

SECURITIES AND EXCHANGE COMMISSION

FORM 424B2

Prospectus filed pursuant to Rule 424(b)(2)

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FILER

MITCHELL ENERGY & DEVELOPMENT CORP

CIK: **311995** | IRS No.: **741032912** | State of Incorpor.: **TX** | Fiscal Year End: **0131**
Type: **424B2** | Act: **33** | File No.: **033-57332** | Film No.: **94501844**
SIC: **1311** Crude petroleum & natural gas

Mailing Address
P.O. BOX 4000
THE WOODLANDS TX
77387-4000

Business Address
2001 TIMBERLOCH PLACE
THE WOODLANDS TX 77380
7133775500

 PROSPECTUS SUPPLEMENT
 (To Prospectus dated February 19, 1993)

(LOGO)

\$250,000,000
 Mitchell Energy & Development Corp.
 6 3/4% Senior Notes Due 2004
 Interest payable February 15 and August 15 Due February 15, 2004

 The Notes may not be redeemed at the option of the Company prior to maturity.

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

 <TABLE>
 <CAPTION>

| | Price to Public(1) | Underwriting Discount | Proceeds to Company(1) (2) |
|----------|-----------------------|--------------------------|-------------------------------|
| <S> | <C> | <C> | <C> |
| Per Note | 100% | .675% | 99.325% |
| Total | \$250,000,000 | \$1,687,500 | \$248,312,500 |

</TABLE>

(1) Plus accrued interest, if any, from January 25, 1994.

(2) Before deduction of expenses payable by the Company estimated at \$395,000.

 The Notes are offered by the several Underwriters when, as and if issued by the Company, delivered to and accepted by the Underwriters and subject to their right to reject orders in whole or in part. It is expected that the Notes, in definitive fully registered form, will be ready for delivery on or about January 25, 1994.

CS First Boston

Goldman, Sachs & Co.

 The date of this Prospectus Supplement is January 18, 1994.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITERS MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE NOTES AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

USE OF PROCEEDS

The net proceeds from the sale of the Notes are estimated to be \$247,917,500. These proceeds will be used primarily to redeem in full the Company's 11 1/4% Senior Notes Due 1999 at a redemption price of 103.21% of their \$200,000,000 aggregate principal amount. Such redemption is expected to result in an extraordinary charge of approximately \$5.4 million during fiscal 1994's fourth quarter. If not redeemed, the Senior Notes Due 1999 require a sinking fund payment of \$65,000,000 in February 1998 with a final payment of \$135,000,000 in February 1999.

The Company intends to use the remaining net proceeds from this offering to repay floating-rate bank debt incurred under revolving credit arrangements of the Company's primary energy and real estate subsidiaries. Interest rates on such revolving credit borrowings currently range from 4.4% to 4.8%. Such borrowings mature in July 1998 and were used for capital expenditures, working capital and other corporate purposes. The bank indebtedness to be repaid from the net proceeds of this offering may be reborrowed subsequently to repay long-term debt, to fund capital expenditures or for other corporate purposes.

DESCRIPTION OF NOTES

The following description of the particular terms of the Notes offered hereby (referred to herein as the "Notes" and in the Prospectus as the "Offered Debt Securities") supplements, and to the extent inconsistent therewith replaces, the description of the general terms and provisions of Debt Securities set forth in the Prospectus, to which description reference is hereby made. The Notes will be issued under a Senior Indenture dated as of January 1, 1993 between the Company and NationsBank of Texas, National Association, as trustee, as supplemented by the First Supplemental Indenture dated as of January 15, 1994 (the "Senior Debt Indenture"). The Notes are part of \$400,000,000 aggregate principal amount of Debt Securities registered by the Company in February 1993 to be issued on terms to be determined at the time of sale. None of such Debt Securities have previously been sold. Except as otherwise defined herein, capitalized terms used herein have the meanings specified in the accompanying Prospectus or in the Senior Debt Indenture.

