U. S. Securities and Exchange Commission

Washington, D.C. 20549

Form 10-SB
File No.:___________

CIK: 0001083220

GENERAL FORM FOR REGISTRATION OF SECURITIES
OF SMALL BUSINESS ISSUERS

Under Section 12(b) or (g) of the Securities Exchange Act of 1934

HOUSTON OPERATING COMPANY
(Name of Small Business Issuer in its charter)

| Delaware | 76-0307819 |
| --- | --- |
| State or other jurisdiction of incorporation or organization | IRS Employer ID Number |

49 Burlington Avenue, Round Lake, New York 12151
(Address of principal executive offices) (Zip Code)

Issuer's telephone number: (518) 899-7393

Securities to be registered under Section 12(b) of the Act:

| Title of each class to be so registered | Name of each exchange on which each class is to be registered |
| --- | --- |
| | Not Applicable |

Securities to be registered under Section 12(g) of the Act:

Common Stock
(Title of class)



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PART I

## ITEM 1. DESCRIPTION OF BUSINESS.

### GENERAL

The Company was formed in Delaware on August 31, 1989 as a wholly owned subsidiary of Normandy Oil & Gas Company, Inc. Pursuant to a Plan of Reorganization for Cambridge Oil Company ("Cambridge") in Bankruptcy Case No. 88-01859-H5-11 (Chapter 11) in the U.S. District Court, Southern District of Texas, Houston Division, the Bankruptcy Court entered an Order on April 19, 1990 which approved the Plan. Houston Oil Company was specifically formed to effect the transactions of the Plan.

The aggregate number of authorized shares Houston Operating Company has authority to issue is 60,000,000, of which 50,000,000 shares are common stock having a par value of $.001 per share, 5,000,000 shares are preferred stock having a par value of $.001 per share and 5,000,000 shares are preference stock having a par value of $.001 per share. At August 31, 1989, Houston Operating Company had not engaged in any business operations other than organizational activities. At August 31, 1989, Houston Operating Company had no assets or liabilities, and no income had been received and no costs had been incurred, other than organization costs.

The Plan calls for issuance of four types of securities: participation rights, warrants (class A and class B), common stock of Houston Operating Company, and Normandy common shares for which Houston Operating Company common shares may be exchanged. A unit consists of one share of Houston Operating Company common stock, one class A warrant and one class B warrant.

Participation rights were issued to common shareholders of Cambridge at a rate of one right for each 80 shares of presently issued and outstanding common stock. Each right entitled the holder to acquire one unit at an exercise price of $1.00. The participation rights were exercisable for a period of nine months following the effective date and are represented by a certificate issued to the Cambridge shareholders, setting forth the terms of such participation rights.

In addition to the issuance of units on exercise of the participation rights, units were also issued to unsecured creditors at the rate of one unit for each $10.00 in claims and one unit was issued to preferred shareholders in exchange for each $100.00 in par value of preferred stock.

Under the Plan, Houston issued approximately two million eight hundred thousand shares to shareholders and creditors of the Bankrupt debtor, Cambridge Oil Company. Although the Company was formed under the Plan, the Company could not continue operations without significant capital funding and when such funding was not achieved, the Company operations were suspended. No operations were conducted after 1990 until 1998.

In 1998 a large shareholder, Richard W. Morrell, of 35 Caroline Corporation (a New York corporation) purchased control of the Company to complete a share exchange with shareholders of 35 Caroline Corporation. The Company business was proposed to be engaging in recovery and return of leased automobiles for auto leasing companies. An SB-2 Registration was filed with the SEC but was abandoned. Due to accounting problems in consolidating the financial statements and difficulties in completing the purchase agreement and share exchange, the Share Exchange was rescinded in 1999, with the result that 35 Caroline Corporation was no longer a subsidiary.

The Company has no operations and has had no operations in the last two years. 35 Caroline Corporation was intended to be a subsidiary and had operations, but due to the recission of the share exchange, no operations occurred in Houston Operating Company.

The Company is an inactive company and its only current business plan is to seek, investigate, and, if warranted, acquire one or more properties or businesses, and to pursue other related activities intended to enhance shareholder value. The acquisition of a business opportunity may be made by purchase, merger, exchange of stock, or otherwise, and may encompass assets or a business entity, such as a corporation, joint venture, or partnership. The Company has no capital, and it is unlikely that the Company will be able to take advantage of more than one such business opportunity. The Company intends to seek opportunities demonstrating the potential of long-term growth as opposed to short-term earnings.

At the present time the Company has not identified any business opportunity that it plans to pursue, nor has the Company reached any agreement or definitive understanding with any person concerning an acquisition. The Company is filing Form 10-SB on a voluntary basis in order to become a 12(g) registered company under the Securities Exchange Act of 1934. As a "reporting company," the Company may be more attractive to a private acquisition target because it may be listed to trade its shares on the OTCBB.

It is anticipated that the Company's officers and directors will contact broker-dealers and other persons with whom they are acquainted who are involved in corporate finance matters to

advise them of the Company's existence and to determine if any companies or businesses they represent have an interest in considering a merger or acquisition with the Company. No assurance can be given that the Company will be successful in finding or acquiring a desirable business opportunity, given that no funds that are available for acquisitions, or that any acquisition that occurs will be on terms that are favorable to the Company or its stockholders.

The Company's search will be directed toward small and medium-sized enterprises which have a desire to become public corporations and which are able to satisfy, or anticipate in the reasonably near future being able to satisfy, the minimum asset requirements in order to qualify shares for trading on NASDAQ or a stock exchange (See "Investigation and Selection of Business Opportunities"). The Company anticipates that the business opportunities presented to it will (i) be recently organized with no operating history, or a history of losses attributable to under-capitalization or other factors; (ii) be experiencing financial or operating difficulties; (iii) be in need of funds to develop a new product or service or to expand into a new market; (iv) be relying upon an untested product or marketing concept; or (v) have a combination of the characteristics mentioned in (i) through (iv). The Company intends to concentrate its acquisition efforts on properties or businesses that it believes to be undervalued. Given the above factors, investors should expect that any acquisition candidate may have a history of losses or low profitability.

The Company does not propose to restrict its search for investment opportunities to any particular geographical area or industry, and may, therefore, engage in essentially any business, to the extent of its limited resources. This includes industries such as service, finance, natural resources, manufacturing, high technology, product development, medical, communications and others. The Company's discretion in the selection of business opportunities is unrestricted, subject to the availability of such opportunities, economic conditions, and other factors.

As a consequence of this registration of its securities, any entity which has an interest in being acquired by, or merging into the Company, is expected to be an entity that desires to become a public company and establish a public trading market for its securities. In connection with such a merger or acquisition, it is highly likely that an amount of stock constituting control of the Company would be issued by the Company or purchased from the current principal shareholders of the Company by the acquiring entity or its affiliates. If stock is purchased from the current shareholders, the transaction is very likely to result in substantial gains to them relative to their purchase price for such stock. In the Company's judgment, none of its officers and directors would thereby become an "underwriter" within the meaning of the Section 2(11) of the Securities Act of 1933, as amended. The sale of a controlling interest by certain principal shareholders of the Company could occur at a time when the other shareholders of the Company remain subject to restrictions on the transfer of their shares.

Depending upon the nature of the transaction, the current officers and directors of the Company may resign management positions with the Company in connection with the Company's acquisition of a business opportunity. See "Form of Acquisition," below, and "Risk Factors - The Company - Lack of Continuity in Management." In the event of such a resignation, the Company's current management would not have any control over the conduct of the Company's business following the Company's combination with a business opportunity.

It is anticipated that business opportunities will come to the Company's attention from various sources, including its officer and director, its other stockholders, professional advisors such as attorneys and accountants, securities broker-dealers, venture capitalists, members of the financial community, and others who may present unsolicited proposals. The Company has no plans, understandings, agreements, or commitments with any individual for such person to act as a finder of opportunities for the Company.

The Company does not foresee that it would enter into a merger or acquisition transaction with any business with which its officers or directors are currently affiliated. Should the Company determine in the future, contrary to foregoing expectations, that a transaction with an affiliate would be in the best interests of the Company and its stockholders, the Company is in general permitted by Colorado law to enter into such a transaction if:

1. The material facts as to the relationship or interest of the affiliate and as to the contract or transaction are disclosed or are known to the Board of Directors, and the Board in good faith authorizes the contract or transaction by the affirmative vote of a majority of the disinterested directors, even though the disinterested directors constitute less than a quorum; or

2. The material facts as to the relationship or interest of the affiliate and as to the contract or transaction are disclosed or are known to the stockholders entitled to vote thereon, and the contract or transaction is specifically approved in good faith by vote of the stockholders; or

3. The contract or transaction is fair as to the Company as of the time it is authorized, approved or ratified, by the Board of Directors or the stockholders.

## INVESTIGATION AND SELECTION OF BUSINESS OPPORTUNITIES

To a large extent, a decision to participate in a specific business opportunity may be made upon management's analysis of the quality of the other company's management and personnel, the anticipated acceptability of new products or marketing concepts, the merit of technological changes, the perceived benefit the Company will derive from becoming a publicly held entity, and numerous other factors which are difficult, if not impossible, to analyze through the application of any objective criteria. In many instances, it is anticipated that the historical operations of a specific business opportunity may not necessarily be indicative of the potential for the future because of the possible need to shift marketing approaches substantially, expand significantly, change product emphasis, change or substantially augment management, or make other changes. The Company will be dependent upon the owners of a business opportunity to identify any such problems which may exist and to implement, or be primarily responsible for the implementation of, required changes. Because the Company may participate in a business opportunity with a newly organized firm or with a firm which is entering a new phase of growth, it should be emphasized that the Company will incur further risks, because management in many instances will not have proved its abilities or effectiveness, the eventual market for such company's products or services will likely not be established, and such company may not be profitable when acquired.

It is anticipated that the Company will not be able to diversify, but will essentially be limited to one such venture because of the Company's limited financing. This lack of diversification will not permit the Company to offset potential losses from one business opportunity against profits from another, and should be considered an adverse factor affecting any decision to purchase the Company's securities.

It is emphasized that management of the Company may effect transactions having a potentially adverse impact upon the Company's shareholders pursuant to the authority and discretion of the Company's management to complete acquisitions without submitting any proposal to the stockholders for their consideration. Holders of the Company's securities should not anticipate that the Company necessarily will furnish such holders, prior to any merger or acquisition, with financial statements, or any other documentation, concerning a target company or its business. In some instances, however, the proposed participation in a business opportunity may be submitted to the stockholders for their consideration, either voluntarily by such directors to seek the stockholders' advice and consent or because state law so requires.

The analysis of business opportunities will be undertaken by or under the supervision of the Company's President, who is not a professional business analyst. See "Management." Although there are no current plans to do so, Company management might hire an outside consultant to assist in the investigation and selection of business opportunities, and might pay a finder's fee. Since Company management has no current plans to use any outside consultants or advisors to assist in the investigation and selection of business opportunities, no policies have been adopted regarding use of such consultants or advisors, the criteria to be used in selecting such consultants or advisors, the services to be provided, the term of service, or regarding the total amount of fees that may be paid. However, because of the limited resources of the Company, it is likely that any such fee the Company agrees to pay would be paid in stock and not in cash. Otherwise, the Company anticipates that it will consider, among other things, the following factors:

1. Potential for growth and profitability, indicated by new technology, anticipated market expansion, or new products;

2. The Company's perception of how any particular business opportunity will be received by the investment community and by the Company's stockholders;

3. Whether, following the business combination, the financial condition of the business opportunity would be, or would have a significant prospect in the foreseeable future of becoming sufficient to enable the securities of the Company to qualify for listing on an exchange or on a national automated securities quotation system, such as NASDAQ, so as to permit the trading of such securities to be exempt from the requirements of Rule 15c2-6 recently adopted by the Securities and Exchange Commission. See "Risk Factors - The Company - Regulation of Penny Stocks."

4. Capital requirements and anticipated availability of required funds, to be provided by the Company or from operations, through the sale of additional securities, through joint ventures or similar arrangements, or from other sources;

5. The extent to which the business opportunity can be advanced;

6. Competitive position as compared to other companies of similar size and experience within the industry segment as well as within the industry as a whole;

7. Strength and diversity of existing management, or management prospects that are scheduled for recruitment;

8. The cost of participation by the Company as compared to the perceived tangible and intangible values and potential; and

9. The accessibility of required management expertise, personnel, raw materials, services, professional assistance, and other required items.

In regard to the possibility that the shares of the Company would qualify for listing on NASDAQ, the current standards include the requirements that the issuer of the securities that are sought to be listed have total assets of at least $4,000,000 and total capital and surplus of at least $2,000,000. Many, and perhaps most, of the business opportunities that might be potential candidates for a combination with the Company would not satisfy the NASDAQ listing criteria.

No one of the factors described above will be controlling in the selection of a business opportunity, and management will attempt to analyze all factors appropriate to each opportunity and make a determination based upon reasonable investigative measures and available data. Potentially available business opportunities may occur in many different industries and at various stages of development, all of which will make the task of comparative investigation and analysis of such business opportunities extremely difficult and complex. Potential investors must recognize that, because of the Company's limited capital available for investigation and management's limited experience in business analysis, the Company may not discover or adequately evaluate adverse facts about the opportunity to be acquired.

The Company is unable to predict when it may participate in a business opportunity. It expects, however, that the analysis of specific proposals and the selection of a business opportunity may take several months or more.

Prior to making a decision to participate in a business opportunity, the Company will generally request that it be provided with written materials regarding the business opportunity containing such items as a description of products, services and company history; management resumes; financial information; available projections, with related assumptions upon which they are based; an explanation of proprietary products and services; evidence of existing patents, trademarks, or services marks, or rights thereto; present and proposed forms of compensation to management; a description of transactions between such company and its affiliates during relevant periods; a description of present and required facilities; an analysis of risks and competitive conditions; a financial plan of operation and estimated capital requirements; audited financial statements, or if they are not available, unaudited financial statements, together with reasonable assurances that audited financial statements would be able to be produced within a reasonable period of time not to exceed 60 days following completion of a merger transaction; and other information deemed relevant.

As part of the Company's investigation, the Company's executive officers and directors may meet personally with management and key personnel, may visit and inspect material facilities, obtain independent analysis or verification of certain information provided, check references of management and key personnel, and take other reasonable investigative measures, to the extent of the Company's limited financial resources and management expertise.

It is possible that the range of business opportunities that might be available for consideration by the Company could be limited by the impact of Securities and Exchange Commission regulations regarding purchase and sale of "penny stocks." The regulations would affect, and possibly impair, any market that might develop in the Company's securities until such time as they qualify for listing on NASDAQ or on another exchange which would make them exempt from applicability of the "penny stock" regulations. See "Risk Factors - - Regulation of Penny Stocks."

Company management believes that various types of potential merger or acquisition candidates might find a business combination with the Company to be attractive. These include acquisition candidates desiring to create a public market for their shares in order to enhance liquidity for current shareholders, acquisition candidates which have long-term plans for raising capital through the public sale of securities and believe that the possible prior existence of a public market for their securities would be beneficial, and acquisition candidates which plan to acquire additional assets through issuance of securities rather than for cash, and believe that the possibility of development of a public market for their securities will be of assistance in that process. Acquisition candidates which have a need for an immediate cash infusion are not likely to find a potential business combination with the Company to be an attractive alternative.

There are no loan arrangements or arrangements for any financing whatsoever relating to any business opportunities.

FORM OF ACQUISITION

It is impossible to predict the manner in which the Company may participate in a business opportunity. Specific business opportunities will be reviewed as well as the respective needs and desires of the Company and the promoters of the opportunity and, upon the basis of that review and the relative negotiating strength of the Company and such promoters, the legal structure or method deemed by management to be suitable will be selected. Such structure may include, but is not limited to leases, purchase and sale agreements, licenses, joint ventures and other contractual arrangements. The Company may act directly or indirectly through an interest in a partnership, corporation or other form of organization. Implementing such structure may require the merger, consolidation or reorganization of the Company with other corporations or forms of business organization, and although it is likely, there is no assurance that the Company would be the surviving entity. In addition, the present management and stockholders of the Company most likely will not have control of a majority of the voting shares of the Company following a reorganization transaction. As part of such a transaction, the Company's existing directors may resign and new directors may be appointed without any vote by stockholders.

It is likely that the Company will acquire its participation in a business opportunity through the issuance of common stock or other securities of the Company. Although the terms of any such

transaction cannot be predicted, it should be noted that in certain circumstances the criteria for determining whether or not an acquisition is a so-called "tax free" reorganization under the Internal Revenue Code of 1986, depends upon the issuance to the stockholders of the acquired company of a controlling interest (i.e. 80% or more) of the common stock of the combined entities immediately following the reorganization. If a transaction were structured to take advantage of these provisions rather than other "tax free" provisions provided under the Internal Revenue Code, the Company's current stockholders would retain in the aggregate 20% or less of the total issued and outstanding shares. This could result in substantial additional dilution in the equity of those who were stockholders of the Company prior to such reorganization. Any such issuance of additional shares might also be done simultaneously with a sale or transfer of shares representing a controlling interest in the Company by the current officers, directors and principal shareholders. (See "Description of Business - General").

It is anticipated that any new securities issued in any reorganization would be issued in reliance upon exemptions, if any are available, from registration under applicable federal and state securities laws. In some circumstances, however, as a negotiated element of the transaction, the Company may agree to register such securities either at the time the transaction is consummated, or under certain conditions or at specified times thereafter. The issuance of substantial additional securities and their potential sale into any trading market that might develop in the Company's securities may have a depressive effect upon such market.

The Company will participate in a business opportunity only after the negotiation and execution of a written agreement. Although the terms of such agreement cannot be predicted, generally such an agreement would require specific representations and warranties by all of the parties thereto, specify certain events of default, detail the terms of closing and the conditions which must be satisfied by each of the parties thereto prior to such closing, outline the manner of bearing costs if the transaction is not closed, set forth remedies upon default, and include miscellaneous other terms.

As a general matter, the Company anticipates that it, and/or its officers and principal shareholders will enter into a letter of intent with the management, principals or owners of a prospective business opportunity prior to signing a binding agreement. Such a letter of intent will set forth the terms of

the proposed acquisition but will not bind any of the parties to consummate the transaction. Execution of a letter of intent will by no means indicate that consummation of an acquisition is probable. Neither the Company nor any of the other parties to the letter of intent will be bound to consummate the acquisition unless and until a definitive agreement concerning the acquisition as described in the preceding paragraph is executed. Even after a definitive agreement is executed, it is possible that the acquisition would not be consummated should any party elect to exercise any right provided in the agreement to terminate it on specified grounds.

It is anticipated that the investigation of specific business opportunities and the negotiation, drafting and execution of relevant agreements, disclosure documents and other instruments will require substantial management time and attention and substantial costs for accountants, attorneys and others. If a decision is made not to participate in a specific business opportunity, the costs theretofore incurred in the related investigation would not be recoverable. Moreover, because many providers of goods and services require compensation at the time or soon after the goods and services are provided, the inability of the Company to pay until an indeterminate future time may make it impossible to procure goods and services.

In all probability, upon completion of an acquisition or merger, there will be a change in control through issuance of substantially more shares of common stock. Further, in conjunction with an acquisition or merger, it is likely that management may offer to sell a controlling interest at a price not relative to or reflective of any value of the shares sold by management, and at a price which could not be achieved by individual shareholders at the time.

## INVESTMENT COMPANY ACT AND OTHER REGULATION

The Company may participate in a business opportunity by purchasing, trading or selling the securities of such business. The Company does not, however, intend to engage primarily in such activities. Specifically, the Company intends to conduct its activities so as to avoid being classified as an "investment company" under the Investment Company Act of 1940 (the "Investment Act"), and therefore to avoid application of the costly and restrictive registration and other provisions of the Investment Act, and the regulations promulgated thereunder.

Section 3(a) of the Investment Act contains the definition of an "investment company," and it excludes any entity that does not engage primarily in the business of investing, reinvesting or trading in securities, or that does not engage in the business of investing, owning, holding or trading "investment securities" (defined as "all securities other than government securities or securities of majority-owned subsidiaries") the value of which exceeds 40% of the value of its total assets (excluding government securities, cash or cash items). The Company intends to implement its business plan in a manner which will result in the availability of this exception from the definition of "investment company." Consequently, the Company's participation in a business or opportunity through the purchase and sale of investment securities will be limited.

The Company's plan of business may involve changes in its capital structure, management, control and business, especially if it consummates a reorganization as discussed above. Each of these areas is regulated by the Investment Act, in order to protect purchasers of investment company securities. Since the Company will not register as an investment company, stockholders will not be afforded these protections.

Any securities which the Company might acquire in exchange for its common stock are expected to be "restricted securities" within the meaning of the Securities Act of 1933, as amended (the "Act"). If the Company elects to resell such securities, such sale cannot proceed unless a registration statement has been declared effective by the Securities and Exchange Commission or an exemption from registration is available. Section 4(1) of the Act, which exempts sales of securities not involving a distribution, would in all likelihood be available to permit a private sale. Although the plan of operation does not contemplate resale of securities acquired, if such a sale were to be necessary, the Company would be required to comply with the provisions of the Act to effect such resale.

An acquisition made by the Company may be in an industry which is regulated or licensed by federal, state or local authorities. Compliance with such regulations can be expected to be a time-consuming and expensive process.

COMPETITION
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The Company expects to encounter substantial competition in its efforts to locate attractive opportunities, primarily from business development companies, venture capital partnerships and corporations, venture capital affiliates of large industrial and financial companies, small investment companies, and wealthy individuals. Many of these entities will have significantly greater experience, resources and managerial capabilities than the Company and will therefore be in a better position than the Company to obtain access to attractive business opportunities. The Company also will possibly experience competition from other public "blank check" companies, some of which may have more funds available than does the Company.

## NO RIGHTS OF DISSENTING SHAREHOLDERS

The Company does not intend to provide Company shareholders with complete disclosure documentation including audited financial statements, concerning a possible target company prior to acquisition, because Colorado Business Corporation Act vests authority in the Board of Directors to decide and approve matters involving acquisitions within certain restrictions. Any transaction would be structured as an acquisition, not a merger, with the Registrant being the parent company and the acquiree being merged into a wholly owned subsidiary. Therefore, a shareholder will have no right of dissent under Colorado law.

## NO TARGET CANDIDATES FOR ACQUISITION

None of the Company's Officers, Directors, promoters, affiliates, or associates have had any preliminary contact or discussion with any specific candidate for acquisition. There are no present plans, proposals, arrangements, or understandings with any representatives of the owners of any business or company regarding the possibility of an acquisition transaction.

## ADMINISTRATIVE OFFICES

The Company currently maintains a mailing address at 49 Burlington Avenue, Round Lake, New York 12151 which is the office address of its Secretary and Director, Richard W. Morrell. The Company's telephone number is (518) 899-7393. Other than this mailing address, the Company does not currently maintain any other office facilities, and does not anticipate the need for maintaining office facilities at any time in the foreseeable future. The Company pays no rent or other fees for the use of this mailing address.

## EMPLOYEES

The Company is an inactive company and currently has no employees. Management of the Company expects to use consultants, attorneys and accountants as necessary, and does not anticipate a need to engage any full-time employees so long as it is seeking and evaluating business opportunities. The need for employees and their availability will be addressed in connection with the decision whether or not to acquire or participate in specific business opportunities. There is no current plan under which, remuneration may be paid to or accrued for the benefit of, the Company's officers prior to, or in conjunction with, the completion of a business acquisition for services actually rendered, and the Company has adopted a resolution and policy which precludes payment of any compensation or finder's fees to officers or directors. See "Executive Compensation" and under "Certain Relationships and Related Transactions."

