted prior to the time the registration statement becomes effective. This prospectus shall not constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of these securities in any state in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of any such state.

The date of this Prospectus is _____, 1999.

TABLE OF CONTENTS

PROSPECTUS SUMMARY

The following summary is qualified in its entirety by, and should be read in conjunction with, the more detailed information and historical and pro forma financial statements included elsewhere in this Prospectus. Each prospective investor is urged to read this Prospectus in its entirety, including the financial data.

THE COMPANY

Houston Operating Company ("Houston") was incorporated under the laws of the state of Delaware on August 31, 1989. Houston was formed to act as successor to a bankrupt debtor under a bankruptcy plan of reorganization dated April 21, 1990. Under the terms of the plan, Houston issued approximately 2.8 million shares of its common stock to shareholders and creditors of the bankrupt debtor. In October, 1994, Harvey V. Risien, Jr. ("Risien") acquired approximately 2.5 million shares of Houston's issued and outstanding stock, which constitutes approximately 89% of the issued and outstanding stock. However, since its formation and emergence from bankruptcy, including the last three fiscal years, Houston has not had any continuing operations nor generated any revenues.

In December, 1998, Risien sold approximately 2,469,417 shares, or 88.4%, of Houston's issued and outstanding stock, to the shareholders of 35 Caroline Corporation ("35 Caroline"), a closely-held New York corporation, which is engaged in the business of recovering and transporting leased automobiles on behalf of automobile leasing companies. In exchange for the stock of Houston, the shareholders of 35 Caroline transferred all of the issued and outstanding stock of 35 Caroline to Houston. As a result of the transaction, 35 Caroline became a wholly-owned subsidiary of Houston, with 35 Caroline's former shareholders becoming the majority shareholders of Houston.

Through this offering of the Shares of the Common Stock, the Company seeks to raise up to $500,000, a portion which will be used by the Company to finance the expansion of 35 Caroline's business by the acquisition of digital equipment for its automobile inspection services and the purchase of other businesses performing services related to the business of the Company. Concurrently with this offering of the Shares, the Company seeks to raise up to an additional $500,000 by way of a private offering of the Company's Preferred Stock, which would be convertible into 250,000 shares of the Company's Common Stock, which shares are also being registered through this Registration Statement.

BUSINESS OPERATIONS

35 Caroline Corporation was formed in 1989 under the laws of the state of New York. 35 Caroline is one of the largest "first-leg" automobile recovery and transportation companies in the United States, operating three locations in New York and one location in New Jersey, and

serving the northeast states of Connecticut, Delaware, Maine, Massachusetts, New Hampshire, New Jersey, New York, Pennsylvania, Rhode Island, and Vermont. Specifically, upon request by one of its leasing-company customers, 35 Caroline arranges for the recovery and transportation of leased automobiles, and then stores and marshals the vehicles until such time as the leasing company arranges with the Company for the transportation, usually by another transporter, of the vehicles to a final destination. Also, in connection with its recovery services, and for an additional fee, 35 Caroline performs physical inspections of returned vehicles for wear and tear, and prepares inspection reports to be used by the leasing-company customers in evaluating the condition of a returned vehicle at the expiration of the lease. The purchase of additional digital cameras, computers, and related equipment, using a portion of the proceeds of this offering, will improve performance and the time required of the inspection services provided by the Company at reduced costs to the Company.

SELECTED FINANCIAL INFORMATION

The following selected consolidated financial data should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the Houston Operating Company Financial Statements and the Notes thereto included elsewhere in this Prospectus. The Consolidated Statements of Operations Data for the years ended December 31, 1998, 1997 and 1996 and the Consolidated Balance Sheet Data as of December 31, 1998 and 1997 are derived from the Houston Operating Company Financial Statements, which have been audited by Oppenheim & Ostrick, CPA's, independent auditors.

	Years Ended December 31,		
	1998	1997	1996
Consolidated Statements of Operations Data:			
Sales	$3,409,171	$ 2,736,067	$ 1,094,234
Cost of sales	2,837,625	2,080,256	807,718
Gross profit	571,546	655,811	286,516
Operating expenses	282,459	199,098	119,422
Operating income	289,087	456,713	167,094
Other income (expense)	678	(1,615)	(783)
Income before taxes	289,765	455,098	166,311
Income taxes	30,000	45,000	16,600
Net income	$ 259,765	$ 410,098	$ 149,711
Pro Forma:			
Historical Income before income taxes	$ 289,765	$ 455,098	$ 163,310
Less pro forma income taxes	120,000	189,000	64,711
Pro forma net income	$ 169,765	$ 266,098	$ 101,599
Basic earnings per share	$ .06	$ .10	$ .04
Weighted number of shares outstanding	2,795,171	2,795,171	2,795,171

	Years Ended December 31,	
	1998	1997
Consolidated Balance Sheet Data:		
Cash	$ 5,241	$ 5,694
Working capital	8,198	171,346
Total assets	865,203	457,623
Short-term debt(1)	403,766	214,337
Long-term debt, net current portion	25,658	20,544
Total stockholders' equity	85,779	222,742

(1) Includes a $125,000 distribution payable to shareholders of wholly-owned subsidiary to pay income taxes before the acquisition when the subsidiary Company was an S corporation.

Total assets increased primarily by the purchase of property in 1998 totaling approximately $339,000 that in prior years was a leased property used in the Company's operations.

RISK FACTORS

THE SECURITIES OFFERED HEREBY ARE SPECULATIVE IN NATURE AND INVOLVE A HIGH DEGREE OF RISK. THEREFORE, EACH PROSPECTIVE INVESTOR SHOULD, PRIOR TO PURCHASE, CONSIDER VERY CAREFULLY THE FOLLOWING RISK FACTORS, AS WELL AS ALL OF THE OTHER INFORMATION SET FORTH ELSEWHERE IN THIS PROSPECTUS AND THE INFORMATION CONTAINED IN THE FINANCIAL STATEMENTS, INCLUDING ALL NOTES THERETO.

FORWARD-LOOKING STATEMENTS

This Prospectus contains forward-looking statements that can be identified by the use of forward-looking terminology such as "may," "will," "should," "expect," "anticipate," "estimate," or "continue" or the negative thereof or other variations thereon or comparable terminology. The matters set forth under "RISK FACTORS" constitute cautionary statements identifying important factors with respect to such forward-looking statements, including certain risks and uncertainties, that could cause actual results to differ materially from those in such forward-looking statements.

LIMITED OPERATING HISTORY

Houston Operating Company ("Houston") was incorporated under the laws of the state of Delaware on August 31, 1989. Houston was formed to act as successor to a bankrupt debtor under a bankruptcy plan of reorganization dated April 21, 1990. However, since emerging from bankruptcy, Houston has had no continuing operations.

35 Caroline Corporation ("35 Caroline") was formed in 1989 under the laws of the state of New York. It has been engaged in the business of providing recovery and transportation services its inception.

RISKS OF RELATIONSHIPS WITH PRIMARY CUSTOMERS

The Company provides automobile recovery and transportation services to automobile financing companies. The Company's revenues are primarily derived from three customers, of which one customer generates approximately eighty percent (80%) of the Company's business and another customer generates approximately ten percent (10%) of the Company's business. The relationships with its customers are not based on any written agreements, and therefore, the Company's reliance on these relationships involve risks, including, among other things, the risk that a customer could terminate its relationship with the Company at any time or substantially reduce its business with the Company.

DEPENDENCE ON AND THE CYCLICAL NATURE OF THE AUTOMOBILE INDUSTRY

The Company's business is dependent on the success of the leasing of motor vehicles, particularly new vehicles, which historically have been cyclical, fluctuating with general economic cycles. During economic downturns, the automotive retailing industry tends to experience similar periods of decline and recession as the general economy. The Company believes that the industry is influenced by general economic conditions and particularly by consumer confidence, the level of personal discretionary spending, interest rates and credit availability.

SEASONALITY

The Company's business is modestly seasonal overall. The greatest seasonalities exist with the dealerships in the Northeast States, for which the second and third quarters are the strongest with respect to vehicle-related leases.

RISKS ASSOCIATED WITH ACQUISITIONS

The Company's growth depends in large part on its ability to manage expansion, control costs in its operations and consolidate acquisitions into existing operations. This strategy will entail reviewing and potentially reorganizing acquired operations, corporate infrastructure and systems and financial controls. Unforeseen expenses, difficulties, complications and delays frequently encountered in connection with the rapid expansion of operations could inhibit the

Company's growth.

There can be no assurance that the Company will identify acquisition candidates that would result in the most successful combinations or that acquisitions will be able to be consummated on acceptable terms. The magnitude, timing and nature of future acquisitions will depend upon various factors, including the availability of suitable acquisition candidates, the negotiation of acceptable terms, the Company's financial capabilities, the availability of skilled employees to manage the acquired companies and general economic and business conditions.

DEPENDENCE ON KEY PERSONNEL

The Company believes that its success will depend to a significant extent upon the efforts and abilities of the executive management of the Company, namely, Richard W. Morrell, the President of the Company, and Simeon Morrell, the Company's Vice-President of Operations. The loss of the services of one or more of these key employees could have a material adverse effect on the Company. The Company's business will also be dependent upon its ability to continue to attract and retain qualified personnel, including key management in connection with future acquisitions.

CONTROL BY PRINCIPAL STOCKHOLDERS

As of December 31, 1998, the Chairman and President of the Company, Richard W. Morrell, together with his two sons, owned approximately 88% of the issued and outstanding stock of the Company. As a result, such persons have the ability to control the Company and direct its affairs and business. Circumstances may occur in which the interests of such persons could be in conflict with the interests of the Common Stock generally. In addition, such persons may have an interest in pursuing transactions that, in their judgment, enhance the value of their equity investment in the Company at a greater percentage than those holding minority shares.

LACK OF PUBLIC MARKET FOR COMMON STOCK

There is no assurance as to (i) the liquidity of the Common Stock or that a market for the Common Stock will exist in the future, (ii) the ability of holders of the Common Stock to sell their Common Stock or (iii) the price at which the holders of the Common Stock would be able to sell their stock. If such a market were to exist, the Common Stock could trade at prices that may be higher or lower than their principal amount or purchase price, depending on many factors, including the market for similar stock and the financial performance of the Company. In addition, any market for the Common Stock will be subject to the limits imposed by the Securities Act and the Securities Exchange Act.

ENVIRONMENTAL MATTERS

The Company is subject to federal, state and local laws, ordinances and regulations which establish various health and environmental quality standards, and liability related thereto, and

provide penalties for violations of those standards. Under certain laws and regulations, a current or previous owner or operator of real property may be liable for the costs of removal and remediation of hazardous or toxic substances or wastes on, under, in or emanating from such property. Such laws typically impose liability whether or not the owner or operator knew of, or was responsible for, the presence of such hazardous or toxic substances or wastes. Certain laws, ordinances and regulations may impose liability on an owner or operator of real property where on-site contamination discharges into waters of the state, including groundwater. Under certain other laws, generators of hazardous or toxic substances or wastes that send such substances or wastes to disposal, recycling or treatment facilities may be liable for remediation of contamination at such facilities. Other laws, ordinances and regulations govern the generation, handling, storage, transportation and disposal of hazardous and toxic substances or wastes, the operation and removal of underground storage tanks, the discharge of pollutants into surface waters and sewers, emissions of certain potentially harmful substances into the air and employee health and safety.

Houston is the successor to Cambridge Oil Company, which was engaged in the business of distributing petroleum products. Accordingly, the Company was, and may presently be, subject to regulation by federal, state and local authorities establishing health and environmental quality standards, and liability related thereto, and providing penalties for violations of those standards.

The Company believes that it does not have any material environmental liabilities and that compliance with environmental laws, ordinances and regulations will not, individually or in the aggregate, have a material adverse effect on the Company's results of operations or financial condition. However, environmental laws and regulations are complex and subject to frequent change. There can be no assurance that compliance with amended, new or more stringent laws or regulations, stricter interpretations of existing laws or the future discovery of environmental conditions will not require additional expenditures by the Company, or that such expenditures would not be material.

LABOR AVAILABILITY

The Company's services require an adequate supply of part-time or hourly labor. Presently, the Company employs 17 clerical hourly employees, and 65 full-time drivers and 15 part-time drivers who are paid based on miles driven. None of the Company's employees are represented by a labor union, and by employing entry level drivers, management believes it is unlikely that employees will vote in a union. However, the operating costs of the Company can be adversely affected by high turnover. Accordingly, the Company's ability to increase sales, productivity and net earnings will be limited to a degree by its ability to employ the laborers necessary to meet the Company's requirements. There can be no assurance that the Company will be able to maintain an adequate labor force necessary to efficiently operate its facilities.

REGULATION

35 Caroline is subject to regulation under federal, state and local laws with regard to the transportation of automobiles. In particular, 35 Caroline is required to maintain transport licenses which permits it to transport recovered vehicles from lessees' locations to 35 Caroline's storage lots. Without the licenses, 35 Caroline would be unable to transport the automobiles. 35 Caroline currently maintains 150 transport licenses which allows it to transport up to 150 automobiles at any one time. The Company believes that it has been issued more licenses than any other recovery and transport company in the Northeast region of the country. However, an adverse change in the laws or regulations to which the Company is subject could have material adverse effect on the Company's revenues, by among other things, limiting the number of automobiles the Company could transport.

INSURANCE

The Company maintains vehicle and general liability and property insurance in amounts it considers adequate and customary for businesses of its kind. However, there is no assurance that future claims will not exceed insurance coverage.

USE OF PROCEEDS

Through this offering, the Company seeks to raise up to $500,000. Also, as partial funding against this offering, the Company plans to receive additional equity financing of $500,000, through the private placement of the Company's Preferred Stock. Such private placement financing is expected to be consummated in April 1999. The terms of the offering of the Preferred Stock, which will be convertible to common stock of the Company upon the consummation of the Company's sale of an additional $500,000 pursuant to this registration of Common Stock, have yet to be finalized.

The Company intends to use the proceeds of this offering, in part, to acquire digital inspection equipment. Currently, in addition to recovery and transportation services, the Company provides inspection services of recovered automobiles. The results of the inspection are set forth on a written report, which is then sent to the leasing company so that it can evaluate the condition of the vehicle at the expiration of the lease. The use of digital equipment, including digital cameras and computers, to perform inspection services will allow the Company to prepare and transmit its inspection reports on a much more expedient and cost-efficient basis. The Company anticipates it will require approximately $25,000 of capital expenditure to purchase the necessary equipment to perform the digital inspections. The Company anticipates the purchase of the equipment will enable the Company to increase its revenues generated by such inspections by $300,000 to $500,000 and to provide additional services to potential customers.

Additionally, the Company intends to use a portion of the proceeds of this offering to acquire an automobile repossession business located in the area in which the Company currently does business. An acquisition of a repossession firm will enable the Company to expand its transport services to current customers and market such service to new customers. The Company estimates that it will require under $250,000 of capital to acquire a repossession business.

DETERMINATION OF OFFERING PRICE

There is no established public market for the common stock being registered under this offering. The offering price has been determined arbitrarily.

DILUTION

The pro forma net tangible book value of the Common Stock as of December 31, 1998 was approximately $2.2 million or $0.43 per share. Pro forma net tangible book value per share represents the Company's total tangible assets less total liabilities, divided by the total number of shares of Common Stock outstanding assuming the conversion of the outstanding shares of Preferred Stock into shares of Common Stock.

After giving effect to the sale of the 500,000 shares of Common Stock by the Company offered hereby and the receipt of the net proceeds therefrom, the pro forma net tangible book value of the Company as of December 31, 1998 would have been approximately $2.2 million or $.67 per share. This represents an immediate increase in pro forma net tangible book value of $.24 per share to existing shareholders and an immediate dilution in pro forma net tangible book value of $1.33 per share to purchasers of Common Stock in this offering. The following table illustrates the per share dilution as of December 31, 1998:

Initial public offering price per share		$2.00
Pro forma net tangible book value per share as of December 31, 1998	$0.43	
Increase per share attributable to new shareholders	.24	
Pro forma net tangible book value per share as of December 31, 1998 after the offering		0.67
Dilution per share to new shareholders		$1.33

The following table sets forth on a pro forma basis the number of shares of Common Stock purchased from the Company, the total consideration paid and the average price per share paid by existing shareholders and by new shareholders:

	Shares Purchased		(Omit $000) Total Consideration		Average Price Paid
	Number	Percent	Amount	Percent	Per Share
Existing shareholders(1)	2,795,171	84.8%	$1,203	77.3%	$0.43
New shareholders	500,000	15.2	1,000	22.7	2.00
Total	3,295,171	100.0%	$2,203	100.0%	

(1) Excludes $500,000 preferred stock convertible into common shares, contingent upon the proceeds of this offering.

SELLING SECURITY HOLDERS

There are no security holders of the Common Stock who are offering securities for sale in connection with this Registration Statement.

PLAN OF DISTRIBUTION

The Company is selling the Shares through its directors and officers and without the use of any underwriters, broker-dealers or agents. Therefore, no underwriting discounts, concessions, commissions, or any other form of compensation will be paid by the Company in connection with the sale of the Shares, except the Company will pay all of the expenses incident to the registration of the Shares.

LEGAL PROCEEDINGS

The Company nor its subsidiaries are a party to any legal actions which could have a material adverse effect on its business, financial condition or results of operations.

DIRECTORS, EXECUTIVE OFFICERS, AND CONTROL PERSONS

MANAGEMENT -- DIRECTORS, EXECUTIVE OFFICERS AND KEY EMPLOYEES

The following sets forth the names of the Company's directors, executive officers, and key employees as of December 31, 1998. The directors of the Company are elected annually by the shareholders and the officers are appointed annually by the Board of Directors. The following individuals also serve as officers of the Company's subsidiary.

NAME	AGE	POSITION
Richard W. Morrell	58	Chairman of the Board of Directors, President, Chief Financial Officer
Marjorie Morrell	56	Director, Secretary
Simeon Morrell	28	Director, Vice-President

Damon J. Morrell	26	Director, Vice-President
Allen D. Greenstein	58	Director, Vice-President

All directors hold office until the next annual meeting of shareholders of the Company (currently expected to be held during the month of April) and until their successors are elected and qualified, subject to earlier removal and replacement by the shareholders. Officers hold office until the first meeting of directors following the annual meeting of shareholders and until their successors are elected and qualified, subject to earlier removal and replacement by the Board of Directors.

Biographies of the Company's Directors, Executive Officers and Key Employees

Richard W. Morrell is Chairman, President, and Chief Financial Officer of Houston Operating Company and its subsidiary, 35 Caroline Corporation. Mr. Morrell has been in the automobile rental and transport business since 1976, and in 1989, Mr. Morrell formed 35 Caroline Corporation. Mr. Morrell has experience as a bond trader on Wall Street, and he received a Bachelor of Arts degree from Montclair State University in Montclair, New Jersey. Additionally, Mr. Morrell serves as a Director of Surf & Stream Campground.

Allen D. Greenstein is Vice-President of the Company. He has been Chief Executive Officer of Surf & Stream Campground for twenty-five years. Mr. Greenstein worked for six years on Wall Street as a stock trader. Mr. Greenstein has a Bachelor of Arts degree from the University of Michigan.

Simeon Morrell, son of Richard W. Morrell, is Vice-President of Houston Operating Company and its subsidiary, 35 Caroline Corporation. Mr. Morrell has been with 35 Caroline Corporation for approximately six years, during which time he has been instrumental in establishing three offices of 35 Caroline. Mr. Morrell has a Bachelor of Arts degree from Syracuse University.

Damon J. Morrell, son of Richard W. Morrell, is Vice-President of Houston Operating Company and its subsidiary, 35 Caroline Corporation. Mr. Morrell has been with 35 Caroline Corporation for approximately seven years, during which time he has been involved in all aspects of the operations of 35 Caroline. Mr. Morrell received a Bachelor of Science degree in Marketing and Financial Management from the State University of New York at Albany, New York.

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth, as of December 31, 1998, the number and percentage of shares of Common Stock owned of record and beneficially by each officer and/or director of the Company, and by any other person or firm that owns more than five percent (5%) of the

Company's outstanding Common Stock and by all officers and directors as a group.

TITLE OF CLASS	NAME AND ADDRESS OF BENEFICIAL OWNER	AMOUNT AND NATURE OF OWNER	PERCENTAGE OF CLASS
Common	Richard W. Morrell 49 Burlington Avenue Round Lake, NY 12151	1,284,097	46%
Common	Damon Morrell 49 Burlington Avenue Round Lake, NY 12151	592,660	21.2%
Common	Simeon Morrell 49 Burlington Avenue Round Lake, NY 12151	592,660	21.2%
Common	All officers and directors as a group	2,469,417	88.4%

DESCRIPTION OF SECURITIES

The Company is authorized to issue 50,000,000 shares of common stock, at $0.001 par value, 5,000,000 of preference stock, at $0.001 par value, and 5,000,000 shares of preferred stock, at $0.001 par value. As of December 31, 1998, 2,795,171 shares of common stock are issued and outstanding. No preference or preferred stock has been issued. The holders of Common Stock have one vote per share on all matters (including election of directors) without provision for cumulative voting. Thus, holders of more than 50% of the shares voting for the election of directors can elect all of the directors, if they choose to do so. The Common Stock is not redeemable and has no conversion or pre-emptive rights. There are no sinking fund provisions. In the event of liquidation of the Company, the holders of Common Stock will share equally in any balance of the Company's assets available for distribution to them after satisfaction of creditors and preferred shareholders, if any. The Company may pay dividends, in cash or in securities or other property when and as declared by the Board of Directors from funds legally available therefore, but had paid no cash dividends on its Common Stock to date. The former principal shareholder of Houston has a put option to sell his remaining 41,928 shares of common stock to the Company in exchange for $75,000. The put option, which expires on April 15, 1999, and which is secured by a certificates of deposit in the amount of $75,000, is exercisable at the shareholder's discretion. Additionally, in the event the option is exercised, Houston shall pay $9,530 to the selling shareholder over a five-year period, in monthly installments together with interest thereon at the rate of 6%.

DIVIDENDS

The payment by the Company of dividends, if any, in the future rests within the discretion of its Board of Directors and will depend, among other things, upon the Company's earnings, its capital requirements and its financial condition, as well as other relevant factors. The Company has not paid any dividends since its inception, however, intends to pay dividends as soon as business operations permit.

ADDITIONAL INFORMATION

The foregoing statements are a summary of the rights and privileges of the holders of the Company's Common Stock. It does not purport to be complete and its subject to the provisions of the corporate law of the State of Delaware, the Securities Act of 1993, the Securities Exchange Act of 1934, as amended, and to the terms of the Company's Articles of Incorporation, as amended, and Bylaws. The foregoing statements are qualified in their entirety by such references.

INTEREST OF NAMED EXPERTS AND COUNSEL

The financial statements in this Prospectus have been included in reliance upon the report of Oppenheim & Ostrick, Certified Public Accountants, and upon the authority of such firm as expert in accounting.

DISCLOSURE OF COMMISSION POSITION ON INDEMNIFICATION FOR SECURITIES ACT LIABILITIES

Insofar as indemnification for liabilities arising under the Securities Act of 1933 (the "Act") may be permitted to directors, officers and controlling persons of the registrant pursuant to the foregoing provisions, or otherwise, the registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the registrant of expenses incurred or paid by a director, officer or controlling person of the registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Act and will be governed by the final adjudication of such issue.

DESCRIPTION OF BUSINESS

As discussed below in the "SERVICES" section of this Prospectus, the Company provides automobile recovery and transportation services to automobile financing companies. In general, at the expiration of an automobile lease, an automobile financing company will contact the Company, requesting that the Company arrange for the recovery of the leased vehicle. The

Company will then recover the leased vehicle, transport the vehicle to one of its facilities, and then store the vehicle until the leasing company instructs the Company as to the disposition of the leased vehicle.

SERVICES

The Company, through its subsidiary, 35 Caroline, is one of the largest "first-leg" automobile recovery and transportation companies in the United States. The Company provides its services primarily to automobile leasing companies and operates in the northeast states of Connecticut, Delaware, Maine, Massachusetts, New Hampshire, New Jersey, New York, Pennsylvania, Rhode Island, and Vermont. In general, at the expiration of an automobile lease, the lessee of the leased vehicle has two options with regard to the leased vehicle. The lessee can either purchase the vehicle, in which case the lessee retains possession of the vehicle, or the lessee can decide to return the vehicle to the leasing company. In the event the lessee chooses to return the vehicle, the lessee may request that the leasing company pick up the vehicle directly from the lessee's location, such as his or her residence or place of business. The leasing company will then contact 35 Caroline, requesting that 35 Caroline contact the lessee in order to arrange for the pick up of the leased vehicle. Accordingly, 35 Caroline will contact the lessee and arrange a time that 35 Caroline can pick up the vehicle. 35 Caroline will dispatch a driver to the predetermined location for pick up, the driver will pick up the leased vehicle, and, if requested, will inspect the condition of the vehicle for wear and tear. The driver will then transport the vehicle to the nearest of the Company's facilities, where the vehicle will be stored until the leasing company instructs 35 Caroline as to the disposition of the recovered vehicle. It is this service, the recovery of the automobile from the lessee and then the transportation of the automobile to a marshaling facility, which is considered to be "first-leg" transportation.

Central to the Company's philosophy is customer-oriented services designed to meet the needs of its leasing-company customers on an economical and expedient basis. The Company prides itself on being able to arrange for the recovery and transportation of a leased vehicle in a period much shorter than its competitors. From its four locations, the Company believes that it can provide its services in a much more responsive manner than its competitors.

The Company charges its customers fees based on the distance which it must travel to recover the leased vehicle. Depending on the distance, fees for recovery and transportation of vehicles generally range from a minimum fee of $75 to a maximum of $395. Additional fees are charged if 35 Caroline inspects a recovered vehicle for wear and tear. The Company's revenues are primarily derived from three customers, of which one customer generates approximately eighty percent (80%) of the Company's business.

THE MARKET

The Company has identified an opportunity in the fragmented off lease transportation services industry. Consolidations continue to generate excitement and financial success to investors throughout various segments of the industry. According to Venture Economics

Information Services, the "roll up" category posted an exceptional 63.5% return to its investors for the twelve month period ending September 30, 1997. By introducing marketing and consistently reliable service on a nationwide basis through automation, standardization and training, and by acquiring operations with unrealized profit potential, the Company intends to capitalize on a single identity. In addition, the Company's integration-focused approach has been to create the infrastructure to properly position it for a build-up strategy rather than a simple roll up strategy.

Off lease transport is viewed as an immature, financially unstable and very fragmented industry. In recent years, the $12 plus billion a year market has been growing due to the following factors: (i) an increase in leased vehicles and an aging vehicle base whereby the average vehicle is over three years old; (ii) Federally mandated deregulation of intra-state transportation; and (iii) more selective marketing by the principals. The United States market consists of over 36,000 companies, many of which are family-owned businesses and operated from a single location, are undercapitalized, are not automated, and perform little or no marketing.

TARGETED SEGMENTS

The Company plans to generate a significant portion of its revenues from higher-margin commercial accounts such as companies that operate fleets, repair and body shops, car dealerships, auto auctions and more. The companies targeted by the Company as potential acquisitions service such commercial accounts, which include leasing companies as well as governmental entities operating large fleets that the Company can serve on a regional and national basis.

STRATEGY

The Company seeks to be a leader in the recovery and transportation of automobiles and to increase shareholder value through a strategy that includes the principal elements discussed below.

The Company intends to create a national alliance of lease services through acquisitions and, more importantly, successfully integrating and marketing these companies using a systematic approach to automate, standardize, and organize the services under a single, nationwide entity. The Company's strategy is to reach a critical mass in each market in order to fully realize numerous economic and operation benefits. The Company's initial acquisitions are acting as a "prototype" for which systems, standards, policies and procedures will be documented and firmly put into place. The transition will include implementation of centralized dispatching, fleet standardization, professional driver training, local marketing, and the introduction of a dedicated sales force. Some of these actions are already in place.

The Company presently generates annual revenues in excess of $3 million and anticipates generating $5 million in annual revenues within three years. Within five years, the Company

projects having some national presence in all major markets and expects to generate nearly $10 million in annual revenues, which represents just a small portion of industry market share.