The maximum aggregate principal amount of Notes which may be issued is limited to \$250,000,000. Interest at the annual rate set forth on the cover page of this Prospectus Supplement is to accrue from January 25, 1994 and is to be payable semiannually on February 15 and August 15, commencing August 15, 1994, to the persons in whose names the Notes are registered at the close of business on the preceding February 1 or August 1, respectively, and, unless otherwise determined by the Company, will be paid by check mailed on or before the payment date, by first class mail to such persons. Principal and interest will be payable, and the Notes will be transferable, at the agency of the Trustee, NationsBank of Georgia, N.A., 715 Peachtree, 7th Floor, Atlanta, Georgia 30308-1297. The Notes will be issued only in fully registered form in denominations of \$1,000 and integral multiples thereof.

The Notes will mature on February 15, 2004. The Notes will not be redeemable at the option of the Company prior to maturity. There is no sinking fund applicable to the Notes.

Upon the occurrence of a Special Redemption Event, each holder of the Notes then outstanding will have the right to require the Company to redeem all or any part of such holder's Notes at a price equal to 100% of the principal amount thereof plus accrued interest to the date of redemption. Within 15 days after the occurrence of a Special Redemption Event, the Company will give notice thereof to all holders of the Notes. Such notice will state, among other things, the date of redemption, which will

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be the first Business Day next succeeding 60 days after the giving of the notice. For a Note to be redeemed at the election of the holder, the Company must receive such Note on or before the tenth day prior to the date of redemption, accompanied by written irrevocable notice to the Company (which must be substantially in the form specified on the reverse of the Note) instructing the Company to redeem such Note. The following additional defined terms are relevant to this provision:

"Adjusted Consolidated Stockholders' Equity" means the sum of (a) Consolidated Stockholders' Equity and (b) the aggregate book value of all Special Dividends that may have been declared or paid by the Company other than the Special Dividend with respect to which such computation is being made.

"Consolidated Stockholders' Equity" means the sum of the amounts set forth on the consolidated balance sheet of the Company and its Subsidiaries, prepared in accordance with generally accepted accounting principles and as of any date selected by the Company not more than 90 days prior to the taking of any action for the purpose of which the determination is being made, as (a) the par or stated value of all outstanding capital stock of the Company, (b) paid-in capital or capital surplus relating to such capital stock and (c) retained earnings or earned surplus, less treasury stock.

"Energy Business" means the business of the exploration for, and development, acquisition, production, processing, marketing, refining, storage and transportation of, hydrocarbons and other related energy and natural resource businesses.

"Energy Subsidiary" means any Subsidiary primarily engaged in the Energy Business at the time of determination, whether directly or through any subsidiary thereof.

"Special Dividend" means any declaration or payment by the Company on or after January 15, 1994 of any dividend or other distribution on any class of its capital stock or to the holders of any class of its capital stock payable in shares of the capital stock of any Energy Subsidiary (or rights or warrants to acquire such shares).

"Special Redemption Event" means any declaration or payment by the Company of any Special Dividend, if (a) at the time of such action an Event of Default shall have occurred and be continuing, or (b) at the time the Company becomes committed to take such action and upon giving effect to such Special Dividend and all other Special Dividends declared or paid prior thereto, Adjusted Consolidated Stockholders' Equity would decrease by more than 33 1/3 percent.

The Company will comply with Rule 14e-1 under the 1934 Act and any other securities laws and regulations thereunder, to the extent such laws and regulations are applicable, in the event that a Special Redemption Event occurs and the Company is required to purchase Notes as described above.

UNDERWRITING

Subject to the terms and conditions set forth in the Terms Agreement (which incorporates by reference the terms of the Underwriting Agreement, except to the extent inconsistent therewith), the Underwriters named below have severally agreed to purchase from the Company the following respective principal amounts of Notes:

<TABLE>

<CAPTION>

| UNDERWRITER | PRINCIPAL AMOUNT OF NOTES |
|---|---------------------------------|
| | ----- |
| <S> | <C> |
| CS First Boston Corporation..... | \$113,750,000 |
| Goldman, Sachs & Co..... | 113,750,000 |
| Chemical Securities Inc. | 7,500,000 |
| NatWest Capital Markets Limited..... | 7,500,000 |
| SBCI Swiss Bank Corporation Investment banking Inc..... | 7,500,000 |
| | ----- |
| Total..... | \$250,000,000 |
| | ----- |
| | ----- |

</TABLE>

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The Underwriting Agreement provides that the obligations of the Underwriters are subject to certain conditions precedent and that the Underwriters will be obligated to purchase all of the Notes if any are purchased.