## RISK FACTORS

1. Conflicts of Interest. Certain conflicts of interest may exist between the Company and its officers and directors. They have other business interests to which they devote their attention, and may be expected to continue to do so although management time should be devoted to the business of the Company. As a result, conflicts of interest may arise that can be resolved only through exercise of such judgment as is consistent with fiduciary duties to the Company. See "Management," and "Conflicts of Interest."

It is anticipated that Company's officers and directors may actively negotiate or otherwise consent to the purchase of a portion of his common stock as a condition to, or in connection with, a proposed merger or acquisition transaction. In this process, the Company's officers may consider his own personal pecuniary benefit rather than the best interests of other Company shareholders, and the other Company shareholders are not expected to be afforded the opportunity to approve or consent to any particular stock buy-out transaction. See "Conflicts of Interest."

2. Need For Additional Financing. The Company has very limited funds, and such funds may not be adequate to take advantage of any available business opportunities. Even if the Company's funds prove to be sufficient to acquire an interest in, or complete a transaction with, a business opportunity, the Company may not have enough capital to exploit the opportunity. The ultimate success of the Company may depend upon its ability to

raise additional capital. The Company has not investigated the availability, source, or terms that might govern the acquisition of additional capital and will not do so until it determines a need for additional financing. If additional capital is needed, there is no assurance that funds will be available from any source or, if available, that they can be obtained on terms acceptable to the Company. If not available, the Company's operations will be limited to those that can be financed with its modest capital.

3. Regulation of Penny Stocks. The Company's securities, when available for trading, will be subject to a Securities and Exchange Commission rule that imposes special sales practice requirements upon broker-dealers who sell such securities to persons other than established customers or accredited investors. For purposes of the rule, the phrase "accredited investors" means, in general terms, institutions with assets in excess of $5,000,000, or individuals having a net worth in excess of $1,000,000 or having an annual income that exceeds $200,000 (or that, when combined with a spouse's income, exceeds $300,000). For transactions covered by the rule, the broker-dealer must make a special suitability determination for the purchaser and receive the purchaser's written agreement to the transaction prior to the sale. Consequently, the rule may affect the ability of broker-dealers to sell the Company's securities and also may affect the ability of purchasers in this offering to sell their securities in any market that might develop therefore.

In addition, the Securities and Exchange Commission has adopted a number of rules to regulate "penny stocks." Such rules include Rules 3a51-1, 15g-1, 15g-2, 15g-3, 15g-4, 15g-5, 15g-6, 15g-7, and 15g-9 under the Securities Exchange Act of 1934, as amended. Because the securities of the Company may constitute "penny stocks" within the meaning of the rules, the rules would apply to the Company and to its securities. The rules may further affect the ability of owners of Shares to sell the securities of the Company in any market that might develop for them.

Shareholders should be aware that, according to Securities and Exchange Commission, the market for penny stocks has suffered in recent years from patterns of fraud and abuse. Such patterns include (i) control of the market for the security by one or a few broker-dealers that are often related to the promoter or issuer; (ii) manipulation of prices through prearranged matching of purchases and sales and false and misleading press releases; (iii) "boiler room" practices involving high-pressure sales

tactics and unrealistic price projections by inexperienced sales persons; (iv) excessive and undisclosed bid-ask differentials and markups by selling broker-dealers; and (v) the wholesale dumping of the same securities by promoters and broker-dealers after prices have been manipulated to a desired level, along with the resulting inevitable collapse of those prices and with consequent investor losses. The Company's management is aware of the abuses that have occurred historically in the penny stock market. Although the Company does not expect to be in a position to dictate the behavior of the market or of broker-dealers who participate in the market, management will strive within the confines of practical limitations to prevent the described patterns from being established with respect to the Company's securities.

4.Lack of Operating History. The Company was formed in August 1989 as a wholly owned subsidiary of Normandy Oil & Gas Company, Inc. Pursuant to a Plan of Reorganization for Cambridge Oil Company in Bankruptcy Case No. 88-01859-H5-11 (Chapter 11) in the U.S. District Court, Southern District of Texas, Houston Division, the Bankruptcy Court entered an Order on April 19, 1990 which approved the Plan. Houston Oil Company was specifically formed to effect the transactions of the Plan. The Company never had any substantial operations because of a lack of capital. Due to the special risks inherent in the investigation, acquisition, or involvement in a new business opportunity, the Company must be regarded as a new or start-up venture with all of the unforeseen costs, expenses, problems, and difficulties to which such ventures are subject.

5. No Assurance of Success or Profitability. There is no assurance that the Company will acquire a favorable business opportunity. Even if the Company should become involved in a business opportunity, there is no assurance that it will generate revenues or profits, or that the market price of the Company's common stock will be increased thereby.

6. Possible Business - Not Identified and Highly Risky. The Company has not identified and has no commitments to enter into or acquire a specific business opportunity and therefore can disclose the risks and hazards of a business or opportunity that it may enter into in only a general manner, and cannot disclose the risks and hazards of any specific business or opportunity that it may enter into. An investor can expect a potential business opportunity to be quite risky. The Company's acquisition of or participation in a business opportunity will likely be highly illiquid and could result in a total loss to the Company and its stockholders if the business or opportunity proves to be unsuccessful. See Item 1 "Description of Business."

7. Type of Business Acquired. The type of business to be acquired may be one that desires to avoid effecting its own public offering and the accompanying expense, delays, uncertainties, and federal and state requirements which purport to protect investors. Because of the Company's limited capital, it is more likely than not that any acquisition by the Company will involve other parties whose primary interest is the acquisition of control of a publicly traded company. Moreover, any business opportunity acquired may be currently unprofitable or present other negative factors.

8. Impracticability of Exhaustive Investigation. The Company's limited funds and the lack of full-time management will likely make it impracticable to conduct a complete and exhaustive investigation and analysis of a business opportunity before the Company commits its capital or other resources thereto. Management decisions, therefore, will likely be made without detailed feasibility studies, independent analysis, market surveys and the like which, if the Company had more funds available to it, would be desirable. The Company will be particularly dependent in making decisions upon information provided by the promoter, owner, sponsor, or others associated with the business opportunity seeking the Company's participation. A significant portion of the Company's available funds may be expended for investigative expenses and other expenses related to preliminary aspects of completing an acquisition transaction, whether or not any business opportunity investigated is eventually acquired.

9. Lack of Diversification. Because of the limited financial resources that the Company has, it is unlikely that the Company will be able to diversify its acquisitions or operations. The Company's probable inability to diversify its activities into more than one area will subject the Company to economic fluctuations within a particular business or industry and therefore increase the risks associated with the Company's operations.

10. Reliance upon Financial Statements. The Company generally will require audited financial statements from companies that it proposes to acquire. Given cases where audited financials are not available, the Company will have to rely upon interim period unaudited information received from target companies' management that has not been verified by outside auditors. The lack of the type of independent verification which audited financial statements would provide, increases the risk that the Company, in evaluating an acquisition with such a target company, will not have the benefit of full and accurate information about the financial condition and recent interim operating history of the target company. This risk increases the prospect that the acquisition of such a company might prove to be an unfavorable one for the Company or the holders of the Company's securities.

Moreover, the Company will be subject to the reporting provisions of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and thus will be required to furnish certain information about significant acquisitions, including audited financial statements for any business that it acquires. Consequently, acquisition prospects that do not have, or are unable to provide reasonable assurances that they will be able to obtain, the required audited statements would not be considered by the Company to be appropriate for acquisition so long as the reporting requirements of the Exchange Act are applicable. Should the Company, during the time it remains subject to the reporting provisions of the Exchange Act, complete an acquisition of an entity for which audited financial statements prove to be unobtainable, the Company would be exposed to enforcement actions by the Securities and Exchange Commission (the "Commission") and to corresponding administrative sanctions, including permanent injunctions against the Company and its management. The legal and other costs of defending a Commission enforcement action would have material, adverse consequences for the Company and its business. The imposition of administrative sanctions would subject the Company to further adverse consequences.

In addition, the lack of audited financial statements would prevent the securities of the Company from becoming eligible for listing on NASDAQ, or on any existing stock exchange. Moreover, the lack of such financial statements is likely to discourage broker-dealers from becoming or continuing to serve as market makers in the securities of the Company. Without audited financial statements, the Company would almost certainly be unable to offer securities under a registration statement pursuant to the Securities Act of 1933, and the ability of the Company to raise capital would be significantly limited until such financial statements were to become available.

11. Other Regulation. An acquisition made by the Company may be of a business that is subject to regulation or licensing by federal, state, or local authorities. Compliance with such regulations and licensing can be expected to be a time-consuming, expensive process and may limit other investment opportunities of the Company.

12. Dependence upon Management; Limited Participation of Management. The Company currently has only two individuals who are serving as its officers and directors on a part time basis. The Company will be heavily dependent upon their skills, talents, and abilities to implement its business plan, and may, from time to time, find that the inability of the officers and directors to devote their full time attention to the business of the Company results in a delay in progress toward implementing its business plan. See "Management." Because investors will not be able to evaluate the merits of possible business acquisitions by the Company, they should critically assess the information concerning the Company's officers and directors.

13. Lack of Continuity in Management. The Company does not have an employment agreement with its officers and directors, and as a result, there is no assurance they will continue to manage the Company in the future. In connection with acquisition of a business opportunity, it is likely the current officers and directors of the Company may resign subject to compliance with Section 14f of the Securities Exchange Act of 1934. A decision to resign will be based upon the identity of the business opportunity and the nature of the transaction, and is likely to occur without the vote or consent of the stockholders of the Company.

14. Indemnification of Officers and Directors. Colorado Revised Statutes provide for the indemnification of its directors, officers, employees, and agents, under certain circumstances, against attorney's fees and other expenses incurred by them in any litigation to which they become a party arising from their association with or activities on behalf of the Company. The Company will also bear the expenses of such litigation for any of its directors, officers, employees, or agents, upon such person's promise to repay the Company therefor if it is ultimately determined that any such person shall not have been entitled to indemnification. This indemnification policy could result in substantial expenditures by the Company which it will be unable to recoup.

15. Director's Liability Limited. Delaware Revised Statutes exclude personal liability of its directors to the Company and its stockholders for monetary damages for breach of fiduciary duty except in certain specified circumstances. Accordingly, the Company will have a much more limited right of action against its directors than otherwise would be the case. This provision does not affect the liability of any director under federal or applicable state securities laws.

16. Dependence upon Outside Advisors. To supplement the business experience of its officers and directors, the Company may be required to employ accountants, technical experts, appraisers, attorneys, or other consultants or advisors. The selection of any such advisors will be made by the Company's President without any input from stockholders. Furthermore, it is anticipated that such persons may be engaged on an "as needed" basis without a continuing fiduciary or other obligation to the Company. In the event the President of the Company considers it necessary to hire outside advisors, he may elect to hire persons who are affiliates, if they are able to provide the required services.

17. Leveraged Transactions. There is a possibility that any acquisition of a business opportunity by the Company may be leveraged, i.e., the Company may finance the acquisition of the business opportunity by borrowing against the assets of the business opportunity to be acquired, or against the projected future revenues or profits of the business opportunity. This could increase the Company's exposure to larger losses. A business opportunity acquired through a leveraged transaction is profitable only if it generates enough revenues to cover the related debt and expenses. Failure to make payments on the debt incurred to purchase the business opportunity could result in the loss of a portion or all of the assets acquired. There is no assurance that any business opportunity acquired through a leveraged transaction will generate sufficient revenues to cover the related debt and expenses.

18. Competition. The search for potentially profitable business opportunities is intensely competitive. The Company expects to be at a disadvantage when competing with many firms that have substantially greater financial and management resources and capabilities than the Company. These competitive conditions will exist in any industry in which the Company may become interested.

19. No Foreseeable Dividends. The Company has not paid dividends on its common stock and does not anticipate paying such dividends in the foreseeable future.

20. Loss of Control by Present Management and Stockholders. The Company may consider an acquisition in which the Company would issue as consideration for the business opportunity to be acquired an amount of the Company's authorized but unissued common stock that would, upon issuance, represent the great majority of the voting power and equity of the Company. The result of such an acquisition would be that the acquired

company's stockholders and management would control the Company, and the Company's management could be replaced by persons unknown at this time. Such a merger would result in a greatly reduced percentage of ownership of the Company by its current shareholders. In addition, the Company's major shareholders could sell control blocks of stock at a premium price to the acquired company's stockholders.

21. No Public Market Exists. There is no public market for the Company's common stock, and no assurance can be given that a market will develop or that a shareholder ever will be able to liquidate his investment without considerable delay, if at all. If a market should develop, the price may be highly volatile. Factors such as those discussed in this "Risk Factors" section may have a significant impact upon the market price of the securities offered hereby. Owing to the low price of the securities, many brokerage firms may not be willing to effect transactions in the securities. Even if a purchaser finds a broker willing to effect a transaction in these securities, the combination of brokerage commissions, state transfer taxes, if any, and any other selling costs may exceed the selling price. Further, many lending institutions will not permit the use of such securities as collateral for any loans.

22. Rule 144 Sales. All of the outstanding shares of common stock held by present officers and directors are "restricted securities" within the meaning of Rule 144 under the Securities Act of 1933, as amended. As restricted shares, these shares may be resold only pursuant to an effective registration statement or under the requirements of Rule 144 or other applicable exemptions from registration under the Act and as required under applicable state securities laws. Rule 144 provides in essence that a person who has held restricted securities for one year may, under certain conditions, sell every three months, in brokerage transactions, a number of shares that does not exceed the greater of 1.0% of a company's outstanding common stock or the average weekly trading volume during the four calendar weeks prior to the sale. There is no limit on the amount of restricted securities that may be sold by a nonaffiliate after the restricted securities have been held by the owner for a period of two years. A sale under Rule 144 or under any other exemption from the Act, if available, or pursuant to subsequent registration of shares of common stock of present stockholders, may have a depressive effect upon the price of the common stock in any market that may develop.

23. Blue Sky Considerations. Because the securities registered hereunder have not been registered for resale under the blue sky laws of any state, the holders of such shares and persons who desire to purchase them in any trading market that might develop in the future, should be aware that there may be significant state blue-sky law restrictions upon the ability of investors to sell the securities and of purchasers to purchase the securities. Some jurisdictions may not under any circumstances allow the trading or resale of blind-pool or "blank-check" securities. Accordingly, investors should consider the secondary market for the Company's securities to be a limited one.

24. Blue Sky Restrictions. Many states have enacted statutes or rules which restrict or prohibit the sale or resale of securities of "blank check" companies to residents so long as they remain without specific business companies. To the extent any current shareholders or subsequent purchaser from a shareholder may reside in a state which restricts or prohibits resale of shares in a "blank check" company, warning is hereby given that the shares may be "restricted" from resale as long as the company is a shell company.

At the date of this registration statement, the Company has no intention of offering further shares in a private offering to anyone. Further, the policy of the Board of Directors is that any future offering of shares will only be made after an acquisition has been made and can be disclosed in appropriate 8-K filings.

In the event of a violation of state laws regarding resale of "blank check" shares the Company could be liable for civil and criminal penalties which would be a substantial impairment to the Company. At date of this registration statement, all shareholders' shares bear a "restrictive legend," and the Company will examine each shareholders' resident state laws at the time of any proposed resale of shares now outstanding to attempt to avoid any inadvertent breach of state laws.

## ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF OPERATIONS OR PLAN OF OPERATIONS.

### LIQUIDITY AND CAPITAL RESOURCES

The Company remains in an inactive stage and, since inception, has experienced significant liquidity problems and has no capital resources or stockholder's equity. The Company has no current assets in the form of cash and no total assets but has current liabilities totaling $454.

The Company will carry out its plan of business as discussed above. The Company cannot predict to what extent its lack of liquidity and capital resources will impair the consummation of a business combination or whether it will incur further operating losses through any business entity which the Company may eventually acquire.

During the period from August 31, 1989 (inception) through December 31, 1999 the Company has engaged in no significant operations other than organizational activities, acquisition of capital and preparation for registration of its securities under the Securities Act of 1933, as amended. An attempt was made to merge with 35 Caroline Corp. in 1999, which was rescinded. No revenues were received by the Company during this period. The Company has incurred losses since inception and no revenues. The net loss is ($1,000) for year ended December 31, 1999. Such losses will continue unless revenues and business can be acquired by the Company. There is no assurance that revenues or profitability will ever be achieved by the Company.

### RESULTS OF OPERATIONS YEAR ENDED DECEMBER 31, 1999 COMPARED TO 1998

The Company had no revenues in 1999 or 1998. The Company incurred $1,000 in expenses in 1999 as compared to $1,093 in expenses in 1998.

The net loss in 1999 was ($1,000) as compared to ($1,093) in 1998. The losses in 1999 and 1998 were as a result of miscellaneous expenses. The net loss per share each year was less than ($.01) per share.

RESULTS OF OPERATIONS - SIX MONTHS ENDED JUNE 30, 2000 COMPARED TO SAME PERIOD IN 1999.

The Company had no income in the six month period ended June 30, 2000 or 1999 but incurred expenses of $(474) for 2000 and $546 for 1999 in the period. The loss for the six month period was ($474) in 2000 and ($546) in 1999.

For the current fiscal year, the Company anticipates incurring a loss as a result of legal and accounting expenses, expenses associated with registration under the Securities Exchange Act of 1934, and expenses associated with locating and evaluating acquisition candidates. The Company anticipates that until a business combination is completed with an acquisition candidate, it will not generate revenues other than interest income, and may continue to operate at a loss after completing a business combination, depending upon the performance of the acquired business.

NEED FOR ADDITIONAL FINANCING

The Company does not have capital sufficient to meet the Company's cash needs, including the costs of compliance with the continuing reporting requirements of the Securities Exchange Act of 1934. The Company will have to seek loans or equity placements to cover such cash needs. In the event the Company is able to complete a business combination during this period, lack of its existing capital may be a sufficient impediment to prevent it from accomplishing the goal of completing a business combination. There is no assurance, however, that without funds it will ultimately allow registrant to complete a business combination. Once a business combination is completed, the Company's needs for additional financing are likely to increase substantially.

No commitments to provide additional funds have been made by management or other stockholders. Accordingly, there can be no assurance that any additional funds will be available to the Company to allow it to cover its expenses as they may be incurred.

Irrespective of whether the Company's cash assets prove to be inadequate to meet the Company's operational needs, the Company might seek to compensate providers of services by issuances of stock in lieu of cash.

## YEAR 2000 ISSUES

Year 2000 problems result primarily from the inability of some computer software to properly store, recall, or use data after December 31, 1999. These problems may affect many computers and other devices that contain embedded computer chips. The Company's operations, however, do not rely on information technology (IT) systems. Accordingly, the Company does not believe it will be material affected by Year 2000 problems.

The Company relies on non-IT systems that may suffer from Year 2000 problems, including telephone systems and facsimile and other office machines. Moreover, the Company relies on third-parties that may suffer from Year 2000 problems that could affect the Company's operations, including banks, oil field operators, and utilities. In light of the Company's substantially reduced operations, the Company does not believe that such non-IT systems or third-party Year 2000 problems will affect the Company in a manner that is different or more substantial than such problems affect other similarly situated companies or industry generally. Consequently, the Company does not currently intend to conduct a readiness assessment of Year 2000 problems or to develop a detailed contingency plan with respect to Year 2000 problems that may affect the Company.

## ITEM 3. DESCRIPTION OF PROPERTY.

The Company has no property. The Company does not currently maintain an office or any other facilities. It does currently maintain a mailing address at 49 Burlington Avenue, Round Lake, New York 12151, which is the office address of its Secretary and Director, Richard W. Morrell. The Company pays no rent for the use of this mailing address. The Company does not believe that it will need to maintain an office at any time in the foreseeable future in order to carry out its plan of operations described herein.

## ITEM 4. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT.

The following table sets forth, as of the date of this Registration Statement, the number of shares of common stock owned of record and beneficially by executive officers, directors and persons who hold 5.0% or more of the outstanding common stock of the Company. Also included are the shares held by all executive officers and directors as a group.

| SHAREHOLDERS BENEFICIAL OWNERS | NUMBER OF SHARES | OWNERSHIP PERCENTAGE |
|---|---|---|
| J.R. Nelson<br>President, Chairman and Director<br>6521 W. Calhoun Place<br>Littleton, CO 80123 | 5,000,000 | 64% |
| Richard W. Morrell<br>Secretary and Director<br>49 Burlington Avenue<br>Round Lake, NY 12151 | 2,513,345 | 33% |
| All directors and executive officers as a group (2 persons) | 7,513,345 | 97% |

Each principal shareholder has sole investment power and sole voting power over the shares.

ITEM 5. DIRECTORS, EXECUTIVE OFFICERS, PROMOTERS AND CONTROL PERSONS.

The directors and executive officers currently serving the Company are as follows:

| Name | Age | Position Held | Tenure |
|---|---|---|---|
| J.R. Nelson | 59 | President, Chairman and Director | Annual |
| Richard W. Morrell | 60 | Secretary, Treasurer and Director | Annual |

The directors named above will serve until the next annual meeting of the Company's stockholders. Thereafter, directors will be elected for one-year terms at the annual stockholders' meeting. Officers will hold their positions at the pleasure of

the board of directors, absent any employment agreement, of which none currently exists or is contemplated. There is no arrangement or understanding between the directors and officers of the Company and any other person pursuant to which any director or officer was or is to be selected as a director or officer.

The directors and officers of the Company will devote such time to the Company's affairs on an "as needed" basis, but less than 20 hours per month. As a result, the actual amount of time which they will devote to the Company's affairs is unknown and is likely to vary substantially from month to month.

BIOGRAPHICAL INFORMATION

J.R. NELSON, age 59, was appointed as President, Chairman and a Director of Houston Operating Company as of August 28, 2000. Mr. Nelson received a B.A. Degree in Communications with an English minor and additional courses in Psychology. Until 1983 Mr. Nelson was an officer and director of J.R. Nelson and Associates, Inc., a technical recruiting company with over 250 employees that he cofounded in 1971. After selling his ownership in 1983, he has since been self-employed as a business consultant. Mr. Nelson is an executive officer and director of Azonic Corporation, a blank check company.

RICHARD W. MORRELL, age 60, has been Secretary and Director of Houston Operating Company since early 1999. He was Chairman, President, and Chief Financial Officer of 35 Caroline Corporation since 1989. 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.

Management will devote minimal time to the operations of the Company, and any time spent will be devoted to screening and assessing and, if warranted, negotiating to acquire business opportunities.

None of the Company's officers and/or directors receives any compensation for their respective services rendered to the Company, nor have they received such compensation in the past. They all have agreed to act without compensation until authorized by the Board of Directors, which is not expected to occur until the Company has generated revenues from operations after consummation of a merger or acquisition. As of the date of filing this report, the Company has no funds available to pay officers or directors. Further, none of the officers or directors is accruing any compensation pursuant to any agreement with the Company. No retirement, pension, profit sharing, stock option or insurance programs or other similar programs have been adopted by the Company for the benefit of its employees.

The Company has adopted a resolution and policy whereby no officer, director, or principal shareholder will receive any additional stock or cash compensation for their services to the Company, relating to an acquisition or business combination.

It is possible that persons associated with management may refer a prospective merger or acquisition candidate to the Company. In the event the Company consummates a transaction with any entity referred by associates of management, it is possible that such an associate will be compensated for their referral in the form of a finder's fee. It is anticipated that this fee will be either in the form of restricted common stock issued by the Company as part of the terms of the proposed transaction, or will be in the form of cash consideration. However, if such compensation is in the form of cash, such payment will be tendered by the acquisition or merger candidate, because the Company has insufficient cash available. The amount of such finder's fee cannot be determined as of the date of filing this report, but is expected to be comparable to consideration normally paid in like transactions. No member of management nor any principal shareholder, of the Company will receive any finders fee, either directly or indirectly, as a result of their respective efforts to implement the Company's business plan outlined herein.