Through its size, the Company believes it can leverage its name recognition to attract retail customers, gain market share, and obtain contracts with regional and national companies and fleet operated businesses looking to increase efficiency through vendor consolidation for local and national transportation and recovery services. In addition, the Company believes it will realize additional economic efficiencies through its purchasing power in the areas of equipment, financing, fuel, insurance, and parts. Moreover, the Company believes it can increase its business by continuing to find innovative ways to provide effective and efficient means to service customer problems without hurting its margins.

In addition to its marketing efforts, the Company's key differentiators include a day-one centralization and hub and spoke unification strategy, heavy focus on integration and operations, fast and reliable service through automated dispatching, courteous and professional service through rigorous driver and employee training and diverse management. Because of low capital intensity, the Company will also be able to expand into ancillary, but not directly related areas, among them financing, insurance and support businesses.

Concurrently, in addition to recovery and transportation services, the Company provides inspection services for its customers. The Company believes it can increase revenues by implementing a digital inspection service, which measures and records the condition of a leased vehicle at the time the vehicle is returned by the lessee to the leasing company. The Company anticipates it will require approximately $25,000 of capital expenditure to purchase the necessary equipment to perform the digital inspections. The Company anticipates the purchase of the equipment will enable the Company to increase its annual revenues generated by such inspections by $300,000 to $500,000 and to provide additional services to potential customers.

Additionally, the Company is actively seeking to purchase an automobile repossession business located in the areas in which the Company currently does business. An acquisition of a repossession firm will enable the Company to expand its transport services to current customers and market such service to new customers. The Company estimates that it will require under $250,000 of capital to acquire a repossession business.

Also, the Company anticipates that the majority shareholder of the Company, Richard W.`Morrell, will transfer a portion of his Common Stock in order for the Company to acquire Morrell and Greenstein Partnership (the "Partnership"), of which Mr. Morrell owns fifty percent (50%). The Partnership owns a campground located in New Jersey. The Company projects that the purchase of the Partnership will increase the Company's profits by approximately $130,000 per year. The transaction is contingent upon receiving equity financing of $500,000, in the form of preferred stock, as partial funding against this offering. Such transaction is expected to be consummated in April 1999. The terms of the offering of the preferred stock, which will be convertible to common stock of the Company upon the consummation of receiving an additional $500,000 pursuant to this registration of common stock, have yet to be finalized.

COMPETITION

Consolidation is in its infancy stage in the transport industry. In addition to 35 Caroline Corporation, this opportunity is being pursued by just three other consolidators with one more pending. In early 1997, Miller Industries, a tow truck manufacturer, was the first company to begin consolidating the towing services industry through its subsidiary, RoadOne TM, which resulted in Miller competing with its customers. RoadOne TM has since acquired approximately 87 companies with over $155 million in aggregate revenues but is not significantly unifying them. Miller has also entered the truck distribution and finance businesses. On April 30, 1998, United Road Services, Inc. became a publicly traded company through its simultaneous merger of seven towing companies contingent upon its initial public offering which raised approximately $80 million.

PATENTS

The Company has no patents.

EMPLOYEES

As of December 31, 1998, the Company, through its subsidiary, employed 17 clerical hourly employees, and 65 full-time drivers and 15 part-time drivers who are paid based on miles driven. None of the Company's employees are represented by a labor union.

AVAILABLE INFORMATION

Reports, proxy and information statements and other information filed by the Company with the Securities and Exchange Commission (the "Commission") may be inspected and copied at the public reference facilities maintained by the Commission at Room 1024, 450 Fifth Street, N.W., Washington, D.C. 20549, and at the following Regional Offices of the Commission: New York Regional Office, 7 World Trade Center, 13th Floor, New York, New York 10007; and Chicago Regional Office, 500 West Madison Street, Suite 1400, Chicago, Illinois 60661. Copies of such material can also be obtained from the Public Reference Section of the Commission at Room 1024, 450 Fifth Street, N.W., Washington, D.C. 20549, at prescribed rates. Information on the operation of the Public Reference Room may be obtained by calling the Commission at 1-800-SEC-0330. The Commission maintains a Web site that contains reports, proxy and information statements and other information regarding registrants that file electronically with the Commission. The address of that Web site is http://www.sec.gov.

MANAGEMENT'S DISCUSSION AND ANALYSIS

BACKGROUND

The Company's strategic planning approach to its customers is as follows:

Customer Service

The Company's mission statement is to say yes in helping resolve its customers' pick up and delivery needs.

Delivery Scheduling

The Company finds innovative ways to provide effective and efficient means to service customer problems without decreasing its margins. The Company plans its pricing so it knows whether to accept a customer order. The Company operates in ten states covering the Northeast region of the United States.

Location

The selection of strategic locations resulted in improved sales because of the concentration of leased vehicles in that region.

The operating subsidiary, 35 Caroline Corporation, started operations in 1990 after incorporating as an S corporation for federal income tax reporting in 1989. For state income tax reporting purposes, the Company chose to be a C corporation. The Company picks up end of lease automobiles, inspects them for excess wear and tear, and then transports the vehicles to a pre- determined destination for redistribution pending the vehicle owners' requests. The Company's revenue generally doubled from 1990 through 1997. The Company has two concentration risks, one is that the Company has a customer that is a major national leasing company from whom the Company derives approximately 80% of its revenues and the other is that the Company only operates within the ten aforementioned states. The Company is planning to improve its customer base by more aggressive marketing tactics.

New Business Developments

The Company plans to implement a digital inspection system requiring $25,000 of capital expenditure for digital equipment to measure excess wear and tear of an automobile. Such digital system will double inspection fee revenue to the Company as well as establish fair wholesale market value to the lessor. This improvement will potentially increase revenues $300,000 to $500,000, and enable the Company to increase their transport services to new potential customers.

The Company is actively seeking to purchase an automobile repossession firm in its present locations of transport services which will permit the Company to expand its transport services to current customers and market this new service to new customers. Management estimates the capital expenditure to consummate such a transaction is under $250,000. If the model works, Management may consider expanding on a larger scale to all geographical areas the Company services.

If the Company obtains equity financing of $500,000, it will absorb Morrell & Greenstein Partners with campground assets to Houston that could generate revenues approximately $400,000 to $450,000 per year.

If the financing is successful, it is the Company's plan to register its stock with the anticipation of increasing its revenues from present customers as well as new customers. The Company will use common stock as a vehicle to avoid cash restraints while seeking further acquisitions.

Results of Operations

The following table summarizes the Company's operating results as a percentage of revenues for each of the periods indicated:

	Years ended December 31,	
	1998	1997
Sales	100.0%	100.0%
Cost of sales	83.2	76.0
Gross profit	16.8	24.0
Operating expenses	8.3	7.3
Operating income	8.5	16.7
Other income	0.0	(0.1)
Income before taxes	8.5	16.6
Income taxes	0.9	1.6
Net income	7.6%	15.0%

Comparing Year Ended December 31, 1998 to Year Ended December 31, 1997

Sales increased 24%, or $673,000, over the prior year as a result of an increase in the unit column of sales as demand for the Company's services was created by improved customer services and marketing efforts.

Gross profit on sales decreased by $85,000, or 13%, over the prior year because cost of outside contractors as well as inside salaries and related payroll taxes increased by 30%, or $458,000, and 32%, or $235,000, respectively, over the prior years cost of sales for the same categories.

Operating expenses increased by $83,000, or 42%, over the prior year's expenses. Administrative salaries and accounting fees were responsible for almost the entire increase as the Company was building its infrastructure to manage the increase in sales.

The provision for income taxes decreased in 1998 compared to 1997 in relationship to the decrease in taxable book income reported those periods. The tax rates were 41.5% for both periods which is in line with statutory rates for federal and state income taxes.

Liquidity and Capital Resources

The Company has three operating sources of cash: (i) fees for transportation of vehicles; (ii) storage fees to temporarily store the recovered vehicles; and (iii) inspection fees for evaluating the excess wear and tear of the vehicles. The Company's cash flow is highly dependent upon the fees for the above services quoted to all customers. Cash from operations for year ended 1998 was $523,000 compared to $341,000 in 1997, an increase of $182,000, or 53%, over the year ended 1997.

The Company's working capital was approximately $8,000 in 1998 compared to $171,000 in 1997, a decrease of $163,000 over the prior year.

The current ratio in year ended 1998 was 1.0 to 1 compared to 1.8 to 1 for year 1997. The lack of liquidity and working capital is due to an estimate of distribution payable to shareholders in anticipation of going public to cover income tax payments.

The debt to equity ratio in year ended 1998 was 9.2 to 1 compared to .94 to 1 in 1997 as a result of shareholder distributions and financing a property for use in its transport business for $350,000.

Cash out flows for investing activities was $465,000 comprised of $390,000 in property and equipment and $75,000 in certificates of deposit for the purchase option of additional common stock from a shareholder of the Company. The option expires April 15, 1999.

In 1998, the Company had an outflow for financing of $60,000 made up primarily of distribution to stockholders of $397,000 to cover income taxes of the three officers since the Company files its federal tax returns as an S corporation. In 1998, the Company had an inflow of funds primarily from a related party of $316,000 and capital leases of $21,000.

Capital Requirements

As of December 31, 1998, the Company plans capital expenditures for approximately $25,000 for the purchase of a digital equipment, such as digital cameras and computers, to up grade its inspection process of examining automobiles for excess wear and tear for the benefit of the lessor at the end of the lease. The Company also plans to spend up to $250,000 on acquiring a company that provides automobile transport services or repossess automobiles for major financial institutions who finance vehicles to high risk individuals. This may serve as a model to make acquisitions in this niche market.

The Company believes that it has adequate equipment at this time to continue its operations successfully even at an increased level of sales for the next ongoing year if no major repairs are required. Currently all equipment is in good working order. The Company also has adequate resources for its daily working capital. The Company may develop an acquisition strategy and if that happens, it will need outside financing.

DESCRIPTION OF PROPERTY

The Company maintains its headquarters in Round Lake, New York, and maintains satellite offices in Hicksville, New York, Newburgh, New York, and Perth Amboi, New Jersey. These facilities are utilized as offices for administrative and dispatch operations and as lots for storage of vehicles waiting to be transported to other locations. Except for its location in Hicksville, which the Company recently purchased, the Company leases its other locations. The Company leases its headquarters under a five year lease, and leases its locations in Newburgh and Perth Amboi under a month-to-month lease.

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

In 1996 and 1997, the Company had related party receivables, which were transferred to stockholders' equity. Additionally, the Company has a non-interest bearing loan from a company in which the President of the Company has a one percent (1%) ownership interest. Moreover, in 1996 and 1997, the Company paid $8,665 and $1,476, respectively, for the rental of equipment from a related party. In December 1998, a related party entity obtained a loan, secured by a mortgage on its real property, and then lent such funds to the Company. The Company used such funds to purchase the land and building utilized by its office in Hicksville, New York. The Company will repay the loan over the next fifteen years, commencing February 1999; however, the Company expects that a portion of the proceeds of this offering will be used to repay the loan.

MARKET FOR COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

Although the Company is a public company, due to the inactivity of Houston since its inception, there is no public trading market in which the Company's stock is traded. The Company's Common Stock is not subject to outstanding options or warrants to purchase Common Stock. However, concurrently with this offering, the Company seeks to raise an additional $500,000 by way of a private offering of the Company's preferred stock, which would be convertible into 250,000 shares of the Company's Common Stock upon the consummation of receiving an additional $500,000 pursuant to this registration. The terms of the offering of preferred stock have yet to be finalized.

There are currently approximately 430 holders of record of the Common Stock. The Company has not paid any dividends since its inception, however, it intends to pay dividends as soon as business operations permit.

EXECUTIVE COMPENSATION

Director Compensation

The Company does not pay compensation to its directors. However, all officers and directors are reimbursed for any expenses incurred on behalf of the Company. Directors are reimbursed for expenses pertaining to attendance at meetings, including travel, lodging and meals.

Executive Compensation

The Company did not pay any of its Executive Officers compensation in excess of $60,000 for the Company's last fiscal year. Compensation paid to Richard W. Morrell, President of the Company, for the last fiscal year amounted to approximately $46,000.

FINANCIAL STATEMENTS

The following selected financial data should be read in conjunction with the financial statements and the notes thereto and Management's Discussion and Analysis of Financial Condition and Results of Operations included elsewhere herein. The Company's statement of operations for the periods ended December 31, 1998 and 1997, and the Company's balance sheet as of December 31, 1998 and 1997 are derived from, and are qualified by reference to, the audited financial statements, which have been audited by Oppenheim & Ostrick and should be read in conjunction with those financial statements and notes thereto.

INDEX TO FINANCIAL STATEMENTS

FINANCIAL STATEMENTS - HOUSTON OPERATING COMPANY

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Houston Operating Company
Round Lake, NY

We have audited the accompanying consolidated balance sheet of Houston Operating Company as of December 31, 1998 and the related statement of income, stockholders' equity and cash flows for the years ended December 31, 1998 and 1997. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Houston Operating Company as of December 31, 1998 and the results of it's operation and its cash flows for the years ended December 31, 1998 and 1997 in conformity with generally accepted accounting principles.

/s/ OPPENHEIM & OSTRICK
- ----------------------------
OPPENHEIM & OSTRICK,
Certified Public Accountants

Culver City, California
February 26, 1999

HOUSTON OPERATING COMPANY
CONSOLIDATED BALANCE SHEET
DECEMBER 31, 1998

ASSETS

Current Assets:	
Cash	$ 5,241
Certificate of deposit - restricted	75,000
Marketable securities	4,841
Accounts receivable, net	296,882
Prepaid expenses	30,000
Total current assets	411,964
Property & equipment (at cost)	492,265
Less accumulated depreciation	(64,587)
Property and equipment, net	427,678
Other assets:	
Other assets	25,561
	$ 865,203

LIABILITIES AND STOCKHOLDERS' EQUITY

Current liabilities:	
Accounts payable	$ 197,121
Accrued expenses	4,295
Distribution payable	125,000
Income taxes payable	28,200
Deferred income taxes	21,054
Line of credit payable	11,000
Current portion of long-term debt	17,096
Total current liabilities	403,766
Long-term liabilities:	
Long-term debt, less current maturities	25,658
Due to related company	350,000
Total long-term liabilities	375,658
Total liabilities	779,424
Stockholders' equity:	
Capital stock, $.001 par value, authorized 50,000,000 shares, issued and outstanding 2,795,171 shares	2,795
Additional paid-in capital	38,850
Retained earnings	44,134
Total stockholders' equity	85,779
	$ 865,203

See accompanying accountants' report

HOUSTON OPERATING COMPANY
CONSOLIDATED STATEMENT OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 1998 AND 1997

	December 31,	
	1998 Amount	1997 Amount
Sales	$3,409,171	$ 2,736,067
Cost of sales	2,837,625	2,080,256
Gross profit	571,546	655,811
Operating expenses	282,459	199,098
Operating income	289,087	456,713
Other income (expense)	678	(1,615)
Income before taxes	289,765	455,098
Income taxes	30,000	45,000
Net income	$ 259,765	$ 410,098
Pro Forma:		
Historical income before income taxes	$ 289,765	$ 455,098
Less pro forma income taxes	120,000	189,000
Pro forma net income	$ 169,765	$ 266,098
Basic earnings per share	$ .06	$ .10
Weighted number of shares outstanding	2,795,171	2,795,171

See accompanying accountants' report

HOUSTON OPERATING COMPANY
CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31,1998 AND 1997

	Common Stock		Paid-in	Retained	
	Shares	Amounts	Capital	Earnings	Balance
Balance, January 1, 1997	200	$ 500	$ 0	$ 31,988	$ 32,488
Net income, year ended December 31, 1997	0	0	0	410,098	410,098
Subchapter S distribution, shareholders' December 31, 1997	0	0	0	(219,844)	(219,844)
Balance, December 31, 1997	200	500	0	222,242	222,742
Acquisition by exchanging 88% of shareholders' common stock	(200)	(500)	0	0	(500)
for 100% shareholders' common	2,795,171	2,795	38,850	0	41,645
stock of 35 Caroline Corp. (subsidiary))	0	0	0	(40,599)	(40,599)
Net income, year ended December 31, 1998	0	0	0	259,765	259,765
Subchapter S distribution, December 31, 1998	0	0	0	(397,274)	(397,274)
Balance, December 31, 1998	2,795,171	$ 2,795	$38,850	$ 44,134	$ 85,779

See accompanying accountants' report

HOUSTON OPERATING COMPANY
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 1998 AND 1997

	December 31, 1998	December 31, 1997
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 259,765	$ 410,098
Non-cash expenses included in net income:		
Depreciation	25,912	31,903
(Increase) decrease in:		
Accounts receivable	57,398	(222,890)
Marketable securities	20,889	0
Prepaid expenses	(30,000)	0
Other assets	(17,715)	(635)
Increase (decrease) in:		
Accounts payable	99,855	86,722
Distribution payable	125,000	0
Accrued expenses	(10,523)	(4,503)
Income taxes payable	6,787	18,803
Deferred taxes payable	(13,945)	21,033
Net cash provided by operating activities	523,423	340,531
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property & equipment	(389,518)	(78,457)
Purchase of marketable securities	0	(25,729)
Purchase of certificate of deposit	(75,000)	0
Net cash used by investing activities	(464,518)	(104,186)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from short-term borrowing- related party	316,360	0
Proceeds from credit line	11,000	0
Proceeds from (payments on) long-term borrowings	10,556	(16,456)
Distribution to stockholders	(397,274)	(219,844)
Net cash used by financing activities	(59,358)	(236,300)
Net increase (decrease) in cash	(453)	45
Cash, beginning of period	5,694	5,649
Cash, end of period	$ 5,241	$ 5,694
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid during the periods for interest	$ 3,461	$ 3,308
Cash paid during the periods for income taxes	$ 37,158	$ 5,164
SUPPLEMENTAL DISCLOSURES OF NON-CASH TRANSACTIONS:		
Acquisition transaction:		
Common stock	$ 2,295	$ 0
Paid-in capital	$ 38,850	$ 0
Retained earnings	$ (40,599)	$ 0

See accompanying accountants' report

HOUSTON OPERATING COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 1998 AND 1997

(1) General:

On December 22, 1998, Houston Operating Company acquired 100% of the shareholders' common stock of 35 Caroline Corporation in exchange for 88% of its shareholders' common stock. Prior to the acquisition, Houston Operating Company had no operating income for the past three years and had no equity. There is an option for $75,000 to acquire another 2% common stock by Houston Operating Company that expires on April 15, 1999. The operating subsidiary, 35 Caroline Corporation, was incorporated on May 31, 1989, as a New York State Corporation.

(2) Summary of significant accounting policies:

Principles of consolidation:

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary. All intercompany accounts have been eliminated.

Use of estimates:

Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses.

Inventory valuation:

Inventory is valued at the lower of cost (first-in, first-out) or market.

Accounts receivable and allowance for doubtful accounts:
The Company uses principally the aging method and management's analysis to calculate the allowance for doubtful accounts. As of December 31, 1998 and 1997, all accounts receivables are considered collectable.

Property and equipment:
Property and equipment is stated at cost, net of accumulated depreciation. Depreciation is provided by various methods at rates calculated to amortize cost over the estimated useful lives of the respective assets or, as to leasehold improvements, the term of the related lease if less than the estimated service life. Upon sale or retirement of property and equipment, the related cost and accumulated depreciation are eliminated from the accounts and the resulting gains or losses are recorded. Repairs and maintenance expenditures, not anticipated to extend asset lives, are expenses as incurred.

Investment securities:

The Company adopted the provisions of Statement of Financial Accounting Standards No. 115-"Accounting For Certain Debt and Equity Securities" (SFAS 115). In accordance with this statement securities are classified as held-to-maturity, available-for-sale or trading.

HOUSTON OPERATING COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 1998 AND 1997

(2) Summary of significant accounting policies (cont'd):

Investment securities (cont'd):

Unrealized holding gains and losses for trading securities are included in earnings. Unrealized holding gains and losses for available-for-sale securities are excluded from earnings and reported, net of any income tax effect, as separate component of shareholders' equity. Realized gains and losses for securities classified as either available-for-sale or held-to-maturity are reported in earnings based on the adjusted cost of the specific security sold.

Comprehensive income:

Effective in the first quarter of fiscal 1999, the Company will adopt, if applicable, Statement of Financial Accounting Standards No. 130, "Reporting Comprehensive Income" ("SFAS 130") establishes standards for reporting and displaying of comprehensive income and its components in the Company's consolidated financial statements. Comprehensive income is defined in SFAS 130 as the change in equity (net assets) of a business enterprise during the period from transactions and other events and circumstances from nonowner sources. Total comprehensive income was the same as income from operating sources for years ended 1998 and 1997

Recently issued accounting Standard:

In June 1997, the FASB issued Statement of Financial Accounting Standards No. 131, "Disclosures about Segments of an Enterprise and Related Information: ("SFAS 131") which supersedes Statement of Financial Accounting Standards No. 14. This statement changes the way that publicly-held companies report information about operating segments as well as disclosures about products and services, geographic areas and major customers. Operating segments are defined as revenue-producing components of the enterprise, which are generally used internally for evaluating segment performance. SFAS 131 will be effective for the Company's year ending December 31, 1998 and will not affect the Company's financial position or results of operations.

Income taxes:

The Company elected to be taxed as an S corporation under the provisions of the Internal Revenue Service Code for federal income tax reporting. Under this provision, the Company is not liable for federal corporate income taxes on its taxable income. Accordingly, net operating loss carryback or carryforward is not allowed as a deduction. Instead, the Company's stockholders include their proportionate share of the Company's taxable income or loss in their individual income tax returns. However, the Company chose to be treated as a C corporation for state income tax reporting purposes.

The Company filed its tax returns on a cash basis. As a result, there is a difference between book and taxable income, which creates temporary timing differences generating deferred tax benefits or credits. Starting January 1, 1999, the Company will file its tax returns on the accrual basis.

See accompanying accountants' report

HOUSTON OPERATING COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 1998 AND 1997

(2) Summary of significant accounting policies (cont'd):

Income taxes (cont'd):

The Company accounts for income taxes under the Statement of Financial Accounting Standards Board 109, Accounting for Income Taxes. The objective of Accounting for Income Taxes is to recognize the amount of current and deferred taxes payable (or refundable) at the date of the financial statements as a result of all events that have been recognized in the financial statements and as measured by the provisions of enacted tax laws. Income taxes currently payable are based on the taxable income for the year. A deferred tax asset or liability is calculated for tax consequences attributable to temporary differences that will result in net taxable amounts in future years. The differences relate primarily to depreciable assets (use of different depreciation methods and lives for financial statement and income tax purposes) and allowance for doubtful receivables deductible for financial statement purposes but not for income tax purposes.

(3) Business environment:

The Company's primary business is the end-of-lease pick-up and transportation of leased vehicles. The Company has two concentration risks. The Company has one customer for 80% of its sales and another customer for 10% of its revenues. The Company's sales are derived in the northeast in primarily ten states including New England, New York and New Jersey.

(4) Marketable securities:

Marketable securities are recorded at market. The securities consist primarily of stocks and publicly traded corporations allowable for resale.

(5) Property and equipment:

Property and equipment consist of the following:

	December 31,	
	1998	1997
Land	$ 220,882	$ 0
Build	118,936	0
Leasehold improvements	20,935	8,000
Furniture & fixtures	35,092	29,338
Computer software	8,505	8,505
Trucks & trailers	87,915	56,607
	492,265	102,450
Less accumulated depreciation	(64,587)	(38,655)
	$ 427,678	$ 63,795

Depreciation expense for Houston Operating Company was $25,912 and $31,903 for the years ended December 31, 1998 and 1997 respectively.

See accompanying accountants' report

HOUSTON OPERATING COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 1998 AND 1997

(6) Long-term debt:

	December 31,	
	1998	1997
Automobile financing, secured by the auto, payable in monthly installments of $569 including interest at 6.9% until June, 2001	$ 15,633	$ 21,171
Automobile financing, secured by the auto, payable in monthly installments of $564 including interest at 7.8% until October, 1999	4,910	11,027
Automobile financing, secured by the auto, payable in monthly installments of $646 including interest at 7.8% until March, 2002	22,211	0
	42,754	32,198
Less current maturities	(17,096)	(11,654)
	$ 25,658	$ 20,544

Maturities for the long-term debt are as follows:

1999	$17,096
2000	13,110
2001	10,642
2002	1,906
	$42,754

(7) Income taxes:

The deferred taxes result primarily from timing differences in income recognition from the use of the accrual basis of accounting for financial reporting purposes and the cash basis of accounting for tax purposes. Starting January 1, 1999, the Company will change its basis for tax purposes from cash to accrual.

The provision for income taxes for the years ended December 31, 1998 and 1997, consists of the following:

State tax expense	December 31,	
	1998	1997
Current	$ 8,946	$23,067
Deferred	21,054	21,933
	$30,000	$45,000

(8) Income taxes (cont'd):

The pro forma provision for income taxes for the years ended December 31, 1998 and 1997 consist of the following:

	December 31,	
	1998	1997
Current:		
Federal	$ 45,900	$ 79,333
State	8,946	23,067
	54,846	102,400
Deferred:		
Federal	44,100	64,700
State	21,054	21,900
	65,154	86,600
Total pro forma	$120,000	$189,000

The pro forma provision for income taxes for the years ended December 31, 1998 and 1997 differs from the amount computed by applying the federal statutory income tax rate to income before taxes as follows:

	December 31,	
	1998	1997
Total computed at federal statutory rate	35.0%	35.0%
State income taxes, net of federal effect	6.5%	6.5%
	41.5%	41.5%

(9) Related party transactions:

The Company in 1996 and 1997 had related party receivables, which were transferred to stockholders' equity.

The Company has a non-interest bearing loan from Folkstone (the President owns a percentage of stock.) In addition, the Company paid $8,665 and $1,476 in 1997 and 1996 respectively for equipment rental to a related party. The loan payable of $34,185 was offset by a miscellaneous receivable resulting a $17,000 loss. In 1998, all related party transactions ended.

The Company paid rent in the amount of $12,000 for 1997.

In December 1998, a related party entity took out a mortgage on its real estate and loaned the Company $350,000 to pay for its location to provide transport services to its customers. The Company will repay the related party over the next 15 years starting February 1999.

HOUSTON OPERATING COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 1998 AND 1997

(10) Year 2000 contingency:

The Company is aware of the issue associated with the programming code in existing computer systems as the year 2000 approaches. The year 2000 problem is pervasive and complex as virtually every computer operation will be affected in some way by the rollover of the two digit year value to "00". The issue is whether computer systems will properly recognize date-sensitive information when the year changes to 2000. Systems that do not properly recognize such information could generate erroneous data or cause a system to fail. The Company is reviewing both its information technology and its non-information technology systems to determine whether they are year 2000 compliant, and to date the Company has not identified any material systems, which are not year 2000 compliant. The Company has not made a material expenditure to address the year 2000 problem and at present does not anticipate that it will be required to make any such material expenditure in the future.

The Company has initiated formal communications with all significant suppliers and service providers to determine the extent to which the Company is vulnerable to those third parties' failure to remediate the year 2000 problem. Although the Company has received verbal assurances of year 2000 compliance from certain of such third parties, the Company has not yet received written assurances of year 2000 compliance from third parties with whom it has relationships. The Company believes its operations will not be significantly disrupted even if third parties with whom the Company has relationships are not year 2000 compliant.

In the event that the Company's suppliers are unable to provide sufficient quantities of materials or goods to the Company as a result of their failure to be year 2000 compliant, the Company believes that it can obtain adequate supplies of materials and goods at comparable prices from other sources.

(11) Commitments:

The Company has operating leases. Minimum future payments under these leases for years ending December 31, are:

1999	$ 36,900
2000	30,900
2001	30,900
2002	3,540
2003	16,700
	$118,940

(12) Stockholder's equity:

After the exchange of common stock on December 22, 1998 between 35 Caroline Corporation and Houston Operating Company, the former shareholders of 35 Caroline Corporation will own 88.4% of the outstanding common stock of Houston Operating Company.