The Company has been advised by the Underwriters that the Underwriters propose to offer the Notes to the public initially at the public offering price set forth on the cover page of this Prospectus Supplement and to certain dealers at such price less a concession of .40% of the principal amount per Note; that the Underwriters and such dealers may allow a discount of .25% of such principal amount on sales to certain other dealers; and that after the initial public offering, the public offering price and concession and discount to dealers may be changed by the Underwriters.

The Company has agreed to indemnify the Underwriters against certain liabilities, including civil liabilities under the Securities Act of 1933, as amended, or contribute to payments which the Underwriters may be required to make in respect thereof.

The Underwriters have in the past and may in the future provide investment banking and other related services to the Company and its affiliates in the ordinary course of business. In the ordinary course of their respective businesses, affiliates of Chemical Securities Inc., NatWest Capital Markets Limited and SBCI Swiss Bank Corporation Investment banking Inc. have engaged, and may in the future engage, in commercial banking, personal banking and investment banking transactions with the Company and its affiliates. As further discussed under "Use of Proceeds", the Company intends to use part of the proceeds of this offering to repay bank debt outstanding under certain revolving credit agreements. Affiliates of certain underwriters are lenders under such agreements.

EXPERTS

The consolidated financial statements and schedules included or incorporated by reference in the Company's Annual Report on Form 10-K for the fiscal year ended January 31, 1993, which is incorporated by reference herein, have been audited by Arthur Andersen & Co., independent public accountants, as indicated in their reports with respect thereto, and are incorporated herein in reliance upon the authority of said firm as experts in accounting and auditing in giving said reports. Reference is made to such reports, which call attention to certain changes in accounting principles during the periods reported thereon.

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PROSPECTUS

\$400,000,000
Mitchell Energy & Development Corp.
Debt Securities

Mitchell Energy & Development Corp. (the "Company") may offer and sell from time to time, in one or more series, its debt securities (the "Debt Securities") with an aggregate initial offering price not to exceed \$400,000,000, on terms to be determined at the time of offering. The specific designation, aggregate principal amount, ranking as senior or subordinated Debt Securities, maturity, rate (or method of determining the same) and time of payment of interest, if any, purchase price, any terms in addition to or different from those described herein for redemption or repurchase or conversion into shares of non-voting Class B Common Stock, par value \$0.10 per share, of the Company ("Common Stock"), the names of and the principal amounts to be purchased by or through agents, dealers or underwriters, if any, the compensation of such persons and other special terms in connection with the offering and sale of the series of Debt Securities in respect of which this Prospectus is being delivered are set forth in the accompanying Prospectus Supplement (the "Prospectus Supplement").

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

THIS PROSPECTUS MAY NOT BE USED TO CONSUMMATE SALES OF THE DEBT SECURITIES UNLESS ACCOMPANIED BY A PROSPECTUS SUPPLEMENT.

THE DATE OF THIS PROSPECTUS IS FEBRUARY 19, 1993.

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AVAILABLE INFORMATION

The Company is subject to the informational requirements of the Securities Exchange Act of 1934, as amended (the "1934 Act"), and in accordance therewith files reports and other information with the Securities and Exchange Commission (the "SEC"). Reports, proxy and information statements and other information filed by the Company with the SEC can be inspected and copied at the public reference facilities maintained by the SEC at 450 Fifth Street, N.W., Room 1024, Washington, D.C. 20549, as well as the regional offices of the SEC at the Northwest Atrium Center, 500 West Madison Street, Suite 1400, Chicago, Illinois 60661-2511, and 7 World Trade Center, New York, New York 10048. Copies of such material may also be obtained from the Public Reference Section of the SEC in its Washington, D.C. office at prescribed rates. Both the Common Stock and the

voting Class A Common Stock of the Company are listed on the New York Stock Exchange and the Pacific Stock Exchange. The reports, proxy and information statements and other information concerning the Company described above may be inspected at the New York Stock Exchange, 20 Broad Street, New York, New York, and the Pacific Stock Exchange, 301 Pine Street, San Francisco, California.