The Company has adopted a policy that its affiliates, principal shareholders, and management shall not be issued further common shares of the Company, as finders fees or other compensation.

## PREVIOUS "BLANK CHECK" OFFERINGS

Richard W. Morrell has not been involved in any prior public "blank check" offerings. Management has no "blank check" offerings contemplated or in registration for any other company. Management may however, be involved with other companies in the future which seek mergers or acquisitions.

Mr. Nelson has never been an executive officer or director of a blank check or "blind pool" company which conducted a public offering. Mr. Nelson has, however, been an executive officer and director of several non-reporting blank check companies (those not required to file reports with the SEC), and his experience is detailed below.

1. WILLOW RUN CORPORATION ("WLLO") - Organized 1995 in Wyoming, Mr. Nelson and other shareholders of WLLO sold shares of WLLO amounting to control of WLLO in a private transaction for an aggregate total of $150,000. Otherwise, no officer, director or shareholder of WLLO, nor their respective affiliates, sold any stock or received any compensation or other payments from WLLO or in connection with any acquisition later made. Mr. Nelson was not an officer and director of WLLO following such stock sale. WLLO subsequently changed its name to Action Sports, Inc., and later to United Sports International, Inc.com, and its common stock is quoted on the OTC Bulletin Board under the symbol WSOX and trades sporadically. WLLO is not at this time a reporting company and has not filed a registration statement with the SEC.

2. DIVERSIFIED CAPITAL, INC. ("DIVE") - Organized 1995 in Wyoming. Effective on July 7, 1998, DIVE acquired ATC Group LLC, a Maryland limited liability company, by merger. In the merger, DIVE issued to the members of ATC Group, LLC a total of 6,200,000 common and 2,066,667 preferred shares. DIVE changed its name to ATC Group, Inc. and then to its current name, TEK DigiTel Corporation, and its common stock is quoted on the OTC Bulletin Board under the symbol TEKI and is actively traded. DIVE is not at this time a reporting company and has not filed a registration statement with the SEC. Mr. Nelson was not an officer or director of DIVE following consummation of the merger. Neither Mr. Nelson nor any other officer, director or shareholder of DIVE, nor their respective affiliates, sold any stock or received any compensation or other payments in connection with the acquisition of ATC Group, LLC.

3. PROPAINT SYSTEMS, INC. ("PROP") - Organized 1995 in Nevada. Effective on June 26, 1998, PROP acquired APC Telecom, Inc., a federally chartered Canadian company, in a stock-for-stock exchange. In the exchange, PROP issued to the shareholders of APC Telecom, Inc. a total of 5,000,000 common and 5,000,000 preferred shares. PROP subsequently changed its name to APC Telecommunications, Inc. and later to its current name, Innofone.com, Incorporated, and its common stock is quoted on the OTC "pink sheets" under the symbol INNF and trades sporadically. PROP is not at this time a reporting company and has not filed a registration statement with the SEC. Mr. Nelson was not an officer or director of PROP following consummation of the exchange. Neither Mr. Nelson nor any other officer, director or shareholder of PROP, nor their respective affiliates, sold any stock or received any compensation or other payments in connection with the acquisition of APC Telecom, Inc.

4. BLAZOON SYSTEMS, INC. ("BLZO") - Organized 1996 in Colorado. Effective on February 26, 1999, BLZO acquired Diverse Capital Corp., a Florida corporation, in a stock-for-stock exchange. In the exchange, BLZO issued to the shareholders of Diverse Capital Corp. a total 1,235,000 common and 625,000 preferred shares. BLZO subsequently reincorporated to the State of Nevada and changed its name to USA Digital, Inc., and its common stock is quoted on the OTC Bulletin Board under the symbol UDIG. BLZO is subject to the reporting requirements of the Securities and Exchange Act of 1934. Mr. Nelson was not an officer or director of BLZO following consummation of the exchange. Neither Mr. Nelson nor any other officer, director or shareholder of BLZO, nor their respective affiliates, sold any stock or received any compensation or other payments in connection with the acquisition made by BLZO.

5. BORAXX TECHNOLOGIES, INCORPORATED ("BORX") - Organized 1996 in Colorado. Mr. Nelson and another shareholder of BORX sold shares of BORX amounting to control of BORX in a private transaction for an aggregate total of $25,000 in cash. Otherwise, no officer, director or shareholder of BORX, nor their respective affiliates, sold any stock or received any compensation or other payments in connection with any acquisition made. Mr. Nelson was an officer and director of BORX for a few weeks following such stock sale and then resigned those offices. BORX subsequently changed its name to QUAD X Sports.com, Inc., and its common stock is quoted on the OTC "pink sheets" under the symbol QXXX and trades sporadically.

## INDEMNIFICATION OF OFFICERS AND DIRECTORS

As permitted by Delaware Revised Statutes, the Company may indemnify its directors and officers against expenses and liabilities they incur to defend, settle, or satisfy any civil or criminal action brought against them on account of their being or having been Company directors or officers unless, in any such action, they are adjudged to have acted with gross negligence or willful misconduct. Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers or persons controlling the Company pursuant to the foregoing provisions, the Company has been informed that, in the opinion of the Securities and Exchange Commission, such indemnification is against public policy as expressed in that Act and is, therefore, unenforceable.

## EXCLUSION OF LIABILITY

The Delaware Business Corporation Act excludes personal liability for its directors for monetary damages based upon any violation of their fiduciary duties as directors, except as to liability for any breach of the duty of loyalty, acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law, acts in violation of the Delaware Business Corporation Act, or any transaction from which a director receives an improper personal benefit. This exclusion of liability does not limit any right which a director may have to be indemnified and does not affect any director's liability under federal or applicable state securities laws.

## CONFLICTS OF INTEREST

The officers and directors of the Company will not devote more than a portion of their time to the affairs of the Company. There will be occasions when the time requirements of the Company's business conflict with the demands of their other business and investment activities. Such conflicts may require that the Company attempt to employ additional personnel. There is no assurance that the services of such persons will be available or that they can be obtained upon terms favorable to the Company.

Conflicts of Interest - General. Certain of the officers and directors of the Company may be directors and/or principal shareholders of other companies and, therefore, could face conflicts of interest with respect to potential acquisitions. In addition, officers and directors of the Company may in the future participate in business ventures which could be deemed to compete directly with the Company. Additional conflicts of interest and non-arms length transactions may also arise in the future in the event the Company's officers or directors are involved in the management of any firm with which the Company transacts business. The Company's Board of Directors has adopted a policy that the Company will not seek a merger with, or acquisition of, any entity in which management serve as officers or directors, or in which they or their family members own or hold a controlling ownership interest. Although the Board of Directors could elect to change this policy, the Board of Directors has no present intention to do so. In addition, if the Company and other companies with which the Company's officers and directors are affiliated both desire to take advantage of a potential business opportunity, then the Board of Directors has agreed that said opportunity should be available to each such company in the order in which such companies registered or became current in the filing of annual reports under the Exchange Act subsequent to January 1, 1997.

The Company's officers and directors may actively negotiate or otherwise consent to the purchase of a portion of their common stock as a condition to, or in connection with, a proposed merger or acquisition transaction. It is anticipated that a substantial premium over the initial cost of such shares may be paid by the purchaser in conjunction with any sale of shares by the Company's officers and directors which is made as a condition to, or in connection with, a proposed merger or acquisition transaction. The fact that a substantial premium may be paid to the Company's officers and directors to acquire their shares creates a potential conflict of interest for them in satisfying their fiduciary duties to the Company and its other shareholders. Even though such a sale could result in a substantial profit to them, they would be legally required to make the decision based upon the best interests of the Company and the Company's other shareholders, rather than their own personal pecuniary benefit.

ITEM 6. EXECUTIVE COMPENSATION.

## SUMMARY COMPENSATION TABLE OF EXECUTIVES

| | | Annual Compensation | | | Awards | |
|---|---|---|---|---|---|---|
| Name and Principal Position | Year | Salary ($) | Bonus ($) | Other Annual Compensation ($) | Restricted Stock Award(s) | Securities Underlying Options/ SARs (#) |
| J.R. Nelson, President, Director | 1999 | 0 | 0 | 0 | 0 | 0 |
| | 1998 | 0 | 0 | 0 | 0 | 0 |
| Richard W. Morrell, Secretary, Treasurer Director (formerly President) | 1999 | 0 | 0 | 0 | 0 | 0 |
| | 1998 | 0 | 0 | 0 | 0 | 0 |

## Directors' Compensation

| Name | Annual Retainer Fee ($) | Meeting Fees ($) | Consulting Fees/Other Fees ($) | Number of Shares (#) | Number of Securities Underlying Options SARs(#) |
|---|---|---|---|---|---|
| A. Director J.R. Nelson | 0 | 0 | 0 | 0 | 0 |
| B. Director Richard W. Morrell | 0 | 0 | 0 | 0 | 0 |

Option/SAR Grants Table (None)

Aggregated Option/SAR Exercises in Last Fiscal Year an FY-End Option/SAR value (None)

Long Term Incentive Plans - Awards in Last Fiscal Year (None)

No officer or director has received any other remuneration in the two year period prior to the filing of this registration statement. There is no current plan in existence, to pay or accrue compensation to its officers and directors for services related to seeking business opportunities and completing a merger or acquisition transaction, and the Board has adopted a policy to preclude such payments. See "Certain Relationships and Related Transactions." The Company has no stock option, retirement, pension, or profit-sharing programs for the benefit of directors, officers or other employees, but the Board of Directors may recommend adoption of one or more such programs in the future.

## ITEM 7. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS.

In the two years prior to the date of this Registration Statement, the sole share issuance by the Company was to J.R. Nelson, who was appointed as President and director, a total of 5,000,000 shares of common stock for a total of $1,000 in cash. The shares were issued in July 2000. Certificates evidencing the common stock issued by the Company to this person have all been stamped with a restrictive legend, and are subject to stop transfer orders by the Company.

A Share Exchange Agreement between the Company and 35 Caroline Corporation was entered in December 1998, concurrent with a purchase of control of Registrant from Harvey V. Risien, Jr., by the principal shareholder of 35 Caroline Corporation, Richard W. Morrell.

The Share Exchange Agreement with 35 Caroline Corporation shareholders was rescinded on June 19, 1999 concurrent with an amendment to the purchase agreement with Harvey V. Risien, Jr. under which he had agreed to sell control of Houston Operating Company (2,469,417) shares to Richard W. Morrell. Mr. Morrell completed the purchase control from Mr. Risien.

No officer, director, or affiliate of the Company has or proposes to have any direct or indirect material interest in any asset proposed to be acquired by the Company through security holdings, contracts, options, or otherwise.

The Company has adopted a policy under which any consulting or finder's fee that may be paid to a third party or affiliate for consulting services to assist management in evaluating a prospective business opportunity would be paid in stock or in cash. Any such issuance of stock would be made on an ad hoc basis. Accordingly, the Company is unable to predict whether or in what amount such a stock issuance might be made.

There is no current plan in existence, nor will the Company adopt a plan to pay or accrue compensation to its officers and directors for services related to seeking business opportunities and completing a merger or acquisition transaction. The Board of Directors has adopted a resolution to establish a policy which precludes officers or directors from compensation for services related to seeking business opportunity and completing a merger or acquisition transaction for the Company. Under the Resolution and policy, no cash, stock, bonus, or option compensation or awards will be offered or approved by the Company in conjunction with change of control, or a business combination of any type. There will be no finder's fees of any type, cash, stock, bonus, or options paid to any officer or director or principal shareholders as part of or related to or resulting from an acquisition transaction.

Although management has no current plans to cause the Company to do so, it is possible that the Company may enter into an agreement with an acquisition candidate requiring the sale of all or a portion of the common stock held by the Company's current stockholders to the acquisition candidate or principals thereof, or to other individuals or business entities, or requiring some other form of payment to the Company's current stockholders, or requiring the future employment of specified officers and payment of salaries to them. It is more likely than not that any sale of securities by the Company's current stockholders to an acquisition candidate would be at a price substantially higher than that originally paid by such stockholders. Any payment to current stockholders in the context of an acquisition involving the Company would be determined entirely by the largely unforeseeable terms of a future agreement with an unidentified business entity.

Repayment of the outstanding debts of the Company will undoubtedly be a criteria which will be required to be satisfied by any target company. This of course will require cash to be provided for such repayment of debts. The cash would have to be provided either by the target company, or by a private placement to new investors concurrent with the target company transaction. The requirement of cash availability to pay old debt can be, and often is, a factor which discourages, impairs, or precludes the Company from either negotiations with a target company, or completion of a transaction with a target company.

There are currently no plans, proposals, arrangements, or understandings with respect to the sale or issuance of additional securities by the Company prior to the location of an acquisition or merger candidate. The Board has adopted a resolution and policy whereby no additional issuances of share will be made until an arrangement or contract has been made with a target company.

## ITEM 8. DESCRIPTION OF SECURITIES.

### COMMON STOCK

The Company's Articles of Incorporation authorize the issuance of 60,000,000 shares, of which 50,000,000 shares are common stock having a par value of $.001 per share. Each record holder of common stock is entitled to one vote for each share held on all matters properly submitted to the stockholders for their vote. Cumulative voting for the election of directors is not permitted by the Articles of Incorporation.

Holders of outstanding shares of common stock are entitled to such dividends as may be declared from time to time by the Board of Directors out of legally available funds; and, in the event of liquidation, dissolution or winding up of the affairs of the Company, holders are entitled to receive, ratably, the net assets of the Company available to stockholders after distribution is made to the preferred stockholders, if any, who are given preferred rights upon liquidation. Holders of outstanding shares of common stock have no preemptive, conversion or redemptive rights. All of the issued and outstanding shares of common stock are, and all unissued shares when offered and sold will be, duly

authorized, validly issued, fully paid, and nonassessable. To the extent that additional shares of the Company's common stock are issued, the relative interests of then existing stockholders may be diluted.

## PREFERRED STOCK

The Company's Articles of Incorporation authorize the issuance of 5,000,000 shares of preferred stock. The Board of Directors of the Company is authorized to issue the preferred stock from time to time in classes and series and is further authorized to established such classes and series, to fix and determine the variations in the relative rights and preferences as between series, to fix voting rights, if any, for each class or series, and to allow for the conversion of preferred stock into common stock. No preferred stock has been issued by the Company. Preferred stock may be utilized in making acquisitions.

## PREFERENCE STOCK

The Company's Articles of Incorporation authorize the issuance of 5,000,000 shares of preference stock. The Board of Directors of the Company is authorized to issue the preferred stock from time to time in classes and series and is further authorized to established such classes and series, to fix and determine the variations in the relative rights and preferences as between series, to fix voting rights, if any, for each class or series, and to allow for the conversion of preferenced stock into common stock. No preference stock has been issued by the Company. Preference stock may be utilized in making acquisitions.

## SHAREHOLDERS

Each shareholder has sole investment power and sole voting power over the shares owned by such shareholder.

No shareholder has entered into or delivered any lock up agreement or letter agreement regarding their shares or options thereon. Under Delaware laws, no lock up agreement is required regarding the Company's shares as it might relate to an acquisition.

## TRANSFER AGENT

The Company has engaged Mountain Share Transfer, Inc. of 1625 Abilene Drive, Broomfield, Colorado 80020 as its transfer agent.

## REPORTS TO STOCKHOLDERS

The Company plans to furnish its stockholders with an annual report for each fiscal year containing financial statements audited by its independent certified public accountants. In the event the Company enters into a business combination with another company, it is the present intention of management to continue furnishing annual reports to stockholders. The Company intends to comply with the periodic reporting requirements of the Securities Exchange Act of 1934 for so long as it is subject to those requirements, and to file unaudited quarterly reports and annual reports with audited financial statements as required by the Securities Exchange Act of 1934.

PART II

## ITEM 1. MARKET PRICE AND DIVIDENDS ON THE REGISTRANT'S COMMON EQUITY AND OTHER SHAREHOLDER MATTERS

No public trading market exists for the Company's securities and all of its outstanding securities are restricted securities as defined in Rule 144. There were four hundred twenty nine (429) holders of record of the Company's common stock on December 31, 1999. No dividends have been paid to date and the Company's Board of Directors does not anticipate paying dividends in the foreseeable future.

## ITEM 2. LEGAL PROCEEDINGS

The Company is not a party to any pending legal proceedings, and no such proceedings are known to be contemplated.

No director, officer or affiliate of the Company, and no owner of record or beneficial owner of more than 5.0% of the securities of the Company, or any associate of any such director, officer or security holder is a party adverse to the Company or has a material interest adverse to the Company in reference to any litigation.

## ITEM 3. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS.

Not applicable.

## ITEM 4. RECENT SALES OF UNREGISTERED SECURITIES.

During the past three years, the Company has sold its common stock to the persons listed in the table below in transactions summarized as follows:

| NAME AND ADDRESS | DATE OF PURCHASE | CONSIDERATION | NUMBER OF SHARES ISSUED | PRICE PER SHARE |
|---|---|---|---|---|
| J.R. Nelson<br>6521 W. Calhoun Place<br>Littleton, CO 80123 | July 2000 | $1,000 | 5,000,000 | $.0002 |

Each of the sales listed above was made for cash or services as listed. All of the listed sales were made in reliance upon the exemption from registration offered by Section 4(2) of the Securities Act of 1933, as amended. Based upon Subscription Agreements completed by each of the subscribers, the Company had reasonable grounds to believe immediately prior to making an offer to the private investors, and did in fact believe, when such subscriptions were accepted, that such purchasers (1) were purchasing for investment and not with a view to distribution, and (2) had such knowledge and experience in financial and business matters that they were capable of evaluating the merits and risks of their investment and were able to bear those risks. The purchasers had access to pertinent information enabling them to ask informed questions. The shares were issued without the benefit of registration. An appropriate restrictive legend is imprinted upon each of the certificates representing such shares, and stop-transfer instructions have been entered in the Company's transfer records. All such sales were effected without the aid of underwriters, and no sales commissions were paid.

All of the investors were sophisticated and were known by principals in the Company to have business investment experience. The Company provided a personal interview with a principal in the Company for each investor who explained the business plan, and provided copies of any documents requested by an investor. Each subscriber executed a subscription agreement in which the subscriber acknowledged a) an understanding of the investment risks, b) an understanding of the nature of the securities as being unregistered, and restricted from transfer c) an ability to hear economic risk of loss and illiquidity, and d) an investment intent and not a purchase for redistribution.

On May 6, 2000, J.R. Nelson subscribed for a total of 5,000,000 shares of stock for $1,000 in cash. The purchase was completed in July 2000. In addition, Mr. Nelson paid $10,000 to the Company's auditor for the Audit Reports for the year ended December 31, 1999.

The Company relied upon Sec. 4(2) of the Securities Act of 1933 for an exemption for the sale of the stock. The shares are restricted pursuant to Rule 144.

## ITEM 5. INDEMNIFICATION OF DIRECTORS AND OFFICERS

The Delaware Revised Statutes provide that the Company may indemnify its officers and directors for costs and expenses incurred in connection with the defense of actions, suits, or proceedings where the officer or director acted in good faith and in a manner he reasonably believed to be in the Company's best interest and is a party by reason of his status as an officer or director, absent a finding of negligence or misconduct in the performance of duty.

SIGNATURES:

Pursuant to the requirements of Section 12 of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

DATED: September 18, 2000

HOUSTON OPERATING COMPANY

by:/s/J.R. Nelson
J.R. Nelson, President

by:/s/Richard W. Morrell
Richard W. Morrell,
Secretary, Treasurer

Directors:

by: /s/J.R. Nelson
J.R. Nelson

by: /s/Richard W. Morrell
Richard W. Morrell

## INDEX TO FINANCIAL STATEMENTS

HOUSTON OPERATING COMPANY
FINANCIAL STATEMENTS

December 31, 1999 & 1998


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FINANCIAL STATEMENTS

HOUSTON OPERATING COMPANY

OPPENHEIM & OSTRICK, C.P.A.'s Telephone (310) 839-3930
4256 Overland Avenue, Culver City, California 90230 Fax (310) 839-3776

# INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying balance sheet of Houston Operating Company as of December 31, 1999 and 1998 and the related statement of income, stockholders' equity and cash flows for the years ended December 31, 1999 and 1998. 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 financial position of Houston Operating Company as of December 31, 1999 and 1998 and the results of its operation and its cash flows for the years ended December 31, 1999 and 1998 in conformity with generally accepted accounting principles.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 1 to the financial statements, under Going concern included in Summary of Significant Accounting Policies, the Company's only purpose is to find an acquisition to add value to its present shareholders. These conditions raise substantial doubt about its ability to continue as a going concern. Management's plans regarding those matters also are described in Note 1. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

/s/Oppenheim & Ostrick

Culver City, California
July 21, 2000



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Glenn Oppenheim, C.P.A. American Institute of CPA's
An Accountancy Corporation SEC Practice Section
Private Companies Practice Section

Gil Ostrick, C.P.A. California Society of CPA's

HOUSTON OPERATING COMPANY
BALANCE SHEET

ASSETS

| | (AUDITED) DECEMBER 31, 1999 | (AUDITED) DECEMBER 31, 1998 | (UNAUDITED) JUNE 30, 2000 |
|---|---|---|---|
| CURRENT ASSETS: | | | |
| CASH | $ 0 | $ 546 | $ 0 |
| TOTAL CURRENT ASSETS | $ 0 | $ 546 | $ 0 |

LIABILITIES AND STOCKHOLDERS' EQUITY

| | (AUDITED) DECEMBER 31, 1999 | (AUDITED) DECEMBER 31, 1998 | (UNAUDITED) JUNE 30, 2000 |
|---|---|---|---|
| CURRENT LIABILITIES: | | | |
| LOANS PAYABLE - STOCKHOLDER | $ 454 | $ 9,530 | $ 928 |
| COMMITMENTS AND CONTINGENCIES | 0 | 0 | 0 |
| TOTAL CURRENT LIABILITIES | 454 | 9,530 | 928 |
| STOCKHOLDERS' EQUITY: | | | |
| CAPITAL STOCK $.001 PAR VALUE, AUTHORIZED 50,000,000 SHARES, ISSUED AND OUT-STANDING 2,795,171 SHARES | 2,795 | 2,795 | 2,795 |
| ADDITIONAL PAID-IN CAPITAL | 38,350 | 28,820 | 38,350 |
| ACCUMULATED DEFICIT | (41,599) | (40,599) | (42,073) |
| | (454) | (8,984) | (928) |
| TOTAL STOCKHOLDERS' EQUITY | $ 0 | $ 546 | $ 0 |

SEE ACCOMPANYING NOTES TO FINANCIAL STATEMENTS

HOUSTON OPERATING COMPANY
STATEMENT OF INCOME

| | (AUDITED) YEAR ENDED DECEMBER 31, | | (UNAUDITED) SIX MONTHS ENDED JUNE 30, | |
|---|---|---|---|---|
| | 1999 | 1998 | 2000 | 1999 |
| REVENUES | $ 0 | $ 0 | $ 0 | $ 0 |
| OPERATING EXPENSES | 1,000 | 1,093 | 474 | 546 |
| LOSS BEFORE TAXES | (1,000) | (1,093) | (474) | (546) |
| NET LOSS | $ (1,000) | $ (1,093) | $ (474) | $ (546) |
| BASIC EARNINGS PER SHARE | $ (.01) | $ (.01) | $ (.01) | $ (.01) |
| WEIGHTED NUMBER OF SHARES OUTSTANDING | 2,795,171 | 2,795,171 | 2,795,171 | 2,795,171 |