See accompanying accountants' report

HOUSTON OPERATING COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 1998 AND 1997

(12) Stockholder's equity (cont'd):

The authorized capital of Houston Operating Company consists of 50,000,000 shares of $0.001 par common stock of which 2,795,171 shares are issued and outstanding, 5,000,000 shares of preferred stock, none of which is issued and outstanding.

The former principal shareholder of Houston Operating Company has a put option to receive $75,000 which is in an escrow account in exchange for selling his remaining 41,928 shares of common stock to the Company.

The put option transaction described earlier can be exercised at the seller's discretion collateralized by a $75,000 certificate of deposit by the Company which expires April 15, 1999.

Following the completion of the stock purchase transaction, Houston Operating Company shall pay to the former majority stockholder $9,530 payable over a five year period in self-liquidating monthly installments, together with interest accruing at a rate of six (6) percent only if the above option is exercised.

(13) Subsequent event:

The Company plans to acquire a related party entity, which is projected to increase profits, approximately $130,000 per year. The transaction is contingent upon receiving equity financing of $500,000 as partial funding against an initial public offering. The transaction is expected to be consummated in April 1999. The terms of the mandatory convertible preferred stock converted to common stock upon the consummation of receiving an additional 500,000 of common stock were not finalized at this time.

If the transaction is completed, the 50% non-related party will receive 20% ownership interest in the Company from common stock owned by the other 50% owner in the related party entity (Morrell & Greenstein Partners). Mr. Morrell and his family will own 80% of the approximately 88% outstanding common stock shares and Mr. Greenstein will own 20% of the outstanding shares. The remaining shareholders will own 12% of the outstanding shares, however, if the option to purchase the remaining 41,928 shares of common stock, the common stock ownership will decrease to 10% of the outstanding shares.

See accompanying accountants' report

HOUSTON OPERATING COMPANY
UNAUDITED PRO FORMA CONDENSED
COMBINED FINANCIAL DATA

The following unaudited, pro forma, condensed, combined balance sheet has been prepared to present the combined financial position of Houston Operating Company as though the purchase of the partnership's capital interests had taken place on December 31, 1998.

The Company will purchase the partnership interests in the campground in exchange for common stock of the principal shareholder of the Houston Operating Company. As a result of the transaction, the ownership interest of the Company will gave 20% ownership to the 50% owner of the campground, the other 50% partner (principal shareholder of Houston Operating Company) will own with his family approximately 70% of the combined entities and approximately 10% will remain with old shareholders of the Houston Operating Company before the acquisition of 35 Caroline Corporation.

The purpose of the acquisition is to add income before taxes and equity of approximately $130,000 and $97,000 respectively. Sales for year ended December 31, 1998 were $415,000. The transaction will take place based on the above equity as of December 31, 1998. The transaction is contingent upon a proposed initial public offering of $1,000,000 of which $500,000 in convertible preferred stock will be issued prior to the IPO and will happen at the same time the partnership equity is exchanged for common stock as described above.

The balance sheet of the partnership after the exchange of common shares will be increased in equity for the land and building of the campground from a cost basis of $120,000 to $1,640,000 based on an appraisal by the bank using the income approach for the calendar years of 1995, 1996 and 1997. The updated estimate of value include all sales and recasted expenses for owners perks for 1998. The appraisal used an estimate value of $1,035,000 based on a 10.5% capitalization rate. In 1998, the income used was $410,000 instead of $393,000 or a $17,000 increase. For the previous three-year average operating expenses were adjusted by $44,000 for owners and managers perks. The resulting $61,000 times the capitalization rate of 10.5% adjusted the 1,035,000 value to the $1,640,000 estimate of value. The bank appraiser used comparable sales and income for the area in 1997 for the purpose of an appraisal for a $350,000 mortgage financing of the land and building of the partnership. The appraisal did not consider the building portion of the managers living quarters and office space.

The purpose of the pro forma adjustments is to reflect the change in capitalization of Morrell & Greenstein Partners to the capitalization of Houston Operating Company, with appropriate changes to earnings per share of the Company to reflect the acquisition of the campground (Morrell & Greenstein Partners).

The following unaudited, pro forma, condensed combined Statements of Operations for the twelve-month period ended December 31, 1998, as if the acquisition had taken place at December 31, 1998.

These unaudited pro forma condensed financial statements should be read in conjunction with the selected financial data and notes included elsewhere herein.

The following unaudited pro forma, condensed financial statements are not necessarily indicative of the results of combined operations that would have occurred had the acquisition been effective January 1, 1999 or the future results of the combined companies. All material non-recurring changes are fully disclosed in the pro forma financial statements.

See accompanying accountants' report

HOUSTON OPERATING COMPANY
CONDENSED PRO FORMA BALANCE SHEET
DECEMBER 31, 1998

Omit $(000)

	Houston	M&G Partnership	Pro Forma Adjustment DR	Pro Forma Adjustment CR	Pro Forma Total
Assets:					
Current assets	$411	$ 48(1)	$ 500	$ 0	$ 959
Property & equipment	428	120(2)	1,520	2,068	
Other assets	26	350	0(2)	350	26
	$865	$ 518	$2,020	$ 350	$3,053
Liabilities:					
Current liabilities	$404	$ 82	$ 0	$ 0	$ 486
Long-term liabilities	375	339(2)	350	0	364
	779	421	350	350	850
Stockholders' equity:					
Common stock	3	0	0	0	3
Preferred stock	0	0	0(1)	500	500
Paid-in capital	39	0	0(2)	1,617	1,656
Partner's equity	0	97(2)	97(2)	0	0
Retained earnings	44	0	0	0	44
	86	97	97	2,117	2,203
	$865	$ 518	$2,467	$2,467	$3,053

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(1) Assumes convertible preferred stock issued for $500,000.

(2) Combined elimination entries

See accompanying accountants' report

HOUSTON OPERATING COMPANY
CONDENSED PRO FORMA STATEMENT OF INCOME
DECEMBER 31, 1998

Omit $(000)

	Houston	M&G Partnership	Pro Forma Adjustment DR	Pro Forma Adjustment CR	Pro Forma Total
Net sales	$ 3,409	$415			$ 3,824
Cost of sales	2,838	54			2,892
Gross profit	571	361			932
Operating expenses	282	231			513
Operating income	289	130			419
Pre-tax operating income taxes	30	0			30
Net income	$259	$130			$389
Pro forma:					
Historical pre-tax income	$ 289	$130			$ 419
Less pro forma income(1)	120(1)	52(2)			172
Pro forma net income	$169	$ 78			$247
Basic earnings per share					$.09
Number of weighted shares outstanding	2,795,171				2,795,171

(1) Based on converting an S Corporation and partnership taxable income into regular C Corporation provisions for income taxes.

(2) Houston Operating Company acquired 35 Caroline Corporation or December 22, 1998 and 35 Caroline Corporation - the wholly owned subsidiary will file its tax returns as an S corporation for fiscal year ended December 31, 1998.

See accompanying accountants' report

FINANCIAL STATEMENTS OF
MORRELL & GREENSTEIN PARTNERSHIP

INDEPENDENT AUDITORS' REPORT

To the Partners
Morrell & Greenstein Partners
Round Lake, NY

We have audited the accompanying consolidated balance sheet of Morrell & Greenstein Partners as of December 31, 1998 and 1997 and the related statement of income, partners' capital and cash flows for the years ended December 31, 1998 and 1997. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Morrell & Greenstein Partners as of December 31, 1998 and 1997 and the results of it's operation and its cash flows for the years ended December 31, 1998 and 1997 in conformity with generally accepted accounting principles.

/s/ OPPENHEIM & OSTRICK
- ---------------------------
OPPENHEIM & OSTRICK,
Certified Public Accountants

Culver City, California
February 26, 1999

MORRELL & GREENSTEIN PARTNERS
CONSOLIDATED BALANCE SHEET
DECEMBER 31, 1998 AND 1997

ASSETS

	December 31,	
	1998	1997
Current Assets:		
Cash	$ 45,596	$ 30,177
Inventory	2,100	2,000
Total current assets	47,696	32,177
Property, plant & equipment:		
Land	118,870	118,870
Building	319,872	319,872
Less accumulated depreciation	(318,872)	(316,774)
Net property, plant and equipment	119,870	121,968
Other assets:		
Due from affiliated entity	0	10,000
Due from related party	350,000	0
Total assets	$ 517,566	$ 164,145

LIABILITIES AND PARTNERSHIPS' CAPITAL

Current liabilities:		
Accrued expenses	$ 402	$ 6,010
Deferred income	70,914	73,935
Current portion of long-term debt	10,785	0
Total current liabilities	82,101	79,945
Long-term liabilities:		
Mortgage payable	339,215	0
Total liabilities	421,316	79,945
Partnerships' capital:		
Partners' capital	96,250	84,200
	$ 517,566	$ 164,145

See accompanying notes to financial statements

MORRELL & GREENSTEIN PARTNERS
CONSOLIDATED STATEMENT OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 1998 AND 1997

	December 31,	
	1998 Amount	1997 Amount
Sales	$415,304	$392,559
Cost of sales	53,608	50,387
Operating expenses	231,646	220,368
Total cost and expenses	285,254	270,755
Income from operations	130,050	121,804
Pro Forma:		
Historical pre-tax income	$130,050	$121,804
Less pro forma income taxes	52,000	49,000
Pro forma net income	$ 78,050	$ 72,804

See accompanying notes to financial statements

MORRELL & GREENSTEIN PARTNERS
STATEMENT OF PARTNERSHIP'S CAPITAL
DECEMBER 31, 1998 AND 1997

	Capital
Balance as of January 1, 1997	$ 61,396
Income	121,804
Draws	(99,000)
Balance as of December 31, 1997	84,200
Income	130,050
Draws	(118,000)
Balance as of December 31, 1998	$ 96,250

See accompanying notes to financial statements

MORRELL & GREENSTEIN
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 1998 AND 1997

	December 31,	
	1998	1997
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 130,050	$ 121,804
Non-cash expenses included in net income:		
Depreciation	2,098	3,874
(Increase) decrease in:		
Inventory	(100)	0
Due from affiliated entity	10,000	0
Increase (decrease) in:		
Accrued expenses	(5,608)	(16,073)
Deferred taxes payable	(3,021)	4,053
Net cash provided by operating activities	133,419	113,658
CASH FLOWS FROM FINANCING ACTIVITIES:		
Distribution payable - stockholders	(118,000)	(99,000)
Net cash used by financing activities	(118,000)	(99,000)
Net increase in cash	15,419	14,658
Cash, beginning of period	30,177	15,519
Cash, end of period	$ 47,596	$ 30,177
SUPPLEMENTAL DISCLOSURES OF NON-CASH TRANSACTIONS:		
Due from related party	$(350,000)	
Proceeds from long-term financing	$ 350,000	

See accompanying notes to financial statements

MORRELL & GREENSTEIN PARTNERS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 1998 AND 1997

(1) General:

The Partnership is a recreational campground and is split into two entities. The operating income and expenses are reported as a C corporation. The Partnership charges rent to the C corporation for use of the real estate that is on the Partnership's books. The Campground was purchased in April 1975 and is located in Toms River, New Jersey near the Jersey shore. It has operated under the same ownership since 1975.

(2) Summary of significant accounting policies:

Principles of consolidation:

The consolidated financial statements include the accounts of the Company and a related party C corporation. All intercompany accounts have been eliminated. The financial statements have been consolidated to reflect the entire operation which reflects the revenues, net assets and equity as if the activities were under one reporting system.

Use of estimates:

Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses.

Inventory valuation:

Inventory is valued at the lower of cost (first-in, first-out) or market.

Property and equipment:

Property and equipment is stated at cost, net of accumulated depreciation. Depreciation is provided by various methods at rates calculated to amortize cost over the estimated useful lives of the respective assets or, as to leasehold improvements, the term of the related lease if less that the estimated service life. Upon sale or retirement of property and equipment, the related cost and accumulated depreciation are eliminated from the accounts and the resulting gains or losses are recorded. Repairs and maintenance expenditures, not anticipated to extend asset lives, are expenses as incurred.

Income taxes:

The Company elected to be taxed as a Partnership under the provisions of the Internal Revenue Service Code for federal income tax reporting. Under this provision, the entity is not liable for federal corporate income taxes on its taxable income. Accordingly, net operating loss carryback or carryforward is not allowed as a deduction. Instead, the Partners include their proportionate share of the Company's taxable income or loss in their individual income tax returns.

MORRELL & GREENSTEIN PARTNERS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 1998 AND 1997

(3) Business environment:

The Campground (Morrell & Greenstein Partners) is renting space to campers for a short specified visit. The Campground has 18 acres of camp sites and provides food and supplies, bath and shower, clothes washing and drying facilities in an approximately 6,000 square foot building that it owns. The primary season is from Memorial Day to Labor Day, however, they do receive advances for rental fees after Labor Day to reserve space during the summer months.

(4) Long-term debt - related party transaction:

	December 31,	
	1998	1997
Realty in a realted party company payable in monthly installments of $3,500 including interest at 8.8% until January, 2014	$ 350,000	$ 0
	350,000	0
Less current maturities	(10,785)	(0)
	$ 339,215	$ 0

Maturities for the long-term debt are as follows:

1999	$ 10,785
2000	12,792
2001	13,958
2002	15,231
2003 and after	297,234
	$350,000

The related party receivable is for $350,000. The Partnership has filed a UCC filing against the Houston Operating Company's real estate which was paid in cash from escrow from the loan proceeds on the campgrounds realty. The partners are planning to exchange their equity interest for shares of stock in the Houston Operating Company from the majority shareholder who also owns 50% of the campground partnership.

See accompanying accountants' report

(5) Income taxes:

The pro forma provision for income taxes for the periods ended December 31, 1998 and 1997 consist of the following:

	December 31,	
	1998	1997
Current:		
Federal	$ 43,000	$ 41,000
State	9,000	8,000
Total pro forma	$ 52,000	$ 49,000

The pro forma provision for income taxes for the year ended December 31, 1998 and the December 31, 1997 differs from the amount computed by applying the federal and state statutory income tax rate to income before taxes as follows:

	December 31,	
	1998	1997
Total computed at federal statutory rate	35.0%	35.0%
State income taxes, net of federal effect	6.5%	6.5%
Surtax benefits	(1.8)%	(1.0)%
	39.7%	40.5%

(6) Year 2000 contingency:

The Company is aware of the issue associated with the programming code in existing computer systems as the year 2000 approaches. The year 2000 problem is pervasive and complex as virtually every computer operation will be affected in some way by the rollover of the two digit year value to "00". The issue is whether computer systems will properly recognize date-sensitive information when the year changes to 2000. Systems that do not properly recognize such information could generate erroneous data or cause a system to fail. The Company is reviewing both its information technology and its non-information technology systems to determine whether they are year 2000 complaint, and to date the Company has not identified any material systems, which are not year 2000 complaint. The Company has not made a material expenditure to address the year 2000 problem and at present does not anticipate that it will be required to make any such material expenditure in the future.

The Company has initiated formal communications with all significant suppliers and service providers to determine the extent to which the Company is vulnerable to those third parties' failure to remediate the year 2000 problem. Although the Company has received verbal assurances of year 2000 compliance from certain of such third parties, the Company has not yet received written assurances of year 2000 compliance from third parties with whom it has relationships. The Company believes its operations will not be significantly disrupted even if third parties with whom the Company has relationships are not year 2000 compliant.

MORRELL & GREENSTEIN PARTNERS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 1998 AND 1997

(7) Year 2000 contingency (cont'd):

In the event that the Company's suppliers are unable to provide sufficient quantities of materials or goods to the Company as a result of their failure to be year 2000 compliant, the Company believes that it can obtain adequate supplies of materials and goods at comparable prices from other sources.

(8) Subsequent event:

The Partnership will exchange its interest for common stock of the shareholder of Houston Operating Company, who owns the other 50% of the campground. The transaction is contingent upon receiving equity financing of $500,000 as partial funding against an initial public offering to fund the Houston Operating Company (the related party transactions). The transaction is expected to be consummated in April 1999.

If the transaction is completed, the 50% non-related partner will receive 20% ownership interest in the Houston Operating Company from common stock owned by the other 50% partner in the related party entity.

See accompanying accountants' report

PART II.
INFORMATION NOT REQUIRED IN PROSPECTUS

INDEMNIFICATION OF DIRECTORS AND OFFICERS

The Articles of Incorporation of the Company provide for indemnification to the full extent permitted by Delaware law of all persons it has the power to indemnify under Delaware law. Such indemnification is not deemed to be exclusive of any other rights to which those indemnified may be entitled, under any bylaw, agreement, vote of stockholders or otherwise. The provisions of the Company"s Articles of Incorporation, which provides for indemnification may reduce the likelihood of derivative litigation against the Company"s directors and officers for breach of their fiduciary duties, even though such action, if successful, might otherwise benefit the Company and its stockholders.

OTHER EXPENSES OF ISSUANCE AND DISTRIBUTION

The following table sets forth the expenses in connection with this Registration Statement. All of such expenses are estimates, other than the filing fees payable to the Securities and Exchange Commission.

Filing fee - Securities and Exchange Commission	$ 278.00
Fees and Expenses of Accountants and Legal Counsel	$25,000.00
Printing fees	$ 5,000.00
Miscellaneous	$ 1,000.00
Total	$31,278.00

RECENT SALES OF UNREGISTERED SECURITIES

There have been no recent sales of unregistered securities of the Company.

INDEX TO EXHIBITS

Exhibit No.	Description of Exhibit
3.1	Articles of Incorporation of Registrant
3.2	Bylaws of the Registrant
4.1*	Statement of Rights and Preferences
5.1	Opinion regarding Legality
10.1	Commercial Lease Agreement, dated May 2, 1997, between Robert K. Curtis, as Lessor, and Richard W. Morrell, as Lessee, with regard to the business premises located in New York.
10.2	Letter Lease Agreement, dated May 7, 1998, between Bridgeview Management Company, Inc., as Lessor, and 35 Caroline Corporation, as Lessee, with regard to the business premises located in Perth Amboy, New Jersey.
10.3	Lease Agreement, dated May 18, 1997, between Village of Round Lake, as Landlord, and 35 Caroline Corporation, as Tenant, with regard to the business premises located in Round Lake, New York.
10.4	Promissory Note, dated January 13, 1999, between 35 Caroline Corporation, as Borrower, and Allen Greenstein and Richard Morrell, as Lender.
10.5	Amended Stock Purchase Agreement, dated November 18, 1998, by and among 35 Caroline Corporation, Richard W. Morrell, and Harvey V. Risien.
11.1*	Statement re: computation of per share earnings.
21.1	List of Subsidiaries of the Registrant.
21.2	Articles of Incorporation of 35 Caroline Corporation.
21.3	Bylaws of 35 Caroline Corporation
23.1	Consent of Oppenheim & Ostrick, independent auditors.
27*	Financial Data Schedule

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* To be filed by Amendment

UNDERTAKINGS

Insofar as indemnification for liabilities arising under the Securities Act of 1933 (the "Act") may be permitted to directors, officers and controlling persons of the registrant pursuant to the foregoing provisions, or otherwise, the registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the registrant of expenses incurred or paid by a director, officer or controlling person of the registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Act and will be governed by the final adjudication of such issue.

SIGNATURES

In accordance with the requirements of the Securities Act of 1933, the registrant certifies that it has reasonable grounds to believe that it meets all of the requirements for filing on Form SB-2 and authorized this registration statement to be signed on its behalf by the undersigned, in the city of Round Lake, state of New York, on April 1, 1999.

HOUSTON OPERATING COMPANY
a Delaware corporation

By /s/ RICHARD W. MORRELL
Richard W. Morrell, President

In accordance with the requirements of the Securities Act of 1933, this registration statement was signed by the following persons in the capacities and on the dates stated.

/s/ RICHARD W. MORRELL	Director, President, Chief Financial Officer	4/1/99
Richard W. Morrell	Title	Date
/s/ DAMON J. MORRELL	Director, Vice-President	4/1/99
Damon J. Morrell	Title	Date
/s/ SIMEON MORRELL	Director, Vice-President	4/1/99
Simeon Morrell	Title	Date

EXHIBIT 3.1

CERTIFICATE OF INCORPORATION

OF

HOUSTON OPERATING COMPANY

ARTICLE I

NAME

The name of the corporation ("Corporation"), shall be:
HOUSTON OPERATING COMPANY

ARTICLE II

DURATION

The Corporation shall continue in existence perpetually unless sooner dissolved according to law.

ARTICLE III

PURPOSES

The purposes for which this Corporation is organized are:

(a) To acquire by purchase or otherwise, own, hold, lease, rent, mortgage or otherwise, to trade with and deal in real estate, lands and interests in lands and all other property of every kind and nature;

(b) To engage in the exploration, drilling, development, and operation of oil and gas leases and other interests in oil and gas; and purchase, own, sell, assign, deal in, and otherwise acquire, own and dispose of in any manner, oil and gas or other natural resources, properties, or interests therein, including but not limited to leases, working interests, overriding royalties, production payments, or any other interest of whatever nature;

(c) To engage in the gathering, processing, and transportation of oil, gas, and other natural resources, and to this end acquire, own, and develop plants and facilities for the gathering, processing, and transportation of oil, gas, and other natural resources and to do and cause to be done any other act or transaction necessary, convenient, or appropriate in connection with the foregoing purpose;

(d) To manufacture, use, work, sell and deal in compounds, chemicals, biologicals, pharmaceuticals, electronics, dry goods, food stuffs, and products of all types, including the privileges or rights, owned or hereafter acquired by it for manufacturing, using and vending any machine or machines for manufacturing, working or producing any or all products, and marketing or distributing any or all products;

(c) To borrow money and to execute notes and obligations and security contracts therefore, to tend any of the monies or funds of the Corporation and to take evidence of indebtedness therefore; and to negotiate loans; to carry on a general mercantile and merchandise business and to purchase, sell and deal in such goods, supplies, and merchandise of every kind and nature;

(f) To engage in the export or import business of any goods, supplies, and merchandise of every kind and nature between the United States and its territories and possessions and any and all foreign countries or between foreign countries, as principal or agent;

(g) To do all and everything necessary, suitable, convenient, or proper for the accomplishment of any of the purposes or the attainment of any one or more of the objects herein enumerated or incidental to the powers therein named or which shall at any time appear conducive or expedient for the protection or benefit of the Corporation, with all the powers hereafter conferred by the laws under which this Corporation is organized; and

(h) To engage in any and all other lawful purposes, activities and pursuits, whether similar or dissimilar to the foregoing, and the Corporation shall have all the powers allowed or permitted by the laws of the State of Delaware.

ARTICLE IV

CAPITALIZATION

The Corporation shall have authority to issue an aggregate of 60,000,000 shares, of which 50,000,000 shares shall be common stock having a par value of $0.001 per share ("Common Stock"), 5,000,000 shares shall be preferred stock having a par value of $0.001 per share ("Preferred Stock"), and 5,000,000 shares shall be preference stock having a par value of $0.001 per share ("Preference Stock").

ARTICLE V

CLASSES OF STOCK

A statement of the designations and the powers, preferences, and rights, and the qualifications, limitations, or restrictions thereof, of the shares of stock of each class which the Corporation shall be authorized to issue, is as follows:

(a) Definitions. As used in this Article V or in any resolution adopted by the board of directors providing for the issue of any particular series of Preferred Stock or Preference Stock, the following terms shall have the following meanings, respectively:

(i) The term "arrearages," whenever used in connection with dividends on any shares of Preferred Stock or Preference Stock, shall refer to the condition that exists as to dividends which (A) have not been paid or declared and set apart for payment to the date or for the period indicated, and (B) are cumulative (either unconditionally, or conditionally to the extent that the conditions have been fulfilled); but the term shall not refer to the condition that exists as to dividends, to the extent that they are non-cumulative, on such shares which shall not have been paid or declared and set apart for payment.

(ii) The term "stock junior to the Preferred Stock," whenever used with reference to the Preferred Stock, shall mean the Preference Stock, Common Stock and any other stock of the Corporation over which the Preferred Stock has preference or priority in the payment of dividends and in the distribution of assets on any dissolution, liquidation, or winding up of the Corporation.

(iii) The term "stock junior to the Preference Stock," whenever used with reference to the Preference Stock, shall mean the Common Stock and any other stock of the Corporation over which the Preference Stock has preference or priority in the payment of dividends and in the distribution of assets on any dissolution, liquidation, or winding up of the Corporation.

(iv) The term "subsidiary" means any corporation of which at least a majority of the outstanding stock having by the terms thereof ordinary voting power to elect a majority of the directors of such corporation, irrespective of whether or not at the time stock of any other class or classes or such corporation shall have or might have voting power by reason of the happening of any contingency, is, at the time of determination thereof, directly or indirectly owned by the Corporation, or by one or more subsidiaries of the Corporation, or by the Corporation and one or more subsidiaries. As used in this definition, the term "corporation" shall include comparable types of business organizations authorized under the laws of any state, territory or possession of the United States or any foreign country however designated.

(b) Preferred Stock Provisions.

(b)(1) Authority of the Board of Directors of the Corporation Issue in Series. Preferred Stock may be issued from time to time in one or more series, each such series to have such designations, preferences, and relative, participating, optional, or other special rights and qualifications, limitations or restrictions as are expressed in this Article and in the resolution or resolutions providing for the issue of such series adopted by the board of directors as hereinafter provided. Subject to the provisions of this Article, authority is hereby granted to the board of directors to authorize the issue of one or more series of Preferred Stock and, with respect to each series, to fix by resolution or resolutions providing for the issue of each such series the following:

(i) the number of shares of such series, which may subsequently be increased or decreased (but not below the number of shares of such series then outstanding) by resolution of the board of directors, and the distinctive designation thereof;

(ii)the dividend rate or rates on the shares of such series, the extent, if any, to which dividends shall cumulate (and, if cumulative, the date or dates from which dividends shall cumulate), the dates on which dividends, if declared, shall be payable and any limitations, restrictions, or conditions on the payment of such dividends;

(iii) the terms (including the price or prices), if any, upon which all or any part of the shares of such series may be redeemed, and any limitations, restrictions, or conditions on such redemption;

(iv)the amounts which the holders of the shares of such series shall be entitled to receive upon any liquidation, dissolution, or winding up of the Corporation;

(v) the terms, if any, of any purchase, retirement, or sinking fund to be provided for the shares of such series;

(vi)the terms, if any, upon which the shares of such series shall be convertible into or exchangeable for shares of any other series, class or classes, or other securities, whether or not issued by the Corporation, and the terms of such conversion or exchange;

(vii) the voting powers, full or limited (not to exceed one vote per share), if any, of the shares of such series;

(viii) the restrictions, limitations, and conditions, if any, upon issuance of indebtedness of the Corporation so long as any shares of such series are outstanding; and

(ix)any other preferences and relative, participating, optional, or other special rights and qualifications, limitations and restrictions thereof not inconsistent with law, the provisions of this Article, or any resolution of the board of directors of the Corporation pursuant hereto.

All shares of any one series of Preferred Stock shall be identical with all other shares of the same series, except that shares of any one series issued at different times may differ as to the dates from which dividends thereon shall be cumulative.

So long as any shares of any series of the Preferred Stock shall be outstanding, the resolution of the board of directors establishing such series shall not be amended so as adversely to affect any of the powers, preferences, or rights of the holders of the shares of such series, without the affirmative vote of the holders of at least a majority, or such greater proportion as the board of directors may set forth in the resolution establishing such series, of the shares of such series outstanding at the time

or as of a record date fixed by the board of directors of the Corporation, but such resolution may be amended with such vote.

(b)(2) Dividend Rights.

(i) The holders of the Preferred Stock of each series shall be entitled to receive when and as declared by the board of directors of the Corporation, preferential dividends in cash payable at such rate, from such date, and on such dividend payment dates and, if cumulative, cumulative from such date or dates, as may be fixed by the provisions of this Article or by the resolutions of the board of directors providing for the issue of such series.