This Prospectus constitutes a part of the Registration Statement on Form S-3 (together with all amendments and exhibits thereto, the "Registration Statement") filed by the Company with the SEC under the Securities Act of 1933, as amended (the "1933 Act"). This Prospectus omits certain of the information contained in the Registration Statement, and reference is hereby made to the Registration Statement for further information with respect to the Company and the securities offered hereby. Any statements contained herein concerning the provisions of any document filed as an exhibit to the Registration Statement or otherwise filed with the SEC are not necessarily complete, and in each instance reference is made to the copy of such document so filed. Each such statement is qualified in its entirety by such reference.

INCORPORATION OF CERTAIN DOCUMENTS BY REFERENCE

The following documents, heretofore filed with the SEC by the Company pursuant to the 1934 Act, are incorporated herein by reference:

(a) The Company's Annual Report on Form 10-K for the year ended January 31, 1992.

(b) The Company's Quarterly Report on Form 10-Q for the quarter ended April 30, 1992.

(c) The Company's Quarterly Report on Form 10-Q for the quarter ended July 31, 1992.

(d) The Company's Quarterly Report on Form 10-Q for the quarter ended October 31, 1992.

(e) The Company's Current Reports of Form 8-K dated March 11, 1992 and July 22, 1992 reporting the issuance of its 9 1/4% Senior Notes Due 2002 and its 8% Senior Notes Due 1999, respectively.

(f) The Company's Registration Statement on Form 8-A dated June 3, 1992 registering both the Common Stock and the voting Class A Common Stock of the Company pursuant to Section 12(b) of the 1934 Act.

All documents filed by the Company pursuant to Section 13(a), 13(c), 14 or 15(d) of the 1934 Act subsequent to the date of this Prospectus and prior to the termination of the offering of the Debt Securities pursuant hereto shall be deemed to be incorporated by reference in this Prospectus and to be a part hereof from the date of filing of such documents. Any statement contained in a document incorporated by reference herein shall be deemed to be modified or superseded for purposes of this Prospectus to the extent that a statement contained herein or in any other subsequently filed document which also is or is deemed to be incorporated by reference herein modifies or supersedes such statement. Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Prospectus.

The Company will provide without charge to each person, including any beneficial owner, to whom this Prospectus is delivered, upon written or oral request of such person, a copy of any or all documents that have been incorporated by reference in this Prospectus (not including exhibits to the documents that are incorporated by reference unless such exhibits are specifically incorporated by reference into the documents that this Prospectus incorporates). Requests for such copies should be directed to the office of the Vice President -- Public Affairs, Mitchell Energy & Development Corp., P.O. Box

THE COMPANY

Mitchell Energy & Development Corp. is a holding company which engages, through its subsidiaries, primarily in (i) the exploration for and production of oil and gas, gas processing and gas gathering and transmission and (ii) real estate development, primarily in the Houston-Galveston area. The Company, one of the nation's largest independent oil and gas producers, has long-lived natural gas reserves located principally in North and East Central Texas. The Company is also the developer of The Woodlands, a 25,000-acre mixed-use, master-planned community located 27 miles north of downtown Houston.

The Company has been engaged in the exploration for and production of oil and gas for more than 40 years and is one of the largest independent oil and gas producers in the United States. The Company's reserves are primarily long-lived natural gas reserves located principally in North and East Central Texas. Over 50% of the Company's natural gas production is sold under long-term contracts at prices substantially greater than current prices for market-sensitive gas. The Company owns or has interests in over 60 gas processing plants that extract natural gas liquids such as ethane, propane and butane from streams of natural gas. The majority of the plants are small, portable plants that can be easily and economically relocated to take advantage of new gas streams or moved to existing facilities to expand production capacity. The Company also owns or has interests in intrastate pipeline systems in Texas with an aggregate length of over 4,000 miles. The Company benefits from the integration of its natural gas, gas processing and pipeline operations, many of which are concentrated in North Texas.

