

April 21, 1983

BY HAND

Wayne Kaplan, Esquire
Pre-Merger Notification Office
Federal Trade Commission
7th and Pennsylvania Avenue, N.W.
Room 315
Washington, D.C. 20580

Dear Mr. Kaplan:

On behalf of our client ("Company A"), I would like to thank you and Ms. Vidas for your courtesy and patience in listening to our further explanation of the transaction about which I wrote you on April 6. It is a somewhat unusual and complicated situation, and I can well understand why you were unable to reach a definitive conclusion based on the hypothetical transaction described in my letter.

The purpose of this letter is to set forth the most significant clarifying facts presented during our conference call on Friday, April 15.

First. Company A is engaged in the exploration, development and production of gas and oil. It does not raise funds from the public by selling interests in oil and gas properties; nor does it function as a broker or dealer by buying and selling such interests. From time to time, however, Company A has sold interests in oil and gas properties which are exploratory, in development, or, infrequently, in production.

Second. Company A obtains funds and spreads the risk of its exploration programs by forming joint ventures with other companies, most of whom are in the oil and gas industry. These ventures are not limited partnerships, but for each venture one of the venturers will act as the operator. The ventures may involve only one property or one large geographic area or may involve participation in most of Company A's exploration activities during a certain time period (1 - 3 years).

This material may be subject to the conditions of the Securities Act of 1933 and the Securities Act of 1934.

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Third. In the present transaction, Company A is forming a new joint venture with Company B for the dual purpose of (a) exploring and developing certain existing properties owned in part by Company A and in part by other venturers, and (b) participating with Company A and Company A's other venturers in the acquisition of additional properties.

Fourth. In the transaction, three types of properties are involved: (i) exploratory acreage, (ii) proven properties under development and, (iii) producing properties which are anticipated to require additional development expenditures. The interest to be transferred to Company B in the currently producing properties is inconsequential compared to the total transaction and involves substantially less than the \$15 MM threshold. The contemplated transaction does not allocate the purchase price among the many properties involved but an independent reservoir engineering company has valued the interest to be transferred to Company B in the presently producing wells and fields at approximately \$2,000,000.

Fifth. The interest in proven properties in this transaction is intended to provide an income stream to Company B for recoument of its investment. The agreement provides that until payout Company B will get 75% of the net revenue from the proven properties and Company A 25%. After payout, Company B will receive a 5% share of such net revenue. During this payout period, Company A will pay to Company B a guaranteed 5% annual payment on its unrecovered payout amount.

Sixth. At closing, Company A and Company B will form an unincorporated joint venture. The initial transfer of assets that occurs in the form of Company B's purchase of percentage interests in the pools of exploratory and proven properties is only incidental to the simultaneous transfer of such assets to the newly formed joint venture. Certain tax considerations have dictated the contemplated two-step format.

Based on the foregoing we believe the transaction can be most realistically characterized as an exempt real estate transaction involving the sale of interests in mostly non-producing oil and gas properties where the currently-producing properties have a value far less than the \$15 MM threshold. In the alternative, it can be viewed as an exempt

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formation of a new unincorporated joint venture. We do not believe that this otherwise non-reportable transaction becomes reportable by virtue of the incidental and preliminary transfer of assets to Company B, which is being done for tax purposes, prior to the further transfer to the new venture.

Yours very truly,