SEE ACCOMPANYING NOTES TO FINANCIAL STATEMENT

HOUSTON OPERATING COMPANY
STATEMENT OF STOCKHOLDERS' EQUITY

| | COMMON STOCK SHARES | COMMON STOCK AMOUNTS | PAID-IN CAPITAL | RETAINED EARNINGS | BALANCE |
|---|---|---|---|---|---|
| BALANCE, DECEMBER 31, 1997 | 2,795,171 | $ 2,795 | $ 28,820 | $ (38,874) | $ (7,259) |
| NET LOSS | 0 | 0 | 0 | (1,725) | (1,725) |
| BALANCE, DECEMBER 31, 1998 | 2,795,171 | 2,795 | 28,820 | (40,599) | (8,984) |
| CONVERSION OF LOAN PAYABLE TO PAID-IN CAPITAL | 0 | 0 | 9,530 | 0 | 9,530 |
| NET LOSS | 0 | 0 | 0 | (1,000) | (1,000) |
| BALANCE, DECEMBER 31, 1999 | 2,795,171 | 2,795 | 38,350 | (41,599) | (454) |
| NET LOSS (UNAUDITED) | 0 | 0 | 0 | (474) | (474) |
| BALANCE JUNE 30, 2000 (UNAUDITED) | 2,795,171 | $ 2,795 | $ 38,350 | $ (42,073) | $ (928) |

SEE ACCOMPANYING NOTES TO FINANCIAL STATEMENTS

HOUSTON OPERATING COMPANY
CONSOLIDATED STATEMENT OF CASH FLOWS

| | (AUDITED) YEAR ENDED DECEMBER 31, | | (UNAUDITED) SIX MONTHS ENDED JUNE 30, | |
|---|---|---|---|---|
| | 1999 | 1998 | 2000 | 1999 |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | | | |
| NET LOSS | $ (1,000) | $ (1,093) | $ (474) | $ (546) |
| CHANGES IN OPERATING ASSETS AND LIABILITIES | 0 | 0 | 0 | 0 |
| NET CASH USED BY OPERATING ACTIVITIES | (1,000) | (1,093) | (474) | (546) |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | | | |
| PROCEEDS FROM (REPAYMENT OF) LOANS PAYABLE - STOCKHOLDER | 454 | 1,499 | 474 | 0 |
| NET CASH PROVIDED BY FINANCING ACTIVITIES | 454 | 1,499 | 0 | 0 |
| NET INCREASE (DECREASE) IN CASH | (546) | 406 | 0 | (546) |
| CASH, BEGINNING OF PERIOD | 546 | 140 | 0 | 546 |
| CASH, END OF PERIOD | $ 0 | $ 546 | $ 0 | $ 0 |
| SUPPLEMENTAL DISCLOSURES OF NON-CASH FLOW INFORMATION: INVESTING AND FINANCING ACTIVITIES: | | | | |
| CONVERSION OF LOAN PAYABLE TO CAPITAL CONTRIBUTED BY PAYMENT TO STOCK-HOLDER PERSONALLY IN LIEU OF RE-PAYMENT THROUGH THE COMPANY | $ 9,530 | $ 0 | $ 0 | $ 9,530 |
| SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION: | | | | |
| CASH PAID DURING THE PERIOD FOR INTEREST | $ 0 | $ 0 | $ 0 | $ 0 |
| CASH PAID DURING THE PERIOD FOR INCOME TAXES | $ 0 | $ 0 | $ 0 | $ 0 |

SEE ACCOMPANYING NOTES TO FINANCIAL STATEMENT

HOUSTON OPERATING COMPANY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 1999 AND 1998

(1) Summary of Significant Accounting Policies:

Company Background:

Houston Operating Company (`The Company or HOC") was incorporated under the laws of the State of Delaware on August 31, 1989. The Company was formed to act as successor to a debtor under a plan of reorganization dated April 21, 1990. Under the terms of the plan, the Company issued approximately 2.8 million shares of common stock.

On October 31, 1994, an individual acquired 2,511,345 of the outstanding shares of the Company which represents common stock ownership of approximately 89.8% of the Company. The balance of the shares 283,326 are owned by public shareholders.

In December 1998, another individual (the buyer) agreed to acquire from the seller 2,469,417 shares of common stock of the Company (the "shares") which represents approximately 88.4% of the outstanding shares of common stock of the Company. The consideration was $1 in cash and an agreement on the part of the buyers to contribute to the Company all of the outstanding capital stock of 35 Caroline Corporation; all of the outstanding common stock of Surf and Stream Corporation and all of the rights of a certain property controlled by Surf and Stream.

Other Agreement:

If the buyers do not complete the contribution of the above assets described above by April 15, 1999 the selling shareholder has the option to sell his remaining 41,298 shares or an additional 1.4% of common stock to the buyer for $75,000.

The deal between the buyer (and other shareholders) and the seller was for the operating companies of the buyer to go pubic via reverse acquisitions with the Houston Operating Company, Inc. When the buyer decided not to proceed with the business acquisition of 35 Caroline Corporation and its related entities in April 1999 the transaction was modified as follows: The buyer paid the selling shareholder of the Houston Operating Company, Inc. $75,000 plus repayment of the loan payable stockholder of $9,530 in exchange for 41,298 shares of common stock. In effect the buyer had purchased 2,511,345 shares of the company and the buyer's assets described earlier were returned to the buyers. The net result was the buyer paid approximately $84,530 to the selling shareholder personally (as opposed to the Houston Operating Company, Inc.) and in return received 89.8% of the sellers common stock ownership in the Houston Operating Company, Inc.

Transaction to purchase control of company:

In May 2000, the 89.8% shareholder of HOC has the option to sell all but 50,000 of his approximately 2.5 million shares for $10.00. The option for the 2,461,345 of the seller's shares will become exercisable contingent upon the Houston Operating Company registration statement being submitted to the NASDAQ (after SEC approval) and written confirmation (approval) for trading on the OTC Bulletin Board within 45 days. Once trading is approved, the buyer will pay $50,000 by certified check to the seller for purchasing the 2,461,345 shares.

See accompanying accountants' report

HOUSTON OPERATING COMPANY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 1999 AND 1998

(1) Summary of Significant Accounting Policies (Cont'd):

Transaction to purchase control of company (cont'd):

Effective May 2000, there is also a subscription agreement offering 5 million shares of common stock of HOC in return for $1,000 by the buyer. The soon to be issued stock for $5 million in common shares and the $1,000 are currently in an escrow account and the transaction to issue the shares for cash is expected to close July 31, 2000.

If Houston Operating Company has not completed the merger (reverse acquisition) on or before June 1, 2001, the Company (HOC) can repurchase the 5 million shares of common stock for $1,000.

Financial Disclosures:

The company has had no revenues or continuing operations since bankruptcy in 1990, the only costs incurred and some general administrative expenses like transfer agents fees and, office expenses like postage, franchise taxes, and occasionally legal fees. According to the Company's attorney, there are no liabilities or contingent liabilities including environmental issues known at this time. The company had a June 30 fiscal year which was changed when the first agreement was signed in December 1998 to December 31, the fiscal year of 35 Caroline Corporation. The Company (HOC) had audited financial statements through June 30, 1995. HOC had been exempt from public reporting requirements due to its inactivity.

Significant Accounting Policies:

The Company is inactive and has no assets or liabilities except for monies loaned by principal shareholders (the seller and the buyer involved in transactions described earlier). Therefore, there is no significant accounting policies or recent pronouncement issued by the American Institute of Certified Public Accountants that would impact the financial position or results of operations of the Company including the earnings per share calculations pronouncements of the AICPA and the SEC Staff Accounting Bulletin No. 98 which requires the presentation of both basic and diluted earnings per share (if applicable). Basic earnings per share is computed using the weighted average number of shares outstanding during each period reported.

Income Taxes:

No income tax loss carryforwards or related valuation reserves are disclosed since the buyer will most likely be unable to utilize such carryforwards under current tax laws.

Unaudited Quarterly Information:

The financial information included herein as of June 30, 2000 and for the six months ended June 30, 1999 and 2000 is unaudited. However, such information reflects all adjustments necessary for a fair presentation of the financial position, results of operation and cash flows for the interim period.

See accompanying accountants' report

(1) Summary of Significant Accounting Policies (Cont'd):

Going Concern:

The Company's financial statements have been prepared on a going concern basis since its only purpose is to find an acquisition to add value to its present shareholders. The principal shareholder has the financial means to fund the normal expenses required to achieve that goal.

(2) Capitalization:

The Company's Articles of Incorporation authorized the issuance of up to 50,000,000 shares of common stock, 5,000,000 shares of preference stock, and 5,000,000 shares of preferred stock. Currently 2,795,171 shares of common stock, par value $.001 per share, are issued and outstanding. No preference stock or preferred stock has been issued. The issuance of the preference and preferred stock and the terms thereof, is at the discretion of the Company's Board of Directors.

There are currently 429 recorded shareholders of the Company's outstanding common stock. All are U.S. residents who obtained ownership under the plan of reorganization in April 1990.

The Company owes its current principal shareholder for money advanced to pay incidental expenses as described earlier. The selling shareholder in April 1999 exercised his option to sell his remaining 41,298 shares of common stock in return for receiving $75,000 in cash and to pay off his shareholder's loan of $9,530. The money received was outside the Company as an individual selling all his shares to the buyer (an individual representing the buyers' property and common shares.) Subsequently, the new shareholder (December, 1988 buyer) has loaned the Company $928 as of June 30, 2000.

(3) Commitments and Contingencies:

There are no leases, agreements or representations by attorney's except as described earlier under financial disclosures mentioned in Note 1 as part of the Company's background and history and the recent agreement to acquire HOC.

See accompanying accountants' report

INDEX TO EXHIBITS

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3.1 Articles of Incorporation *

3.2 Bylaws *

10.1 Amendment No. 1 to Amended Stock Purchase Agreement

10.2 Disclosure Statement of Cambridge Oil Company, Debtor in Possession, and Normandy Oil and Gas Company, Inc. and its wholly owned subsidiary, Houston Operating Company, Successor to the Debtor Under the Plan

10.3 Order Confirming Debtor's Plan of Reorganization

27.1 Financial Data Schedule

*Previously Filed on Form SB-2, file #333-75743, April 6, 1999.

35 CAROLINE CORP. 518-899-7393
BOX 444 FAX 518-899-7394
AUTO TRANSPORT ROUND LAKE, NY 12151

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AMENDMENT NO.1

to

AMENDED STOCK PURCHASE AGREEMENT

AMENDMENT NO. 1, dated as of November 18, 1998, by and among 35 CAROLINE CORPORATION, a New York corporation ("Caroline"), RICHARD W. MORRELL ("Morrell") and HARVEY RISIEN, JR. ("Risien").

Reference is made to that certain AMENDED STOCK PURCHASE AGREEMENT, dated November 18, 1998, by and among Caroline, Morrell and Risien (the "Original Agreement"). Each capitalized term used herein and not otherwise defined herein shall bear the meaning ascribed to said term In the Original Agreement. All section and paragraph references shall be to the Original Agreement.

WHEREAS, pursuant to the Original Agreement Morrell purchased 2,469,417 shares of common stock of Houston Operating Company ("Houston") from Risien; and

WHEREAS, the Original Agreement provided that at closing all the outstanding stock of the Caroline (the "Caroline Stock") was to be transferred to Houston; and

WHEREAS, as part of the transaction, Risien retained 41,928 shares of Houston (the "Retained Stock") and had put option of the Retained Stock to Morrell for $1,789 per share; and



WHEREAS, it was the intent of the parties that Morrell be required to transfer, or cause to be transferred to Houston the Caroline Stock only if Risien did not exercise the put option and that If Risien did exercise the put option and that if Risien did exercise the put option, then Morrell had the option of retaining the Caroline Stock or transferring same to Houston; and

WHEREAS, Risien's only interest in having the Caroline Stock contributed to Houston was to enhance Houston's value if he continued to have a continuing stock interest in Houston -- i.e. if he did not exercise the put option; and

WHEREAS, Risien did not intend to make the other shareholders of Houston or Houston third party beneficiaries of his agreement with Caroline and Morrell; and

WHEREAS, the Original Contract did not property reflect the parties' intent in these regards: and

WHEREAS, since the date of the Original Contract Morrell has continued to operate Caroline for the interests of the Caroline shareholders.

NOW, THEREFORE, The parties hereto hereby agree as follows:

1. Paragraph 1.3 shall be amended to read in its entirety as follows:

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 78025, or such other location as agreed by the parties, on November 30, 1998, or at such other time and place as the Seller and the Buyer mutually agree upon

location as agreed by the parties, on November 30, 1998, 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 of the Purchase Price as follows:

(a) At the Closing to Seller, a check for $1,000 made payable to Seller;

(b) At the Closing to the Seller, a Promissory Note from HOC to Seller in the amount of $8,530 on terms set forth in paragraph 4.3 hereof; and

(c) If (but only if) Seller does not exercise his option to require Buyer to purchase Sellers remaining Common Stock pursuant to paragraph 4.3 hereof, on or before April 21, 1999 to Houston, certificates representing all of the outstanding capital stock of Caroline together with a stock power transferring the stock to Houston.

2. A new paragraph 2.17 Shall be added and read in its entirety as follows:

2.17 NO THIRD PARTY BENEFICIARIES. Seller does not intend to benefit in any third parties through the contingent requirement that Buyer contribute the certificates representing all of the outstanding capital stock of Caroline to Houston.

3. The parties hereto acknowledge that Risien has timely exercised the put option and that, accordingly, Morrell is not obligated to contribute (or cause to be contributed) the Caroline Stock to Houston.

4. Except as modified hereby, all of the terms of the Original

Agreement remain in full force and effect.

IN WITNESS WHEREOF, the parties have caused this Amendment to be executed this 29th day of June, 1999.

35 CAROLINE CORP.

By:/s/Richard W. Morrell
Richard W. Morrell, President

/s/Richard W. Morrell
Richard W. Morrell

/s/Harvey V. Risien, Jr.
Harvey V. Risien, Jr.

United States District Court
Southern District of Texas
FILED
SEP 21 1989
Jesse E. Clark, Clerk