The Company has substantial real estate operations in the greater Houston area. The majority of these operations are in The Woodlands, a 25,000-acre mixed-use, master-planned community located 27 miles north of downtown Houston. Under development by the Company for over 15 years, The Woodlands has a population of over 33,000 residents and an employment base of over 10,000 jobs. The recovery of the Houston economy in recent years has helped to strengthen the Company's operations in The Woodlands, particularly in the area of residential lot sales.

The Company was incorporated under the laws of the State of Texas in 1946. Its principal executive offices are located at 2001 Timberloch Place, The Woodlands, Texas 77380, and its telephone number there is (713) 377-5500. References to the "Company" herein include Mitchell Energy & Development Corp. and its subsidiaries unless the context otherwise indicates.

USE OF PROCEEDS

Unless otherwise provided in the Prospectus Supplement, the net proceeds from the sale of the Debt Securities offered by this Prospectus and the Prospectus Supplement (the "Offered Debt Securities") will be added to the Company's general funds and used for repayment of debt or other general corporate purposes. Until so utilized, it is expected that such net proceeds will be placed in interest bearing time deposits or invested in short-term marketable securities.

RATIO OF EARNINGS TO FIXED CHARGES

<TABLE>
<CAPTION>

NINE MONTHS

| | YEAR ENDED JANUARY 31, | | | | ENDED |
|-----|------------------------|-------|-------|-------|-------------|
| | 1988 | 1989 | 1990 | 1991 | 1992 |
| | | | | | OCTOBER 31, |
| | | | | | 1992 |
| <S> | <C> | <C> | <C> | <C> | <C> |
| * | * | 1.05x | 1.30x | 1.45x | * |

</TABLE>

* Earnings were inadequate to cover fixed charges for the years ended January 31, 1988 and 1989 and for the nine months ended October 31, 1992 by \$27,841,000, \$48,207,000 and \$461,000, respectively.

The ratio of earnings to fixed charges has been computed in accordance with SEC regulations. A statement setting forth the computation of this ratio is filed as an exhibit to the Registration Statement.

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The Company has guaranteed up to \$6,000,000 under loan agreements of unaffiliated, nonprofit institutions. Fixed charges related to outstanding borrowings under such agreements, which aggregated approximately \$170,000 during the nine months ended October 31, 1992, have been excluded from the computation of this ratio.

DESCRIPTION OF DEBT SECURITIES

The Debt Securities will constitute either senior or subordinated debt of the Company and will be issued, in the case of Debt Securities that will be senior debt ("Senior Debt Securities"), under a Senior Indenture (the "Senior Debt Indenture") dated as of January 1, 1993 between the Company and NationsBank of Texas, National Association, as trustee, and, in the case of Debt Securities that will be subordinated debt ("Subordinated Debt Securities"), under a Subordinated Indenture dated as of January 1, 1993 (the "Subordinated Debt Indenture"), between the Company and NationsBank of Texas, National Association, as trustee. The Senior Debt Indenture and the Subordinated Debt Indenture are sometimes hereinafter referred to individually as an "Indenture" and collectively as the "Indentures." NationsBank of Texas, National Association (and any successor thereto as trustee under the Indentures) is hereinafter referred to as the "Trustee." The Indentures are filed as exhibits to the Registration Statement. The following summaries of certain provisions of the Indentures and the Debt Securities do not purport to be complete and such summaries are subject to the detailed provisions of the applicable Indenture to which reference is hereby made for a full description of such provisions, including the definition of certain terms used herein. Section references in parentheses below are to sections in both Indentures unless otherwise indicated. Wherever particular sections or defined terms of the applicable Indenture are referred to, such sections or defined terms are incorporated herein by reference as part of the statement made, and the statement is qualified in its entirety by such reference. The Indentures are substantially identical, except for certain covenants of the Company and provisions relating to subordination and conversion.

The Debt Securities may be issued from time to time in one or more series. The following description of the Debt Securities sets forth certain general terms and provisions of the Debt Securities of all series. The particular terms of each series of Debt Securities offered by any Prospectus Supplement will be described therein.