(ii) So long as any of the Preferred Stock is outstanding, no dividends (other than dividends payable in stock junior to the Preferred Stock and cash in lieu of fractional shares in connection with any such dividend) shall be paid or declared in cash or otherwise, nor shall any other distribution be made, on any stock junior to the Preferred Stock, unless

(A) there shall be no arrearages in dividends on Preferred Stock for any past dividend period, and dividends in full for the current dividend period shall have been paid or declared on all Preferred Stock (cumulative and non-cumulative);

(B) the Corporation shall have paid or set aside for payment all amounts, if any, then or theretofore required to be paid or set aside for all purchase, retirement, and sinking funds, if any, for the Preferred Stock of any series; and

(C) the Corporation shall not be in default on any of its obligations to redeem any of the Preferred Stock.

If the date of any payment or declaration of any dividend or of making any other distribution referred to in this paragraph (ii) shall be a dividend payment date for the Preferred Stock, the reference in this paragraph to "the current dividend period" shall be inapplicable for all of the purposes hereof.

(iii) So long as any of the Preferred Stock is outstanding, no shares of any stock junior to the Preferred Stock shall be purchased, redeemed, or otherwise acquired by the Corporation or by any subsidiary except in connection with a reclassification or exchange of any stock junior to the Preferred Stock through the issuance or other stock junior to the Preferred Stock, or the purchase, redemption, or other acquisition of any stock junior to the Preferred Stock with proceeds of a reasonably contemporaneous sale of other stock junior to the Preferred Stock, nor shall any funds be set aside or made available for any sinking fund for the purchase, redemption, or other acquisition of any stock junior to the Preferred Stock, unless

(A) there shall be no arrearages in dividends on Preferred Stock for any past dividend period;

(B) The Corporation shall have paid or set aside for payment all amounts, if any, then or theretofore required to be paid or set aside for all purchase, retirement, and sinking funds, if any, for the Preferred Stock of any series, and

(C) The Corporation shall not be in default on any of its obligations to redeem any of the Preferred Stock.

(iv) Subject to the foregoing provisions and not otherwise, such dividends (payable in cash, property, or stock junior to the Preferred Stock) as may be determined by the board of directors of the Corporation may be declared and paid on the shares of any stock junior to the Preferred Stock from time to time.

(v) Dividends shall not be declared or paid or set aside for payment on any series of Preferred Stock unless there shall be no arrearages in dividends on all other series of Preferred Stock for any past dividend period and dividends in full for the current dividend period shall have been paid or declared on all Preferred Stock to the extent that such dividends are cumulative and any dividends paid or declared when dividends are not so paid or declared in full shall be shared ratably by the holders of all series of Preferred Stock in proportion to such respective arrearages and unpaid and undeclared current cumulative dividends.

(b)(3) Liquidation Rights.

(i) In the event of any liquidation, dissolution, or winding up of the Corporation, whether voluntary or involuntary, the holders of Preferred Stock of each series shall be entitled to receive the full preferential amount fixed by this Article or by the resolutions of the Board of Directors of the Corporation providing for the issue of such series, including any arrearages in dividends thereon to the date fixed for the payment in liquidation, before any distribution shall be made to the holders or any stock junior to the preferred Stock. After such payment in full to the holders of the Preferred Stock, the remaining assets of the Corporation shall then be distributed exclusively among the holders of any stock junior to the Preferred Stock, according to their respective interests.

(ii) If the assets of the Corporation are insufficient to permit the payment of the full preferential amounts payable to the holders of the Preferred Stock of the respective series in the event of a liquidation, dissolution, or winding up, then the assets available for distribution to holders of the Preferred Stock shall be distributed ratably to such holders in proportion to the full preferential amounts payable on the respective shares.

(iii) A consolidation or merger of the Corporation with or into one or more other corporations or a sale of all or substantially all of the assets of the Corporation shall not be deemed to be a liquidation, dissolution, or winding up, voluntary or involuntary.

(b)(4) Status of Preferred Stock Purchased, Redeemed, or Converted. Shares of Preferred Stock purchased, redeemed, or converted into or exchanged for shares of any other class or series, and unissued shares of any series of Preferred Stock which cease to be designated as to series by reason of a decrease in the number of shares of such series as herein provided, shall be deemed to be authorized but unissued shares of Preferred Stock undesignated as to series.

(b)(5) Restrictions on Certain Corporate Action. Subject to the provisions of subsection (e)(4) of this Article V, so long as any shares of the Preferred Stock shall be outstanding, the Corporation shall not, without the affirmative vote of the holders of at least a majority of the shares of the Preferred Stock outstanding at the time or as of a record date fixed by the board of directors:

(i) create or authorize any class of stock ranking prior to or on a parity with the Preferred Stock with respect to the payment of dividends or the distribution of assets; or

(ii) amend the Certificate of Incorporation of the Corporation so as adversely to affect any of the preferences or other rights of the holders of the Preferred Stock; provided, however, that if any such amendment would adversely affect any of the preferences or other rights of the holders of one or more, but less than all, of the series of the Preferred Stock then outstanding, the affirmative vote of, and only of, the holders of at least a majority of the shares of all series so adversely affected, voting as a single class, shall be required.

(c) Preference Stock Provisions.

(c)(1) Authority of the Board of Directors of the Corporation To Issue in Series. Preference Stock may be issued from time to time in one or more series, each such series to have such designations, preferences, and relative, participating, optional or other special rights and qualifications, limitations or restrictions as are expressed in this Article and in the resolution or resolutions providing for the issue of such series adopted by the board of directors as hereinafter provided. Subject to the provisions of this Article, authority is hereby granted to the board of directors to authorize the issue of one or more series of Preference Stock and, with respect to each series, to fix by resolution or resolutions providing for the issue of each such series the following:

(i) the number of shares of such series, which may, except as otherwise provided in any resolution of the board of directors of the Corporation providing for the issuance of a series of Preferred Stock, subsequently be increased or decreased (but not below the number of shares of such series then outstanding) by resolution of the board of directors, and the distinctive designation thereof;

(ii) the dividend rate or rates on the shares of such series, the extent, if any, to which dividends shall cumulate (and, if cumulative, the date or dates from which dividends shall cumulate), the dates on which dividends, if declared, shall be payable and any limitations, restrictions, or conditions on the payment of such dividends;

(iii) the terms (including the price or prices), if any, upon which all or any part of the shares of such series may be redeemed, and any limitations, restrictions, or conditions on such redemption;

(iv) the amounts which the holders of the shares of such series shall be entitled to receive upon any liquidation, dissolution, or winding up of the Corporation;

(v) the terms, if any, of any purchase, retirement, or sinking fund to be provided for the shares of such series;

(vi) the terms, if any, upon which the shares of such series shall be convertible into or exchangeable for shares of any other series, class or classes, or other securities, whether or not issued by the Corporation, and the terms of such conversion or exchange;

(vii) the voting powers, full or limited (not to exceed one vote per share), if any, of the shares of such series;

(ix) any other preferences and relative, participating, optional, or other special rights and qualifications, limitations, and restrictions thereof not inconsistent with law, the provisions of this Article or any resolution of the board of directors of the Corporation pursuant hereto.

All shares of any one series of Preference Stock shall be identical with all other shares of the same series, except that shares of any one series issued at different times may differ as to the dates from which dividends thereon shall be cumulative.

So long as any shares of any series of the Preference Stock shall be outstanding, the resolution of the board of directors establishing such series shall not be amended so as adversely to affect any of the powers, preferences, or rights of the holders of the shares of such series, without the affirmative vote of the holders of at least a majority, or such greater proportion as the board of directors may set forth in the resolution establishing such series, of the shares of such series outstanding at the time or as of a record date fixed by the board of directors of the Corporation, but such resolution may be so amended with such vote.

(c)(2) Dividend Rights.

(i) Subject to the rights of the holders of the Preferred Stock and of any other series of Preference Stock, the holders of the Preference Stock of each series shall be entitled to receive, when and as declared by the board of directors of the Corporation, preferential

dividends in cash payable at such rate, from such date, and on such dividend payment dates and, if cumulative, cumulative from such date or dates, as may be fixed by the provisions of this Article or by the resolutions of the board of directors providing for the issue of such series.

(ii) So long as any of the Preference Stock is outstanding, no dividends (other than dividends payable in stock junior to the Preference Stock and cash in lieu of fractional shares in connection with any such dividend) shall be paid or declared in cash or otherwise, nor shall any other distribution be made, on any stock junior to the Preference Stock, unless

(A) there shall be no arrearages in dividends on Preference Stock for any past dividend period, and dividends in full for the current dividend period shall have been paid or declared on all Preference Stock (cumulative and non-cumulative);

(B) the Corporation shall have paid or set aside for payment all amounts, if any, then or theretofore required to be paid or set aside for all purchase, retirement, and sinking funds, if any, for the Preference Stock of any series; and

(C) the Corporation shall not be in default on any of its obligations to redeem any of the Preference Stock.

If the date of any payment or declaration of any dividend or of making any other distribution referred to in this paragraph (ii) shall be a dividend payment date for the Preference Stock, the reference in this paragraph to "the current dividend period" shall be inapplicable for all of the purposes hereof.

(iii) Subject to the foregoing provisions and not otherwise, such dividends (payable in cash, property, or stock junior to the Preference Stock) as may be determined by the board of directors of the Corporation may be declared and paid on the shares of any stock junior to the Preference Stock from time to time.

(iv) If the resolution of the board of directors establishing any series of Preference Stock provides that dividends on the shares of such series shall have priority over the payment of dividends on the shares of any other series of Preference Stock, dividends on the shares of such other series of Preference Stock shall not be paid unless dividends on the series entitled to such priority shall have been paid in full, including any arrearages which may exist with respect thereto. Subject to any resolutions of the board of directors establishing a priority or priorities as aforesaid, dividends shall not be declared or paid or set aside for payment on any series of Preference Stock unless there shall be no arrearages in dividends on all other series of Preference Stock for any past dividend period and dividends in full for the current dividend period shall have been paid or declared on all other series of Preference Stock to the extent that

such dividends are cumulative and any dividends paid or declared when dividends are not so paid or declared in full shall be shared ratably by the holders of all series of Preference Stock in proportion to such respective arrearages and unpaid and undeclared current cumulative dividends.

(c)(3) Liquidation Rights.

(i) Subject to the rights of the holders of the Preferred Stock and of any other series of Preference Stock, in the event of any liquidation, dissolution, or winding up of the Corporation, whether voluntary or involuntary, the holders of Preference Stock of each series shall be entitled to receive the full preferential amount fixed by this Article or by the resolutions of the board of directors of the Corporation providing for the issue of such series, including any arrearages in dividends thereon to the date fixed for the payment in liquidation, before any distribution shall be made to the holders of any stock junior to the Preference Stock. After such payment in full to the holders of the Preference Stock, the remaining assets of the Corporation shall then be distributed exclusively among the holders of any stock junior to the Preference Stock, according to their respective interests.

(ii) If the resolution of the board of directors establishing any series of Preference Stock provides that the full preferential amount payable in the event of a liquidation, dissolution or winding up of the Corporation with respect to such series shall be distributed prior to the distribution of the preferential amount payable with respect to any other series of Preference Stock, then no such amount shall be distributed to the holders of the shares of such other series unless the amount distributable on the series entitled to such priority has been distributed in full. If the assets of the Corporation are insufficient to permit the payment of the full preferential amounts payable to the holders of the Preference Stock of the respective series in the event of a liquidation, dissolution, or winding up, then the assets available for distribution to holders of the Preference Stock shall be distributed first to the holders of any series of Preference Stock in accordance with any priorities established as aforesaid, and then ratably to the holders of the remaining series of Preference Stock in proportion to the full preferential amounts payable on the shares of such series.

(iii) A consolidation or merger of the Corporation with or into one or more other corporations or a sale of all or substantially all of the assets of the Corporation shall not be deemed to be a liquidation, dissolution, or winding up, voluntary or involuntary.

(c)(4) Status of Preference Stock Purchased, Redeemed or Converted. Shares of Preference Stock purchased, redeemed or converted into or exchanged for shares of any other class or series, and unissued shares of any series of Preference Stock which cease to be designated as to series by reason of a decrease in the number of shares of such series as herein provided, shall be deemed to be authorized but unissued shares of Preference Stock undesignated as to series.

(c)(5) Restrictions on Certain Corporate Action. Subject to the provisions of subsection (e)(4) of this Article V, so long as any shares of the Preference Stock shall be outstanding, the Corporation shall not, without the affirmative vote of the holders of at least a majority of the shares of the Preference Stock outstanding at the time or as of a record date fixed by the board of directors:

(i) create or authorize any class of stock ranking prior to or on a parity with the Preference Stock with respect to the payment of dividends or the distribution of assets; or

(ii) amend the Certificate of Incorporation of the Corporation so as adversely to affect any of the preferences or other rights of the holders of the Preference Stock, provided, however, that if any such amendment would adversely affect any of the preferences or other rights of the holders of one or more, but less than all, of the series of the Preference Stock then outstanding, the affirmative vote of, and only of, the holders of at least a majority of the shares of all series so adversely affected, voting as a single class, shall be required.

(d) Common Stock Provisions.

(d)(1) Dividend Rights. Subject to provisions of law and the preferences of the Preferred Stock and Preference Stock, the holders of the Common Stock shall be entitled to receive dividends at such times and in such amounts as may be determined by the board of directors of the Corporation.

(d)(2) Voting Rights. The holders of the Common Stock shall have one vote for each share held on each matter submitted to a vote of the stockholders of the Corporation.

(d)(3) Liquidation Rights. In the event of any liquidation, dissolution, or winding up of the Corporation, whether voluntary or involuntary, after payment or provision for payment of the debts and other liabilities of the Corporation and the preferential amounts to which the holders of the Preferred Stock and Preference Stock may be entitled, the holders of the Common Stock shall be entitled to share ratably in the remaining assets of the Corporation.

(e) Other Provisions.

(e)(1) Authority for Issuance of Shares. The board of directors of the Corporation shall have authority to authorize the issuance, from time to time without any vote or other action by the stockholders, of any or all shares of stock of the Corporation of any class at any time authorized, and any securities convertible into or exchangeable for any such shares, in each case to such persons and for such consideration and on such terms as the board of directors from time to time in its discretion lawfully may determine; provided, however, that the consideration for the issuance of shares of stock of the Corporation having par value shall not be less than such par value. Shares so issued, for which the full consideration determined by the board of directors has been paid to the Corporation, shall

be fully paid stock, and the holders of such stock shall not be liable for any further call or assessments thereon.

(e)(2) No Preemptive Rights. Unless otherwise provided in the resolution of the board of directors providing for the issue of any series of Preferred Stock or Preference Stock, no holder of shares of any class of the Corporation or of any security or obligation convertible into, or of any warrant, option, or right to purchase, subscribe for, or otherwise acquire, shares of any class of the Corporation, whether now or hereafter authorized, shall, as such holder, have any preemptive right whatsoever to purchase, subscribe for, or otherwise acquire, shares of any class of the Corporation, whether now or hereafter authorized.

(e)(3) Abandonment of Dividends and Distributions. Anything herein contained into the contrary notwithstanding, any and all right, title, interest, and claim in and to any dividends declared, or other distributions made, by the Corporation, whether in cash, stock, or otherwise, which are unclaimed by the stockholder entitled thereto for a period of six years after the close of business on the payment date, shall be and be deemed to be extinguished and abandoned; and such unclaimed dividends or other distributions in the possession of the Corporation, its transfer agents, or other agents or depositories, shall at such time become the absolute property of the Corporation, free and clear of any and all claims of any persons whatsoever.

(e)(4) Certain Amendments. Except as otherwise provided in this Article or resolutions of the board of directors providing for the issue of any series of Preferred Stock or Preference Stock, the number of authorized shares of any class or classes of stock of the Corporation may be increased or decreased (but not below the number of shares of such series then outstanding) by the affirmative vote of the holders of a majority of the stock of the Corporation entitled to vote, voting as a single class.

ARTICLE VI

LIMITATION ON LIABILITY

A director of the Corporation shall have no personal liability to the Corporation or its stockholders for monetary damages for breach of fiduciary duty as a director, except (a) for any breach of a director's duty of loyalty to the Corporation or its stockholders, (b) for acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law, (c) under section 174 of the General Corporation Law of Delaware as it may from time to time be amended or any successor provision thereto, or (d) for any transaction from which a director derived an improper personal benefit.

ARTICLE VII

TAKEOVER STATUTE ELECTION

The Corporation hereby expressly elects not to be governed by the provisions of section 203 of the General Corporation Law of the state of Delaware, which provision shall not apply to the Corporation.

ARTICLE VIII

INDEMNIFICATION

The Corporation should have power to indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative, or investigative by reason of the fact that he is or was a director, officer, employee, or agent of the Corporation, or is or was serving at the request of the Corporation as a director, officer, employee, or agent of another corporation, partnership, joint venture, trust, or other enterprise to the full extent permitted by the General Corporation Law of the state of Delaware on the date hereof and as the same may be amended from time to time.

ARTICLE IX

REGISTERED OFFICE AND REGISTERED AGENT

The name and address of the Corporation's registered agent in the state of Delaware is The Corporation Trust Company, 1209 Orange Street, in the city of Wilmington, county of New Castle, Delaware. Either the registered office or the registered agent may be changed in the manner provided by law.

ARTICLE X

AMENDMENT

The Corporation reserves the right to amend, alter, change, or repeal all or any portion of the provisions contained in its Certificate of Incorporation from time to time in accordance with the laws of the state of Delaware, and, except as otherwise set forth herein, all rights conferred on stockholders herein are granted subject to this reservation.

ARTICLE XI

ADOPTION AND AMENDMENT OF BYLAWS

The initial bylaws of the Corporation shall be adopted by the board of directors. The power to alter, amend, or repeal the bylaws or adopt new bylaws shall be vested in the board of directors, but the stockholders of the Corporation may also alter, amend, or repeal the bylaws or adopt new bylaws. The bylaws may contain any provisions for the regulation or management of the affairs of the Corporation not inconsistent with the laws of the state or Delaware now or hereafter existing.

ARTICLE XII

DIRECTORS

The governing board of the Corporation shall be known as the board of directors. The number of directors comprising the board of directors

shall be fixed and may be increased or decreased from time to time in the manner provided in the bylaws of the Corporation, except that at no time shall there be less than one nor more than eleven directors. The initial board of directors shall be appointed by the sole incorporator following formation of the Corporation as provided in section 108 of the General Corporation Law of Delaware.

ARTICLE XIII

INCORPORATORS

The name and mailing address of the sole incorporator signing this certificate of incorporation is as follows:

Name	Address
Mark E. Lehman	136 South Main Street, Suite 721 Salt Lake City, Utah 84101

The undersigned, being the sole incorporator herein before named, for the purpose of forming a corporation pursuant to the General Corporation Law of the state of Delaware, makes this certificate, hereby declaring and certifying that this is his act and deed and that the facts herein stated are true, and accordingly has hereunto set his hand this 30th day of August, 1989.

/s/ MARK E. LEHMAN

Mark E. Lehman

STATE OF UTAH)
:ss
COUNTY OF SALT LAKE)

1, a notary public, hereby certify that on the 30th day of August, 1989, personally appeared before me Mark E. Lehman, who being by me first duly sworn, declared that he signed the foregoing instrument as his own act and deed and that the facts stated therein are true.

WITNESS MY HAND AND OFFICIAL SEAL.

/s/ [Signature Illegible]

N O T A R Y P U B L I C
Residing in Salt Lake City, Utah

My Commission Expires:

10-25-91
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EXHIBIT 3.2

BYLAWS

OF

HOUSTON OPERATING COMPANY

TABLE OF CONTENTS

BYLAWS

OF

HOUSTON OPERATING COMPANY

ARTICLE 1. OFFICES

SECTION 1.01 Principal Office. The principal office of 700 N. St. Mary's, Ste. 950, San Antonio, Texas 78205 (the "Corporation") in the State of Texas shall be located in the City of San Antonio, County of Bexar.

SECTION 1.02 Additional Offices. The Corporation may have such other offices, either within or without the State of Texas as the Board of Directors may designate or as the business of the Corporation may require from time to time.

ARTICLE 2. SHAREHOLDERS

SECTION 2.01 Annual Meetings. The annual meeting of the shareholders shall be held during the month of April in each year, beginning with the year 1994 upon the date and at the hour designated by the Board of Directors by notice to the shareholders, for the purpose of electing directors and for the transaction of such other business as may come before the meeting. If the election of directors shall not be held on the day designated herein for any annual meeting of the shareholders, or at any adjournment thereof, the Board of Directors shall cause the election to be held at a special meeting of the shareholders as soon thereafter as such special meeting can be conveniently scheduled.

SECTION 2.02 Special Meetings. Special meetings of the shareholders, for any purpose or purposes, unless otherwise prescribed by statute, may be called by the President or by the Board of Directors, and shall be called by the President at the request of the holders of not less than 10% of all the outstanding shares of the Corporation entitled to vote at the meeting.

SECTION 2.03 Place of Meetings. The Board of Directors may designate any place, either within or without the State of Texas, as the place of meeting for any annual meeting or for any special meeting called by the Board of Directors. A waiver of notice signed by all shareholders entitled to vote at a meeting may designate any place, either within or without the State of Texas, unless otherwise prescribed by statute, as the place for the holding of such meeting. If no designation is made, or if a special meeting be otherwise called, the place of meeting shall be the principal office of the Corporation in the State of Texas.

SECTION 2.04 Notice of Meetings. Written or printed notice stating the place, day and hour of the meeting and, in case of special meeting, the purpose or purposes for which the meeting is called, shall (unless otherwise prescribed by statute) be delivered not more than 60 days and not less than 10 days before the date of the meeting, either personally or by mail, by or at the direction of the President, the Secretary or the persons calling the meeting, to each shareholder of record entitled to vote at such meeting. If mailed, such notice shall be deemed to be delivered when deposited in the United States mail, addressed to the shareholder at such shareholder's address as it appears on the stock transfer books of the Corporation, with postage thereon prepaid.

SECTION 2.05 Closing Transfer Books and Record Dates. For the purpose of determining shareholders entitled to notice of or to vote at any meeting of shareholders or any adjournment thereof, or shareholders entitled to receive a distribution by the Corporation (other than a distribution involving a purchase or redemption by the Corporation of any of its own shares) or a share dividend, or in order to make a determination of shareholders for any other proper purpose, the Board of Directors of the Corporation may provide that the stock transfer books shall be closed for a stated period but not to exceed, in any case, 60 days. If the stock transfer books shall be closed for the purpose of determining shareholders entitled to notice of or to vote at a meeting of shareholders, such books shall be closed for at least 10 days immediately preceding such meetings. In lieu of closing the stock transfer books, the Board of Directors may fix in advance a date as the record date for any such determination of shareholder, such date in any case to be not more than 60 days and, in case of a meeting of shareholders, not less than 10 days before the date on which the particular action, requiring such determination of shareholders, is to be taken. If the stock transfer books are not closed and no record date is fixed for the determination of shareholders entitled to notice of or to vote at a meeting of shareholder, or shareholders entitled to receive payment of a distribution (other than a distribution involving a purchase or redemption by the Corporation of any of its own shares) or a share dividend, the date on which notice of the meeting is mailed or the date on which the resolution of the Board of Directors declaring such distribution or share dividend is adopted, as the case may be, shall be the record date for such determination of shareholders. When a determination of the shareholders entitled to vote at any meeting of shareholders has been made as provided in this Section, such determination shall apply to any adjournment thereof.

SECTION 2.06 Voting Lists. The officer or agent having charge of the stock transfer books for shares of the Corporation shall make at least 10 days before each meeting of shareholders a complete list of the shareholders entitled to vote at each meeting, or any adjournment thereof, arranged in alphabetical order, with the address of and the number of shares held by each, which list,

for a period of 10 days before such meeting, shall be kept on file at the registered office of the Corporation and shall be subject to inspection by any shareholder at any time during usual business hours. Such list shall be produced and kept open at the time and place of the meeting and shall be subject to the inspection of any shareholder during the whole time of the meeting. The original stock transfer book shall be prima facie evidence as to who are the shareholders entitled to examine such list or transfer books or to vote at any meeting of the shareholders.

SECTION 2.07 Quorum. A majority of the outstanding shares of the Corporation entitled to vote, represented in person or by proxy, shall constitute a quorum at a meeting of shareholders. If less than a majority of the outstanding shares are represented at a meeting, a majority of the shares so represented may adjourn the meeting from time to time without further notice. At such adjourned meeting at which a quorum shall be present or represented, any business may be transacted which might have been transacted at the meeting as originally noticed. The shareholders present at a duly organized meeting may continue to transact business until adjournment, notwithstanding the withdrawal of enough shareholders to leave less than a quorum.

SECTION 2.08 Manner of Acting. The vote of the holders of a majority of the shares entitled to vote and thus represented at such meeting at which a quorum is present shall be the act of the shareholders' meeting unless the vote of a greater number is required by law, the Articles of Incorporation or these Bylaws.

SECTION 2.09 Proxies. At all meetings of shareholders, a shareholder may vote in person or by proxy executed in writing by the shareholder or by such shareholder's duly authorized attorney in fact. Such proxy shall be filed with the Secretary of the Corporation before or at the time of the meeting. No proxy shall be valid after 11 months from the date of its execution, unless provided in the proxy. Each proxy shall be revocable unless the proxy form conspicuously states that the proxy is irrevocable and the proxy is coupled with an interest.

SECTION 2.10 Voting of Shares. Subject to the provisions of Section 2.13, each outstanding share entitled to vote shall be entitled to one vote upon each matter submitted to a vote at a meeting of the shareholders.

SECTION 2.11 Voting of Shares by Certain Holders.

(a) Shares standing in the name of another Corporation may be voted by such officer, agent or proxy as the bylaws of such Corporation may prescribe, or, in the absence of such provision, as the Board of Directors of such Corporation may determine.

(b) Shares held by an administrator, executor, guardian or conservator may be voted by such person, either in person or by proxy, without a transfer of such shares into such person's name. Shares standing in the name of a trustee may be voted by such trustee, either in person or by proxy, but no trustee shall be entitled to vote shares held by such trustee without a transfer of such shares into the name of the trust.

(c) Shares standing in the name of a receiver may be voted by such receiver, and shares held by or under the control of a receiver may be voted by such receiver without the transfer thereof into such receiver's name if authority so to do be contained in an appropriate order of the court by which such receiver was appointed.

(d) A shareholder whose shares are pledged shall be entitled to vote such shares until the shares have been transferred into the name of the pledgee, and thereafter the pledgee shall be entitled to vote the shares to transferred.

(e) Shares of its own stock belonging to the Corporation shall not be voted, directly or indirectly, at any meeting, and shall not be counted in determining the total number of outstanding shares at any given time.

SECTION 2.12 Informal Action by Shareholders. Unless otherwise provided by law, any action required to be taken at a meeting of the shareholders, or any other action which may be taken at a meeting of the shareholders, may be taken without a meeting if consent in writing, setting forth the action so taken, shall be signed by all of the shareholders entitled to vote with respect to the subject matter thereof. Meetings of shareholders by use of conference telephone or similar communications equipment may also be held as more specifically described in Section 3.10 of these Bylaws.

SECTION 2.13 Cumulative Voting Prohibited. At each election for directors, every shareholder entitled to vote at such election shall have the right to vote, in person or by proxy, the number of shares owned by such shareholder for as many persons as there are directors to be elected and for whose election such shareholder has a right to vote. Cumulative voting is expressly prohibited.

ARTICLE 3. BOARD OF DIRECTORS

SECTION 3.01 General Powers. The business and affairs of the Corporation shall be managed by its Board of Directors.

SECTION 3.02 Number, Tenure and Qualifications. The number of directors of the Corporation shall be one. Each director shall hold office until the next annual meeting of the shareholders and

until such director's successor shall have been elected and qualified. Directors need not be residents of the State of Texas or shareholders of the Corporation.

SECTION 3.03 Resignation. Any director may resign by giving written notice to the President or the Secretary. The resignation shall take effect at the time specified therein. The acceptance of such resignation shall not be necessary to make it effective.

SECTION 3.04 Regular Meetings. A regular meeting of the Board of Directors shall be held (without other notice than this Bylaw) immediately after, and at the same place as, the annual meeting of shareholders. The Board of Directors may provide, by resolution, the time and place for the holding of additional regular meetings without notice other than such resolution.