UNITED STATES BANKRUPTCY COURT
FOR THE SOUTHERN DISTRICT OF TEXAS
HOUSTON DIVISION

In Re:

```
CAMBRIDGE OIL COMPANY              )
     AKA NEW CAMBRIDGE CORPORATION )    Case No. 88-01859-H5-11
     a Delaware Corporation,       )         (Chapter 11)
                                   )
                    Debtor         )
- -------------------------------- )
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DISCLOSURE STATEMENT OF CAMBRIDGE OIL COMPANY,
DEBTOR IN POSSESSION, AND NORMANDY OIL AND GAS COMPANY, INC.
AND ITS WHOLLY OWNED SUBSIDIARY, HOUSTON OPERATING COMPANY
SUCCESSOR TO THE DEBTOR UNDER THE PLAN

DATED: FILED BY:

## DISCLOSURE STATEMENT

This Disclosure Statement ("Statement") has been prepared by Cambridge Oil Company, (" Debtor"), and Normandy Oil and Gas Company and its wholly owned subsidiary, Houston Operating Company, which together constitute the Successor to Debtor under the Plan ("Successor"). The United States District Court for the Southern District of Texas, Houston Division in Bankruptcy ("Court") located in Houston, Texas has approved this Statement which approval does not constitute a determination on the merits of the Plan of Reorganization ("Plan") attached hereto as Exhibit 1 and described in this Disclosure Statement. The approval of the Statement means that the Court has found that the Statement contains adequate information to permit a creditor or shareholder of Debtor to make a reasonably informed decision in exercising their right to vote upon the Plan.

## INTRODUCTION

Debtor filed its voluntary Chapter 11 petition with the Court on February 29, 1988. On September 21, 1989, Debtor and the Successor filed the Plan and Statement. The Statement analyzes the proposed distribution to Debtor's creditors and shareholders under the Plan and in liquidation. The Statement is being mailed to all known creditors, partners, and shareholders of the Debtor for the purpose of disclosing that information which the Court has determined is material, important and necessary for such creditors and shareholders to arrive at a reasonably informed decision in exercising their right to vote upon the Plan. The Statement describes various transactions contemplated under the Plan. A copy of the Plan is attached hereto as Exhibit 1. You are urged to study the Plan in full and to consult your counsel about the Plan and its impact, including possible tax consequences, upon your legal rights. Please read the Statement and the Plan carefully before voting on the Plan.

## BRIEF EXPLANATION OF CHAPTER 11

Chapter 11 is the principal reorganization Chapter of the Bankruptcy Code ("Code"). Pursuant to Chapter 11, the Debtor's business affairs may be reorganized for the benefit of its creditors, shareholders and other interested parties. Formulation and confirmation of the Plan is the principal means for satisfying the claims and interests of the creditors and shareholders in a Chapter 11 case. Attempts at collection of pre-petition claims against the Debtor, and any attempts to foreclose upon the property

of the Debtor, are stayed during the pendency of the reorganization process.

The Court has scheduled a hearing on Confirmation of the Plan. The date and time of said hearing is set forth in the Bankruptcy Court's Order which accompanies this Statement. The confirmation hearing will be held at 515 Rusk, Fourth Floor, Room ___, Houston, Texas. At the hearing, the Bankruptcy Court will consider whether the Plan satisfies the various requirements of the Bankruptcy Code. If the Court orders Confirmation of the Plan, the Debtor will be discharged pursuant to 11 U.S.C. Section 1141 (d) from all prepetition debts except as provided in the Plan. Confirmation makes the Plan binding upon the Successor and the Debtor, all stockholders of the Debtor, all creditors of the Debtor and all other parties in interest.

SOLICITATION OF ACCEPTANCES OR REJECTIONS FROM

CREDITORS AND SHAREHOLDERS

By transmission of this Statement, Debtor and the Successor solicit acceptance or rejection of the Plan from all parties, persons, or entities who are members of the various Classes as defined in the Plan. Each Class whose rights are in some way impaired by the Plan constitutes a separate Class for voting and distribution purposes under the Plan. The Plan can be confirmed by the Court and therefore become binding on all creditors and shareholders if the Plan is accepted by: (i) two-thirds (2/3) in dollar amount and a majority in number of the allowed creditor claims in each impaired Class who cast a vote to accept or reject the Plan,

and (ii) by the holders of at least two-thirds (2/3) of the total number of shares of Common and Preferred Stock of the Debtor voting to accept or reject the Plan. However, the Bankruptcy Code provides that the Plan may be confirmed by the Court notwithstanding the fact that an impaired Class or Classes has failed to accept the Plan so long as at least one impaired Class has accepted the Plan. Finally, the Plan can only be confirmed by the Court if the Court finds the Plan meets the standards for confirmation as set forth in Section 1129 (a) of the Bankruptcy Code.

A ballot is being transmitted to all impaired creditors and shareholders for the purpose of voting on the Plan. The ballot may be completed and returned by mail to: Cambridge Oil Company, 6200 Savoy, Suite 740, Houston, Texas 77036. If an improperly executed or unexecuted ballot is returned or if no ballot is returned at all, it will not be counted as a vote to accept or reject the Plan, provided however, that if a ballot is filed and it fails to designate either acceptance or rejection of the Plan, such ballot shall be deemed to accept the Plan.

## OFFER OF SECURITIES UNDER THE PLAN

The Plan contemplates that upon its confirmation, securities of the Successor shall be issued to certain of the Debtor's creditors and shareholders under the Plan. Recipients of securities of the Successor under the Plan are urged to review the following carefully:

THE OFFER OF SECURITIES AS PROVIDED IN THE PLAN SHALL CONSTITUTE A PUBLIC OFFERING AS PROVIDED IN SECTION 1145(c) OF THE BANKRUPTCY

CODE [11 U.S.C. SECTION 1145(c)]. A REGISTRATION STATEMENT RELATING TO THE SECURITIES TO BE ISSUED UNDER THE PLAN WILL NOT BE FILED WITH UNITED STATES SECURITIES AND EXCHANGE COMMISSION. THE ISSUANCE SECURITIES UNDER THE PLAN IS EXEMPT FROM REGISTRATION WITH THE UNITED STATES SECURITIES AND EXCHANGE COMMISSION AS PROVIDED IN SECTION 1145(a) OF THE BANKRUPTCY CODE [11 U.S.C. SECTION 1145(a)]. THIS STATEMENT HAS NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION NOR HAS THE COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THE STATEMENTS CONTAINED HEREIN.

UNTIL FORTY 40) DAYS AFTER THE FIRST DISTRIBUTION OF SECURITIES UNDER THE PLAN, ALL DEALERS EFFECTING TRANSACTIONS IN THE SECURITIES TO BE DISTRIBUTED UNDER THE PLAN SHALL AT THE TIME OF OR PRIOR TO THE TRANSACTION DELIVER TO THE PURCHASER A COPY OF THIS STATEMENT. THE DELIVERY OF THE STATEMENT SHALL NOT IMPLY THAT THERE HAS BEEN NO CHANGE IN THE AFFAIRS OF THE DEBTOR OR THE SUCCESSOR SINCE THE DATE HEREOF.

NO DEALER, SALESMAN OR OTHER PERSON HAS BEEN AUTHORIZED TO GIVE ANY INFORMATION OR MAKE ANY REPRESENTATIONS (PARTICULARLY AS TO THE FUTURE VALUE OF SECURITIES TO BE ISSUED UNDER THE PLAN) OTHER THAN THOSE CONTAINED IN THIS STATEMENT. ANY INFORMATION OR REPRESENTATION NOT HEREIN CONTAINED, IF GIVEN OR MADE, MUST NOT BE RELIED UPON.

PURSUANT TO SECTION 1125 (E) OF THE BANKRUPTCY CODE [11 U.S.C. SECTION 1125 E)], ANY PERSON INCLUDING THE DEBTOR, THE SUCCESSOR AND THEIR ATTORNEYS, ACCOUNTANTS, EMPLOYEES, OFFICERS AND DIRECTORS THAT SOLICITS OR PARTICIPATES IN GOOD FAITH AND IN COMPLIANCE WITH THE APPLICABLE PROVISIONS OF THE BANKRUPTCY CODE [11 U.S.C. SECTION 101 ST SEQ] IN THE OFFER OF SECURITIES UNDER THE PLAN OF REORGANIZATION DESCRIBED HEREIN SHALL NOT BE LIABLE ON ACCOUNT OF SUCH SOLICITATION OR PARTICIPATION FOR VIOLATION OF ANY APPLICABLE LAW, RULE, OR REGULATION ENACTED BY THE UNITED STATES OR ONE OF ITS STATES GOVERNING THE OFFER, ISSUANCE, SALE, OR PURCHASE OF SECURITIES.

THIS STATEMENT MAY NOT BE RELIED UPON FOR ANY PURPOSE OTHER THAN TO DETERMINE HOW TO VOTE ON THE PLAN, AND NOTHING CONTAINED IN IT SHALL CONSTITUTE AN ADMISSION OF ANY FACT OR LIABILITY BY ANY PARTY. THIS STATEMENT SHALL NOT BE DEEMED CONCLUSIVE ADVICE ON THE TAX OR OTHER LEGAL EFFECTS OF THE REORGANIZATION ON HOLDERS OF CLAIMS OR INTERESTS.

THE INFORMATION CONTAINED IN THIS STATEMENT, OTHER THAN THE FINANCIAL STATEMENTS INCLUDED IN EXHIBITS 4 AND 5, HAS NOT BEEN SUBJECT TO AN INDEPENDENT AUDIT AND DEBTOR AND THE SUCCESSOR ARE UNABLE TO WARRANT THAT THE INFORMATION CONTAINED HEREIN IS WITHOUT INACCURACY HOWEVER, EVERY EFFORT HAS BEEN MADE TO PROVIDE ACCURATE INFORMATION

THE DATE OF THE STATEMENT IS SEPTEMBER 21, 1989

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## I. HISTORY, BACKGROUND AND BUSINESS OF DEBTOR

### (A.) HISTORY

Cambridge Oil Company maintains its executive offices at 6200 Savoy, Suite 740, Houston, Texas 77036, telephone number (713) 975-1272. The Company is engaged in the exploration for, and development, production and sale of, oil and gas. Unless the context otherwise requires, as used herein the term "Company" or the term "Debtor", respectively, refers to Cambridge Oil Company, (formerly New Cambridge Corporation), its predecessors, and its subsidiaries.

New Cambridge Corporation was incorporated in the State of Delaware on December 6, 1983. The aggregate number of authorized shares of Stock which New Cambridge Corporation had authority to issue was 75,010,000, of which 75,000,000 shares were designated as Common Stock and 10,000 shares were designated as Preferred Stock. At December 31, 1983, New Cambridge Corporation had not issued any shares of the Common or Preferred Stock.

New Cambridge Corporation engaged in no business operations other than organizational activities from the date of incorporation (December 6, 1983) through December 31, 1983. At December 31, 1983, New Cambridge Corporation had no assets or liabilities. No income had been received and no costs had been incurred through that date.

On December 6, 1983, the New Cambridge Corporation entered into an agreement and plan of merger and consolidation with Cambridge Oil Company (a Delaware corporation) for clarity, hereinafter

referred to as "Old Cambridge", and Oklahoma Industrial Energies, Inc. (an Oklahoma corporation) hereinafter referred to as "OlE". Under terms of the merger and consolidation, each OlE shareholder received one share of New Cambridge Corporation Common Stock for each share of Oklahoma Industrial Energies, Inc. Stock and each shareholder of Old Cambridge received 9.008 shares of New Cambridge Corporation Common Stock for each share of Old Cambridge Common Stock. In addition outstanding options and warrants to purchase shares of Old Cambridge Common Stock and all outstanding debentures convertible into shares of Old Cambridge were adjusted to provide for the issuance of 9.008 shares of New Cambridge Corporation Stock for each share of Old Cambridge Common Stock issuable upon exercise of conversion thereof.

On February 24, 1984, Old Cambridge Oil Company was merged with OlE. On this effective date, all the assets and liabilities of Old Cambridge Oil Company and Oklahoma Industrial Energies, Inc. were transferred into New Cambridge Corporation in consideration of newly issued stock of New Cambridge Corporation. New Cambridge Corporation was formed solely for the purpose of this transaction. Effective February 24, 1984, New Cambridge Corporation changed its name to "Cambridge Oil Company".

OlE had been in existence since March 1959 but had been basically inactive for most of the five years prior to the Merger. During that period, it continued to own a small number of operating oil and gas properties located in Oklahoma and Wyoming and a royalty interest in Texas. In addition, OlE owned an interest in Sea-Crete

resources of Japan, Ltd., a company involved in the extraction of minerals from sea water.

Since November, 1977, Old Cambridge had been involved in the exploration and drilling for oil and gas, principally through public and private drilling funds it had sponsored: specifically four public drilling partnerships and three private drilling funds. Old Cambridge, directly or through drilling partnerships, had properties in Louisiana, Texas, Illinois, Oklahoma, Ohio, New York, Mississippi and Alabama. Old Cambridge additionally owned all of the issued and outstanding capital stock of Camoil Securities, Inc., a broker-dealer registered with the National Association of Securities Dealers, Inc., which was formally dissolved in December of 1984.

The Board of Directors of OlE decided that it would be in the best interest of OlE and its stockholders to effect a Merger since OlE had been inactive for some time and had no full-time management personnel. Because its principal remaining properties were oil, and gas properties, it was determined that a merger should be effected with a company in the oil and gas business having experienced management personnel capable of raising capital. Notwithstanding the fact that New Cambridge had substantial indebtedness after the merger when compared to OlE's relatively debt-free balance sheet, Cambridge had cash balances in excess of OlE's cash balances. The Merger was anticipated to result in a public market for the stock of New Cambridge which would enable the combined corporations to raise capital for use in its business and particularly for the acquisition of oil and gas properties.

Initially, the Merged Companies Cambridge Oil. Company or "Company") managed and administered public and private partnerships "Drilling Partnerships") to explore for and develop oil and gas.

Beginning with the relocation of the executive offices of Company to Houston, Texas in January, 1984 and the concurrent closing of the New York office, the Company streamlined its administrative operations and began aggressively pursuing the acquisition and drilling of prospects for its own account. With drilling costs substantially lower than in prior years, the gas oversupply on a slow decline, and the renewed interest in exploration, 1984 appeared to be a good year to actively explore for oil and gas.

Management recognized that past losses of the Company's predecessors stemmed from: (1) costs of managing and administering public drilling programs, (2) corporate overhead costs being disproportionate to existing operations and revenues, and (3) increased amortization rates resulting from high exploration costs the reserves found. With these problems in mind, the following objectives were established for the Company: reduce corporate overhead; diversify the Company's capital base by expanding the public market for the securities of the Company; plan for the liquidation of non-mortgage bank debt; enhance the Company's presence and reputation in the Houston area; and increase reserves, primarily through the generation of prospects by the Company that result in successful wells. Further, the Company recognized the

need to operate wells to control costs and gain exposure as an operator.

During 1984, the Company began operating wells drilled on successful prospects. The Company served as operator for the drilling of six such wells, three of which were completed as commercial gas wells and one of which was completed as a commercial oil well.

During 1985, the Company participated in the drilling of thirteen wells, twelve of which were drilled and operated by the Company. Four of these wells were completed as commercial gas producers.

During 1986, the Company generated, funded and drilled twenty-three wells, all of which were drilled and operated by the Company, eighteen of which were completed as commercial producers. In addition, in 1986 the Company paid off all remaining bank debt with the exception of $35,000 which was paid in early 1987.

During 1987, the Company participated in the drilling of twenty one wells, fourteen of which were completed as commercial producers, and acted as Operator for all but two wells.

Since filing its Chapter 11 petition on February 29, 1988, the Company has not participated in the drilling of any wells.

Since 1984, the Company has utilized numerous methods to improve liquidity and provide a consistent cash flow. The acquisition of HMG Associates in 1984, in exchange for 1,500,000 shares of Common Stock of the Company, added assets and cash flow to the Company. HMG had interests in oil and gas properties in 13 states.

with major producing areas in New York, Pennsylvania, West Virginia, Texas and Louisiana. HMG owned interests in developed acreage and in approximately 200 producing wells. Also acquired through HMG were additional interest in approximately 65,000 acres of undeveloped acreage located in Arkansas, Florida, Kansas, Louisiana, Michigan and Texas.

HMG experienced an increase in reserves due to successful drilling efforts in 1984 but cash flow was offset by a decrease in ability to sell gas due to oversupply and falling prices. The Company was approached by the operator of the majority of the properties in which HMG had an interest, NRM Petroleum, to acquire HMG. NRM Petroleum could administer these properties easily since they already owned an interest in all of the same properties as HMG. The Company accepted the acquisition offer for all of the HMG properties, both developed and undeveloped, on October 10, 1985 with the final sales price of $101,759 based upon an engineering reserve report dated December 15, 1985.

Additionally, Cambridge sold several undeveloped properties in Louisiana and some producing properties in Converse County, Wyoming, Stonewall and Reagan Counties in Texas.

Cambridge also participated with one of its working interest owners, Arend Resources & Trading Co., S.A. in the sale of numerous properties operated by the Company to Griffin Petroleum Co., et al. Effective with August 1, 1987 production, Arend Resources & Trading Co., S.A. and Cambridge Oil Company jointly conveyed working interests in producing properties in Goliad,

Victoria, Duval and Hidalgo Counties, Texas for $225,000. One-half of the interests conveyed were conveyed from Arend's interests; the other half were conveyed from Cambridge's interests. One-half of the proceeds were applied against Arend's outstanding joint interest billing balance; the cash received by the Company was used to clear up outstanding liens and some production taxes attributable to the properties. After Griffin, et al receives net revenue (defined as the gross oil and gas income received less all operating costs including overhead and taxes) equal to 200% of the total purchase price, Griffin, et al will reassign 50% of the initial interest conveyed to Griffin, et al back to Cambridge and Arend. The Company is of the opinion that Griffin, et al will not receive net revenue equal to 200% of its total purchase price. Accordingly, the Company does not anticipate a reassignment of the interest conveyed to Griffin, et al.

## (B.) BUSINESS OF DEBTOR

The Company's principal products are oil and natural gas. The principal markets for such products are those wherein the Company's oil and gas properties are physically located, and the methods of distribution of such products are by sale to the appropriate oil and gas gathering companies operating in the geographic area of the Company's production.

While the Company's exploration and development operations have been conducted in Texas, Louisiana, Oklahoma, Mississippi, Alabama, Illinois, Ohio, New York and Wyoming, activities since 1984 have been concentrated in the Texas Gulf Coast.

The Company's operations are subject to all of the risks inherent in the exploration for, and development of, oil and gas, including blowouts, fire and other casualties, which could result in damage to or destruction of oil and gas formations, producing facilities or property or possible personal injury or loss of life. The Company maintains insurance coverage that is customary for a company of similar size, engaged in similar operations, but losses may occur as a result of uninsurable risks or in amounts in excess of existing insurance coverage which could have a material adverse effect upon the Company's condition if it is not fully insured. The Company carries substantial insurance coverage against certain of these risks, but is not fully insured either because insurance is not available or because the Company has elected not to purchase insurance due to prohibitive premium costs.

The production and sale of oil and natural gas is subject to various federal, state and local regulations. The executive and legislative branches of the federal government have periodically proposed and considered various programs for development and use of alternative fuels, energy conservation and limitations on the level of crude oil imports. Numerous proposals are before Congress and state legislatures concerning regulation and taxation of the oil and gas industry. The Company cannot predict which of such proposals, if any, will be enacted into law, and, if any such proposals or programs are enacted or adopted, the effect they might have cannot be predicted accurately.

For the past six years, the natural gas industry has experienced instability primarily due to a decline in demand combined with excess gas deliverability. Economic conditions and the availability of alternative fuels at competitive prices are just two of the factors that have affected demand for gas and created increased competition for markets. Many producers, pipelines and distribution companies have lowered their prices in an attempt to maintain or increase sales. Some gas purchasers have implemented a variety of marketing approaches, including gas "clearinghouses" designed as a vehicle for month-to-month spot sales and various types of special marketing programs, in an effort to increase sales or avoid additional take-or-pay liabilities. As a result, the Federal Energy Regulatory Commission ("FERC" has approved a variety of special marketing programs and eased restrictions on transportation of gas to end-users in an effort to respond to conditions in the marketplace. The market for future gas production is unpredictable, as are the reactions of FERC or other agencies to future events.

The Company's operations are subject to numerous laws and regulations, both federal and state, controlling the discharge of materials into the environment or otherwise relating to the protection of the environment. These laws and regulations have not had a material impact on the Company's operations, but the Company is unable to predict whether its future operations will be materially adversely affected thereby.

The Company competes with a large number of major oil companies, independent oil and gas companies, individual operators and drilling programs in the exploration for, and development and production of, oil and gas. Many such competitors possess and employ financial and personnel resources substantially in excess of those available to the Company and may, therefore, be able to pay greater amounts for desirable leases and to evaluate, bid for, purchase and define a greater number of potential producing prospects than the Company's own financial and personnel resources permit.

As of December 31, 1988, the Company employed three people. None of the Company's employees are represented by a union or labor organization. The Company maintains disability, medical and hospital insurance plans for its employees.

(C.) ASSETS AND PROPERTIES OF DEBTOR

The Debtor has filed Amended Schedules B-l (real property), B-2 (personal property) and B-3 (other property). These schedules have been amended to reflect changes since they were initially filed on May 11, 1988, deleting any properties disposed of through sale or properties depleted or abandoned for noncommerciality, and revising estimates of value. Additionally, the Debtor has attached as Exhibit 9, a Summary of the Debtor's Schedules Reflecting Post Petition Changes. The schedules may be reviewed at the United States Bankruptcy Court Clerk's office, 515 Rusk, Houston, Texas, between the hours of 9:00 a.m. and 4:30 p.m., Monday through Friday.

Assets and properties of the Debtor consist of the following:

| | HISTORICAL COST (BOOK VALUE) | | FAIR MARKET VALUE | LIQUIDATION VALUE |
|---|---|---|---|---|
| | 12/31/88 | 6/30/89 | 6/30/89 | 6/30/89 |
| Cash | $78,311 | $38,759 | $38,759 | $38,759 |
| Accounts Receivable: | | | | |
| Oil & Gas Sales | 170,106 | 235,760 | 188,608 | 100,000 |
| Joint Interest | 113,880 | 161,114 | 136,947 | 50,000 |
| Limited Partnerships | 106,647 | 75,696 | 50,000 | 40,000 |
| Oil & Gas Properties | 1,586,848 | 1,423,120 | 809,202 | 612,011 |
| Office Furniture, Equipment and Vehicles | 38,572 | 34,726 | 21,230 | 10,000 |
| All Other Assets | 55,516 | 63,158 | 61,000 | 32,500 |
| TOTALS | $2,149,880 | $2,032,333 | $1,305,746 | $883,270 |

In preparing estimates of fair market and liquidation values the debtor's assets, management consulted with independent appraisers, performed physical inspections and consulted with its financial and legal advisors. A discussion of each of the debtor's assets and properties, together with the methods and assumptions utilized by management for valuations, is as follows:

(1) OIL AND GAS PROPERTIES

The Company's principal asset consists of oil and gas reserves which have been estimated by Gerald DuPont Enterprises, Inc., ("DuPont" an independent petroleum engineering firm. The following table sets forth as of January 1, 1989 the estimated net quantities of proved developed and undeveloped oil and gas reserves together with estimated net revenues (discounted at 20%) by field, in which the Company has an interest and which were capable of production at June 30, 1989:

PROVED DEVELOPED RESERVES

| FIELD | NET OIL RESERVES (BBLS) | NET GAS RESERVES (MCF) | DISCOUNTED NET REVENUE (20%) |
|---|---|---|---|
| Altamont-Bluebell | 137 | 0 | $1,759 |
| North Alkek | 0 | 29,831 | 18,205 |
| Baby Face | 0 | 212,665 | 110,214 |
| Bucksnag | 1,105 | 25,606 | 34,641 |
| East Coletto Creek | 0 | 8,894 | 4,116 |
| North Fannin | 0 | 112,946 | 76,752 |
| Johns | 0 | 1,196 | 2,810 |
| Lil Miss | 3,004 | 38,906 | 28,829 |
| Maetze | 0 | 30,208 | 17,430 |
| West Maetze | 0 | 19,448 | 12,839 |
| Power Play | 0 | 530,446 | 228,612 |
| Pearsall | 9,109 | 0 | 53,218 |
| Reichert | 0 | 73,885 | 48,582 |
| Ric-John | 0 | 5,172 | 5,345 |
| Tom M | 0 | 3,976 | 2,483 |
| Willmarg | 0 | 277,581 | 129,395 |
| TOTAL PROVED DEVELOPED | 13,355 | 1,370,760 | $775,230 |

PROVED UNDEVELOPED RESERVES

| FIELD | NET OIL RESERVES (BBLS) | NET GAS RESERVES (MCF) | DISCOUNTED NET REVENUE (20%) |
|---|---|---|---|
| North Alkek | 0 | 23,542 | $ 2,508 |
| Bucksnag | 1,062 | 37,253 | 11,735 |
| Fletcher | 0 | 45,535 | 5,189 |
| Lil Miss | 6,070 | 83,205 | 28,476 |
| Nichols | 0 | 117,262 | 60,978 |
| Ric-John | 0 | 21,688 | 18,527 |
| TOTAL PROVED UNDEVELOPED | 7,672 | 328,485 | $ 127,413 |

SUMMARY-TOTALS

| | NET OIL RESERVES (BBLS) | NET GAS RESERVES (MCF) | DISCOUNTED NET REVENUE (20%) |
|---|---|---|---|
| PROVED DEVELOPED | 13,355 | 1,370,760 | $ 775,230 |
| PROVED UNDEVELOPED | 7,672 | 328,485 | 127,413 |
| TOTAL | 21,027 | 1,699,245 | $ 902,643 |

A copy of DuPont's reserve estimates as of January 1, 1989 is attached hereto as Exhibit 6. Wells which were not deemed to be capable of production or which have been recommended for abandonment or have been abandoned at June 30, 1989 are reflected in this exhibit.

The estimate of oil and gas reserves were based on the most reliable information available at the time of preparation. Data used in DuPont's estimates has been supplied by the operators of the properties or is otherwise accessible through various regulatory agencies such as the Railroad Commission of Texas and the Louisiana Department of Conservation. While the reserve estimates used in the evaluation are believed to be reasonable and correct, they should be accepted with the understanding that reservoir performance may justify revision.

Several methods were used to estimate reserves for the various reservoirs studied. The particular method used for any given sand was determined by the quality and quantity of available data. More than one method was used wherever possible in order to increase the degree of accuracy of the final result.

Where sufficient production history was available to determine an average rate of decline in production, the actual performance of the reservoir was used as a basis for predicting reserves. Actual production trends were extrapolated to an anticipated point of abandonment. This method can provide not only a reasonable estimate of ultimate production but also a fairly reliable "life expectancy" for the well

Volumetric Analysis was based on a determination of total volume of oil and/or gas present in the reservoir and percentage of that initial volume which can be expected to be recovered.

The recovery factor is a variable calculated for each reservoir on the basis of reservoir pressures and/or water, oil and gas saturations. It is an expression of the efficiency of producing mechanism of the reservoir.