SECTION 3.05 Special Meetings. Special meetings of the Board of Directors may be called by or at the request of the President or any two directors. The person or persons authorized to call special meetings of the Board of Directors may fix the place for holding any special meeting of the Board of Directors called by them.

SECTION 3.06 Notice. Notice of any special meeting shall be given at least one (1) day prior thereto by written notice delivered personally or mailed to each director at such director's business address, or by telegram or telephone. If mailed, such notice shall be deemed to be delivered when deposited in the United States mail so addressed, with postage thereon prepaid. If notice be given by telegram, such notice shall be deemed to be delivered when the telegram is delivered to the telegraph company. Any director may waive notice of any meeting. The attendance of a director at a meeting shall constitute a waiver of notice of such meeting, except where a director attends a meeting for the express purpose of objecting to the transaction of any business because the meeting is not lawfully called or convened.

SECTION 3.07 Quorum. A majority of the number of directors then fixed by these Bylaws shall constitute a quorum for the transaction of business at any meeting of the Board of Directors, but if less than such majority is present at a meeting, a majority of the directors present may adjourn the meeting from time to time without further notice.

SECTION 3.08 Manner of Acting. The act of the majority of the directors present at a meeting at which a quorum is present shall be the act of the Board of Directors. Notwithstanding the foregoing, the following matters shall require the affirmative vote of all of the directors prior to action by the Board of Directors and/or the submission thereof to the shareholders:

(a) any amendment, alternation or repeal of the Articles of InCorporation or Bylaws of the Corporation;

(b) issuance and sale by the Corporation of any shares of stock over and above those shares initially issued by the Corporation; and

(c) revisions to any employment agreements executed between the Corporation and its employees or waivers of or refusal to enforce any of the terms of such employment agreements.

SECTION 3.09 Action Without a Meeting. Any action that may be taken by the Board of Directors at a meeting may be taken without a meeting if consent in writing, setting forth the action so taken, shall be signed by all of the directors. Subject to the provisions of these Bylaws for notice of meetings, members of the Board of Directors, members of any committee designated by the Board or shareholders may participate in and hold a meeting of such Board, committee or shareholders by means of conference telephone or similar communications equipment by means of which all persons participating in the meeting can hear each other, and participation in such a meeting shall constitute presence in person at such meeting, except where a person participates in the meeting for the express purpose of objecting to the transaction of any business on the ground that the meeting is not lawfully called or convened.

SECTION 3.10 Vacancies. Any vacancy occurring in the Board of Directors may be filled by the affirmative vote of a majority of the remaining directors though less than a quorum of the Board of Directors, unless otherwise provided by law. A director elected to fill a vacancy shall be elected for the unexpired term of such director's predecessor in office. Any directorship to be filled by reason of an increase in the number of directors shall be filled by election at an annual meeting or at a special meeting of the shareholders called for that purpose.

SECTION 3.11 Compensation. By resolution of the Board of Directors, each director shall be reimbursed for expenses, if any, of attendance at each meeting of the Board of Directors, and may be paid a stated salary as director or a fixed sum for attendance at meetings of the Board of Directors or both. No such payment shall preclude any director from serving the Corporation in any other capacity and receiving compensation therefor.

SECTION 3.12 Presumption of Assent. A director of the Corporation who is present at a meeting of the Board of Directors at which action on any corporate matter is taken shall be presumed to have assented to the action taken unless such director's dissent shall be entered in the minutes of the meeting or unless such director shall file such director's written dissent to such action with the person acting as the Secretary of the meeting before the adjournment thereof or shall forward such dissent by registered

mail to the Secretary of the Corporation immediately after the adjournment of the meeting. Such right to dissent shall not apply to a director who voted in favor of such action.

SECTION 3.13 Removal. Any director or the entire Board of Directors may be removed, with or without cause, at any meeting of the shareholders called expressly for that purpose, by a vote of the holders of a majority of the shares then entitled to vote at an election of directors. In the event cumulative voting is permitted by these Bylaws at any time, if less than the entire Board is to be removed, no one of the directors may be removed if the votes cast against such director's removal would be sufficient to elect such director if then cumulatively voted at an election of the entire Board of Directors, or if there be classes of directors, at an election of the class of directors of which such director is a part.

SECTION 3.14 Committees. The Board of Directors, by resolution adopted by a majority of the full Board of Directors, may designate from among its members one or more committees, including an executive committee. Each committee shall have and may exercise such authority of the Board of Directors as is set forth in the resolution creating the committee, except that if an executive committee is appointed, it shall have and may exercise all of the authority of the Board of Directors, except as specifically prohibited in the resolution or in this Section of the Bylaws. In no event, however, shall any such committee have the authority of the Board of Directors in reference to amending the Articles of Incorporation, approving a plan of merger or consolidation, recommending to the shareholders the sale, lease or exchange of all or substantially all of the property and assets of the Corporation otherwise than in the usual and regular course of its business recommending to the shareholders a voluntary dissolution of the Corporation or a revocation thereof, amending, altering or repealing the Bylaws or adopting new Bylaws, filling vacancies in or removing members of the Board of Directors or any such committee, electing or removing officers, fixing the compensation of any member of such committee or altering or repealing any resolution of the Board of Directors which by its terms provides that it shall not be so amendable or repealable; and, unless such resolution expressly so provides, no such committee shall have the power or authority to declare a dividend or to authorize the issuance of shares of the Corporation. Any organization of such committee and the delegation to such committee of authority shall not operate to relieve the Board of Directors, or any member thereof, of any responsibility imposed by law.

SECTION 3.15 Interested Directors.

(a) If subsection (b) of this Section 3.15 is satisfied, no contract or other transaction between the Corporation and any of its directors (or any Corporation or firm in which any of them are

directly or indirectly interested) shall be invalid solely because of this relationship or because of the presence of such director, at the meeting authorizing such contract or transaction, or such director's participation in such meeting or authorization.

(b) Subsection (a) of this Section 3.15 shall apply only if:

(1) The material facts of the relationship or interest of each such director are known or disclosed:

(A) To the Board of Directors or a committee and the Board or committee nevertheless authorizes or ratifies the contract or transaction by a majority of the directors present, each such interested director to be counted in determining whether a quorum is present but not in calculating the majority necessary to carry the vote; or

(B) To the shareholders and they nevertheless authorize or ratify the contract or transaction by a majority of the shares present, each such interested person to be counted for quorum and voting purposes; or

(2) The contract or transaction is fair to the Corporation as of the time it is authorized or ratified by the Board of Directors, a committee of the Board, or the shareholders.

(c) This provision shall not be construed to invalidate a contract or transaction which would be valid in the absence of this provision.

ARTICLE 4. OFFICERS

SECTION 4.01 Officers. The Corporation shall have a President and a Secretary. The Corporation may have a Vice-President, a Treasurer and such other officers (including a Chairman of the Board and additional Vice-Presidents) and assistant officers and agents, as the Board of Directors may think necessary. Any two or more offices may be held by the same person.

SECTION 4.02 Election and Term of Office. The officers of the Corporation to be elected by the Board of Directors shall be elected annually by the Board of Directors at the first meeting of the Board of Directors held after each annual meeting of the shareholders. If the election of officers shall not be held at such meeting, such election shall be held at a special meeting as soon as such meeting can be conveniently scheduled. Each officer shall hold office until such officer's successor shall have been duly elected and shall have qualified or until such officer's death or until such officer shall resign or shall have been removed in the manner hereinafter provided.

SECTION 4.03 Removal. Any officer or agent may be removed by the Board of Directors whenever, in its judgment, the best interests of the Corporation will be served thereby, but such removal shall be without prejudice to the contract rights, if any, of the person so removed. Election or appointment of an officer or agent shall not of itself create contract rights.

SECTION 4.04 Resignation. Any officer may resign by giving written notice to the President or the Secretary. The resignation shall take effect at the time specified therein. The acceptance of such resignation shall not be necessary to make it effective.

SECTION 4.05 Vacancies. A vacancy in any office because of death, resignation, removal, disqualification or otherwise, may be filled by the Board of Directors for the unexpired portion of the term.

SECTION 4.06 Chairman of the Board. The Chairman of the Board, if such an officer has been elected by the Board of Directors, shall, if present, preside at all meetings of the Board of Directors and exercise and perform such other powers and duties as from time to time may be assigned to such individual by the Board of Directors or prescribed by these Bylaws.

SECTION 4.07 President. Subject to such supervisory and executive powers, if any, which may be given by the Board of Directors to the Chairman of the Board, if the Board of Directors has elected a Chairman of the Board, the President shall be the Chief Executive Officer of the Corporation and, subject to the control of the Board of Directors, shall in general supervise and control all of the business and affairs of the Corporation. The President shall, when present, preside at all meetings of the shareholders and the Board of Directors. The President may sign certificates for shares of the Corporation, any deeds, mortgages, bonds, contracts or other instruments which the Board of Directors has authorized to be executed, except in cases where the signing and execution thereof shall be expressly delegated by the Board of Directors or by these Bylaws to some other officer or agent of the Corporation, or shall be required by law to be otherwise signed or executed; and in general shall perform all duties incident to the office of President and such other duties as from time to time may be assigned to such officer by the Board of Directors.

SECTION 4.08 Vice-President. In the absence of the President or in the event of the President's death, inability or refusal to act, the Vice-President (or in the event there be more than one Vice-President, the Vice-Presidents in the order designated by the Board, or in the absence of any designation, then in the order of their election) shall perform the duties of the President, and when so acting, shall have all of the powers of, and

be subject to, All the restrictions upon the President. The Vice-Presidents shall perform such other duties as from time to time may be assigned to them by the Board of Directors or by the President.

SECTION 4.09 Secretary and Assistant Secretaries.

(a) The Secretary shall attend all meetings of the Board and all meetings of the shareholders and shall record all votes and the minutes of all proceedings and shall perform like duties for the standing committees when required. The Secretary shall give or cause to be given notice of all meetings of the shareholders and all meetings of the Board of Directors and shall perform such other duties as may be prescribed by the Board. The Secretary shall keep in safe custody the seal, if any, of the Corporation, and when authorized by the Board, affix the same to any instrument requiring it, and when so affixed, it shall be attested by the signature of the Secretary or by the signature of an Assistant Secretary. The Secretary shall perform such other duties as from time to time may be assigned by the Board of Directors or by the President.

(b) The Assistant Secretaries in the order of their seniority as determined by the order of their election shall, in the absence or disability of the Secretary, perform all the duties and exercise the powers of the Secretary, and they shall perform such other duties as from time to time may be assigned to them by the Board of Directors or by the President.

(c) In the absence of the Secretary or an Assistant Secretary, the minutes of all meetings of the Board and shareholders shall be recorded by such person as shall be designated by the Board of Directors or by the President.

SECTION 4.10 Treasurer and Assistant Treasurers.

(a) The Treasurer shall have the custody of the corporate funds and securities and shall keep full and accurate accounts of receipts and disbursements in books belonging to the Corporation and shall deposit all monies and other valuable effects in the name and to the credit of the Corporation in such depositories as may be designated by the Board of Directors. The Treasurer shall disburse the funds of the Corporation as may be ordered by the Board of Directors, taking proper vouchers for such disbursements. The Treasurer shall keep and maintain the Corporation's books of account and shall render to the President and directors an account of all of the transactions of such officer as Treasurer and of the financial condition of the Corporation and exhibit the books, records and accounts of such officer to the President or directors at any time. The Treasurer shall disburse funds for capital expenditures as authorized by the Board of Directors and in accordance with the orders of the President, and present to the President for the President's attention any requests for disbursing

funds if in the judgment of the Treasurer any such request is not properly authorized. The Treasurer shall perform such other duties as from time to time may be assigned to the Treasurer by the Board of Directors or by the President.

(b) If required by the Board of Directors, the Treasurer shall give the Corporation a bond in such sum and with such surety or sureties as shall be satisfactory to the Board for the faithful performance of the duties of such individual's office and for the restoration to the Corporation, in case of such individual's death, resignation, retirement or removal from office, of all books, papers, vouchers, money and other property of whatever kind in such individual's possession or under such individual's control belonging to the Corporation.

(c) The Assistant Treasurers in the order of their seniority as determined by the order of their election shall, in the absence or disability of the Treasurer, perform all the duties and exercise the powers as from time to time may be assigned to them by the Board of Directors or by the President.

SECTION 4.11 Compensation. The salaries of the officers shall be determined from time to time by the Board of Directors, but no formal action of the directors shall be required in determining such salaries. No officer shall be prevented from receiving such salary by reason of the fact that the individual is also a director of the Corporation.

ARTICLE 5. INDEMNIFICATION OF DIRECTORS AND OFFICERS

SECTION 5.01 Indemnification. The Corporation shall indemnify any director or officer or former director or officer of the Corporation and any person who, while a director or officer of the Corporation, is or was serving at the request of the Corporation as a director, officer, partner, venturer, proprietor, trustee, employee, agent or similar functionary of another foreign or domestic Corporation, partnership, joint venture, sole proprietorship, trust, employee benefit plan or other enterprise against reasonable expenses incurred by such individual in connection with any action, suit or proceeding in which such individual is a named defendant or respondent if such individual has been wholly successful, on the merits or otherwise, in the defense of such action, suit or proceeding. The Corporation may indemnify any director or officer or former director or officer of the Corporation, and any person who, while a director or officer of the Corporation, is or was serving at the request of the Corporation as a director, officer, partner, venturer, proprietor, trustee, employee, agent or similar functionary of another foreign or domestic Corporation, partnership, joint venture, sole proprietorship, trust, employee benefit plan or other enterprise who was, or is, threatened to be named a defendant or respondent in an action, suit or proceeding against judgments, penalties

(including excise and similar taxes), fines, settlements and reasonable expenses actually incurred by such individual in connection with an action, suit or proceeding to the full extent permitted by Article 2.02-1 of the Texas Business Corporation Act.

SECTION 5.02 Advancement of Expenses. The Corporation may pay in advance any reasonable expenses which may become subject to indemnification subject to the provisions of Article 2.02-1 of the Texas Business Corporation Act.

SECTION 5.03 Insurance. The Corporation may purchase and maintain insurance or another arrangement on behalf of any person who is or was a director or officer or is or was serving at the request of the Corporation as a director, officer, employee or agent of another Corporation, partnership, joint venture, sole proprietorship, trust, employee benefit plan or other enterprise against any liability asserted against such individual and incurred by such individual in any such capacity or arising out of such individual's status as such, whether or not the Corporation would have the power to indemnify such individual against such liability under these Bylaws or the laws of the State of Texas.

SECTION 5.04 Other Indemnification. The protection and indemnification provided hereunder shall not be deemed exclusive of any other rights to which such director or officer or former director or officer may be entitled, under any agreement, insurance policy, vote of the shareholders, or otherwise.

ARTICLE 6. ADMINISTRATIVE MATTERS

SECTION 6.01 Contracts. The Board of Directors may authorize any officer or officers or agent or agents, to enter into any contract or execute and deliver any instrument in the name of and on behalf of the Corporation, and such authority may be general or confined to specific instances.

SECTION 6.02 Loans. No loans shall be contracted on behalf of the Corporation and no evidence of indebtedness shall be issued in its name unless authorized by a resolution of the Board of Directors. Such authority may be general or confined to specific instances.

SECTION 6.03 Checks and Orders for Payment. All checks, drafts or other orders for the payment of money, notes or other evidences of indebtedness issued in the name of the Corporation, shall be signed by such officer or officers or agent or agents of the Corporation and in such manner as shall from time to time be determined by resolution of the Board of Directors.

SECTION 6.04 Deposits. All funds of the Corporation not otherwise employed shall be deposited from time to time to the credit of the Corporation in such banks, trust companies or other depositories as the Board of Directors may select.

SECTION 6.05 Books and Records. The Corporation shall keep correct and complete books and records of account and shall keep minutes of the proceedings of its shareholders and Board of Directors, and shall keep at its principal office, or at the office of its transfer agent or registrar, a record of its shareholders giving the names and addresses of all shareholders and the number and class of the shares held by each.

SECTION 6.06 Fiscal Year. The fiscal year of the Corporation shall be determined by the Board of Directors.

SECTION 6.07 Distributions. The Board of Directors may from time to time declare, and the Corporation may pay, distributions on its outstanding shares in the manner and upon the terms and conditions provided by law and the Corporation's Articles of Incorporation.

SECTION 6.08 Corporate Seal. The Board of Directors may provide for a corporate seal which may be circular in form and shall have inscribed thereon the name of the Corporation and such other description as the directors may approve.

SECTION 6.09 Waiver of Notice. Unless otherwise provided by law, whenever any notice is required to be given to any shareholder or director of the Corporation under the provisions of these Bylaws or under the provisions of the Articles of Incorporation or under the provisions of the Texas Business Corporation Act, a waiver thereof in writing, signed by the person or persons entitled to such notice, whether before or after the time stated therein, shall be deemed equivalent to the giving of such notice.

SECTION 6.10 Amendments. These Bylaws may be altered, amended or repealed, and new bylaws may be adopted, at any meeting of the Board of Directors of the Corporation as set forth in Article 3, Section 8 of the Bylaws, subject to repeal or change by action of the shareholders.

ARTICLE 7. CERTIFICATES FOR SHARES AND THEIR TRANSFER

SECTION 7.01 Certificates for Shares. Certificates representing shares of the Corporation shall be in such form as shall be determined by the Board of Directors. Such certificates shall be signed by the President and by the Secretary or by such other officers authorized by law and by the Board of Directors so to do, and sealed with the corporate seal if the Corporation has a corporate seal. All certificates for shares shall be consecutively numbered or otherwise identified. The name and address of the

person to whom the shares represented thereby are issued, with the number of shares and date of issue, shall be entered on the stock transfer books of the Corporation. All certificates surrendered to the Corporation for transfer shall be canceled and no new certificate shall be issued until the former certificate for a like number of shares shall have been surrendered and canceled, except that in case of a lost, destroyed or mutilated certificate, a new one may be issued therefor upon such terms and indemnity to the Corporation as the Board of Directors may prescribe.

SECTION 7.02 Transfer of Shares. Transfer of shares of the Corporation shall be made only on the stock transfer books of the Corporation by the holder of record thereof or by such holder's legal representative, who shall furnish proper evidence of authority to transfer, or by his attorney thereunto authorized by power of attorney duly executed and filed with the Secretary of the Corporation, and on surrender for cancellation of the certificate for such shares. The person in whose name shares stand on the books of the Corporation shall be deemed by the Corporation to be the owner thereof for all purposes.

ARTICLE 8. GENERAL PROVISIONS

SECTION 8.01 Construction. Whenever the context so requires, all gender references shall include the feminine, masculine and neuter, and the singular shall include the plural, and conversely. If any portion of these Bylaws shall be invalid or inoperative, then, so far as is reasonable and possible:

(a) The remainder of these Bylaws shall be considered valid and operative, and

(b) Effect shall be given to the intent manifested by the portion held invalid or inoperative.

SECTION 8.02 Readings. The headings are for organization, convenience and clarity. In interpreting these Bylaws, they shall be subordinated in importance to the other written material.

CERTIFICATE OF SECRETARY-TREASURER

The undersigned, Secretary-Treasurer of Houston Operating Company, does hereby certify that the foregoing Bylaws were duly adopted by the Board of Directors of the Corporation effective the 16th day of December, 1994.

/s/ ELIZABETH ORTH

Elizabeth Orth, Secretary

EXHIBIT 5.1

SMITH & ASSOCIATES
1925 Century Park East, Suite 500
Los Angeles, California 90067
310.277.1250 Telephone
310.286.1816 Facsimile

April 2, 1999

Securities and Exchange Commission
Washington, D.C.

Re: Houston Operating Company Registration Statement on Form SB-2

Dear Ladies and Gentlemen:

We have acted as special securities counsel for Houston Operating Company, a Delaware corporation (the "Company"), in connection with the preparation and filing with the Securities and Exchange Commission under the Securities Act of 1933, as amended (the "Act"), of a Registration Statement on Form SB-2 relating to a public offering by the Company of 250,000 shares of the Company's Common Stock and to 250,000 shares of the Company's Common Stock, which underlie the shares of the Company's Preferred Stock convertible into Common Stock. This opinion is rendered to you pursuant to Item 601 of Regulation S-B of the Act.

In our capacity as such special counsel, we have examined originals or copies, certified or otherwise identified to our satisfaction as being true copies, of such corporate records of the Company as we have been provided for the purpose of this opinion. In our examination we have assumed the genuineness of all signatures, the authenticity of all documents submitted to us as originals, the conformity to original documents of all documents submitted to us as certified or photostatic copies, and the authenticity of the originals of such latter documents.

On the basis of such examination and our consideration of such questions of law as we have deemed relevant in the circumstances, we are of the opinion, subject to the assumptions and limitations set forth herein, that the shares of Common Stock of the Company that are being registered have been duly authorized and, when sold, will be legally issued, fully paid and non-assessable.

In rendering our opinion, we have advised you only as to such knowledge as we have obtained from officers of the Company. We have not made an independent review of any of Company's operations, transactions or contractual arrangements for purposes of this opinion. As to any facts material to such opinion, we have relied upon certificates, affidavits, oaths and declarations of public officials and of officers, or other representatives of the Company.

Respectfully submitted,

/s/ SMITH & ASSOCIATES

SMITH & ASSOCIATES

EXHIBIT 10.1

COMMERCIAL LEASE AGREEMENT

THIS AGREEMENT Between ROBERT K. CURTIS of 887 Route 67, Ballston Spa, New York, 12020 as Lessor and RICHARD W. MORRELL of Box 444, Round Lake, New York 12151, as Lessee

WITNESSETH: That the said Lessor has let unto the said Lessee and the said Lessee has hired from the said Lessor the following premises:

The parcel of land of approximately One (1) acre in size, located on the premises owned by Lessor, as more particularly shown on the attached map along with the right to use the shanty/building located thereabouts as mutually agreed, and located on Route 67, in the Town of Ballston, County of Saratoga and State of New York, together with the right of ingress and egress over the lands of the Lessor and the right to the use of the Railroad spur located on Lessor's property and to the storage of ramps used in conjunction with same; subject to the unqualified right of the Lessor from time to time to move, relocate, or reconfigure said parcel to other areas on Lessor's lands at Lessor's sole option and discretion, so long as any new location is similarly suitable for the use intended under this Agreement; for the term of five (5) years to commence May 1, 1997 and to end on the 30th day of April, 2002; to be used and occupied solely as a business for the temporary parking and storing of leased automobiles, small trucks and trailers under 30 feet in length, upon the conditions and covenants following unless otherwise agreed to by Lessor in writing:

FIRST: That the Lessee shall pay rent in the amount of Thirty-Eight Thousand One-Hundred and 00/100 ($38,100.00) Dollars, said rent being payable in the following monthly installments, due on the first day of each month:

$600.00/month each and every month for the use of the land; and $35.00/month for each and every month for the use of the shanty/building for the entire five (5) year term. There will be a late charge in the amount of $50.00 for any payment received after the 10th of each month.

Lessee has this day deposited with Lessor the sum of Six Hundred Thirty-five and 00/100 ($635.00) Dollars, as security for the full and faithful performance by the Lessee of all of the terms and conditions upon the Lessee's part to be performed, which said sum shall be returned to the Lessee after the time fixed or the expiration of the term herein, provided the Lessee has fully and faithfully carried out all of the terms, covenants and conditions on his part to be performed. The security deposited hereunder shall not be mortgaged, assigned or encumbered by the Lessee without the written consent of the Lessor.

SECOND: That the Lessee shall take good care of the premises and shall at his own cost and expense make all repairs and changes to the leased premises, and at the end or other expiration of the term, shall deliver up the demised premises in good order or condition, damages by the elements excepted.

Lessee also agrees to be responsible for any and all snow plowing, snow removal, salting and clearing of the parking and walk areas.

THIRD: That the Lessee shall promptly execute and comply with all statutes, ordinances, rules, orders, regulations and requirements of the Federal, State and Town Governments and of any and all their Departments and Bureaus applicable to said premises, for the correction, prevention, and abatement of nuisances, violations or other grievances, in, upon or connected with said premises during said term; and shall also promptly comply with and execute all rules, orders, and regulations of the Board of Fire Underwriters for the prevention of fires, at his own cost and expense.

FOURTH: That in case the Lessee shall fail or neglect to comply with the aforesaid statutes, ordinances, rules, orders, regulations and requirements or any of them, or in case the lessee shall fail or neglect to make any necessary repairs, then the Lessor or his Agents may enter said premises and make said repairs and comply with any and all of the said statutes, ordinances, rules, orders, regulations or requirements, at the cost and expense of the Lessee and in case of the Lessee's failure to pay therefor, the said cost and expense shall be added to the next month's rent and be due and payable as such, or the Lessor may deduct the same from the balance of any sum remaining in the Lessor's hands. This provision is in addition to the right of the Lessor to terminate this Lease by reason of any default on the part of the Lessee.

FIFTH: That the Lessee shall not assign this Agreement, or underlet or underlease the premises, or any part thereof, without prior written consent of Lessor; or occupy, or permit or suffer the same to be occupied for any business or purpose deemed disreputable or extra-hazardous on account of fire or any other reason, under penalty of damages and forfeiture.

SIXTH: That no alterations, additions or improvements shall be made in or to the premises without the consent of the Lessor in writing, under penalty of damages and forfeiture, and all additions and improvement made by the Lessee shall belong to the Lessor.

SEVENTH: That the Lessee shall, in case of fire, or destruction, give immediate notice thereof to the Lessor who shall at Lessor's option cause the damage to be repaired forthwith; but if the premises be so damaged that the Lessor shall decide not to rebuild or repair, the term shall cease and the accrued rent be paid up to the time of such fire or destruction.

EIGHTH: That said Lessee agrees that the said Lessor and Agents, and other representatives, shall have the right to enter into and upon said premises, or any part thereof, at all reasonable hours for the purpose of examining the same, or making such repairs or alterations therein as may be necessary for the safety and preservation thereof.

NINTH: The Lessee also agrees to permit the Lessor or his Agents to show the premises to persons wishing to hire or purchase the same; and the Lessee further agrees that the Lessor or his Agents shall have the right to place notices on the front of said premises, or any part thereof, offering the premises "To Let" or "For Sale," and the Lessee hereby agrees to permit the same to remain thereon without hindrance or molestation.

TENTH: That if the said premises, or any part thereof, shall become vacant during the said term, or should the Lessee be evicted by summary proceedings or otherwise, the Lessor or his representatives may re-enter the same, either by force or otherwise, without being liable to prosecution therefor; and re-let the said premises as the Agent of the said Lessee and receive the rent thereof; applying the same, first to the payment of such expenses as the Lessor may be put to in re-entering and re-letting and then to the payment of the rent due by these presents; the balance, if any, to be paid over to the Lessee who shall remain liable for any deficiency.

ELEVENTH: That in case of any damage or injury occurring to the building, or damage and injury to the said premises of any kind whatsoever, said damage or injury being caused by the carelessness, negligence, or improper conduct on the part of the said Lessee, his Agents or Employees, then the said Lessee shall cause the said damage or injury to be repaired as speedily as possible at his own cost and expense.

TWELFTH: The Lessee shall neither place, nor cause, nor allow to be placed, any sign or signs of any kind whatsoever at, in or about the entrance to said premises nor any other part of same, except in or at such place or places as may be agreed to by the said Lessor and consented to by him in writing; with the exception of any sign Lessee is required to have placed on the leased premises pursuant to requirements of the Department of Motor Vehicles; and in case the Lessor or his representatives shall deem it necessary to remove any such sign or signs in order to paint the buildings thereon or make any other repairs, alterations or improvements in or upon said premises or any part thereof, he shall have the right to do so, providing he causes the same to be removed and replaced at his expense, whenever the said repairs, alterations or improvements shall have been completed.

THIRTEENTH: It is expressly agreed and understood by and between the parties to this agreement, that the Lessor shall not be liable for any damage or injury to Lessee or Lessee's property by water, steam, electricity, rain, ice or snow, which may be sustained by the said Lessee or other person or for any other damage or injury resulting from the carelessness, negligence, or improper conduct on the part of any other Lessee or Agents, or Employees, or by reason of the breakage, leakage, or obstruction of the water or soil pipes, or other leakage or erosion in or about the said area, unless said damage or injury be caused by or due to the negligence of the Lessor.