The estimate of future net revenues were established using average prices in effect for 1988 with no future escalations except in those instances where gas sales are being made under the terms of a contract which includes fixed and determinable escalations. Where applicable, the effect of the Natural Gas Policy Act of 1978 was included in determining current price as of January 1, 1989, none of the future escalations provided for by the Act were considered to be fixed and determinable. Operating costs, production taxes, royalties and overriding royalties, and estimated future capital expenditures were deducted from the estimates of future revenues to determine net revenues. These costs were estimated based upon current costs, and were not adjusted to reflect anticipated increases due to inflation or other factors.

The Company selected a discount factor of 20% to determine the fair market value of the properties. This discount factor was selected for the following reasons:

The undiscounted net revenues to be received in the future do not include any provision for the overhead and other costs associated with the management and adminIstration of the properties.

The undiscounted net revenues to be received in the future do not include any provision for the time value of money which was estimated at 10%.

Recent industry transactions involving the sale of oil and gas properties have generally been in the 20-25% discount range.

To determine the fair market value at June 30, 1989, Mr. DuPont's January 1, 1989 estimates of reserve valuation were reduced to reflect production of the wells during the six months ended June 30, 1989:

| | |
|---|---|
| Total Oil & Gas Properties at January 1, 1989, discounted at 20% | $ 902,643 |
| Net Revenues for six months ended 6/30/89 | ( 93,441) |
| Fair Market Value at 6/30/89 | $ 809,202 |

The liquidation value of these oil and gas properties reflects additional costs (15%) that management expects would be incurred by a Trustee, including commissions, legal and administrative fees and trustee's fees in disposing of the properties, and a reduction in proved undeveloped reserves to 30% of the indicated fair market value.

Additional information concerning the Company's oil and gas properties is included in footnotes to the audited financial statements included as Exhibit 5 to this Statement.

(2) ACCOUNTS RECEIVABLE FROM OIL AND GAS SALES

The amount represents accounts receivable earned in the normal course of business from the sale of oil and natural gas. At June 30, 1989, approximately $125,000 of the amount due Cambridge. for oil and gas sales was in suspense with the purchaser, Cokinos Natural Gas Co., as a result of litigation between the Company and William 0. Huggins, III (See Litigation (I)(D)(l) for discussion). Some of these suspended revenues due Cambridge (approximately $55,000) have been disbursed by Cokinos to Huggins as the result of an agreement between them. In addition, the amount shown at June 30, 1989 includes approximately $65,000 due from North Central Oil Corporation, as reimbursement of costs of drilling and completing a well, which is in dispute (See Litigation (I) (D) (2) for discussion). Management is currently in the process of recovering both of these amounts; however, it can not be determined at this time if these efforts will be successful.

In determining the fair market value of accounts receivable from oil and gas sales, the Company has estimated that 80% of the amounts due will ultimately be collected. The liquidation values of these accounts receivable reflects (i) additional costs (10%) that management would expect would be incurred by a Trustee (including Trustee fees) in collecting the amounts due and (ii) an estimate of the amount that might not ever be collected should the company convert the case to a Chapter 7.

(3) ACCOUNTS RECEIVABLE FROM JOINT INTEREST BILLINGS

Accounts receivable due from working interest owners for expenses incurred by Debtor in wells operated by the Debtor. Amounts which have been determined not to be collectable have been excluded. The primary reason for exclusion were those cases where the well is no longer revenue producing aid the working interest owner has refused to pay. In determining the fair market value of accounts receivable from joint interest billings, the Company has assumed that 85% of the $161,114 due at June 30, 1989 will ultimately be paid.

The liquidation value represents management's estimate of the amount that might ultimately be collected by a Trustee (after Trustee expenses). This estimate is based on the fact that the accounts receivable from working interest owners consist of amounts due from individuals rather than companies, making collection efforts more difficult.

(4) ACCOUNTS RECEIVABLE FROM LIMITED PARTNERSHIPS

The Company is the general partner for six limited partnerships formed during 1980-1982. In accordance with the terms of the Limited Partnership Agreements, each partnership was dissolved effective February 29, 1988 with the filing of the general partner's Chapter 11 petition. The general partner is responsible to wind-up the affairs of the partnership to include, among other things:

(1) Sale and disposal of partnership assets;
(2) Filing of final tax returns with appropriate taxing authorities;

(3) Payment of outstanding obligations of the partnership;

(4) Distributing the remaining proceeds, if any, to each limited partnership in accordance with their respective ownership position;

(5) Causing the partnerships' accountants to file a Statement of Dissolution with respect to the final disposition of funds.

The only significant asset of the individual limited partnerships consists of oil and gas properties which are to be sold in accordance with the respective partnership agreements. The discounted (20%) value of these properties, as determined by Mr. DuPont, at January 1, 1989, are as follows:

| PARTNERSHIP | PROVED DEVELOPED RESERVES | PROVED UNDEVELOPED RESERVES | TOTAL |
|---|---|---|---|
| 80-I | $ 12,416 | $ 0 | $ 12,416 |
| 80-II | 18,244 | 20,484 | 38,728 |
| 81-I | 1,251 | 56,906 | 58,157 |
| 81-II | 22,679 | 20,232 | 42,911 |
| 82-I | 56,342 | 0 | 56,342 |
| 82-II | 53,957 | 0 | 53,957 |
| TOTAL | $164,889 | $ 97,622 | $262,511 |

Accounts receivable from limited partnerships represent the limited partnership's share of expenses paid by the general partner (Debtor) on behalf of the limited partnership. The Company is currently in the process of selling the oil and gas properties of the limited partnerships. The partnerships' ability to pay the amounts due the Company is limited to those proceeds received from the sale of partnership assets, none of which has been completed. The fair market value of these receivables was based upon management's estimate of the amount that may ultimately be paid (after

partnership costs and expenses) upon final disposition of partnership assets.

The liquidation values of these receivables reflects (1) additional costs (10% that management would expect would be incurred by a trustee (including trustee fees) in collecting the amounts due and (2) an estimate of the amount that might not ever be collected should the company convert the case to a chapter 7.

(5) OFFICE FURNITURE AND EQUIPMENT

At August 1, 1989, management took a physical inventory of all office furniture and equipment, computers, desks, chairs, tables, typewriters, adding machines, etc. The fair market value of this equipment was estimated by management based on the age and condition of similar equipment sold in the normal course of business over a reasonable time.

Liquidation values assume the sale, at auction, of the same equipment.

(6) ALL OTHER ASSETS

Other assets at December 31, 1988 and June 30, 1989 consisted of the following:

| | HISTORICAL COST (BOOK VALUE) | | FAIR MARKET VALUE | LIQUIDATION VALUE |
|---|---|---|---|---|
| | 12/31/88 | 6/30/89 | 6/30/89 | 6/30/89 |
| Fannin Gas Gathering System | $ 0 | $ 0 | $35,000 | $31,500 |
| Accounts Receivable Other | 28,331 | 36,543 | 15,000 | 0 |
| Prepaid Expenses | 15,161 | 14,591 | 10,000 | 0 |
| Deposits | 10,989 | 10,989 | 0 | 0 |
| Investments in Intuck | 1,035 | 1,035 | 0 | 0 |
| Causes of Action | 0 | 0 | 1,000 | 1,000 |
| TOTALS | $55,516 | $63,158 | $61,000 | $32,500 |

The Fannin Gas Gathering System is a small natural gas pipeline gathering system located in Goliad County. There is disputed ownership with various third parties as to "actual" ownership of the system. Normandy Oil and Gas Company, Inc. is in the process of acquiring the claims of various unsecured and third-party creditors as these claims relate to the gathering system. The proposed acquisition of claims by Normandy will be reflected by a Motion to be filed with this court.

Accounts receivable represent amounts due from various producers who use the pipeline to transport their gas from the wellhead to a major gas pipeline system.

Accounts Receivable Other represents an amount due from one of the producers who has refused to pay the transportation fees for the use of the gas gathering system under the pretense that the Company does not have the right to collect such fees. The Company is in the process of addressing this dispute. The amount that may ultimately be collected, if any, cannot be determined at this time.

Prepaid expenses consist primarily of prepaid costs associated with maintenance agreements and insurance. Deposits consist of rent, utility and equipment deposits.

The Company has available various causes of action against a former attorney and certain working interest owners. The viability of pursuing these causes is uncertain, as is the potential outcome of any litigation that might result and amounts that may ultimately be collected.

(D.) LITIGATION

The Company is presently involved in the following legal actions:

(1) WILLIAM 0. HUGGINS, III ET AL, PLAINTIFFS V. CAMBRIDGE OIL COMPANY, DEFENDANT, filed on January 5, 1987 in the 135th Judicial District Court of Goliad County, Texas, Cause No. 87-1-6279. Plaintiffs in their first amended original petition, allege that the Company breached a farmout agreement, fraudulently withheld monies due plaintiffs under the farmout agreement and a certain oil and gas lease, breached a fiduciary obligation to plaintiffs in handling the monies due plaintiffs and was negligent in handling monies due plaintiffs. Plaintiffs asked for (1) rescission and cancellation of (i) the farmout agreement; (ii) assignments made pursuant to such agreement, and (iii) a certain oil and gas lease, (2) actual damages of $436,000, (3) exemplary damages of $3,000,000 for breach of fiduciary obligations, (4) exemplary damages of $1,000,000 for malice and (5) exemplary damages of $1,000,000 for gross negligence.

On September 23, 1987, a verdict was returned by the jury in favor of the plaintiffs terminating the farmout agreement involved in the litigation, terminating the assignments made pursuant to the farmout agreement, awarding damages of $100,000 and exemplary damages of $1,500,000.

On October 21, 1987, the Court denied Cambridge Oil Company's Motion for a judgment notwithstanding the verdict and entered a judgment based upon the jury's findings in favor of the plaintiffs. Company counsel filed a motion for a new trial.

On January 4, 1988, the Company's request for a new trial was denied and the plaintiff subsequently filed a Writ of Execution to post producing properties of the Company for Sheriff's Sale. The Company subsequently filed for protection under Chapter 11 of the Bankruptcy Code to prepare it's appeal.

Counsel was retained for the Company to pursue its appeal to the judgment in the Texas Court of Appeals, 13th Supreme Judicial District in Corpus Christi, Texas, Appellate Case No. 13-88-00038-CV styled Cambridge Oil Company, Appellant VS. William 0. Huggins III, Trustee for William 0. Huggins III, Judith L. Huggins, and Virginia Huggins May, Appellees.

An Agreed Order was entered by the Bankruptcy court on June 6, 1988 allowing the automatic stay under the Chapter 11 to be lifted so as to allow the state court litigation to proceed through the appeals process.

The appellate cause was submitted and oral argument was allowed on October 6, 1988. Cambridge, as Appellant, cited twenty-two points of error, eighteen of which were supported by statements, arguments and authorities pertaining to: 1) the lack of evidence to support monetary damage recovery, 2) the absence of legal or factual basis for any recovery in tort and 3) the insupportability of recision remedy for non-fraud "tort"; and four of which were supported by: 1) statements, arguments and authorities pertaining to the contract claim for cancellation and 2) recision of partial assignments to Cambridge under the farmout agreement.

On October 5, 1987, Cambridge Oil Company filed notice of appeal through the 13th Court of Appeals of Corpus Christi, Texas. Such appeal was subsequently withdrawn.

Texas Trinity Energy Company additionally brought a complaint to the Railroad Commission of Texas alleging violations pertaining to the Dreier No. 1-A Well. A hearing was held on November 18, 1987 (Oil & Gas Docket No. 2-91,621) to: 1) consider the good faith claim of title of North Central Oil Corporation and Cambridge Oil Company to an oil and gas lease; 2) determine if the Railroad Commission's Statewide Rules 11 and 12 were violated by North Central Oil Corporation and Cambridge Oil Company when the subject well was permitted, drilled and completed; 3) determine whether an exception to Statewide Rule 37 must be obtained for the subject well and to consider the validity of the permit issued to drill the well; 4) consider whether all production from the subject well should be considered illegal production and be subject to makeup; and 5) give North Central Oil Corporation and Cambridge Oil Corporation an opportunity to appear and address the allegation of false filing concerning failure to inform the Commission that the subject well was to be a directionally drilled well.

On March 14, 1988, the Commission issued a Final Order in this matter, adopting as finding of fact and conclusions of laws that: 1) proper notice was issued to the appropriate parties and that the Railroad Commission had jurisdiction to decide the matter; 2) that the Dreier No. 1-A Well was drilled in violation of Statewide Rule 11 (d)(3)(B) but that there was no deliberate attempt to

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On March 14, 1988, the Commission issued a Final Order in this matter, adopting as finding of fact and conclusions of laws that: 1) proper notice was issued to the appropriate parties and that the Railroad Commission had jurisdiction to decide the matter; 2) that the Dreier No. 1-A Well was drilled in violation of Statewide Rule 11 (d)(3)(B) but that there was no deliberate attempt to

file false filings or to deceive the Commission as to the Dreier No. Well being a directionally drilled well; 3) that the subject leases were valid and in effect when the Dreier No. 1-A Well was drilled and that both the surface and bottomhole locations were at regular locations; 4) that Texas Trinity Energy Company now had clear title to the subject leases; 5) that the shutting in or reduction of production of the Dreier No. 1-A Well or the revocation of the previously granted permit for the well would cause the waste of hydrocarbons; it therefore being mandated that the Dreier No. 1-A Well continue to be produced at its present levels; 6) that no violation of Statewide Rule 12 had occurred

An Order Denying Motion for Rehearing was signed by the Commission on April 18, 1988, denying Texas Trinity's motion to reopen the hearing or otherwise preserve its complaint at the Commission.

The Company is currently entitled under its agreements with North Central Oil Corporation to reimbursement of its costs of drilling and completing of the well on the affected property from production revenues from this well.

(E.) REASON FOR FILING

Changing industry economics which generally adversely affected all oil and gas producing companies had a more pronounced effect on smaller operations like that of Debtor. The price of oil and natural gas the primary revenue of the Debtor) has declined dramatically over the past years, illustrated as follows:

| | Average Oil Price (BBL) | Average Gas Price (MCF) |
|---|---|---|
| 1984 | $ 29.54 | $ 3.68 |
| 1985 | 25.88 | 2.73 |
| 1986 | 13.88 | 1.38 |
| 1987 | 13.58 | 1.33 |
| 1988 | 11.03 | 1.12 |

In addition, costs and expenses for managing and administer-public drilling programs, and costs associated with producing properties were high in relationship to the size of the Company and could not be reduced proportionately with the decline in revenues.

As a result, the debtor incurred losses in each of its four calender years preceding the Chapter 11 filing as follows:

| | | AMOUNT OF LOSS |
|---|---|---|
| 1984 | $ | (344,074) |
| 1985 | | (579,040) |
| 1986 | | (751,771) |
| 1987 | | (1,178,359) |
| Cumulative Total | | $(2,853,244) |

The primary reason for filing the Chapter 11 petition; however, was to protect creditors and shareholders from the Huggins judgment, to avoid Execution by the Sheriff of Goliad County on the company's producing properties as a result of this Huggins judgment See Litigation (I)(D)(l)for discussion), and to give the Company time to prepare its appeal of the Huggins judgment to the Texas Court of Appeals.

## II. POST-PETITION EVENTS AND BUSINESS OPERATIONS

Since filing its Chapter 11 petition the Company has conducted business, for the most part, on a satisfactory basis in the ordinary course. A summary of the Debtor's Transactions Since Filing is attached hereto as Exhibit 10.

Significant events and events out of the ordinary course of business include the following:

(A) Order Approving Motion for Authority to Sell an Oil and Gas Lease to TXO Production Corporation Free and Clear of Any Interest, (order granted April 13, 1988) by which the Company conveyed all of its working interest in and to a 319.9 acre oil and gas lease located in Colorado County, Texas, reserving unto itself a 3-1/3 percent overriding royalty interest in accordance with the provisions of this order. TXO Production corporation paid a cash consideration of $60,000 for this lease; $24,000 of this proceeds was used to satisfy in full the liens and claims of Jack E. Coffman and Eldon S. West, III and $25,202.63 was used to satisfy in full the lien and claim of Kemp Geophysical Corporation.

(B) As a result of actions taken by the State of Texas against the Company's purchasers in July 1988, Cambridge received funds attributable to gas production from its purchasers in July, August, and September for only three of its wells. As a result of the State of Texas action, the Company was unable to pay the severance taxes attributable to the properties with suspended revenues. Cambridge filed suit against the State of Texas and various first purchasers and orders were entered by the Court in early October which released suspended funds to the Company and the various involved royalty owners and caused taxes for the production months of May 1988 forward to be paid from the suspended funds held by the various first purchasers. The Company has paid severance taxes on all production income that has been generated post-petition.

(C) Order Approving Motion for Authority to Enter into Farmout Agreement With Indexgeo & Associates, Inc., (granted February 13, 1989) by which the company farmed out its interest in and to certain oil and gas leases located in Goliad County, Texas, retaining unto itself an overriding royalty interest equal to the difference between the lessors royalties under the oil and gas leases and 23.5% of the total net revenue interest in the leases. Additionally, the Company retained under the farmout agreement a production payment, an overriding royalty interest equal to 9.375% of production commencing with first production and continuing until the revenue paid totals $26,000. In addition, Billye Stevens Halbouty as an equity investor in the leases, received a 6% working interest in the initial test well which will be paid by Indexgeo. Indexgeo agreed to pay all costs associated with Court approval for the farmout motion. A Supplemental Order to Debtor's Motion for Authority to Enter Farmout Agreement with Indexgeo & Associates, Inc. was granted on March 20, 1989. The Supplemental Order provided that out of the overriding royalty interest retained by the company CT Associates, Inc., an original investor in the property that is subject to the farmout agreement, be assigned a 2.5% overriding royalty interest in the well to be drilled on the property subject and that Dr. Samuel Meyer, another original investor in the subject property, be assigned a 1% overriding royalty interest in the well to be drilled on the property.

(D) Order Approving Emergency Motion for Authority to Enter Farmout Agreement with Indexgeo and Associates, Inc., (granted April 1989) by which the Company and various third parties who have participation rights in certain oil and gas leases located in Goliad County, Texas, farmed out its interest in and to these leases. The Company retained unto itself an overriding royalty interest equal to its ownership share (22.5%) of a 3.3333% overriding royalty interest in the leases.

(E) In conjunction with that certain Order approving Motion for Authority to Enter into Farmout Agreement with Indexgeo & Associates, (described in (II) (D) above), the Company entered into an Agreed Order Regarding Debtor's Use and Disposition of Cash Collateral with CT Associates, Inc. "CT" (granted July 20, 4989). The Order provides in general that: 1) CT be provided a recordable conveyance in and to oil and gas leases covered by the farmout (described in (D) above); 2 the $85,000 debt owed by the company be reduced, the amount of reduction being contingent on the status and outcome of the initial test well drilled under the farmout and that CT's associated working interest in the Hanley No. 1--B Well, a producing gas property in which CT has a secured claim, be likewise reduced on the same pro rata basis; and 3) that effective with the entering of the Order, the Company pay to CT amounts equal to their working interest share in the Hanley No 1-B Well, net of CT's share of associated lease operating expenses, within fifteen days of receipt of these revenues by the Company and that these payments be applied to reduce the debt owed to CT by the Company.

(F) As the result of litigation between the Company and William 0. Huggins III, production revenues for certain of the Company's properties have been held in suspense. Refer to Litigation (I)(D)(1) and Accounts Receivable From Oil and Gas Sales (I)(C)(2) in this statement for discussion.

## III. SUMMARY OF THE PLAN

The following summary of the principal provisions of the Plan is qualified in its entirety by the reference to the full text of the Plan. CREDITORS AND EQUITY HOLDERS ARE URGED TO REVIEW CAREFULLY THE COMPLETE TEXT OF THE PLAN.

### A. CLASSES OF CLAIMS AND INTERESTS

The Debtor's estimate of claims does not include Priority Claims pursuant to Section 507(a)(1) or (a)(3) which have arisen in the ordinary course of business during the pendency of the Chapter 11 case, administrative in nature, but which have been and will be paid, when due, in the ordinary course of business. The Debtor has not classified these Administrative Priority Claims or Expenses, the aggregate at June 30, 1989 being estimated at approximately $400,000. These expenses include the fees of counsel, accountants and consultants for the Debtor and unpaid wage claims of employees. Since such fees and expenses and any claims pursuant to Section 507(a)(6) will be determined by the Bankruptcy Court upon appropriate application, and since ongoing services will be rendered by such professionals and post-petition claimants, the amount estimated for Administrative

Claims is based on the best information available to the Debtor and is subject to change.

As noted above in Section I (C) Assets and Properties of the Debtor, the Debtor has filed with the Court Amended Schedules A-l (creditors holding priority), A-2 (creditors holding security) and A-3 (creditors having unsecured claims without priority). These Schedules have been amended to reflect any changes since they were initially filed on May 11, 1988, including additional claimholders. A summary of the post petition changes in the Debtor's Schedules is reflected in the attached Exhibit 9. These schedules are available for review as described Section I (C).

The Plan divides the creditors and equity holders into seven general Classes. The Classes are described as follows:

1. CLASS A

Class A Claims consist of the holders of Claims entitled to priority under Section 507(a)(7) of the Bankruptcy Code ("Priority Tax Claims"). The holders of Class A Priority Claims consist primarily of payroll, production, ad valorem and other tax claims. The Debtor estimates that the aggregate of Allowed Class A Priority Claims is approximately $347,000.

2. CLASS B

Class B consists of the Secured Claim of CT Associates, Inc. (CT). Debtor estimates the amount of the Allowed Class B Secured Claim at $75,000 as of June 30, 1989.

3. CLASS C

Class C Claims consist of all other Secured Claims, including without limitation, any oil and gas, operators', materialmen's, mechanics' liens. The Allowed amount of these Claims will be determined either by agreement between the Debtor and the holders of the Class C Claims or by the Bankruptcy Court pursuant to Section 506(a) of the Bankruptcy Code. Debtor estimates that the aggregate amount of Allowed Class B Secured Claims is approximately $31,000.

4. CLASS D

Class D Claims consist of unsecured small claims, including unpaid royalties, overriding royalties and working interest royalties which are or have been reduced to $500. Debtor estimates that Class D claims aggregate approximately $30,000. The debtor believes it is impossible to estimate the value of those claims which will be reduced by their holders to Class D claims. However, assuming all claims less than $5,000 were converted the total amount of converted claims would aggregate approximately $120,000.

5. CLASS E

Class E Claims consist of the holders of all other unsecured claims, including, without limitation, unpaid royalties, overriding royalties, working interest royalties and other deficiency claims of secured creditors and those arising from the rejection of executory contracts and unexpired leases. The aggregate amount of these Claims is approximately $2,050,000.

6. CLASS F

Class F Claims consist of the holders of existing shares of Preferred Stock of Cambridge Oil Company as of 5:00 P.M. Houston Texas time, on the day immediately preceding the Confirmation Date.

7. CLASS G

Class G Claims consist of the holders of existing shares of Common Stock of Cambridge Oil Company as of 5:00 P.M. Houston, Texas time, on the day immediately preceding the Confirmation Date.

## B. SUMMARY OF TREATMENT OF CLASSES UNDER THE PLAN

The Claims and Interests of the following Classes are not impaired under the Plan and acceptance of the Plan by holders of such Claims is not required.

1. CLASS A

Each holder of an Allowed Class A Claim for Priority Taxes shall be paid in sixty equal monthly installments, the first of which shall be paid on the Effective Date or as soon as practicable thereafter. The succeeding installment payments shall be paid during each of the next fifty-nine months after the Effective Date and the installment payments shall bear interest at a rate to be determined by reference to Section 1274(d) of the Internal Revenue Code of 1986, or based on agreement with each respective taxing authority involved.

The Claims and Interests of the following Classes are impaired under the Plan and acceptance of the Plan by holders of such Claims or Interests is required.

2. CLASS B

The holder of the Class B Secured Claim will receive a equal to 5.215 percent (5.215%) of the net amount of the rents, income, production and profits received by the Debtor from the Mortgaged Property within fifteen (15) calendar days of the Debtor's receipt of same. The net amounts of rents, income, production profits to be remitted to the Secured Claim holder after deduction of the lease operating expenses attributable to a seven percent (7%) working interest. These payments will continue until: (i) the claim is satisfied in full or (ii) the mortgaged property is deemed longer commercial.

3. CLASS C

Each holder of an Allowed Secured Materialman's Lien Claim will be paid a lump sum on the Effective Date or forty-eight (48) monthly installments beginning on the Effective Date in full satisfaction of their lien claim as follows:

| Claim Holder and Claim | Lump Sum Payment | Monthly Payment Amount |
|---|---|---|
| Air Equipment Rental | | |
| Materialman's lien Burns #1 | $2,716.00 | $70.75 |
| Materialman's lien Swickheimer #lD | 1,360.00 | 35.44 |
| Materialman's lien Collins #1 | 1,451.00 | 37.79 |
| Dowell Schlumberger | | |
| Materialman's lien Holland #6 | 5,453.88 | 113.62 |
| Gearhart Industries, Inc. | | |