FOURTEENTH: That if default be made in any of the covenants herein contained, then it shall be lawful for the said Lessor to re-enter the said premises and the same to have again, repossess and enjoy. The said Lessee hereby expressly waives the service of any notice in writing of intention to re-enter, except as otherwise setforth herein.

FIFTEENTH: That this instrument shall not be a lien against said premises in respect to any mortgages that hereafter may be placed against said premises and that the recording of such mortgage or mortgages shall have preference and precedence and be superior and prior in lien of this Lease, irrespective of the date of recording and the Lessee agrees to execute any such instrument without cost, which may be deemed necessary or desirable to further effect the subordination of this Lease to any such mortgage or mortgages, and a refusal to execute such instrument shall entitle the Lessor or his assigns and legal representatives to the option of cancelling this Lease without incurring any expense or damage, and the term hereby granted is expressly limited accordingly.

SIXTEENTH: During the term of this Lease agreement and for any further time that Lessee shall hold the demised premises, Lessee shall obtain and maintain at his expense the following types and amounts of insurance:

(1) Fire Insurance - Lessee shall keep all buildings, improvements and equipment on the demised premises, including all alterations, additions and improvements and all personal property or stored property, insured against loss or damage by fire, explosion, and the perils specified in the standard extended coverage endorsement, and by vandalism and malicious mischief. The insurance shall be in an amount sufficient to prevent Lesser and Lessee from becoming co-insurers under provision of applicable policies of insurance, but in any event in an amount acceptable to Lessor and sufficient to adequately cover all possible losses.

(2) Personal injury and property damage insurance. Insurance against liability for bodily injury and property damage and machinery insurance, all to be in amounts and in forms of insurance policies as may from time to time be required by Lessor, shall be provided by Lessee, and shall in any event not be in an amount less than One-Million and 00/100 ($1,000,000.00) Dollars.

(3) Other Insurance. Lessee shall provide and keep in force other insurance in amounts that may from time to time be required by Lessor against other insurable hazards as are commonly insured against for the type of business activities that Lessee will conduct.

All insurance provided by Lessee as required by this section shall be carried in favor of Lessor and Lessee as their respective interests may appear. In the case of insurance against damage to the building by fire or other casualty, the policy shall provide that loss, if any, shall be adjusted with and be payable to Lessor. If requested by Lessor, any insurance against fire or other casualty shall provide that loss be payable to the holder under a standard mortgage clause. All insurance shall be written with responsible companies that Lessor shall approve, and the policies shall be held by Lessor, or, when appropriate, by the holder of any mortgage, in which case copies of the policies or certificates of insurance shall be delivered by Lessee to Lessor. All policies shall require thirty (30) days notice by registered mail to Lessor of any cancellation or change affecting any interest of Lessor.

SEVENTEENTH: It is expressly understood and agreed that if for any reason it shall be impossible to obtain insurance on the buildings, inventory and personal property on the premises in an amount, and in the form, and in insurance companies acceptable to the Lessor, the latter may, if he so elect, at any time thereafter terminate this Lease and the term thereof, on giving to the Lessee thirty (30) days' notice in writing of his intention so to do and upon the giving of such notice, this Lease and the term thereof shall terminate and come to an end.

EIGHTEENTH: It is expressly understood and agreed that in case the demised premises shall be deserted or vacated, or if default be made in the payment of the rent or any part thereof as herein specified, or if, without the consent of the Lessor, the Lessee shall sell, assign, or mortgage this Lease or if default be made in the performance of any of the covenants and agreements in this Lease contained on the part of the Lessee to be kept and performed, or if the Lessee shall fail to comply with any of the statutes, ordinances, rules, orders, regulations and requirements of the Federal, State and Town Governments or of any and all their Departments and Bureaus applicable to said premises, or hereafter established as herein provided, or if the Lessee shall file a petition in bankruptcy or be adjudicated a bankrupt or make an assignment for the benefit of creditors to take advantage of any insolvency act, the Lessor may, if he so elect, at any time thereafter terminate this Lease and the term thereof, upon giving to the Lessee five days' notice in writing of his intention so to do, and upon the event of such notice, this Lease and the term thereof shall terminate, expire and come to an end on the date fixed in such notice as if said date were the date originally fixed in this Lease for the termination or expiration thereof.

All notices required to be given to the Lessee may be given by mail addressed to the Lessee at the address stated above or personally delivered.

NINETEENTH: All applications and connections for necessary utility services on the demised premises shall be made in the name of Lessee only. Lessee shall be solely liable for utility charges as they become due, including, but not limited to, those for sewer, water, gas, electricity, and telephone services, and if not so paid, the same shall be added to the month's rent next accruing, as further set forth in Paragraph "Thirty-Second", herein.

TWENTIETH: The failure of the Lessor to insist upon strict performance of any of the covenants or conditions of this Lease or to exercise any option herein conferred in any one or more instances, shall not be construed as a waiver or relinquishment for the future of any such covenants, conditions or options, but the same shall be and remain in full force and effect.

This agreement contains the entire agreement of the parties and may not be changed, modified, discharged or terminated orally. Any modification of this Lease agreement or additional obligations assumed by either party in connection with this Lease agreement shall be binding only if evidenced in a writing signed by each party or an authorized representation of each party.

TWENTY-FIRST: If the whole or any part of the demised premises shall be acquired or condemned by Eminent Domain for any public or quasi-public use or purpose, then and in that event, the term of this Lease shall cease and terminate from the date of title vesting in such proceeding and Lessee shall have no claim against Lessor for the value of any unexpired term of said Lease. No part of any award shall belong to the Lessee.

TWENTY-SECOND: That if the said premises, or any part thereof shall be deserted or become vacant during said term, or if any default be made in the payment of the said rent or any part thereof, or if any default be made in the performance of any of the covenants herein contained, the Lessor or representatives may re-enter the said premises by force, summary proceedings or otherwise, and remove all persons therefrom, without being liable to prosecution therefor, and the Lessee hereby expressly waives the service of any notice in writing of intention to re-enter, and the Lessee shall pay at the same time as the rent becomes payable under the terms hereof a sum equivalent to the rent reserved herein, and the Lessor may rent the premises on behalf of the Lessee, reserving the right to rent the premises for a longer period of time than fixed in the original Lease without releasing the original Lessee from any liability, applying any moneys collected, first to the expense of resuming or obtaining possession, second to restoring the premises to a rentable condition, and then to the payment of the rent and all other charges due and to grow due to the Lessor, any surplus to be paid to the Lessee, who shall remain liable for any deficiency.

TWENTY-THIRD: In the event that the relation of the Lessor and Lessee may cease or terminate by reason of the re-entry of the Lessor under the terms and covenants contained in this Lease or by the ejectment of the Lessee by summary proceedings or otherwise, or after the abandonment of the premises by the Lessee, it is hereby agreed that the Lessee shall remain liable and shall pay in monthly payments the rent which accrues subsequent to the re-entry by the Lessor, and the Lessee expressly agrees to pay as damages for the breach of the covenants herein contained, the difference between the rent reserved and the rent collected and received, if any, by the Lessor during the remainder of the unexpired term, such differences or deficiency between the rent herein reserved and the rent collected if any, shall become due and payable in monthly payments during the remainder of the unexpired term, as the amounts of such difference or deficiency shall from time to time be ascertained and it is mutually agreed between Lessor and Lessee that the respective parties hereto shall and hereby do waive trial by jury in any action, proceeding or counterclaim brought by either of the parties against the other on any matters whatsoever arising out of or in any way connected with this Lease, the Lessee's use or occupancy of said premises, and/or any claim of injury or damage.

TWENTY-FOURTH: The Lessee hereby covenants and agrees to be liable for and to pay any costs and expenses and without limitation reasonable attorneys' fees and court costs incurred by Lessor in curing any default hereunder or in the collection of any passed due amounts or, in the event of termination resulting from default or breach of this Agreement by Lessee, in the collection of the rent reserved hereunder. Suit or suits for the recovery of any loss or deficiency of rent or damages, or for any installment or installments of rent or additional rent payable hereunder,

may be brought by Lessor at once or form time to time at the Lessor's election and nothing contained in this Lease shall be deemed to require Lessor to await the date whereon this Lease or the term hereof would have expired by limitation had there been no such default by Lessee or no such termination. No failure by Lessor to insist upon the strict performance of any covenant, agreement, term or condition of this Lease or to exercise any right or remedy consequent upon a breach thereof and no acceptance of full or partial rent or additional rent during the continuance of any such breach shall constitute a waiver of any such breach or of such covenant, agreement, term or condition. In the event of any breach by Lessee of any of the covenants, agreements, terms or conditions contained in this Lease, Lessor shall be entitled to enjoin such breach and shall have the right to invoke any right and remedy allowed at law or in equity by statute or otherwise.

TWENTY-FIFTH: The Lease shall be governed by and construed in accordance with the laws of the State of New York. The Lessee waives all rights to redeem under any law of the State of New York.

TWENTY-SIXTH: Lessor shall not be liable for failure to give possession of the premises upon commencement date by reason of the fact that premises are not ready for occupancy or because a prior Lessee or any other person is wrongfully holding over or is in wrongful possession, or for any other reason. The rent shall not commence until possession if given or is available, but the term herein shall not be extended.

TWENTY-SEVENTH: If any term covenant, condition or provision of this Lease or the application hereof to any circumstance or to any person, firm or corporation shall be invalid, or unenforceable to any extent, the remaining terms, covenants, conditions and provisions of this Lease shall not be affected thereby and each remaining, term, covenant, condition and provision of this Lease shall be valid and enforceable to the fullest extent permitted by law.

TWENTY-EIGHTH: Lessee shall be at liberty to place any one or more temporary structures on the leased premises at his own expense, subject to removal upon the termination or expiration of this lease, and so long as same does not cause any damage to said leased premises or cause Lessor's taxes to increase. In the event the placement of any temporary structure by Lessee causes Lessor's taxes to increase, Lessee shall, at Lessor's option, either remove said structure, or pay the increase in taxes. Lessee shall be at liberty to construct permanent structures only upon the express written consent of Lessor, which consent may be withheld for any reason.

TWENTY-NINTH: Lessor and Lessee mutually agree that under no circumstance will Lessor be entitled to place a lien upon or retain as collateral, any of the automobiles stored or parked on the leased premises as part of Lessee's business, for payments of any amounts owed pursuant to the terms of this Agreement.

THIRTIETH: In the event of sale of the premise leased hereunder, Lessee agrees to vacate the premises within ninety (90) days after receipt of notice from Lessor of such sale, and said lease shall terminate upon the expiration of the ninety (90) day period.

THIRTY-FIRST: Lessee warrants that Lessee will not do anything on said leased premises that will be harmful to or cause damage or harm to the environment; and further that Lessee will be responsible for all costs associated with the clean-up and correction of any and all environmental hazards or damage caused by Lessee, his employees or any stored or parked vehicles; and further will indemnify and hold Lessor harmless in regards to same. Lessee agrees that no automotive repair or maintenance work is to be conducted on the leased premises, and to keep the area leased in a clean and oil-free condition.

THIRTY-SECOND: Lessee shall initiate, contract for, and obtain, in his name, all utility services required on the premises, including gas, electricity, telephone, water, and sewer connections and services, and Lessee shall pay all charges for those services as they become due. If Lessee fails to pay the charges, Lessor may elect to pay them and the charges will then be added to the rental installment next due. Lessor may elect to forfeit or terminate this lease if Lessee fails or refuses to pay the charges for utility services as assessed or incurred.

Lessor shall not be liable for any personal injury or property damage resulting from the negligent operation or faulty installation of utility services provided for use on the premises, nor shall Lessor be liable for any injury or damage suffered by Lessee as a result of the failure to make necessary repairs to the utility facilities.

Lessee shall be liable for any injury or damages to the equipment or service lines of the utility suppliers that are located on the premises, resulting from the negligent or deliberate acts of Lessee, or the agents or employees of Lessee.

THIRTY-THIRD: Lessee shall not do or permit anything to be done on or about the premises that will obstruct or interfere with the rights of other tenants or occupants of Lessor's properties, or injure or annoy them or use or allow the premises to be used for any immoral or unlawful purpose, nor shall Lessee cause, maintain, or permit any nuisance in, on, or about the premises or common areas.

THIRTY-FOURTH: Lessor shall not be liable, and Lessee waives all claims, for injury or damage to persons or property sustained by Lessee or any employee or occupant of any building on the premises or the premises itself, resulting from (1) any part of the building, equipment, or appurtenances on the premises in need of repair, (2) any accident in or about the premises, or (3) any injury or damage resulting directly or indirectly from any act or negligence of a tenant or occupant or of any other person. This waiver of liability and release of Lessor shall apply especially, but not exclusively, to damage caused by water, snow, frost, steam, excessive heat or cold, sewage, gas, orders, noise, or the bursting or leakage of pipes or plumbing fixtures, and shall apply whether any damage results from the act or negligence of other tenants, occupants, or servants or of any other person, or whether the damage is caused or results from any event or circumstance of a similar or wholly different nature.

If any damage results from any act or negligence of Lessee, Lessee shall repair the damages within thirty (30) days or within a reasonable period, but not to exceed sixty (60) days if the damages cannot be repaired

in a thirty-day period. If Lessee fails or refuses to make the repairs, Lessor may, at the option of Lessor, repair the damage, whether caused to the building or to any occupants, and Lessee shall pay to Lessor the total cost of the repairs and damages. All personal property belonging to Lessee or to any occupant that is in the building or on the premises shall be there at the risk of Lessee or the occupant only, and Lessor shall not be liable for any damage to or the theft or misappropriation of such property.

Lessee shall assume all liability for any injury or damages that may arise from any accident that occurs in front of the leased premises, or in, on, or about the leased premises in any area under the control of or used by Lessee that result from the acts of Lessee, his employees, agents, or customers. Lessee shall indemnify Lessor against any and all claims filed by parties injured or damaged by an accident as provided in this section.

THIRTY-FIFTH: Lessor shall not be liable in any manner for any loss, injury, or damage incurred by Lessee from acts of theft, burglary, or vandalism committed by either identified or unidentified parties, except for personal acts of Lessor where the acts are committed against Lessee, or the agents, employees, or guests of Lessee, or are committed against the premises.

Lessee shall be responsible for arranging, and all expenditures relating to, any security precautions that Lessee deems necessary for the safety of the personnel, guests, or property of Lessee located in or on the premises. Lessee shall also provide, at the expense of Lessee, insurance against losses of the above nature that Lessee desires to maintain, as set forth herein. Lessee specifically agrees not to make any claims against Lessor, either in law or in equity, for any loss or damage incurred.

Any and all improvements, alterations and additions made to the leased premises shall, at the expiration of this Lease Agreement, or any extension thereunder, remain on the premises and belong to Lessor as a further consideration for this Lease Agreement and no compensation shall be allowed or paid therefore to Lessee.

And the said Lessor does covenant that the said lessee on paying the said rent, and performing the covenants aforesaid, shall and may peaceably and quietly have, holding and enjoy the said premises for the term aforesaid, subject to the rights to termination pursuant to this Agreement.

And it is further understood and agreed, that the covenants and agreements herein contained are binding on the parties hereto and upon their respective successors, heirs, executors and administrators.

IN WITNESS WHEREOF the parties hereto have hereunto set their hands and seals this 2nd day of May, One-thousand Nine-Hundred and Ninety-Seven.

IN PRESENCE OF

/s/ ROBERT K. CURTIS L.S.

ROBERT K. CURTIS

/s/ RICHARD W. MORRELL L.S.

RICHARD W. MORRELL

STATE OF NEW YORK:
SS:
COUNTY OF SARATOGA:

On the 2nd day of May 1997, before me personally came Robert K. Curtis, to me known and known to me to be the individual described in, and who executed, the foregoing instrument, and he duly acknowledged to me he executed the same.

/s/ JANET L. SABIN

Notary Public
Janet L. Sabin
Notary Public, State of New York
No. 01SA8014331
Qualified in Saratoga County
Commission Expires July 18, 1997

STATE OF NEW YORK:
SS:
COUNTY OF SARATOGA:

On the 2nd day of May 1997, before me personally came Richard W. Morrell, to me known and known to me to be the individual described in, and who executed, the foregoing instrument, and he duly acknowledged to me he executed the same.

/s/ [Signature Illegible]

Notary Public
??????????????
Notary Public, State of New York
No. 4???????????
Qualified in Saratoga County
Commission Expires July 18, 1998

IN CONSIDERATION of the letting of the premises within mentioned to the within named Lessee and the sum of $1.00 paid to the undersigned by the within named Lessor, the undersigned does hereby unconditionally guarantee covenant, and agree, to and with the Lessor and the Lessor's legal representatives, that if default shall at any time be made by the said Lessee in the payment of the rent and the performance of the covenants contained in the within Lease, on the Lessee's part to be paid and performed, that the undersigned will well and truly pay the said rent, or any arrears thereof, that may remain due unto the said Lessor, and also pay all damages that may arise in consequence of the nonperformance of said covenants, or either of them, without requiring notice of any such default from the said Lessor. The undersigned hereby waives all right to trial by jury in any action or proceeding hereinafter instituted by the Lessor, to which the undersigned may be a party.

IN WITNESS WHEREOF, the undersigned has set its hand and seal this 2nd day of May, 1997.

WITNESS /s/ [Signature Illegible]

35 CAROLINE CORP

By: /s/ RW MORRELL L.S.

Title: Pres

EXHIBIT 10.2

BRIDGEVIEW MANAGEMENT COMPANY, INC.
1160 State Street
Perth Amboy, New Jersey 08861

35 Caroline Corporation
P.O. Box 444
49 Burlington Avenue
Round Lake, NY 12151
c/o Mr. Richard W. Morrell

Dear Mr. Morrell:

This Letter Lease Agreement made this 7th day of May, 1998, by and between BRIDGEVIEW MANAGEMENT COMPANY, INC. (Lessor) and 35 CAROLINE CORPORATION (Lessee), covers the rental of the acreage shown in Schedule A, under the following conditions:

1. This agreement covers certain acreage located at 1160 State Street, Perth Amboy, New Jersey, including the area as identified on the attached site plan (Schedule A), consisting of approximately one (1) acre of land (the "Demised Premises").

2. Lessee may use the Demised Premises only for the storage of previously leased automobiles, subject to all applicable laws and regulations. Nothing herein shall be construed to permit Lessee to store inoperable or junked vehicles or automobile parts at the Demised Premises. Lessee shall not perform any service, maintenance or preparation work on any vehicle at the Demised Premises, unless and until a building is renovated or constructed for that purpose, with Lessor's consent, at the Demised Premises. It is understood and agreed that Lessee intends to occupy an office on the Demised Premises for its use during the term of this lease. Lessor will be solely responsible for all maintenance and upkeep of such office, and shall remove all from the Demised Premises upon the termination of this lease.

3. The gross rental will be $2,000.00 per month, payable on the first day of each month. This amount includes the cost of all common area maintenance charges. Rent for any partial month shall be prorated. Rent for the month of May 1998 shall be paid upon commencement of the term of this lease.

4. The term of this lease shall be for one hundred twenty (120) days, beginning on May 7, 1998, and ending on July 6, 1998.

5. Upon signing this lease, Lessee shall deposit the sum of $4,000 with Lessor as security for performance of this lease. The security deposit(s) shall be returned to Lessee without interest within 30 days of the termination of this lease, if Lessee has complied with all of its obligations under this lease.

6. Lessee shall not sub-let the Demised Premises or any portion thereof nor shall this lease be assigned without Lessor's written consent, except that Lessee may assign this lease, upon written notice to the Lessor, to a successor company to the Lessee established by an initial public offering during the next ensuing three (3) to six (6) months following the execution of this lease.

7. It is understood and agreed that Lessee intends to operate "low clearance" automobile carriers which will require smooth and level access to the Demised Premises, and, from time to time and only during regular business hours.

8. Lessee shall, at its sole cost, indemnify Lessor and save Lessor harmless against and from any and all claims arising from the use, conduct, management of or from any work or thing whatsoever done in or on the premises during the initial term or any extension by Lessee, its agents, servants, employees, licensees, invitees or independent contractors acting on its behalf, and further shall indemnify Lessor and save Lessor harmless against and from any and all claims arising from any condition of, on or at the premises, resulting or arising from any negligence, intentional act or omission of Lessee, or any of its agents, servants, employees, licensees, invitees or independent contractors acting on its behalf.

9. Lessee shall, throughout the initial term, and any option periods of this agreement, maintain the following insurances:

   A. Insurance against loss or damage to Lessee's automobiles, trailer, equipment and other personal property, by fire and extended coverages.

   B. Comprehensive and general liability insurance policy covering claims for personal injury or damage to the property of others in an amount not less than $1,000,000.

C. Workers compensation insurance in compliance with the New Jersey State statutes covering its employees on the premises.

10. It is understood and agreed that the security guard stationed at the entrance to the property of which the Demised Premises are a part, provides security only at the point of ingress and egress. Lessor shall not be liable to Lessee for any damage or loss to Lessee's property occurring in or about the Demised Premises, including but not limited to damage or loss to any of Lessee's vehicles during transit to or from, or storage at, the Demised Premises. Lessee may in its discretion and at its sole cost, provide such additional security as Lessee deems necessary to protect against such damages or loss.

11. Lessor shall not be liable to Lessee for any inconvenience, interruption, cessation or loss of business or otherwise, caused directly or indirectly, by any present or future laws, ordinances, orders, rules, regulations or requirements, or by priorities, rationing or curtailment of labor or materials, or by war, civil commotion, strikes, or riots, or by any matter or thing resulting therefrom or by any cause beyond Lessor's control, including, without limitation, casualty to the premises, nor shall this agreement in any way be affected by such causes.

BRIDGEVIEW MANAGEMENT COMPANY, INC.
Lessor

Witness:

/s/ JOAN YAREMKO
- ----------

By /s/ BARRY C. HARRIS

Barry C. Harris, President

35 CAROLINE CORPORATION
Lessee

Witness:

[Signature Illegible]
- ----------

By /s/ RICHARD MORRELL

Richard Morrell, Owner

EXHIBIT 10.3

LEASE AGREEMENT

The Landlord and Tenant agree to lease the Premises at the Rent and for the Term stated on these terms:

LANDLORD:	TENANT:
Village of Round Lake	35 Carolina Corp.
Address	Address
P.O. Box 85	P.O. Box 444
Round Lake, NY 12151	Round Lake, NY 12151

Premises: Second Storey, Village Hall, Burlington Avenue, Round Lake, NY

Lease Date:	Term: 5 years	Yearly Rent	$
May __, 1997	beginning: 5/12/97	Monthly Rent	$ 250
	ending: 5/11/02	Security	$

The Last Year's Rent Paid in Advance (w/in 30 days hereof)

1. RENT The amount must make the rent payment fee for each month on the 1st day of that month at the landlord's address as set forth above. The landlord must not notify the tenant of tenant's duty to pay the rent, and the rent must be paid in full and no deductions will be allowed from the rent. The first month's rent must be paid at the time of the signing of this Lease by the tenant. If the landlord permits the tenant to pay the rest in installments, and permission is for the tenant's convenience only and if the tenant does not pay said installments when they are due, the landlord may notify the tenant that the tenant may no longer pay the rent in installments.

2. USE Premises to be used for business and/or commercial purposes.

3. [ILLEGIBLE] Tenant [ILLEGIBLE] at tenant's expense, promptly comply with all laws, orders, requests, and directions, of all governmental authorities, landlord's insurers, Board of Fire Underwriters, or similar groups. Notice received by tenant from any authority or group must be promptly delivered to landlord. Tenant may not do anything which may increase landlord's insurance premiums; if tenant does, tenant must pay the increase in premiums as added rent.

4. REPAIRS The tenant must maintain the apartment and all of the equipment and fixtures in it. The tenant agrees, at tenant's own cost, to make all repairs to the apartment and replacement to the equipment and fixtures in the apartment whenever the [ILLEGIBLE] results from the tenant's acts or neglect. If the tenant fails to make a repair or replacement, then the landlord may do so and charge the tenant the costs of said repair or replacement as additional rent, which rent shall be due and payable under the terms and conditions as normal rent is due and payable.

5. GLASS, COST OF REPLACEMENT The tenant agrees to replace, at the tenant's own expense, all glass broken during the term of this lease, regardless of the cause of the breakage. The tenant agrees that all glass in said premises is whole as of the beginning of the term of this lease.

6. ALTERATIONS

7. ASSIGNMENTS AND SUBLEASE Tenant must not assign this lease or sublet all or part of the apartment or permit any other person to use the apartment. If tenant does, landlord has the right to cancel the lease as stated in the Tenant's Default section. State law may permit tenant to assign or sublet under certain conditions. Tenant must get landlord's written permission each time tenant wants to assign or sublet. Permission to assign or sublet is good only for that assignment or sublease. Tenant remains bound in the terms of this lease after a permitted assignment or sublease even if landlord accepts rent from the assignee or subtenant. The assignee or subtenant does not become landlord's tenant.

8. ENTRY BY THE LANDLORD The tenant agrees to allow the landlord to enter the leased premises at any reasonable hour to repair, inspect, install or work upon

any fixture or equipment in said leased premises and to perform such other work that the landlord may decide is necessary. In addition, tenant agrees to permit landlord and/or landlord's agent, to show the premises to persons wishing to hire or purchase the [ILLEGIBLE], during the reasonable hours of any day during the term of this Lease, tenant will permit the usual notices of "To Let" or "For Sale" to be placed upon conspicuous portions of the walls, doors, or windows of said premises and remain thereto without hindrance or molestation. Village Superintendent to have access to roof through office.

9. FIRE, ACCIDENT, DEFECTS, AND DAMAGE Tenant must give landlord prompt notice of fire, accident, damage or dangerous or defective condition. If the apartment can not be used because of fire or other casualty, tenant is not required to pay rent for the time the apartment is unusable. If part of the apartment can not be used, tenant must pay rent for the usable part. Landlord shall have the right to decide which part of the apartment is usable. Landlord need only repair the damaged structural parts of the apartment. Landlord is not required to repair or replace any equipment, fixtures, furnishings or decorations unless originally installed by landlord. Landlord is not responsible for delays due to settling insurance claims, obtaining estimates, labor and supply problems or any other cause not fully under landlord's control.

If the fire or other casualty is caused by an act or neglect of tenant, or at the time of the fire or casualty tenant is in default in any term of this lease, then all repairs will be made at tenant's expense and tenant must pay the full rent with no adjustment. The cost of the repairs will be added rent.

Landlord has the right to demolish or rebuild the building if there is substantial damage by fire or other casualty. Even if the apartment is not damaged, landlord may cancel this lease within 30 days after the fire or casualty by giving tenant notice of landlord's intention to demolish or rebuild. The lease will end 30 days after landlord's cancellation notice to tenant. Tenant must deliver the apartment to landlord on or before the cancellation date in the notice and pay all rent due to the date of the fire or casualty. If the lease is cancelled landlord is not required to repair the apartment or building.

10. WAIVERS If the landlord accepts the rent due under this lease or fails to enforce any terms of this lease, said action by the landlord shall not be a waiver of any of the landlord's rights. If a term in this lease is determined to be illegal, then the rest of this lease shall remain in full force and effect and be binding upon both the landlord and the tenant.

11. TENANT'S DEFAULT

A. Landlord may give 5 days written notice to tenant to correct any of the following defaults.

1. Failure to pay rent or added rent on time.
2. Improper assignment of the lease, improper subletting all or part of the premises, or allowing another to use of the premises.
3. Improper conduct by tenant or other occupant of the premises.
4. Failure to fully perform any other term in the lease.

B. If tenant fails to correct the defaults in section A within the 5 days, landlord may cancel the lease by giving tenant a written 3 day notice stating the date the term will end. On that date the term and tenant's rights in this lease automatically end and tenant must leave the premises and give landlord the keys. Tenant continues to be responsible for rent, expenses, damages and losses.

C. If the lease is cancelled, or rent or added rent is not paid on time, or tenant vacates the premises, landlord may in addition to other remedies take any of the following steps:

1. Enter the premises and remove tenant and any person or property;
2. Use [ILLEGIBLE], eviction or other lawsuit method to take back the premises.

D. If the lease is ended or landlord takes back the premises, rent and added rent for the unexpired term becomes due and payable. Landlord may re-rent the premises and anything in it for any term. landlord may re-rent for a lower rent and give allowances to the new tenant. Tenant shall be responsible for landlord's cost of re-renting. Landlord's[ILLEGIBLE] shall include the cost of repairs, decorations, broker's fees, attorney's fees, advertising and preparation for renting. Tenant shall continue to be responsible for rent, expenses, damages and losses. Any rent received from the re-renting shall be applied to the reduction of money tenant owes. Tenant waives all rights to return to the premises after possession is given to the landlord by a Court.

12. TENANT'S ADDITIONAL OBLIGATIONS Tenant shall keep the grounds and common areas of the leased premises as well as the lease premises themselves neat and clean. Tenant agrees not to use any of the equipment, fixtures or plumbing fixtures in the leased premises for any purpose other than that for which said equipment, fixtures or plumbing fixtures were designed. Any damage resulting from the misuse of such equipment, fixtures and plumbing fixtures shall be paid for by the tenant as additional rent, which additional rent shall be due and payable under the terms and conditions as normal rent is due and payable.

All furniture and other personal belongings, equipment or the like, if any, provided by the landlord and included within the terms of this lease shall be returned to the landlord at the end of the term of this lease or any earlier termination in as good condition as possible taking into account reasonable wear and tear. If the tenant vacates the premises or is dispossessed and fails to remove any of tenant's furniture, clothing or personal belongings, those items shall be considered abandoned by the tenant and the landlord shall be authorized to dispose of those items as the landlord sees fit.

13. QUIET ENJOYMENT The landlord agrees that if the tenant pays the rent and complies with all of the other terms and conditions of this lease, then the tenant may peaceably and quietly have, hold and enjoy the premises leased hereunder for the term of this lease.

14. LEASE, PARTIES UPON WHOM BINDING This lease is binding upon the landlord and the tenant and their respective heirs, distributors, executors, administrators, successors and lawful assigns.

15. UTILITIES AND SERVICES Tenant agrees to pay for all utilities and services provided to the leased premises with the following exceptions:

Tenant shall pay electric service, telephone and oil heat. No other utilities are known to the parties.

16. SPACE "AS IS" Tenant has inspected the Premises. Tenant states that they are in good order and repair and takes the Premises "as is."

17. TENANT RESTRICTIONS No sign, advertisement or illumination shall be placed upon any portion of the exterior, or in the windows of premises and no television aerials shall be installed without written consent of Landlord. Washing machine or driers or water beds are not permitted in the premises. No animal shall be permitted in these premises without the consent in writing of Landlord and Tenant will be responsible for all damages which may be caused by such animal permitted by the Landlord.

18. SECURITY Tenant has given Security to landlord in the amount stated above. If tenant fully complies with all the terms of this lease, landlord will return the security after the term ends. If tenants does not fully comply with the terms of this lease, landlord may use the security to pay amounts owed by tenant, including damages. If landlord sells the premises, landlord may give the security to the buyer. Tenant will look only to the buyer for the return of the security.

This lease will be deemed renewed on a year-to-year basis unless one party notifies the other in writing of cancellation within 90 days of the expiration hereof.

Landlord shall maintain heating system and plumbing system.

RIDER: Additional terms on -0- page(s) initialed at the end by the parties is attached and made a part of this Lease.

SIGNATURES, EFFECTIVE DATE The parties have entered into this Lease on the date first above stated. This lease is effective when landlord delivers to tenant a copy signed by all parties.

LANDLORD:	TENANT:
/s/ [Signature Illegible]	/s/ RW MORRELL
- ----------	----------
WITNESS:	----------
/s/ [Signature Illegible]	
- ----------	

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to

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LEASE AGREEMENT

No.

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Dated 19

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Begins

Expires

Rent

Payable

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EXHIBIT 10.4

PROMISSORY NOTE

US $350,000

Round Lake, New York
January 13, 1999

FOR VALUE RECEIVED, the undersigned maker, 35 CAROLINE CORP., a corporation formed and existing under the laws of the State of New York, and having an office at 49 Burlington Avenue, Round Lake, NY 12151 (the "BORROWER"), hereby unconditionally promises to pay to the order of ALLAN GREENSTEIN and RICHARD MORRELL, with addresses of 38 Mitchell Drive, Toms River, NJ 08755 and 49 Burlington Avenue, Round Lake, NY 12151, respectively (together the "LENDER"), or at such other place as the Lender may specify from time to time, in lawful money of the United States of America and in immediately available funds, the principal amount of Three Hundred Fifty Thousand Dollars ($350,000) in one hundred eighty (180) installments of Three Thousand Five Hundred ($3,500) Dollars each, commencing February 13, 1999 until January 13, 2014, (the "MATURITY DATE"), provided, however, that no default hereunder is existing.

Interest shall accrue on the unpaid principal amount of this Promissory Note (the "NOTE") from the date of this Note until such principal amount is paid in full at the per annum rate equal to 8.7594% (the "LENDING RATE"). For the purposes of this Note, an "INTEREST PERIOD" shall be (i) in the case of the first Interest Period, beginning on the date hereof and ending on the first day of the next calendar month, and (ii) in the case of all other Interest Periods, beginning on the last day of the immediately preceding Interest Period and ending on the first day of each calendar month thereafter; provided, however, that no Interest Period shall extend beyond the Maturity Date. Interest on this Note shall be payable on the last day of each Interest Period and upon the Maturity Date.

Any principal amount of this Note which is not paid when due, and any interest and other payments not paid within ten (10) days from the date it is due (whether each is due as stated, by acceleration or otherwise), shall bear interest, payable on demand, until payment in full of such amounts at the rate per annum equal to the Lending Rate plus 5% (collectively, the "DEFAULT RATE"), after as well as before judgment. Interest shall be calculated on the basis of a 365-day year for the actual number of days elapsed. Any change in the interest rate on this Note shall become effective as of the opening of business on the day on which such change in the Lending Rate becomes effective. The Lender shall, within seven (7) days of such change, notify the Borrower in writing of the effective date and the amount of each such change in the Lending Rate; provided, however, that any failure by the Lender to give the Borrower any such notice shall not affect the application of such change in the Lending Rate. Each determination of an interest rate by the Lender pursuant to any provision of this Note shall be, absent manifest error, presumed to be correct.

Whenever any payment on this Note shall be stated to be due on a day which is not a business day, such payment shall be made on the next succeeding business day and such extension of time shall be included in the computation of the payment of interest on this Note.

In no event shall the interest rate on this Note exceed the maximum interest rate permitted by applicable law. If, notwithstanding, interest in excess of said maximum rate shall be paid hereunder, the excess shall be retained by the Lender as a prepayment of all or part of the unpaid balance of principal. The Borrower may prepay this Note, in whole or in part, at any time at par, without any penalty or premium.

If at any time (a) the Borrower fails to pay when due any principal or any interest of this Note or any other amount payable hereunder; or (b) any representation or warranty made by the Borrower in this Note proves to have been incorrect; or (c) the Borrower becomes insolvent or unable to pay its debts as they mature, or consents to the appointment of a custodian, trustee, intervenor or receiver for it or for all or a substantial part of its property, or any such custodian, trustee, intervenor or receiver is appointed; or (d) bankruptcy, dissolution, reorganization, intervention, arrangement or liquidation proceedings (or proceedings similar in purpose or effect) are instituted by or against the Borrower; or (e) a warrant of attachment or execution or similar process against any substantial part of the assets of the Borrower is issued; or (f) the Borrower is dissolved or becomes incompetent (any event listed in clauses (a) through (f) inclusive being an "EVENT OF DEFAULT"); then Lender shall be entitled, upon the occurrence of any such Event of Default, by notice of default given to the Borrower, to retain any and all payments previously made pursuant to this Note and all amounts owing pursuant to this Note shall immediately become due and payable. Any amount not paid when due shall continue to bear interest from the due date at the Default Rate or the highest rate then permitted by law (if the Default Rate is then in excess of the maximum rate).

The Borrower hereby waives diligence, presentment, protest, demand and notice of every kind and, to the fullest extent permitted by law, the right to plead any statute of limitations as a defense to any demand hereunder. The non-exercise by the Lender of any of its rights under this Note in any particular instance shall not constitute a waiver hereof in that or any subsequent instance. The acceptance by the Lender of any partial payment shall not constitute a waiver of any default or of any of the Lender's rights under this Note. This Note may not be changed or terminated orally. This Note shall bind the heirs, legal representatives, successors and assigns of the undersigned and shall enure to the benefit of the Lender and its successors and assigns.

The Borrower promises to pay all costs and expenses, including all reasonable attorneys' fees and disbursements, incurred in the collection and enforcement of this Note. The Borrower hereby agrees to indemnify the Lender, its officers, directors, employees, agents, counsel or representatives and to hold the Lender and such other

parties harmless from any loss, liability, cost or expense that the Lender may sustain or incur as a consequence of, in connection with, arising out of or relating to this Note.

Any and all payments by the Borrower under this Note shall be made (i) without setoff, defenses or counterclaim, and (ii) free and clear of and without deduction for any and all present or future taxes, levies, imposts, deductions, charges or withholdings, and all liabilities with respect thereto, excluding, in the case of the Lender, taxes imposed on or in respect of its income (all such non-excluded taxes, levies, imposts, deductions, charges, withholdings, penalties and liabilities being hereinafter referred to as "TAXES"). If the Borrower shall be required by law to deduct any Taxes from or in respect of any sum payable hereunder to the Lender, upon receipt of a certificate from the Lender (i) the sum payable shall be increased as may be necessary so that, after making all required deductions (including deductions applicable to additional sums payable under this paragraph), the Lender receives an amount equal to the sum it would have received had no such deductions been made, (ii) the Borrower shall make such deductions, and (iii) the Borrower shall pay the full amount deducted to the relevant taxation authority or other authority in accordance with applicable law.

Any notice, request, demand, statement, authorization, approval or consent required or permitted under this Note shall to the address above or to such other address as either party may specify by notice given in accordance with this paragraph, be in writing and be made by, and deemed duly given upon, (a) deposit in the United States mail, postage prepaid, registered or certified, return receipt requested, such delivery to be effective upon service, (c) delivery by an overnight courier of recognized reputation (such as Federal Express), such mailing to be effective one (1) business days after mailing, or (d) transmission by telecopier, such delivery to be effective upon receipt of a confirmation of transmission.

Time is of the essence with respect to every provision hereof. Each provision of this Note shall survive until all amounts due are paid to Lender's satisfaction and are not subject to any preference period, shall be interpreted as consistent with existing law and shall be deemed amended to the extent necessary to comply with any conflicting law. If a court deems any provision invalid, the remainder of this Note shall remain in effect. Singular number includes plural and neuter gender includes masculine and feminine as appropriate.

This Note shall be governed by, and construed an interpreted in accordance with, the laws of the State of New York, without regard to its conflicts of law provisions.

In any action or other legal proceeding relating to this Note, the Borrower (i) consents to the personal jurisdiction of any State or Federal court located in the State of New York, (ii) waives objection to the laying of venue, (iii) waives personal service of process, (iv) consents to service of process by registered or certified mail directed to

the Borrower at the last address shown in the Lender's records relating to this Note, with such service of process to be deemed completed five days after mailing and (v) waives any right to trial by jury with respect to this Note or to assert any counterclaim or setoff or recoupment with respect to this Note. In any proceeding, a copy of this Note kept in the Lender's course of business shall be admitted into evidence as an original.

THIS WRITTEN NOTE CONSTITUTES THE ENTIRE AND FINAL AGREEMENT BETWEEN THE PARTIES, AND SUPERSEDES ALL PRIOR WRITTEN AGREEMENTS AND ALL PRIOR, CONTEMPORANEOUS OR SUBSEQUENT ORAL AGREEMENTS OF THE PARTIES REGARDING ALL ISSUES ADDRESSED IN THIS NOTE.

IN WITNESS WHEREOF, the Borrower has caused this Note to be executed and delivered as of the day and year and at the place first above written.

35 CAROLINE CORP., a New York corporation

By: /s/ R W MORRELL

Name: R W Morrell
Title: Pres.

/s/ ESTELLE T. GENEST

Estelle T. Genest
Notary Public, State of New York
Registration No. 5031522
Qualified in Saratoga County
Commission Expires 8-8-00

EXHIBIT 10.5

AMENDED
STOCK PURCHASE AGREEMENT

This Agreement is made this 18th day of November, 1998, amending and in lieu of the Stock Purchase Agreement dated November 11, 1998, by and among 35 Caroline Corporation, a New York corporation ("Caroline"), and Richard W. Morrell, an individual residing in _____ ("Morrell") (collectively "Buyer"), and Harvey V. Risien, Jr., an individual residing in San Antonio, Texas ("Seller").

THE PARTIES HEREBY AGREE AS FOLLOWS:

1. PURCHASE AND SALE OF STOCK.

1.1. Sale of Common Stock. Subject to the terms and conditions of this Agreement, the Buyer agrees to purchase at the Closing, and the Seller agrees to sell to Buyer eighty-eight and three-tenths percent (88.3%) of the common stock of Houston Operating Company, a Delaware corporation ("Houston"), or 2,459,417 shares (the "HOC Common Stock") for the purchase price specified in Section 1.2.

1.2 Purchase Price. The aggregate purchase price to be paid by Buyer for the HOC Common Stock shall be $1,000 in cash and the undertaking and agreement by Buyer to contribute at Closing all of the outstanding capital stock of Caroline to Houston.

1.3 Closing. The purchase and sale of the HOC Common Stock shall take place at the offices of Barton & Schneider, L.L.P., 700 N. St. Mary's, Suite 1825, San Antonio, Texas 78206, or such other location as agreed by the parties, on November 30, 1995, or at such other time and place as the Seller and the Buyer mutually agree upon in writing (which time and place are designated as the "Closing"). At the Closing the Seller shall deliver to the Buyer certificates representing the HOC Common Stock which Buyer is purchasing, together with a stock power transferring the HOC Common Stock to Buyer against delivery to the Seller of the Purchase Price as follows:

(a) A check for $1,000 made payable to Seller;

(b) Certificates representing all of the outstanding capital stock of Caroline together with a stock power transferring the stock to Houston; and

(c) A Promissory Note from HOC to Seller in the amount of $8,530 on terms set forth in paragraph 4.3 hereof.

2. REPRESENTATIONS AND WARRANTIES OF THE SELLER AND HOUSTON.

The Seller hereby represents and warrants to Buyer, that, now or prior to Closing:

2.1 Organization, Good Standing and Qualification. Houston is a corporation duly organized, validly existing and in good standing under the laws of the State of Delaware and has all requisite corporate power and authority to carry on its business as now conducted. Houston is duly qualified to transact business and is in good standing in each jurisdiction in which the failure so to qualify would have a material adverse effect on its business or properties.

2.2 Capitalization. The authorized capital of Houston consists of (i) 50,000,000 shares of $0.001 par common stock of which 2,795,171 shares are issued and outstanding, of which 2,511,345 shares are owned by the Seller and 283,326 shares are owned by public shareholders, (ii) 5,000,000 shares of preference stock, none of which is issued and outstanding; and (iii) 5,000,000 shares of preferred stock, none of which is issued and outstanding.

2.3 Subsidiaries. Houston does not presently own or control, directly or indirectly, any interest in any other corporation, association, or other business entity.

2.4 Authorization. The performance of all obligations of Seller hereunder has been taken or will be taken prior to the Closing, and this Agreement constitutes a valid and legally binding obligation of the Seller, enforceable in accordance with its terms.

2.5 Valid Issuance of Common Stock.

(a) The HOC Common Stock which is being sold by the Seller and purchased by the Buyer hereunder, when assigned and delivered in accordance with the terms hereof for the consideration expressed herein, will be sold and delivered in compliance with all applicable federal and state securities laws and shall be free of all liens, claims or rights of any other person or entity; provided Buyer executes and delivers an investment letter in the form of Schedule 2.5(a) hereof.

(b) The shares of HOC Common Stock are all duly and validly authorized and issued, fully paid and nonassessable.

(c) There are no shares of Common Stock of Houston issued and outstanding other than as set forth in Section 2.2, no preemptive rights, rights of first refusal or other third party rights in favor of any person or entity.

(d) There are 400 or more shareholders of record of Houston.

2.6 Governmental Consents. No consent, approval, order or authorization of, or registration, qualification, designation, declaration or filing with, any federal, state, local or provincial governmental authority on the part of the Seller is required in connection with the consummation of the transactions contemplated by this Agreement.

2.7 Litigation. There is no action, suit, proceeding or investigation pending or currently threatened against Seller or Houston which questions the validity of this Agreement or the right of Houston or the Seller to enter into it, or to consummate the transactions contemplated hereby, or which might result, in the aggregate, in any material adverse changes in the assets, condition, affairs or prospects of Houston. Houston is not a party or subject to the provisions of any order, writ, injunction, judgment or decree of any court or government agency or instrumentality.

2.8 Disclosure. The Seller has fully provided and made available to Buyer all the information which Buyer has requested in making the investment decision as to whether to purchase the HOC Common Stock and there is no other information of any kind of which Seller is aware which in Seller's judgment acting in good faith would be material.

2.9 Corporate Documents. The Articles of Incorporation and Bylaws of Houston are in the form which has been provided to Buyer previously.

2.10 Title to Property and Assets. Houston owns no property or assets and since Seller acquired control of Houston in November 1994, has engaged in no business, has acquired no assets, and has incurred no obligations, other than the amount of $8,500 due to Seller.

2.11 Financial Statements. The Seller has delivered to Buyer Houston's audited financial statements (balance sheet and profit and loss statement), at June 30, 1995. There are no financial statements which are available subsequent to the June 30, 1995, statements. The Financial Statements have been prepared in accordance with generally accepted accounting principles applied on a consistent basis throughout the periods indicated and fairly present the financial condition and operating results of Houston as of the dates, and for the periods, indicated therein, subject to normal audit adjustments.

2.12 Changes. Since December 1, 1994, there has not been:

(a) Any change in the assets, liabilities, financial condition or operating results of the Houston from that reflected in the Financial Statements, except changes in the ordinary course of business which have not been, in the aggregate, materially adverse;

(b) Any damage, destruction or loss, whether or not covered by insurance, materially and adversely affecting the assets, properties, financial condition, operating results, prospects or business of the Houston;

(c) Any waiver by Houston of a valuable right or of a material debt owed to it, except allowing outstanding warrants for the acquisition of Houston shares to expire;

(d) Any satisfaction or discharge of any lien, claim or encumbrance or payment of any obligation by Houston, except in the ordinary course of business and which is not material to the assets, properties, financial condition, operating results or business of the Houston; or

(e) Any change or amendment to a material contract or arrangement by which Houston or any of its assets or properties is bound or subject.

2.13 Insurance. Houston has no insurance policies.

2.14 Obligations, Agreement and Actions. Houston is not bound by or subject to, and none of its assets or properties is bound by or subject to, any written or oral contract, commitment or arrangement with any person or entity.

2.15 Absence of Undisclosed Liabilities. Houston has no material liabilities or obligations, either accrued or unaccrued, fixed or contingent, except as set forth on Schedule 2.15 attached hereto.

2.16 Tax Returns and Audits. Houston and Seller have filed, on a timely basis, all income, franchise and other tax returns and reports of every nature required to be filed by each of them, accurately reflecting any and all net operating losses, tax credit carryovers and carrybacks, and taxes owing to the United States, or any other

government or any subdivision thereof, domestic or foreign, state or local, or any other taxing authority, and has paid in full all taxes shown on said returns to be due and owing. There are and will hereafter be no tax deficiencies (including penalties and interest) of any kind assessed against Houston or Seller, with respect to any taxable periods ending on or before the Closing other than tax deficiencies relating solely to an election (or deemed election) pursuant to Section 338 of the Internal Revenue Code with respect to the acquisition of the Common Stock by Buyer which the parties hereto agree shall not be treated as a liability of Houston or a breach of or a misstatement in any representation or warranty of Seller made herein.

3. Representations and Warranties of the Buyer.

The Buyer hereby represents and warrants to Seller that:

3.1 Purchase Entirely for Own Account. This Agreement is made with the Buyer, and each of them, in reliance upon the Buyer's representations to the Seller that the HOC Common Stock to be received by the Buyer will be acquired for investment for the Buyer's own accounts, not as nominees or agents, and not with a view to the resale or distribution of any part thereof, and that the Buyer has no present intention of selling or granting any participation in or otherwise distributing the same.

3.2 Accredited Investing. Buyer is an "accredited investor" within the meaning of Rule 501 of Regulation D promulgated by the Securities and Exchange Commission ("SEC"), as presently in effect.

3.3 Organization, Good Standing and Qualification. Caroline is a corporation duly organized, validly existing and in good standing under the laws of the State of New York and has all requisite corporate power and authority to carry on its business as now conducted. Caroline is duly qualified to transact business and is in good standing in each jurisdiction in which the failure so to qualify would have a material adverse effect on its business or properties.

3.4 Authorization. All action on the part of the Buyer necessary for the authorization, execution and delivery of this Agreement, and the performance of all obligations of Buyer hereunder has been taken or will be taken prior to the Closing, and this Agreement constitutes a valid and legally binding obligation of Buyer, enforceable in accordance with its terms.

3.5 Valid Issuance of Common Stock.

(a) The common stock of Caroline which is being transferred by Buyer to Houston as part of the purchase price, when delivered in accordance with the terms hereof for the consideration expressed herein, will be issued in compliance with all applicable federal and state securities laws.

(b) The outstanding shares of common stock of Caroline are all duly and validly authorized and issued, fully paid and nonassessable.

(c) The shares of common stock of Caroline are each and all free and clear of all liens, claims, options, charges, security interests, encumbrances or restriction of any kind.

3.6 Governmental Consents. No consent, approval, order or authorization of, or registration, qualification, designation, declaration or filing with, any federal, state, local or provincial governmental authority on the part of the Buyer is required in connection with the consummation of the transactions contemplated by this Agreement.

3.7 Litigation. There is no action, suit, proceeding or investigation pending or currently threatened against the Buyer which questions the validity of this Agreement or the right of Buyer to enter into it, or to consummate the transactions contemplated hereby, or which might result, in the aggregate, in any material adverse changes in the assets, condition, affairs or prospects of Caroline.

3.8 Disclosure. The Buyer has fully provided and made available to Seller all the information which Seller has requested in making the investment decision as to whether to sell the HOC Common Stock and there is no other information of any kind of which Buyer is aware of which in Buyer's judgment acting in good faith would be material.

3.9 Corporate Documents. The Articles of Incorporation and Bylaws of Caroline are in the form which will be provided to the Seller upon Closing.

3.10 Title to Property and Assets. Caroline owns its property and assets free and clear of all mortgages, liens, loans and encumbrances, except such encumbrances and liens which arise in the ordinary course of business and which do not materially impair Caroline's ownership or use of such property or assets and except as reflected on the financial statements delivered to Seller by Buyer. With respect to the property and assets leased, Caroline is in compliance with such leases and, to the best of Buyer's knowledge, holds valid leasehold interests free of any liens, claims or encumbrances.

3.11 Financial Statements. Caroline has delivered to Seller its unaudited financial statements (balance sheet and profit and loss statement), at the dates set forth thereon, all attached as Schedule 3.11 hereof. The financial statements have been prepared in accordance with generally accepted accounting principles applied on a consistent basis throughout the periods indicated and fairly present the financial condition and operating results of the Buyer as of the dates, and for the periods, indicated therein, subject to normal audit adjustments.

3.12 Changes. Since the date on each of the financial statements attached on Schedule 3.11 hereof, there has not been:

a) Any change in the assets, liabilities, financial condition or operating results of Caroline's from that reflected in the financial statements, except changes in the ordinary course of business which have not been, in the aggregate, materially adverse;

b) Any damage, destruction or loss, whether or not covered by insurance, materially and adversely affecting the assets, properties, financial condition, operating results, prospects or business of Caroline;

c) Any waiver by Caroline of a valuable right or of a material debt owed to it;

d) Any satisfaction or discharge of any lien, claim or encumbrance or payment of any obligation by Caroline, except in the ordinary course of business and which is not material to the assets, properties, financial condition, operating results or business of Caroline; or

e) Any change or amendment to a material contract or arrangement by which Caroline or any of its assets or properties is bound or subject.

3.13 Insurance. Caroline has in full force and effect fire and casualty insurance policies, with extended coverage, sufficient in amount (subject to reasonable deductibles) to allow each to replace any of its respective material properties that might be damaged or destroyed.

3.14 Obligations, Agreements and Actions. Caroline is not bound by or subject to, and none of its assets or properties is bound by or subject to, any written or oral contract, commitment or arrangement with any person or entity.

3.15 Absence of Undisclosed Liabilities. Caroline has no material liabilities or obligations, either accrued or unaccrued, fixed or contingent, except as set forth on Schedule 3.15 attached hereto.

3.16 Tax Returns and Audits. Caroline has filed, on a timely basis, all income, franchise and other tax returns and reports of every nature required to be filed by it, accurately reflecting any and all net operating losses, tax credit carryovers and carrybacks, and taxes owing to the United States, or any other government or any subdivision thereof, domestic or foreign, state or local, or any other taxing authority, and has paid in full all taxes shown on said returns to be due and owing. There are and will hereafter be no tax deficiencies (including penalties and interest) of any kind assessed against Caroline, with respect to any taxable periods ending on or before the Closing other than tax deficiencies relating solely to an election (or deemed election) pursuant to Section 338 of the Internal Revenue Code with respect to the acquisition of the HOC Common Stock by Buyer which the parties hereto agree shall not be treated as a liability of Buyer or a breach of or a misstatement in any representation or warranty of Buyer made herein.

4. Conditions of the Buyer's Obligations at Closing.

The obligations of Buyer under subsection 1.1 of this Agreement are subject to the fulfillment on or before the Closing of each of the following conditions:

4.1 Representations and Warranties of the Seller. The representations and warranties of the Seller contained in Section 2 shall be true on and as of the Closing with the same effect as though such representations and warranties had been made on and as of the date of such Closing.

4.2 Performance by the Seller. The Seller shall have performed and complied with all agreements, obligations and conditions contained in this Agreement that are required to be performed or complied with by it on or before the Closing.

4.3 Other Agreement. Buyer shall be obligated to purchase up to all of Seller's remaining Common Stock for the sum of $75,000 in cash which amount is subject to an escrow agreement among Raymond J. Schneider ("Schneider"), Richard W. Morrell and Harvey V. Risien, Jr. (the "Escrow Agreement"). In addition, Houston shall pay to Seller an amount in cash equal to $8,530 payable over a five (5) year period in self-liquidating

monthly installments, together with interest accruing at a rate of six percent (6%) per annum, as represented in the form of note attached hereto as Schedule 4.3.

5. Conditions of the Seller's Obligations at Closing.

The obligations of the Seller to Buyer under this Agreement are subject to the fulfillment on or before the Closing of each of the following conditions by the Buyer and the Seller:

5.1 Representations and Warranties. The representations and warranties of the Buyer contained in Section 3 shall be true on and as of the Closing with the same effect as though such representations and warranties had been made on and as of the Closing.

5.2 Performance by the Buyer. The Buyer shall have performed and complied with all agreements, obligations and conditions contained in this Agreement that are required to be performed or complied with by him on or before the Closing.

5.3 Escrow Agreement. Buyer shall deliver to Seller a fully executed Escrow Agreement together with written acknowledgment from Schneider that he has possession of the certificate of deposit and power of attorney called for in the Escrow Agreement.

6. Survival of Representations and Warranties and Indemnification

6.1 Survival of Representations and Warranties. Notwithstanding the closing of the transactions contemplated by this Agreement, the representations and warranties of Seller and Buyer contained in this Agreement shall survive the closing until the date one (1) year after the date of the Closing and not thereafter.