| Materialman's lien Swickheimer #lD | 3,190.00 | 83.06 |
| Pronto Vacuum Service | | |
| Materialman's lien Burns #1 | 1,450.00 | 37.75 |

| | | |
|---|---|---|
| Schlumberger Technology Corporation Materialman's lien Holland #6 | 2,250.00 | 58.06 |
| White's Well Service Materialman's lien Burns #1 | 11,603.00 | 302.16 |

4. CLASS D

All Allowed Claims which are or have been reduced to $500 or less will be paid 75% of the claim amount in cash on the Effective Date or as soon thereafter as practicable, unless otherwise ordered by the Court.

5. CLASS E

Each holder of an Allowed Claim of Class E shall receive on the Effective Date one Unit, consisting of one share of Houston Operating Company Common Stock, one Class A Warrant and one Class B Warrant for each $10.00 of allowed claims.

6. CLASS F

Preferred Stock shall be cancelled upon the Effective Date. Each holder of an Allowed Preferred Stock Interest shall receive on the Effective Date one Unit, consisting of one share of Houston Operating Company Common Stock, one Class A Warrant and one Class B Warrant for each $100 in par value of Cambridge Oil Company Preferred Stock.

7. CLASS G

The Common Stock shall be cancelled upon the Effective Date. Each holder of an Allowed Common Stock Interest shall receive on the Effective Date one Participation Right for each 80 shares of presently issued and outstanding Cambridge Oil Company Common Stock.

## C. SUMMARY OF OTHER PROVISIONS OF THE PLAN.

### (1) MEANS FOR EXECUTION OF THE PLAN

The Successor shall acquire all assets (including all real property and personal property and interests of any kind) of the Debtor upon Confirmation. The acquisition shall be accomplished by the issuance of Common Stock, Participation Rights, and Warrants, or the payment of cash in exchange for Allowed Claims, Allowed Secured Claims, Allowed Priority Claims and Allowed Unsecured Claims. Cash payments on the Effective Date shall be made from the Debtor's cash on hand at the Effective Date which shall include proceeds of a loan of not less than $100,000 and not more than $250,000 to be made to the Debtor by the Successor on the Effective Date whtch loan shall be secured by all assets of the debtor. Deferred cash payments to the holders of Allowed Secured and Priority Claims shall be made from cash on hand and income generated by the oil and gas properties acquired by the Successor under the Plan. Sufficient funds shall be available to fund all Plan payments. If for any reason insufficient cash exists to make Plan payments, the Successor shall contribute such additional cash as may be necessary.

### (2) CRAM DOWN

If all of the applicable requirements for Confirmation of the Plan are met as set forth in 11 U.S.C. Section 1129(a)(l)-(ll) except subparagraph (8), the proponents of the Plan hereby request the Court confirm the Plan pursuant to 11 U.S.C. Section 1129(b) notwithstanding the requirements of subparagraph (8) as the Plan is fair and equitable

and does not discriminate unfairly with respect to any dissenting, impaired Class.

(3) GENERAL PROVISIONS

The Successor shall be vested on Confirmation with ownership of all property, including all rights and causes, of the Debtor whether tangible or intangible including any property acquired by the Successor pursuant to the exchange of Common Stock, Participation Rights, Warrants, and cash provided for in the Plan and including the proceeds of the loan to be made to the Debtor on the Effective Date, and provided however that the Debtor, shall retain the right to bring any and all causes of action provided for in the Code and the Successor may initiate suit to enforce such causes of action after Confirmation with the proceeds thereof paid to Successor.

The Successor's purchase of assets in the Plan shall not subject them to any liability for any Claim; nor shall their participation in the Plan be deemed for any reason to be an assumption by them of any Claim or an admission by them that they are liable for any Claim.

The payment of cash and/or the distribution of Common Stock, Participation Rights, and Warrants, pursuant to the Plan shall be in exchange for all Claims and/or interests in the Debtor and shall constitute full settlement, release, discharge, and satisfaction of all such Claims, interests and liens against property of the estate.

Either the Successor and/or the Debtor may modify the Plan prior to Confirmation, and after confirmation only the Successor may modify the Plan in accordance with 11 U.S.C. Section 1127(b).

The entry of the Order of Confirmation shall release partners of the Limited Partnerships, the Limited Partnerships their successors, assigns, employees and agents, their respective successors, assigns, employees and agents from all actions, causes of action, suits, debts, claims and demands which they heretofore, now or hereafter possess or may possess, and their respective successors, assigns, employees and agents, based upon or in any manner arising from or related to the Limited Partnerships, including, without limitation, the sale of Limited Partnership units and the negotiation of the Plan. The Limited Partnerships shall waive and release any claims they may hold against the Debtor.

No fractional shares of Common Stock shall be issued pursuant to the Plan. Fractional shares shall be rounded up to the next whole share.

Nothing contained in the Plan shall affect the rights of supplier of goods or services to oil and gas drilling sites to perfect mechanics s liens or other such lien rights under applicable non-bankruptcy law whether the Claim arose prior to or after the filing of Debtor's Chapter 11 case

Notwithstanding any other provision of the Plan, a Disputed Claim will be paid in accordance with the Plan only after the Court enters its Order allowing the Disputed Claim as an Allowed Claim such Order has become a Final Order.

Any oil or gas revenues (net of applicable expenses) suspended or interplead since the filing date of the Chapter 11 case attributable to a Working Interest, Overriding Royalty or Landowner's

Royalty shall be paid to the holder of such interest or royalty on the Effective Date.

Any party holding a right of setoff pursuant to 11 U.S.C. Section 553, may exercise such right of setoff on and after the Effective Date

If the whereabouts of a party who is entitled to receive a distribution of cash, Common Stock, Warrants or Participation Rights under the Plan, is unknown as of the Effective Date, the cash, Common Stock, Warrants or Participation Rights shall be escrowed for a period of six months after the Effective Date. If at the end of the six-month period, said party's whereabouts remain unknown, said party shall forfeit the property which would have been distributed under the Plan to said party and such escrowed property shall be returned to the Plan Successor.

(4) PROVISION FOR ASSUMPTION OR REJECTION OF EXECUTORY CONTRACTS

The Bankruptcy Court gives the Debtor the power, subject to the approval of the Bankruptcy Court, to assume or reject executory contracts and unexpired leases. If an executory contract or an unexpired lease is rejected, the other parties to the contract or lease may claim damages by reason of rejection. The Bankruptcy Court limits such damages in the case of leased real property. The Debtor is not required to make a final decision concerning the acceptance or rejection of executory Contract and unexpired lease until thirty days before the Confirmation Date of the Plan. The Plan expressly reserves the Debtor's rights, and the Debtor specifically does not admit that oil and gas leases are executory contract or unexpired leases within

the meaning of the Bankruptcy Code. Out of caution, however, provisions are made in the Plan for Oil and Gas Leases to be assumed upon the Effective Date in the event they are held to be executory contracts unless Debtor shall file a schedule rejecting specific executory contracts longer than thirty days prior to the Confirmation Date.

With respect to the operating agreements pertaining to the oil and gas wells set forth in Exhibit 7 to the Disclosure Statement where the Debtor is the operator at the date of the Confirmation of the Plan, the Debtor accepts such operating agreements.

With respect to the operating agreements pertaining to the oil and gas wells set forth in Exhibit 7 to the Disclosure Statement where the Debtor is not the operator at the date of the Confirmation of the Plan, the Debtor assumes and assigns to the Successor such operating agreements. Any balances due by the Debtor to the operator of the well shall be paid by setting off net revenues due to the Successor who shall own the interest after Confirmation.

To the extent that oil and gas leases to which the Debtor is a party or an assignee constitute executory contracts, the Debtor assumes and assigns such oil and gas leases to the Successor. Any unpaid royalties, overriding royalties and working interest royalties arising from Executory Contracts assumed are being paid pursuant to the Plan as Class D and/or Class E claims.

Subject to the reservation of all such rights, the Plan provides any executory contracts which are described on a schedule filed on or before thirty days prior to the Confirmation Date with the Bankruptcy Court will be rejected. Any party in interest (as defined

in the Bankruptcy Code) may object to the assumption or rejection of any contract or lease.

(5) RETENTION OF JURISDICTION

The Court shall retain exclusive jurisdiction for the following purposes:

a. To determine any and all objections to the allowance of Claims, and

b. To insure the purposes and intent of the Plan are carried out, and

c. To correct any defect, cure any omission, or reconcile any inconsistency in the Plan or the Order of the Court confirming the Plan as may be necessary to carry out the purposes and intent of the Plan, and

d. To enforce and interpret the terms and conditions of the Plan, and

e. To enter an Order modifying the Plan, and

f. To determine disputes raised before or after Confirmation by adversary proceedings or contested hearings, and

g. To enter an order concluding and dismissing this Chapter 11 case.

## IV. CONDITIONS PRECEDENT

This Plan is conditioned upon the Successor obtaining at least fifty-one percent (51%) of the working interest owners' reserves.

Successor intends to negotiate separately with the Company's major working interest owners for the contractual purchase of their working interest. This condition is necessary because the cost of administering and managing the working interests is prohibitive to operating Company profitably. While Successor will negotiate in good faith offer fair market values for proposed working interest acquisitions there are no assurances that negotiations will be successful.

## V. VOTING INSTRUCTIONS

A ballot is enclosed with this Disclosure Statement and sent to all holders of Allowed Claims and Interests who are impaired who are entitled to vote on the Plan. Although the interests of all of the shareholders will be allowed, only those shareholders of record at the close of business on ______________ 1989 will be entitled to vote to accept or reject the Plan. Holders of claims which unimpaired are conclusively presumed to have accepted the Plan and are therefore not entitled to vote. If you are a holder of impaired Claims or Interests in more than one class, you will be sent ballot for each such class and you should vote all ballots that receive. To vote on the Plan, indicate on the enclosed ballot(s) whether you accept or reject the Plan. Return ballots to Debtor at the following address:

Sandra K. Bacak<br>
Cambridge Oil Company<br>
6200 Savoy, Ste. 740<br>
Houston, Texas 77036

BALLOTS MUST BE RECEIVED AT THE ABOVE ADDRESS BY 5:00 P.M. CENTRAL TIME ON _______________, 1989.

Banks, brokers, and other nominees holding claims or Interests for beneficial owners are requested to transmit a copy of this Disclosure Statement, and a ballot or ballots to such beneficial owners with instructions for returning ballots.

Each holder of an Allowed Claim which would otherwise be in Class E may elect to be a Class D creditor by reducing its claim to $500 and receiving 75% of its claims in cash in lieu of the treatment to which it would otherwise be entitled under the Plan. If the election applies to you, your ballot will so indicate. Please read your ballot carefully. Please note that an election to be included in the small claims Class D will be deemed to be an acceptance of the Plan.

## VI. ACCEPTANCE AND CONFIRMATION OF THE PLAN

In order to confirm the plan, the Bankruptcy Code requires that the Court make a series of determinations concerning the Plan, including: (i) that the Plan has classified creditor and equity security holder interests in a permissible manner; (ii) that the contents of the Plan comply with the technical requirements of the Bankruptcy Code; (iii) that the Debtor and Successor have proposed the Plan in good faith; and (iv) that the debtor and successor disclosures concerning the plan have been adequate and have included information concerning all payments made or promised in connection with the Plan and the bankruptcy case, as well as the identity, affiliations and compensation to be paid to all officers, directors and other insiders. Debtor and Successor believe that each of these conditions has been

met, and will seek rulings of the Court to this effect at the hearing on confirmation of the Plan

The Bankruptcy Code also imposes requirements of acceptance of Plan by creditors and holders of Interests, minimum value of distributions, and feasibility. To confirm the Plan, the Court must find that each of these conditions is met. Thus, even if creditors and holders of Interests in the impaired classes B, C, D, E, F and G accept the Plan by the requisite majorities, the Court must undertake an independent evaluation of the feasibility of the Plan before it may confirm the Plan. The conditions for minimum value, financial feasibility and acceptances are discussed below.

A. BEST INTERESTS TEST (MINIMUM VALUE)

Notwithstanding rejection of the Plan by an impaired class of Claims or interests under the Plan, in order to confirm the Plan, under Section 1129 (a)(7) of the Code, the Court may determine that, with respect to each holder of a claim or interest in such rejecting impaired class, the Plan is in the "best interests" of each holder of a claim or interest within such Class. The "best interests" test requires that the Court find that the Plan provides to each such holder of a claim or interest a recovery which has a value at least equal to the value of the distribution that such holder would receive from the Debtor, if the Debtor were instead liquidated under Chapter 7 of the Code.

To calculate what non-accepting holders would receive, if a Debtor were liquidated under Chapter 7, the Bankruptcy Code must first determine the dollar amount that would be generated upon disposition

of such Debtor's assets. The aggregate amount so generated would be reduced by the costs of liquidating such Debtor. Such costs would be expected to include the fees of a trustee (as well as those of counsel and other professionals that such trustee would in all likelihood employ), selling expenses, and claims arising from such trustee's rejection of obligations assumed or otherwise incurred during the pendency of such Debtor's case.

Further, distributions to unsecured creditors in a Chapter 7 liquidation would not occur immediately upon completion of a Debtor's liquidation, but would be delayed pending determination of the aggregate amount of unsecured claims against such Debtor. Such a determination would entail significant delay and lost opportunity cost even for those creditors whose claims were ultimately allowed.

Debtor and Successor have prepared a liquidation analysis for the purpose of complying with Section 1129(a)(7) of the Bankruptcy Code and to provide creditors and shareholders with the Debtor's estimate of the amount of a "liquidation fund" that would result upon a hypothetical liquidation of Debtor, effective December 31, 1989 Debtor and Successor have no reason to believe that the results would be materially different if the hypothetical liquidation were to occur on the Effective Date. Debtor and Successor believe this test will be satisfactory as indicated by the liquidation analysis set forth in Exhibit 2 annexed hereto which conclude that unsecured creditors and shareholders would receive nothing in liquidation.

B. FEASIBILITY

As a condition to confirmation of a plan of reorganization, Section 1129(a)(ll) of the Code requires that the confirmation is not likely to be followed by a liquidation or the need for further financial reorganization, except as proposed in such plan. The essence of the feasibility requirement for this Plan is to establish that Successor can and shall make the required Plan distributions to creditors and stockholders.

Set out in Exhibit 3 are consolidated Pro Forma Balance Sheets and Cash Flow Projections for Debtor and Successor on a combined basis which indicate sufficient cash reserves to meet the requirements of the Plan.

THESE FINANCIAL PROJECTIONS SET FORTH IN THIS DISCLOSURE STATEMENT REPRESENT A PREDICTION OF FUTURE EVENTS BASED ON CERTAIN ASSUMPTIONS OF MANAGEMENT AND OTHERS SET FORTH IN SUCH PROJECTIONS. ANTICIPATED FUTURE EVENTS MAY OR MAY NOT OCCUR AND THE PROJECTIONS MAY NOT BE RELIED UPON AS A GUARANTEE OR OTHER ASSURANCE OF THE ACTUAL RESULTS WHICH WILL OCCUR. BECAUSE OF THE UNCERTAINTIES INHERENT IN PREDICTIONS OF FUTURE EVENTS, THE ACTUAL RESULTS OF OPERATIONS MAY WELL BE DIFFERENT FROM THOSE PREDICTED AND SUCH DIFFERENCES MAY BE MATERIAL AND ADVERSE.

THE FINANCIAL PROJECTIONS ARE INTENDED TO ASSESS FUTURE ASSETS, LIABILITIES, INCOME, AND CASH FLOW AVAILABLE FOR DEBT SERVICE AND ARE NOT DESIGNED OR INTENDED TO BE USED FOR PURPOSES OF PROJECTING THE FUTURE VALUE OF EITHER COMMON OR Preferred SHARES AND SHOULD NOT BE RELIED UPON FOR THAT.

Based on the Cash Flow Projections, Debtor and Successor believe that the Plan satisfies the feasibility requirement of the Code.

C. ACCEPTANCE

The Bankruptcy Code requires as a condition to confirmation that each class of claims or interests that is impaired under the Plan accept the Plan, or that the plan be "fair and equitable" as to such class as described below. The Bankruptcy Code defines acceptance of a Plan by a class of claims as acceptance by holders of two-thirds in dollar amount and a majority in number of claims of that class, but for confirmation purpose only those who actually vote their claims to accept or to reject the Plan are counted in tabulating the results of the vote. The Bankruptcy Code defines acceptance of a Plan by a class of interests as acceptance by two-thirds in amount of the allowed interests in such class, but for that purpose counts only those claims, which actually vote to accept or reject the Plan.

Classes of claims and Interests that are not "impaired" under the Plan are conclusively presumed to have accepted the Plan. Thus, Debtor and Successor are soliciting acceptances of the Plan only from those entities who hold claims or interests in impaired classes. A class is "impaired" if the conditions and requirements of Bankruptcy Code section 1124 are met. All classes except Class A are impaired under the Plan.

D. CONFIRMATION WITHOUT ACCEPTANCE BY ALL IMPAIRED CLASSES

The Bankruptcy Code contains provisions for confirmation of a plan even if the plan is not accepted by all impaired classes, as long

as at least one impaired class of claims has accepted it. These "cram-down" provisions allow for confirmation of a plan despite the non-acceptance of one or more impaired classes of claims or interests are set forth in Section 1129(b of the Bankruptcy Code.

If a class of secured claims rejects the Plan, the Plan may still be confirmed so long as the Plan does not discriminate unfairly as to a class, and is "fair and equitable" with respect to such class under Section 1129(b) of the Bankruptcy Code and applicable case law Section 1129(b) of the Bankruptcy Code states that the "fair and equitable" standard requires, among other things, that the Plan provide (i) that the lien securing the claim of each member of the class is to be left in place and the holders of the claim will receive deferred cash payments of a present value equal to the lesser of the amount of such claims or the value of the collateral securing such claims; (ii) that the collateral securing the claims be sold free of the lien with the lien attaching to the proceeds and with such lien on the proceeds being treated under one of the two other standards described in this paragraph; or (iii) a treatment for the claim that is the "indubitable equivalent" of the claim. Debtor and Successor believe that the Plan meets this test and therefore that the Plan can be confirmed even if it is rejected by holders of Allowed Secured Claims in Classes B and C.

If a class of unsecured claims rejects the Plan, the Plan may still be confirmed so long as the Plan is not unfairly discriminatory as to that class and is "fair and equitable" to such class. Under Section 1129(b) of the Bankruptcy Code, a plan is "fair and equitable"

as to a class of unsecured claims if, among other things, the Plan provides that: (i) each holder of a claim included in the rejecting class receives or retains on account of that claim property which has a value, as of the Effective Date, equal to the allowed amount of such claim; or (ii) the holder of any claim or Interest that is junior to the claims of such class will not receive or retain any property at on account of such junior claim or Interest. Debtor and Successor believe that the Plan meets this test as to Classes D and E. Therefore, Debtor and Successor believe that the Bankruptcy Court could confirm the Plan even if it is rejected by one such class of unsecured claims as long as one impaired class of claims accepts it.

If either Class F or Class G (Classes of Interests) reject the Plan, the Plan may still be confirmed so long as the Plan is "fair and equitable" under applicable case law and provides, that the holder of any interest that is junior to the Interests of such class will not receive or retain under the Plan on account of such junior interest any property at all. There is no interest junior to the Common Stock. However, the legislative history of the Bankruptcy Code indicates that the "fair and equitable" standard includes other factors which are found by the Court to be fundamental to "fair and equitable" treatment of a dissenting class. For example, a dissenting class should be assured that no senior class receives more than 100% of the allowed amount of its claims. Debtor and Successor believe that the Plan meets this test and therefore that the Plan can be confirmed even if it is rejected by holders of Classes F and G.

E. CLASSIFICATION OF CLAIMS AND INTERESTS

Section 1122 of the Bankruptcy Code requires that a plan of reorganization place each creditor's claim and each interest in a class with other claims or interests which are "substantially similar" The Debtor and Successor believe that the classification system in the Plan satisfies the Bankruptcy Code's standards.

F. CONFIRMATION HEARING

Section 1128(a) of the Code requires the Court, after notice to hold a hearing on confirmation of the Plan (the "Confirmation Hearing"). THE CONFIRMATION HEARING FOR THIS PLAN IS SCHEDULED TO BEGIN ___________________________

Section 1128(b) provides that any party in interest of any Debtor may object to confirmation of the Plan. Any objection to confirmation of the Plan must be made in writing and filed with the Court, together with proof of service, and served by hand or overnight courier for receipt on or before 5:00 p.m. Central Standard Time at the following addresses:

United States District Court
For the Southern District of Texas
Houston Division in Bankruptcy
811 Rusk
Houston, Texas 77002

Objections to confirmation of the Plan are governed by Bankruptcy Rule 9014. UNLESS AN OBJECTION TO CONFIRMATION IS TIMELY SERVED AND FILED, IT WILL NOT BE CONSIDERED BY THE Court.

G. EFFECT OF CONFIRMATION

Except as otherwise provided in the Plan or Confirmation Order, and in addition to other consequences of Confirmation as

disclosed herein, entry by the Court of the Confirmation Order will: constitute approval of the assumption and assignment of all executory contracts or leases unless previously rejected pursuant to the Plan; constitute authorization for the Debtor to act as a Disbursing Agent; constitute authorization for the Debtor's or Successor's use of funds of the estate to meet any cash requirement in the case; and will act as discharge, effective as of the Effective Date of the Plan, of the Debtor and Successor, of all their claims that arose at any time before the entry of the Confirmation Order.

Except as otherwise provided in the Plan and the Confirmation Order, upon the effective Date, all property of the Debtor shall vest in Successor free and clear of all liens, claims and interest of all creditors of and interest holders in the Debtor.

### H. EFFECTIVE DATE OF THE PLAN

The Plan will become effective on the thirtieth day after the date on which the Confirmation Order becomes final and nonappealable.

## VII. ALTERNATIVES TO THE PLAN

It is the view of the Debtor that the only feasible alternative to the Plan as proposed would be the conversion of the Chapter 11 case to a Chapter 7 case, and the subsequent liquidation of the Debtor by a duly appointed or elected trustee. In the event of a liquidation under Chapter 7, it is the view of the Debtor that the following is likely to occur:

(1) An additional tier of administrative expenses entitled to priority over general unsecured claims under Section 507(a)(l) of the Bankruptcy Code will be incurred. Such administrative expenses will include the trustee's commissions as well as professional fees for the trustee's accountants, attorneys and other professionals likely to be retained by the trustee.

(2) The Debtor believes that in a Chapter 7 liquidation the proceeds realized at December 31, 1989 from the disposition of assets, including accounts receivable, and oil and gas reserves, (the primary assets of the debtor) would be approximately $750,000. However, there would be no recovery for unsecured creditors or shareholders of the Debtors after payment of Administrative, Priority and Secured Claims. Further, it is believed that the liquidation of the Debtor's assets would be a long and expensive process with no assurance that even projected liquidation values would in fact be realized.

(3) Additional claims would be asserted against the Debtor with respect to such matters as termination of leases, severance payments to employees mandated by law, income and other taxes associated with the sale of assets and the inability of the Debtor to fulfill outstanding contractual commitments and other items.

The total of all these increased claims cannot be estimated at this time with any reasonable accuracy, but could materially increase the claims and obligations to be satisfied out of the proceeds of liquidation and correspondingly would reduce the funds, if any, available to satisfy the claims of creditors in the Chapter 11 Case.

Attached hereto as Exhibit 2 is Debtor's unaudited Liquidation Analysis as of December 31, 1989, which reflects the estimated liquidation values of the Debtor's assets. Liquidation values have been arrived at based upon the experience of the Debtor's management and employees, consultation with independent petroleum engineers and an evaluation of the factors believed likely to have an impact on realization of the value of the assets in a forced liquidation.

The Debtor's oil and gas property liquidation values are based on reserve volumes and production schedules audited by Gerald Dupont Enterprises, Inc., an independent petroleum engineering firm, using oil and gas pricing projected to be representative of oil and gas market prices at January 1, 1989, adjusted for estimated depletion since that date. Liquidation values were then calculated using 1) acquisition costs which would result in a 20% discount rate, 2) based on the inclusion of 100 percent of proved developed producing reserve value and 30 percent of proved undeveloped reserve value and 3) estimated costs (15%) of liquidating the properties.

Liquidation values are necessarily based upon assumptions which may not prove to be correct, and actual liquidation values could vary from the estimated values.

The liquidation analysis does not take into account potential preferential or fraudulent transfers which the Debtor or a Chapter 7 trustee may recover. However, the Debtor has made a review of these potential voidable transfers and believes that any potential recovery would have no material effect on the liquidation analysis.

As set forth in the Liquidation Analysis, there is no realistic possibility of any distribution to general creditors of the Debtor in the event of a conversion of the Chapter 11 case to a Chapter 7 case.