6.2 Indemnification by Seller. Seller covenants and agrees to indemnify and save harmless Buyer from any and all direct costs, expenses, losses, damages and liabilities incurred or suffered directly or indirectly by Buyer (including reasonable legal fees and costs) proximately resulting from or attributable to the material breach of, or a material misstatement in, any one or more of the representations or warranties of Seller made in or pursuant to this Agreement. Notwithstanding any other provision of this Agreement, Buyer acknowledges and agrees that no representation of Seller hereunder or omission from this Agreement or his schedules shall be deemed materially misleading and no warranty hereunder by Seller shall be deemed breached if Buyer has obtained accurate information regarding the matter prior to the Closing and in no event shall Seller's liability for any such event exceed $75,000 or at Seller's option the return of the shares of Houston retained by Seller. Further, Seller shall not be liable or responsible for any act, omission or conduct respecting the management or operation of Houston occurring after the date of Closing.

6.3 Indemnification by Buyer. Buyer covenants and agrees to indemnify and save harmless Seller from any and all costs, expenses, losses, damages and liabilities incurred or suffered by Seller (including reasonable legal fees and costs) proximately resulting from or attributable to the material breach of, or a material misstatement in, any one or more of the representations or warranties of Buyer made in or pursuant to this Agreement or which relate to acts, omissions or conduct respecting the management or operation of Houston occurring after Closing.

6.4 DEFENSE AGAINST ASSERTED CLAIMS. If any claim or assertion of liability is made or asserted by a third party against a party indemnified pursuant to this Article 6 ("Indemnified Party") based on any liability or absence of right which, if established, would constitute a matter for which the Indemnified Party would be entitled to indemnification by another party hereto ("The Indemnifying Party") the Indemnified Party shall with reasonable promptness give to the Indemnifying Party written notice of the claim or assertion of liability and request the Indemnifying Party to defend the same. The Indemnifying Party shall have the right to defend against such liability or assertion, in which event the Indemnifying Party shall give written notice to the Indemnified Party of the acceptance of defense of such claim and the identity of counsel selected by the Indemnifying Party with respect to such matters. The Indemnified Party shall be entitled to participate with the Indemnifying Party in such defense and also shall be entitled at its option to employ separate counsel for such defense at the expense of the Indemnified Party. In the event the Indemnifying party does not accept the defense of the matter as provided above or in the event that the Indemnifying Party or its counsel fails to use reasonable care in maintaining such defense, the Indemnified Party shall have the full right to employ counsel for such defense at the expense of the Indemnifying Party. All parties hereto will cooperate with each other in the defense of any such action and the relevant records of each shall be available to the other with respect to such defense.

7. MISCELLANEOUS.

7.1 SUCCESSORS AND ASSIGNS. The terms and conditions of this Agreement shall inure to the benefit of and be binding upon the respective successors and assigns of the parties provided any such assignment shall have first been approved in writing by the other party to this Agreement than the assignor. Nothing in this Agreement, express or implied, is intended to confer upon any party other than the parties hereto or their respective successors and assigns any rights, remedies, obligations or liabilities under or by reason of this Agreement, except as expressly provided in this Agreement.

7.2 GOVERNING LAW. This Agreement shall be governed by and construed under the laws of the State of Texas as applied to agreements among Texas residents entered into and to be performed entirely within Texas.

7.3 COUNTERPARTS. This Agreement may be executed in two or more counterparts, each of which shall be deemed an original but all of which together shall constitute one and the same instrument.

7.4 TITLES AND SUBTITLES. The titles and subtitles used in this Agreement are used for convenience only and are not to be considered in construing or interpreting this Agreement.

7.5 NOTICES. Any notice required or permitted under this Agreement shall be given in writing and shall be deemed effectively given upon personal delivery to the party to be notified or upon deposit with the United States Post Office, by registered or certified mail, postage prepaid and addressed to the party to be notified at the address indicated for such party on the signature page hereof, or at such other address as such party may designate by ten (10) days' advance written notice to the other parties.

7.6 FINDER'S FEE. Each party represents that it neither is nor will be obligated for any finders' fee or commission in connection with this transaction.

7.7 EXPENSES. Each party shall pay its or his respective costs and expenses incurred with respect to the negotiation, execution, delivery and performance of this Agreement.

7.8 AMENDMENTS AND WAIVERS. Any term of this Agreement may be amended and the observance of any term of this Agreement may be waived (either generally or in a particular instance and either retroactively or prospectively), only with the written consent of all parties hereto.

7.9 SEVERABILITY. If one or more provisions of this Agreement are held to be unenforceable under applicable law, such provision shall be excluded from this Agreement and the balance of the Agreement shall be interpreted as if such provision were so excluded and shall be enforceable in accordance with its terms.

7.10 BINDING AGREEMENT. This Agreement shall inure to the benefit of, and be binding upon, the parties hereto, together with their respective legal representative, successors and assigns.

7.11 ENTIRE AGREEMENT. This Agreement and all exhibits and schedules hereto which are incorporated herein and the Escrow Agreement constitute the entire agreement and understanding between the parties with respect to the subject matter hereof and supersede all prior or contemporaneous agreements, any representations or communications, whether written or oral, between the parties. The terms of this Agreement may not be amended except by a writing executed by all parties.

IN WITNESS WHEREOF, the parties have executed this Agreement as of the date first above written.

SELLER:

/s/ HARVEY V. RISIEN, JR.

Harvey V. Risien, Jr.

BUYER:

/s/ RICHARD W. MORRELL

Richard W. Morrell

35 CAROLINE CORPORATION:

By: /s/ RW MORRELL

Name: RW Morrell

Title: Pres

EXHIBIT 21.1

LIST OF SUBSIDIARIES OF THE REGISTRANT

35 Caroline Corporation, a New York corporation

EXHIBIT 21.2

NYS DEPARTMENT OF STATE

FILING RECEIPT — INCORPORATION (BUSINESS)

CORPORATION NAME

35 CAROLINE CORP.

DATE FILED	DURATION & COUNTY CODE		FILM NUMBER	CASH NUMBER
06/02/89	P	SARA	CO17999-3	412568

NUMBER AND KIND OF SHARES: 100NPV

LOCATION OF PRINCIPAL OFFICE:

ADDRESS FOR PROCESS:

THE CORPORATION
35 CAROLINE STREET

SARATOGA SPRINGS NY 12866

REGISTERED AGENT:

FEES AND/OR TAX PAID AS FOLLOWS:

AMOUNT OF CHECK $_____ AMOUNT OF MONEY ORDER $_____ AMOUNT OF CASH $00110.00

$6.00 DOLLAR FEE TO COUNTY

$ 100.00 FILING
$ 00010.00 TAX
$ CERTIFIED COPY
$ CERTIFICATE

FILER NAME AND ADDRESS

MCMAHON & MCMAHON, P.C.
16 LAKE AVENUE

SARATOGA SPRINGS NY 12866

TOTAL PAYMENT $ 0000110.00

REFUND OF $

TO FOLLOW

GAIL S SHAFFER -- SECRETARY OF STATE

CERTIFICATE OF INCORPORATION

OF

35 CAROLINE CORP.

Under the Section 402 of the Business Corporation Law

The undersigned for the purpose of forming a corporation pursuant to section 402 of the Business Corporation Law of the State of New York, does hereby certify and set forth:

1. The name of this corporation is 35 CAROLINE CORP.

2. The purposes of the corporation are to carry on the business or purchase, sale, rental and repair of motor vehicles and may be organized under the Business Corporation law of the State of New York. The corporation is not formed to engage in any act or activity requiring the consent or approval of any state official, department, board, agency, or other body without such consent or approval first being obtained.

3. The office of this corporation is to be located in the County of Saratoga, State of New York.

4. The aggregate number of shares which this corporation shall have authority to issue is One hundred (100) shares of one class only, which shares are without par value.

5. The Secretary of State of New York is hereby designated the agent of this corporation upon whom process against this corporation may be served. The post office address to which the Secretary of State shall mail a copy of any process against

this corporation served upon him as agent of this corporation is 35 Caroline Street, City of Saratoga Springs, County of Saratoga, State of New York 12866.

IN WITNESS WHEREOF, the undersigned have executed, signed and acknowledged this certificate of incorporation this 26th day of May, 1989.

/s/ JOHN MARK

JOHN MARK
Incorporator
40 Van Dam St.
Saratoga Springs, NY 12866

/s/ RICHARD W. MORRELL

RICHARD W. MORRELL
Incorporator
3 Third St.
Round Lake, NY 12151

STATE OF NEW YORK

SS:

COUNTY OF SARATOGA:

On this 26th day of May, 1989 before me the subscriber, personally appeared JOHN MARK AND RICHARD W. MORRELL me personally known and known to me to be the same persons described in and who executed the within Instrument and they acknowledged to me that they executed the same.

/s/ EDWARD J. MCMAHON

Notary Public.

EDWARD J. MCMAHON
Notary Public, Saratoga County
State of New York
Commission Expires 12/31/90

EXHIBIT 21.3

BY-LAWS

OF

35 CAROLINE CORP.

ARTICLE I - OFFICES

The office of the Corporation shall be located in the City, County and State designated in the Certificate of Incorporation. The Corporation may also maintain offices at such other places within or without the United States as the Board of Directors may, from time to time, determine.

ARTICLE II - MEETING OF SHAREHOLDERS

Section 1 - Annual Meetings:

The annual meeting of the shareholders of the Corporation shall be held within five months after the close of the fiscal year of the Corporation, for the purpose of electing directors, and transacting such other business as may properly come before the meeting.

Section 2 - Special Meetings:

Special meetings of the shareholders may be called at any time by the Board of Directors or by the President, and shall be called by the President or the Secretary at the written request of the holders of ten percent (10%) of the shares then outstanding and entitled to vote thereat, or as otherwise required under the provisions of the Business Corporation Law.

Section 3 - Place of Meetings:

All meetings of shareholders shall be held at the principal office of the Corporation, or at such other places within or without the State of New York as shall be designated in the notices or waivers of notice of such meetings.

Section 4 - Notice of Meetings:

(a) Written notice of each meeting of shareholders, whether annual

or special, stating the time when and place where it is to be held, shall be served either personally or by mail, not less than ten or more than fifty days before the meeting, upon each shareholder of record entitled to vote at such meeting, and to any other shareholder to whom the giving of notice may be required by law. Notice of a special meeting shall also state the purpose or purposes for which the meeting is called, and shall indicate that it is being issued by, or at the direction of, the person or persons calling the meeting. If, at any meeting, action is proposed to be taken that would, if taken, entitle shareholders to receive payment for their shares pursuant to the Business Corporation Law, the notice of such meeting shall include a statement of that purpose and to that effect. If mailed, such notice shall be directed to each such shareholder at his address, as it appears on the records of the shareholders of the Corporation, unless he shall have previously filed with the Secretary of the Corporation a written request that notices intended for him be mailed to some other address, in which case, it shall be mailed to the address designated in such request.

(b) Notice of any meeting need not be given to any person who may become a shareholder of record after the mailing of such notice and prior to the meeting, or to any shareholder who attends such meeting, in person or by proxy, or to any shareholder who, in person or by proxy, submits a signed waiver of notice either before or after such meeting. Notice of any adjourned meeting of shareholders need not be given, unless otherwise required by statute.

Section 5 - Quorum:

(a) Except as otherwise provided herein, or by statute, or in the Certificate of Incorporation (such Certificate and any amendments thereof being hereinafter collectively referred to as the "Certificate of Incorporation"), at all meetings of shareholders of the Corporation, the presence at the commencement of such meetings in person or by proxy of shareholders holding of record a majority of the total number of shares of the Corporation then issued and outstanding and entitled to vote, shall be necessary and sufficient to constitute a quorum for the transaction of any business. The withdrawal of any shareholder after the commencement of a meeting shall have no effect on the existence of a quorum, after a quorum has been established at such meeting.

(b) Despite the absence of a quorum at any annual or special meeting of shareholders, the shareholders, by a majority of the votes cast by the holders of shares to vote thereon, may adjourn the meeting. At any such adjourned meeting at which a quorum is

present, any business may be transacted which might have been transacted at the meeting as originally called if a quorum had been present.

Section 6 - Voting:

(a) Except as otherwise provided by statute or by the Certificate of Incorporation, any corporate action, other than the election of directors to be taken by vote of the shareholders, shall be authorized by a majority of votes cast at a meeting of shareholders by the holders of shares entitled to vote thereon.

(b) Except as otherwise provided by statute or by the Certificate of Incorporation, at each meeting of shareholders, each holder of record of stock of the Corporation entitled to vote thereat, shall be entitled to one vote for each share of stock registered in his name on the books of the Corporation.

(c) Each shareholder entitled to vote or to express consent or dissent without a meeting, may do so by proxy; provided, however, that the instrument authorizing such proxy to act shall have been executed in writing by the shareholder himself, or by his attorney-in-fact thereunto duly authorized in writing. No proxy shall be valid after the expiration of eleven months from the date of its execution, unless the persons executing it shall have specified therein the length of time it is to continue in force. Such instrument shall be exhibited to the Secretary at the meeting and shall be filed with the records of the Corporation.

(d) Any resolution in writing, signed by all of the shareholders entitled to vote thereon, shall be and constitute action by such shareholders to the effect therein expressed, with the same force and effect as if the same had been duly passed by unanimous vote at a duly called meeting of shareholders and such resolution so signed shall be inserted in the Minute Book of the Corporation under its proper date.

ARTICLE III - BOARD OF DIRECTORS

Section 1 - Number, Election and Term of Office:

(a) The number of the directors of the Corporation shall be two (2), unless and until otherwise determined by vote of a majority of the entire Board of Directors. The number of Directors shall not be less than three, unless all of the outstanding shares are owned beneficially and of record by less than three shareholders, in which event the number of directors shall not be less than the number of shareholders.

(b) Except as may otherwise be provided herein or in the Certificate of Incorporation, the members of the Board of Directors of the Corporation, who need not be shareholders, shall be elected by a majority of the votes cast at a meeting of shareholders, by the holders of shares entitled to vote in the election.

(c) Each director shall hold office until the annual meeting of the shareholders next succeeding his election, and until his successor is elected and qualified, or until his prior death, resignation or removal.

Section 2 - Duties and Powers:

The Board of Directors shall be responsible for the control and management of the affairs, property and interests of the Corporation, and may exercise all powers of the corporation, except as are in the Certificate of Incorporation or by statute expressly conferred upon or reserved to the shareholders.

Section 3 - Annual and Regular Meetings; Notice:

(a) A regular annual meeting of the Board of Directors shall be held immediately following the annual meeting of the shareholders, at the place of such annual meeting of shareholders.

(b) The Board of Directors, from time to time, may provide by resolution for the holding of other regular meetings of the Board of Directors, and may fix the time and place thereof.

(c) Notice of any regular meeting of the Board of Directors shall not be required to be given and, if given, need not specify the purpose of the meeting; provided, however, that in case the Board of Directors shall fix or change the time or place of any regular meeting, notice of such action shall be given to each director who shall not have been present at the meeting at which such action was taken within the time limited, and in the manner set forth in paragraph (b) of Section 4 of this Article III, with respect to special meetings, unless such notice shall be waived in the manner set forth in paragraph (c) of such Section 4.

Section 4 - Special meetings; Notice:

(a) Special meetings of the Board of Directors shall be held whenever called by the President or by one of the directors, at such time and place as may be specified in the respective notices or waivers of notice thereof.

(b) Notice of special meetings shall be mailed directly to each director, addressed to him at his residence or usual place of business, at least two (2) days before the day on which the meeting is to be held, or shall be sent to him at such place by telegram, radio or cable, or shall be delivered to him personally or given to him orally, not later than the day before the day on which the meeting is to be held. A notice, or waiver of notice, except as required by Section 8 of this Article III, need not specify the purpose of the meeting.

(c) Notice of any special meeting shall not be required to be given to any director who shall attend such meeting without protesting prior thereto or at its commencement, the lack of notice to him, or who submits a signed waiver of notice, whether before or after the meeting. Notice of any adjourned meeting shall not be required to be given.

Section 5 - Chairman:

At all meetings of the Board of Directors, the Chairman of the Board, if any and if present, shall preside. If there shall be no Chairman, or he shall be absent, then the President shall preside, and in his absence, a Chairman chosen by the Directors shall preside.

Section 6 - Quorum and Adjournments:

(a) At all meetings of the Board of Directors, the presence of a majority of the entire Board shall be necessary and sufficient to constitute a quorum for the transaction of business, except as otherwise provided by law, by the Certificate of Incorporation, or by these By-Laws. Participation of any one or more members of the Board by means of a conference telephone or similar communications equipment, allowing all persons participating in the meeting to hear each other at the same time, shall constitute presence in person at any such meetings.

(b) A majority of the directors present at the time and place of any regular or special meeting, although less than a quorum, may adjourn the same from time to time without notice, until a quorum shall be present.

Section 7 - Manner of Acting:

(a) At all meetings of the Board of Directors, each director present shall have one vote, irrespective of the number of shares of stock, if any, which he may hold.

(b) Except as otherwise provided by statute, by the Certificate of Incorporation, or these By-Laws, the action of a majority of the directors present at any meeting at which a quorum is present shall be the act of the Board of Directors. Any action authorized, in writing, by all of the directors entitled to vote thereon and filed with the minutes of the Corporation shall be the act of the Board of Directors with the same force and effect as if the same had been passed by unanimous vote at a duly called meeting of the Board.

Section 8 - Vacancies:

Any vacancy in the Board of Directors occurring by reason of an increase in the number of directors, or by reason of the death, resignation, disqualification, removal (unless a vacancy created by the removal of a director by the shareholders shall be filled by the shareholders at the meeting at which the removal was effected) or inability to act of any director, or otherwise, shall be filled for the unexpired portion of the term by a majority vote of the remaining directors, though less than a quorum, at any regular meeting or special meeting of the Board of Directors called for that purpose.

Section 9 - Resignation:

Any director may resign at any time by giving written notice to the Board of Directors, the President or the Secretary of the Corporation. Unless otherwise specified in such written notice, such resignation shall take effect upon receipt thereof by the Board of Directors or such officer, and the acceptance of such resignation shall not be necessary to make it effective.

Section 10 - Removal:

Any director may be removed with or without cause at any time by the shareholders, at a special meeting of the shareholders called for that purpose, and may be removed for cause by action of the Board.

Section 11 - Salary:

No stated salary shall be paid to directors, as such, for their services, but by resolution of the Board of Directors a fixed sum and expenses of attendance, if any, may be allowed for attendance at each regular or special meeting of the Board; provided, however, that nothing herein contained shall be construed to preclude any director from serving the Corporation in any other capacity and receiving compensation therefor.

Section 12 - Contracts:

(a) No contract or other transaction between this Corporation and any other Corporation shall be impaired, affected or invalidated nor shall any director be liable in any way by reason of the fact that any one or more of the directors of this Corporation is or are interested in, or is a director or officer, or are directors or officers of such other Corporation, provided that such facts are disclosed or made known to the Board of Directors.

(b) Any director, personally and individually, may be a party to or may be interested in any contract or transaction of this Corporation, and no director shall be liable in any way by reason of such interest, provided that the fact of such interest be disclosed or made known to the Board of Directors, and provided that the Board of Directors shall authorize, approve or ratify such contract or transaction by the vote (not counting the vote of any such director) of a majority of a quorum, notwithstanding the presence of any such director at the meeting at which such action is taken. Such director or directors may be counted in determining the presence of a quorum at such meeting. This Section shall not be construed to impair or invalidate or in any way affect any contract or other transaction which would otherwise be valid under the law (common, statutory or otherwise) applicable thereto.

Section 13 - Committees:

The Board of Directors, by resolution adopted by a majority of the entire Board, may from time to time designate from among its members an executive committee and such other committees, and alternate members thereof, as they deem desirable, each consisting of three or more members, with such powers and authority (to the extent permitted by law) as may be provided in such resolution. Each such committee shall serve at the pleasure of the Board. At all meetings of a committee, the presence of all members of the committee shall be necessary to constitute a quorum for the transaction of business, except as otherwise provided by said resolution or by these By-laws. Participation of any one or more members of the committee by means of a conference telephone or similar communications equipment allowing all persons participating in the meeting to hear each other at the same time, shall constitute presence in person at any such meeting. Any action authorized in writing by all of the members of a committee entitled to vote thereon and filed with the minutes of the Committee shall be the act of the committee with the same force and effect as if the same had been passed by unanimous vote at a duly called meeting of the committee.

ARTICLE IV - OFFICERS

Section I - Number, Qualifications, Election and Term of Office;

(a) The officers of the Corporation shall consist of a President, a Secretary, a Treasurer, and such other officers, including a Chairman of the Board of Directors, and one or more Vice Presidents, as the Board of Directors may from time to time

deem advisable. Any officer other than the Chairman of the Board of Directors may be, but is not required to be, a director of the Corporation. Any two or more offices may be held by the same person.

(b) The officers of the Corporation shall be elected by the Board of Directors at the regular annual meeting of the Board following the annual meeting of shareholders.

(c) Each officer shall hold office until the annual meeting of the Board of Directors next succeeding his election, and until his successor shall have been elected and qualified, or until his death, resignation or removal.

Section 2 - Resignation:

Any officer may resign at any time by giving written notice of such resignation to the Board of Directors, or to the President or the Secretary of the Corporation. Unless otherwise specified in such written notice, such resignation shall take effect upon receipt thereof by the Board of Directors or by such officer, and the acceptance of such resignation shall not be necessary to make it effective.

Section 3 - Removal:

Any officer may be removed, either with or without cause, and a successor elected by the Board at any time.

Section 4 - Vacancies:

A vacancy in any office by reason of death, resignation, inability to act, disqualification, or any other cause, may at any time be filled for the unexpired portion of the term by the Board of Directors.

Section 5 - Duties of Officers:

Officers of the Corporation shall, unless otherwise provided by the Board of Directors, each have such powers and duties as generally pertain to their respective offices as well as such powers and duties as may be set forth in these by-laws, or may from time to time be specifically conferred or imposed by the Board of Directors. The President shall be the chief executive officer of the Corporation.

Section 6 - Sureties and Bonds:

In case the Board of Directors shall so require, any officer, employee or agent of the Corporation shall execute to the Corporation a bond in such sum, and with such surety or sureties as the Board of Directors may direct, conditioned upon the faithful performance of his duties to the Corporation, including responsibility for negligence and for the accounting for all property, funds or securities of the Corporation which may come into his hands.

Section 7 - Shares of Other Corporations:

Whenever the Corporation is the holder of shares of any other corporation, any right or power of the Corporation as such shareholder (including the attendance, acting and voting at shareholders' meetings and execution of waivers, consents, proxies or other instruments) may be exercised on behalf of the Corporation by the President, any Vice President, or such other person as the Board of Directors may authorize.

ARTICLE V - SHARES OF STOCK

Section 1 - Certificate of Stock:

(a) The certificates representing shares of the Corporation shall be in such form as shall be adopted by the Board of Directors, and shall be numbered and registered in the order issued. They shall bear the holder's name and the number of shares, and shall be signed by (i) the Chairman of the Board or the President or a Vice President, and (ii) the Secretary or Treasurer, or any Assistant Secretary or Assistant Treasurer, and may bear the corporate seal.

(b) No certificate representing shares shall be issued until the full amount of consideration therefor has been paid, except as otherwise permitted by law.

(c) The Board of Directors may authorize the issuance of certificates for fractions of a share which shall entitle the holder to exercise voting rights, receive dividends and participate in liquidating distributions, in proportion to the fractional holdings; or it may authorize the payment in

cash of the fair value of fractions of a share as of the time when those entitled to receive such fractions are determined or it may authorize the issuance, subject to such conditions as may be permitted by law, of scrip in registered or bearer form over the signature of an officer or agent of the Corporation, exchangeable as therein provided for full shares, but such scrip shall not entitle the holder to any rights of a shareholder, except as therein provided.

Section 2 - Lost or Destroyed Certificates:

The holder of any certificate representing shares of the Corporation shall immediately notify the Corporation of any loss or destruction of the certificate representing the same. The Corporation may issue a new certificate in the place of any certificate theretofore issued by it, alleged to have been lost or destroyed. On production of such evidence of loss or destruction as the Board of Directors in its discretion may require, the Board of Directors may, in its discretion, require the owner of the lost or destroyed certificate, or his legal representatives, to give the Corporation a bond in such sum as the Board may direct, and with such surety or sureties as may be satisfactory to the Board, to indemnify the Corporation against any claims, loss, liability or damage it may suffer on account of the issuance of the new certificate. A new certificate may be issued without requiring any such evidence or bond when, in the judgment of the Board of Directors, it is proper so to do.

Section 3 - Transfers of shares;

(a) Transfers of shares of the Corporation shall be made on the share records of the Corporation only by the holder of record thereof, in person or by his duly authorized attorney, upon surrender for cancellation of the certificate or certificates representing such shares, with an assignment or power of transfer endorsed thereon or delivered therewith, duly executed. with such proof of the authenticity of the signature and of authority to transfer and of payment of transfer taxes as the Corporation or its agents may require.

(b) The corporation shall be entitled to treat the holder of record of any share or shares as the absolute owner thereof for

all purposes and, accordingly, shall not be bound to recognize any legal, equitable or other claim to, or interest in, such share or shares on the part of any other person, whether or not it shall have express or other notice thereof, except as otherwise expressly provided by law.

Section 4 - Record Date:

In lieu of closing the share records of the Corporation, the Board of Directors may fix, in advance, a date not exceeding fifty days, nor less than ten days, as the record date for the determination of shareholders entitled to receive notice of, or to vote at, any meeting of shareholders, or to consent to any proposal without a meeting, or for the purpose of determining shareholders entitled to receive payment of any dividends, or allotment of any rights, or for the purpose of any other action. If no record date is fixed, the record date for the determination of shareholders entitled to notice of or to vote at a meeting of shareholders shall be at the close of business on the day next preceding the day on which notice is given, or, if no notice is given, the day on which the meeting is held; the record date for determining shareholders for any other purpose shall be at the close of business on the day on which the resolution of the directors relating thereto is adopted. When a determination of shareholders of record entitled to notice of or to vote at any meeting of shareholders has been made as provided for herein, such determination shall apply to any adjournment thereof, unless the directors fix a new record date for the adjourned meeting.

ARTICLE VI - DIVIDENDS

Subject to applicable law, dividends may be declared and paid out of any funds available therefor, as often, in such amounts, and at such time or times as the Board of Directors may determine.

ARTICLE VII - FISCAL YEAR

The fiscal year of the Corporation shall be fixed by the Board of Directors from time to time, subject to applicable law.

ARTICLE VIII - CORPORATE SEAL

The corporate seal, if any, shall be in such form as shall be

approved from time to time by the Board of Directors.

ARTICLE IX - AMENDMENTS

Section 1 - By Shareholders:

All by-laws of the Corporation shall be subject to alteration or repeal, and new by-laws may be made, by a majority vote of the shareholders at the time entitled to vote in the election of directors.

Section 2 - By Directors:

The Board of Directors shall have power to make, adopt, alter, amend and repeal, from time to time, by-laws of the Corporation; provided, however, that the shareholders entitled to vote with respect thereto as in this Article IX above-provided may alter, amend or repeal by-laws made by the Board of Directors, except that the Board of Directors shall have no power to change the quorum for meetings of shareholders or of the Board of Directors, or to change any provisions of the by-laws with respect to the removal of directors or the filling of vacancies in the Board resulting from the removal by the shareholders- If any by-law regulating an impending election of directors is adopted, amended or repealed by the Board of Directors, there shall be set forth in the notice of the next meeting of shareholders for the election of directors, the by-law so adopted, amended or repealed, together with a concise statement of the changes made.

The undersigned incorporator certifies that he has adopted the foregoing by-laws as the first by-laws of the Corporation, in accordance with the requirements of the Business Corporation Law.

Dated: JULY 1, 1989

/s/ RW MORRELL
Incorporator

EXHIBIT 23.1

CONSENT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANT

We hereby consent to the use in the Form SB-2 Registration Statement of Houston Operating Company of our report for the year ended December 31, 1998, dated February 26, 1999 relating to the financial statements of Houston Operating Company which appear in such Form SB-2.

/s/ OPPENHEIM & OSTRICK
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Oppenheim & Ostrick
Certified Public Accountants

Culver City, California
April 1, 1999