## VIII. DESCRIPTION OF NORMANDY OIL AND GAS COMPANY, INC., HOUSTON OPERATING COMPANY AND SECURITIES TO BE ISSUED

### A. DESCRIPTION OF NORMANDY

#### (1) DESCRIPTION OF BUSINESS.

Normandy was incorporated on March 31, 1929 as a New York corporation and was formerly named Servus Clothes, Inc. In 1968, the name of the Company was changed to Saxony Industries, Inc. The Company was an inactive corporation from 1972 to April 1983 when it was reactivated to engage in the oil and gas business. In August, 1984, the name was changed to Normandy Oil and Gas Company, Inc.

Normandy's principal objective has been to acquire and manage and gas assets as cost effectively as possible given the current economic environment of the industry. Normandy is of the view that it can acquire oil and gas properties through the purchase or merger of financially distressed companies at costs lower than Normandy would incur by drilling and developing comparable reserves. Thus, it drilled no development wells in its last fiscal year. Substantially all Normandy's acquisition, exploration, and development activities are conducted in Texas, Louisiana, and Colorado.

Although Normandy presently intends to continue its pursuit of potentially attractive acquisitions of financially-distressed entities, such as that contemplated by the Plan, there can be no

assurance that Normandy will continue this means of acquiring oil and gas properties in the future. Future acquisitions will depend on the relative cost of acquisitions compared to the cost of drilling for resources, the success of Normandy's drilling operations, the market demand for oil and gas, the availability of satisfactory acquisition candidates and the cash and credit facilities available to Normandy. Due to the decline in oil and gas prices, particularly the recent sharp decline in oil prices in 1986, and the increasing difficulty in securing additional credit lines from bank lenders, Normandy may have to seek alternative financing methods and may have to curtail its acquisition activities if alternative financing is not available.

(2) CUSTOMERS AND MARKETS

Normandy does not refine or process the oil and natural gas it produces. Normandy's production is primarily sold to unaffiliated oil and gas purchasing companies in the area where it is produced. Production is transported by trucks and pipelines. Crude oil and condensate are sold under short-term contracts at competitive field prices posted by major purchasers of crude in the area. Natural gas is sold to natural gas pipeline companies generally under long term contracts. Normandy also sells gas on the spot market, which prices are generally below contract prices. Normandy may sell increasing volumes of gas on the spot market if no alternative market exists for its gas. In addition, many of Normandy's gas contracts incorporate "market-out" provisions which permit the gas purchaser to terminate

the contract (or reopen negotiations on the price set forth therein) if the contract price exceeds market prices. Furthermore, many of Normandy's gas contracts provide for annual (or more frequent) redeterminations of the purchase price.

(3) EMPLOYEES

As of June 30, 1988, Normandy had twenty-four full time employees, of whom sixteen were located at the Fort Worth office, two located in the Austin office, and six were field personnel. From time to time, Normandy utilizes the services of consulting geologists, engineers and lancimen. It is anticipated that the Debtor's remaining employees will be hired by Normandy and/or Houston Operating upon the Effective Date. It is also anticipated that a bonus of approximately two months salary shall be paid to Sandra Bacak and Charles Williams as a result of services rendered by them on behalf of the Debtor during the pendency of the Chapter 11 proceedings and their committment not to leave the Debtor's employ during the course of the Debtor's Chapter 11 proceeding.

(4) PROPERTIES AND PRODUCTION

Normandy's properties are located exclusively in Texas, Louisiana and Colorado. Normandy has no foreign operations or properties.

Normandy's interests in producing and non-producing acreage are in the form of working interests, royalty and overriding royalty interests. The working interests are subject to royalty and overriding

royalty interests either pre-existing or created in connection with their acquisition), liens incident to operating agreements, liens for current taxes and other burdens or minor liens, encumbrances, easements and restrictions. Normandy believes that none of such burdens materially detracts from the value of such properties or interferes with their operation. Substantially all of Normandy's major productive properties are collateral securing existing credit facilities. As is customary in the oil and gas industry, detailed title examinations are not made at the time of acquisition of undeveloped properties. More thorough investigations are made, including in most cases obtaining a title opinion, before commencement of drilling operations or preparation of division orders.

As of June 30, 1988, Normandy's proved reserves were 560,098 barrels of oil and 6,139,596 mcf of gas. Production revenues of recent years were as follows:

| | Year Ended June 30: | | | | |
|---|---|---|---|---|---|
| | 1984 | 1985 | 1986 | 1987 | 1988 |
| PRODUCTION: | | | | | |
| Oil (BBLS) | 2,414 | 2,371 | 3,195 | 13,024 | 30,408 |
| Natural Gas (MCF | 127,798 | 230,598 | 129,137 | 112,592 | 404,346 |
| UNIT PRICES AND COSTS: | | | | | |
| Oil (per BBL) | $ 27.68 | $ 26.39 | $ 19.26 | $14.82 | $17.40 |
| Natural Gas (per MCF) | 2.13 | 2.70 | 2.24 | 1.85 | 1.51 |
| PRODUCTION COSTS PER EQUIVALENT BBL: | 4.31 | 5.74 | 4.53 | 5.73 | 5.15 |
| AMORTIZATION PER EQUIVALENT BBL: | 4.17 | 3.99 | 4.24 | 5.13 | 3.76 |

(5) OFFICERS AND DIRECTORS

Normandy's officers and directors are as follows:

| NAME | AGE | POSITION | DATE OF APPOINTMENT |
|---|---|---|---|
| Frank W. Cole | 63 | Director, Chairman of the Board | April 1983 |
| Roy T. Rimmer, Jr. | 47 | Director, President and Chief Executive Officer | September 1986 |
| Mack S. Cohn | 47 | Director | January 1989 |
| Judy M. Brooks | 39 | Secretary | September 1986 |
| William I. Temple | 42 | Vice President, Operations | June 1987 |

The directors of Normandy are elected to serve until the next annual shareholders meeting or until their respective successors are elected and qualified. Normandy officers hold office until the meeting of the Board of Directors after the next annual shareholder's meeting or until removal by the Board of Directors. There are no arrangements or understandings among the officers and directors pursuant to which any of them are elected as officers and directors.

The following information is a brief account of the business experience for the past five years of the individuals listed above.

Frank W. Cole has been, for at least the past five years, the owner of Frank W. Cole Engineering, and oil and gas consulting firm located in Dallas, Texas. Mr. Cole has served as chairman of the board of Normandy since April 1983 and served as president from April 1983 to October 1986. Her retired from Amcole Energy Corporation, a publicly held Utah corporation engaged in oil and gas production and development, in July 1982 after acting as president and founder since 1971 and continued to serve as a director until 1985. Mr. Cole is a

director and vice president of Phoenix Capital Corporation. Mr. Cole is a director of Sunbelt Exploration.

Roy T. Rimmer, Jr. has served as the president and a director of Normandy since September, 1986. From February 1983 to the present, Mr. Rimmer has been the chief executive officer and principal equity owner of two privately-held oil and gas companies based in Fort Worth, Texas. Mr. Rimmer was chairman of the board and president from June 1982 to February 1986 of Poll Gas, Inc. a corporation which operated a gas gathering and transmission system located in Lincoln County, Oklahoma. In July 1982, Mr. Rimmer became chairman of the board and president of Amcole Energy Corporation, a publicly-held Utah corporation engaged in oil and gas production and development, and he continue to hold such positions until February 1986. Mr. Rimmer is a director and chairman of the board of Phoenix Capital Corporation. Mr. Rimmer is president and a director of Sunbelt Exploration, Inc. Mr. Rimmer is president and a director of Roseland Oil and Gas, Inc.

Mr. Mack S. Cohn was elected a director of Normandy Oil and Gas Company, Inc. on January 31, 1989 at a Special Meeting of the Board of Directors. Mr. Cohn will also serve on Normandy's audit committee. Mr. Cohn is an officer and director of Regal Limousine Service, a privately held Ft. Worth based company. He also serves on the board of Gamtex, Inc. and the Miss Texas Scholarship Pageant. Previously, he has served as an officer of Beth-El Congregation and the Forth Worth Jaycees. Mr. Cohn graduated from New Mexico Military Institute, and attended Texas Christian University.

Judy M. Brooks has been the corporate secretary of Normandy since September 1986, and is also responsible for supervising all administrative personnel. Ms. Brooks was employed by Amcole Energy Corporation from September 1978 to February 1986, where she was the corporate secretary and, after January 1985, responsible for investor and stockholder relations. Ms. Brooks is secretary, treasurer and a director of Phoenix Capital Corporation. Ms. Brooks is assistant secretary and a director of Roseland Oil and Gas, Inc.

William I. Temple, a registered professional engineer, has been Vice President of Operations for Normandy since June 1987, and had previously been a consultant to Normandy. Mr. Temple previously served as founder, president and chairman of the board of William I Temple, Investments, Inc. and its subsidiaries from January 1979 to November 1986, when it was subsequently acquired by Normandy. Mr. Temple has served in various positions of authority with other oil and gas companies involved in drilling, exploration and production. Effective August 1, 1988, Mr. Temple resigned as Vice President of Operations but continues to work with Normandy as a consultant.

(6) FURTHER INFORMATION

Set forth as Exhibit 4 is Normandy's most recent SEC Form 10K (year ended June 30, 1988). Included within this Exhibit is information pertinent to the following:

1. Business;
2. Properties;
3. Legal Proceedings;
4. Submission of Matters to a Vote of Security Holders;
5. Market for the Company's Common Equity
   and Related Stockholder Matters;
6. Selected Financial Data;

7 Management's Discussion and Analysis of Financial Condition and Results of Operation;
8. Financial Statements and Supplementary Data;
9. Changes in and Disagreements on Accounting and Financial Disclosure;
10. Directors and Executive Officers of the Company;
11. Executive Compensation;
12. Security Ownership of Certain Beneficial Owners and Management;
13. Certain Relationships and Related Transactions

B. DESCRIPTION OF HOUSTON OPERATING COMPANY

Houston Operating Company is a wholly owned subsidiary of Normandy Oil & Gas Corporation. Inc., incorporated in the State of Delaware on August 31, 1989. The aggregate number of authorized shares Houston Operating Company has authority to issue is 60,000,000, of which 50,000,000 shares are Common Stock having a par value of $.0O1 per share, 5,000,000 shares are Preferred Stock having a par value of $.0Ol per share and 5,000,000 shares are Preference Stock having a par value of $.O0l per share. At August 31, 1989, Houston Operating Company had not engaged in any business operations other than organizational activities. At August 31, 1989, Houston Operating Company had no assets or liabilities, and no income had been received and no costs had been incurred, other than organizational costs.

Houston Operating Company was established to effect the transactions of the Plan. Prior to confirmation, Houston Operating Company will issue 2,500,000 shares of its Common Stock to Normandy in consideration for the costs incurred by Normandy in its organization and implementation of its business as contemplated by the Plan.

## C. DESCRIPTION OF PLAN SECURITIES

The Plan calls for issuance of four types of securities: Participation Rights, Warrants (Class A and Class B), Common Stock of Houston Operating Company, and Normandy Common Shares for which Houston Operating Company Common Shares may be exchanged. A Unit consists of one share of Houston Operating Company Common Stock, one Class A Warrant and one Class B Warrant.

Participation Rights will be issued to Common shareholders of Cambridge at a rate of one right for each 80 shares of presently issued and outstanding Common Stock. Each right entitles the holder to acquire one Unit at an exercise price of $1.00. The Participation Rights are exercisable for a period of nine months following the Effective Date and are represented by a certificate issued to the Cambridge shareholders, setting forth the terms of such Participation Rights. The form of the Participation Right certificate to be issued to shareholders is attached to the Plan as Schedule 2 and is incorporated in its entirety by this reference.

In addition to the issuance of Units, on exercise of the Participation Rights, Units will also be issued to unsecured creditors at the rate of one Unit for each $10.00 in claims and one Unit in exchange for each $100.00 in par value of Preferred Stock.

The following summarizes the terms and conditions of the securities which comprise a Unit:

(1) Warrants

(a) AMOUNT AND DELIVERY TO THE DISBURSING AGENT On or before the Effective Date, Houston Operating Company will authorize the

issuance of Class A Common Stock purchase warrants to purchase up to an aggregate of 725,000 shares of its Common Stock, $.OOl par value and Class B Common Stock purchase warrants to purchase up to additional 725,000 shares of its Common Stock, $.OOl par value. Authorized Warrants shall be delivered to the Disbursing Agent on the Effective Date.

(b) TERMS The terms of the Warrants are fully set forth in the Warrant Agreement attached as Schedule 1 to the Plan, which is controlling of such terms and is incorporated in its entirety by this reference. Such terms may be summarized, however, as follows:

(I) CLASS A WARRANTS Each Class A Warrant may be exercised to purchase one share of Houston Operating Company Common Stock at a price of $1.50 per share during the eighteen month period following the Effective Date of the Plan. Class A warrants may be redeemed by Houston Operating Company at a price of $.Ol per warrant on not less than thirty days prior written notice at any time commencing nine months following the Effective Date of the Plan.

(II) CLASS B WARRANTS Each Class B Warrant entitles holder to purchase one share of Common Stock of Houston Operating Company at a price of $2.00 per share during the two year period following the Effective Date of the Plan. The Class B Warrants are subject to redemption on the same terms as the Class A Warrants.

3. HOUSTON OPERATING COMPANY COMMON SHARES

Subject to provisions of the Plan, the rights appurtenant to the holders on Houston Operating Company Common Shares shall specified in the Articles of Incorporation of Houston Operating

Company, attached as Exhibit 8 hereto, and as set forth in the Agreement and Undertaking between Houston Operating Company and Normandy attached as Schedule 3 to the Plan, which are controlling of such rights and are incorporated in their entirety by this reference. Such terms may be summarized, however as follows:

A. EXCHANGE PRIVILEGE - Common Shares of Houston Operating Company shall at all times during the period commencing nine months from the Effective Date be subject to exchange, at the option of the holder during the entire period and also at the option of Normandy during the last three years of such period, for Normandy Common Shares.

B. EXCHANGE RATIO - Upon exchange, holders of Houston Operating Company Common Shares will receive Normandy Common Shares in an amount equal to the lessor of:

(i) The number of shares of Normandy Common Stock issuable in exchange for Houston Operating Company Common Stock determined by multiplying the number of shares of Houston Operating Company Common Stock to be exchanged by a fraction, the numerator of which shall be the market price per Common share of Houston Operating Company and the denominator of which shall be the market price per Common share of Normandy; and

(ii) The number of shares of Normandy Common Stock issuable in exchange for Houston Operating Company Common Stock determined by multiplying the number of shares of Houston Operating Company Common Stock to be exchanged by a

fraction the numerator of which shall be $l.00 per Common share of Houston Operating Company and the denominator of which shall be $4.0O per Common share of Normandy.

## 4. DESCRIPTION OF NORMANDY COMMON SHARES

Normandy's articles of incorporation authorize an aggregate of 150,OOO,OOO shares of which 100,000,000 shares are Common Shares, par value $.OOl, 25,000,000 shares are Preferred Stock, par value $.OOl, and 25,000,000 shares are Preference Stock, par value $.OOl. Normandy Common Shares have no preemptive or other subscription rights, have no conversion rights, and are not subject to redemption. No personal liability attaches to the ownership thereof. The holders on Normandy Common Shares are entitled to one vote for each share held and cumulative voting for election of directors or on any other matters is not provided for.

In the event of liquidation, dissolution, or the winding up of Normandy, either voluntarily or involuntarily, the holders of the outstanding Normandy Common Shares are entitled to receive a pro rata portion of the net assets of Normandy remaining after payment of all liabilities and any Preference on Preferred or Preference Stock of Normandy which may then be outstanding. The holders of Normandy Common Shares are entitled to dividends when, and if, declared by the board of directors from funds legally available thereof, subject to any Preference on Preferred or Preference Stock of Normandy which may then be outstanding. Normandy has not paid a dividend in the past five years, and it is not anticipated that a dividend will be paid in the foreseeable future.

The articles of incorporation provide that the shares of Preferred and Preference Stock may be issued in one or more series as designated by resolution of board of directors, and each such series shall have such rights, preferences, privileges and powers as shall be determined by the board of directors including participation in dividends, participation in the assets of Normandy following liquidation, the right to convert shares of Preferred or Preference Stock into Normandy Common Shares or other securities of Normandy, and the rights to redeem the Preferred or Preference Stock for cash, securities or other property. There are currently no shares of Normandy Preferred or Preference Stock issued and outstanding, and Normandy has no intention of issuing any shares of such Stock at the present time.

## IX. INCOME TAX CONSEQUENCES

The Plan and its tax consequences are complex, and the tax consequences of the Plan will depend upon factual determinations. No ruling has been (or will be, prior to the Effective Date), requested from the Internal Revenue Service (the "Service") regarding the tax consequences of the Plan. BECAUSE THE TAX CONSEQUENCES OF THE PLAN ARE COMPLEX AND MAY VARY BASED ON INDIVIDUAL CIRCUMSTANCES, THIS DISCLOSURE STATEMENT RENDERS NO ADVICE ON THE TAX CONSEQUENCES OF THE IMPLEMENTATION OF THE PLAN TO ANY PARTICULAR CREDITOR, TO THE DEBTOR, OR TO INTEREST HOLDERS, EXCEPT AS SET FORTH ON THE PROJECTED FINANCIAL INFORMATION SUPPLIED HEREWITH. EACH CREDITOR IS URGED TO CONSULT HIS OR HER TAX ADVISOR AS TO THE TAX CONSEQUENCES OF THE PLAN TO HIM OR HER, INCLUDING ANY CONSEQUENCES UNDER STATE AND LOCAL TAX LAWS.

## X. OFFER, ISSUANCE AND RESALE OF PLAN SECURITIES AND RELATED SECURITY MATTERS

The offer and issuance of Plan Securities by Houston Operating Company and Normandy Oil & Gas Company, Inc. as successor in interest to the debtor, constitutes the offer and sale of securities under the Securities Act of 1933, as amended (the "1933 Act") and applicable state securities laws, and the Plan securities have not been registered under the 1933 Act or such state securities laws, in reliance on the exemption therefrom provided by Section 1145 of the Bankruptcy Code. None of the Plan Securities is being issued pursuant to an indenture qualified under the Trust Indenture Act of 1939.

The Debtor and Successor believe that resales of the Plan Securities by most holders may be effected in reliance on the exemptions provided by Section 1145 of the Code and Section 4(1) of the Securities Act of 1933, as amended, without registration under applicable federal and state securities laws. However, to the extent that a holder is deemed to be an "underwriter" as that term is defined in subsection (b) of Section 1145, the exemptions provided by that Section and Section 4(1) would not be available to resale of Plan Securities by such holder.

BY ITS RECEIPT OF PLAN SECURITY EACH HOLDER SHALL BE DEEMED TO ACKNOWLEDGE THAT IT IS RESPONSIBLE FOR ITS COMPLIANCE WITH ALL APPLICABLE SECURITIES LAWS. EACH HOLDER SHOULD CONSULT HIS OR HER OWN ATTORNEY AS TO WHETHER ANY RESALE OF PLAN SECURITIES REQUIRES REGISTRATION OF SUCH SECURITIES UNDER THE SECURITIES ACT OF 1933 OR ANY APPLICABLE STATE SECURITIES LAWS.

No market currently exists for any of the Plan Securities, except the Normandy Common Shares. Houston Operating Company has received preliminary indications of interest from certain member firms of the National Association of Securities Dealers, Inc., of their willingness to make a market in the Warrants and Common Shares when issued, but there is no assurance that a market in any such securities will be established or, if established, continue to exist at any give time in the future. Consequently, holders of the Plan Securities may not be able to liquidate their position readily or at all.

In the event a market in Warrants or Common Shares develops, it is anticipated that quotations will initially appear in the "pink sheets" published by the National Quotation Bureau. As soon as practicable following the Effective Date, Houston Operating Company intends to pursue registration of its securities under section 12(g) of the Securities Exchange Act of 1934, as amended, and obtain a listing of its securities in the National Association of Securities Dealers, Inc., Automated Quotation System ("NASDAQ"). In order to register its securities and obtain a listing on NASDAQ, Houston Operating Company, will be required to satisfy certain conditions imposed by regulations of the Securities and Exchange Commission an~ the National Association of Securities Dealer, Inc. Houston Operating Company cannot predict at this time when it will satisfy such conditions and obtain registration and listing of its securities on NASDAQ.

## XI. CONCLUSION

Debtor and Successor believe that the Plan provides the best means for satisfying the claims of Debtor's creditors, and urge that you cast a vote accepting the Plan.

| CAMBRIDGE OIL COMPANY | AND | NORMANDY OIL & GAS COMPANY, INC.<br>AND HOUSTON OPERATING COMPANY |
| --- | --- | --- |
| Debtor | | Successor |
| By:/s/Christine E. Haslett<br>Christine E. Haslett,<br>Vice President | | By:/s/Roy T. Rimmer, Jr.<br>Roy T. Rimmer, Jr.<br>President |
| Attorney for Debtor: | | Attorney for Successor: |
| Richard Fuqua, Esq.<br>1331 Lamar, Suite #1455<br>Houston, Texas 77010<br>(713) 951-2482 | | Mark E. Lehman<br>136 South Main Street<br>Salt Lake City, Utah 841101<br>(801) 532-7858 |

UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF TEXAS
ENTERED
APR 25 1990
JESSE E. CLARK, CLERK
BY DEPUTY /S/

IN THE UNITED STATES BANKRUPTCY COURT
FOR THE SOUTHERN DISTRICT OF TEXAS
HOUSTON DIVISION

IN RE: ss.
ss.
CAMBRIDGE OIL COMPANY, ss. CASE NO. 88-01859-H5-11
ss. (CHAPTER 11)
DEBTOR ss.

ORDER CONFIRMING DEBTOR'S
PLAN OF REORGANIZATION

At Houston in said District came on for hearing Confirmation of the Plan of Reorganization of Cambridge Oil Company, Debtor-in-possession, and Normandy Oil and Gas Company, Inc., and its wholly owned subsidiary, Houston Operating Company, Successor to the Debtor under the Plan, filed on September 1989 (the "Plan") together with the Disclosure Statement thereto previously approved by this Court, after hearing on Notice, having been transmitted to all creditors as evidenced by the Certificate of Service dated April 2, 1990; and

It having been determined, after hearing that:

the Plan has been accepted by at: least two-thirds in amount and more than one-half in number of: the allowed claims impaired by the Plan; and

the Plan has been accepted by the creditors whose acceptance is required by law; and

the provision of Chapter 11 of the Bankruptcy Code have been complied with; that the Plan has been proposed in good faith not by any means forbidden by law; and

the Plan is fair, equitable and feasible; and

all payments made or promised by Debtor under the Plan for



services of for costs and expenses in, or in connection with, the Plan and incident to the case, have been fully disclosed to the Court and are reasonable or, if to be fixed after confirmation of the Plan, will be subject to the approval of the Court; and

due notice of confirmation hearing was given to the Debtor, the creditors and all other parties in interest; it is therefore

ORDERED that Debtor's Plan of Reorganization is hereby confirmed; it is further

ORDERED that the Debtor pay to the United States Trustee the appropriate sum required pursuant to 28 U.S.C. ss.1930(a)(6) on the effective date of the Plan and provide to the United States Trustee an appropriate affidavit including all disbursements for the relevant period(s); and

the provisions of said Plan shall be binding upon the Debtor and upon all creditors whether or not such creditors are affected by the Plan or have accepted it or have filed proofs of claims and whether or not their claims have been scheduled or allowed or are allowable; and

subject to the further directions of the Court, the Debtor is directed to comply with the provisions of the Plan and to take all steps necessary to consummate said Plan, and all creditors all parties in interest herein are directed to take all action required for the consummation of said Plan; and

all creditors of the Debtor, the persons participating in these proceedings, and all other persons, are hereby permanently enjoined and restrained from doing any act or taking any action interfering with or tending to interfere with these proceedings

or with the enforcement or carrying out of the terms and provisions of the Plan, or with the Orders of this Court relative thereto, or from asserting, contrary to the provisions of said Plan and of the Bankruptcy Code, any right, title interest or claim, including the commencement or prosecution of any action, suit or proceeding appropriate under the Bankruptcy Code, and such review, if any, in an appropriate appellate court of the United States as may be provided by law; and

the property retained by Debtor under that Plan shall be free and clear of all claims of creditors, whether or not such claims are provable and whether secured or unsecured, liquidated or unliquidated, fixed or contingent, except such claims as are otherwise expressly provided for in the Plan; and

all claims for payment of administrative expense incurred to the date of hearing on the confirmation of the Plan shall be filed not later than thirty (30) days from the date of this Order; and

This Court reserves jurisdiction:

(a) to entertain such further proceedings and to take such further action as may be necessary and appropriate in connection with these proceedings, the Plan, the transaction incident thereto, and the consummation thereof, or with this Order or any further Order of this Court;

(b) over all matters not as yet determined as to which jurisdiction was reserved in any Order previously made and entered by this Court;

(c) over the assets dealt with in the Plan and over any and all persons to whom such assets may be transferred or by whom such assets may be retained, over all parties in interest to these proceedings, for the purpose of determining any claims asserted against the Debtor;

(d) over all matters as to which jurisdiction is reserved to the Court by the Plan or by the Bankruptcy Code; and

(e) to make from time to time such orders amplifying, extending, limiting, or otherwise modifying this Order as the Court may deem proper.

Dated 4-19, 1990

/s/Karen K. Brown
Karen Brown
United States Bankruptcy Judge

A:10268/D18-0A.8

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| 12-MOS | 6-MOS |
|---|---|
| DEC-31-1999 | DEC-31-2000 |
| JAN-01-1999 | JAN-01-2000 |
| DEC-31-1999 | JUN-30-2000 |
| 0 | 0 |
| 0 | 0 |
| 0 | 0 |
| 0 | 0 |
| 0 | 0 |
| 0 | 0 |
| 0 | 0 |
| 0 | 0 |
| 0 | 0 |
| 454 | 928 |
| 0 | 0 |
| 0 | 0 |
| 0 | 0 |
| 2,795 | 2,795 |
| (3,249) | (3,249) |
| (454) | (928) |
| 0 | 0 |
| 0 | 0 |
| 0 | 0 |
| 0 | 0 |
| 1,000 | 474 |
| 0 | 0 |
| 0 | 0 |
| (1,000) | (474) |
| 0 | 0 |
| (1,000) | 474 |
| 0 | 0 |
| 0 | 0 |
| 0 | 0 |
| (1,000) | 474 |
| (.0) | (.0) |
| (.0) | (.0) |