PROVISIONS APPLICABLE TO BOTH SENIOR AND SUBORDINATED DEBT SECURITIES

General. The Debt Securities will be unsecured senior or subordinated obligations of the Company and may be issued from time to time in one or more series. The Indentures do not limit the amount of Debt Securities, Senior Indebtedness, debentures, notes or other types of indebtedness that may be issued by the Company or any of its Subsidiaries nor do they restrict transactions between the Company and its Affiliates, the payment of dividends by the Company, or the transfer of assets by the Company to its Subsidiaries. The Company currently conducts substantially all its operations through Subsidiaries. Consequently, the rights of the Company to receive assets of any Subsidiary (and thus the ability of holders of Debt Securities to benefit indirectly from such assets) are subject to the prior claims of creditors of that Subsidiary. Other than as may be set forth in any Prospectus Supplement, the Indentures do not and the Debt Securities will not contain any covenants or other provisions that are intended to afford holders of the Debt Securities special protection in the event of either a change of control of the Company or a highly leveraged transaction by the Company.

Reference is made to the Prospectus Supplement for the following terms of and information relating to the Offered Debt Securities (to the extent such terms are applicable to such Offered Debt Securities): (i) the title of the Offered Debt Securities; (ii) classification as Senior Debt Securities or Subordinated Debt Securities, aggregate principal amount, purchase price and denomination; (iii) whether the Offered Debt Securities that constitute Subordinated Debt Securities are convertible into Common Stock and, if so, the terms and conditions upon which such conversion will be effected including the initial conversion price or conversion rate and any adjustments thereto in addition to or

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different from those described herein, the conversion period and other conversion provisions in addition to or in lieu of those described herein; (iv) the date or dates on which the Offered Debt Securities will mature; (v) the method by which amounts payable in respect of principal, premium, if any, or interest, if any, on or upon the redemption of such Offered Debt Securities may be calculated; (vi) the interest rate or rates (or the method by which such will be determined), and the dates from which such interest, if any, will accrue; (vii) the date or dates on which any such interest will be payable; (viii) the place or places where and the manner in which the principal of, premium, if any, and interest, if any, on the Offered Debt Securities will be payable and the place or places where the Offered Debt Securities may be presented for transfer and, if applicable, conversion; (ix) the obligation, if any, of the Company to redeem, repay or purchase the Offered Debt Securities pursuant to any sinking fund or analogous provisions or at the option of a holder thereof or the right, if any, of the Company to redeem, repay or purchase the Offered Debt Securities at its option and the period or periods within which, the price or prices at which and the terms and conditions upon which the Offered Debt Securities will be redeemed, repaid or purchased pursuant to any such obligation or right (including the form or method of payment thereof if other than cash); (x) any terms applicable to the Offered Debt Securities issued at an original issue discount below their stated principal amount, including the issue price thereof and the rate or rates at which such original issue discount shall accrue; (xi) any index used to determine the amount of payments of principal of and any premium and interest on the Offered Debt Securities; (xii) any applicable United States federal income tax consequences; and (xiii) any other specific terms of the Offered Debt Securities, including any additional or different events of default or remedies or any additional covenants provided with respect to such Offered Debt Securities, and any terms which may be required by or advisable under applicable laws or regulations.

Unless otherwise specified in any Prospectus Supplement, the Debt Securities will be issued only in fully registered form and in denominations of \$1,000 and any integral multiple thereof (Section 2.7). No service charge will be made for any transfer or exchange of any Debt Securities but the Company may require payment of a sum sufficient to cover any tax or other governmental charge payable in connection therewith (Section 2.8).

Debt Securities may bear interest at a fixed rate or a floating rate. Debt Securities bearing no interest or interest at a rate that at the time of issuance is below the prevailing market rate may be sold at a discount below their stated principal amount. Special United States federal income tax considerations applicable to any such discounted Debt Securities or to certain Debt Securities issued at par which are treated as having been issued at a discount for United States federal income tax purposes will be described in the applicable Prospectus Supplement.

The Indentures are, and the Debt Securities will be, governed by Texas law.

Certain Definitions. The following definitions are applicable to both Senior and Subordinated Debt Securities (Article One of each Indenture):

"Affiliate" of any specified Person means any other Person directly or indirectly controlling or controlled by or under direct or indirect common control with such specified Person.

"Non-Recourse Indebtedness" means indebtedness where (i) the holders of such indebtedness agree that they will look solely to the property securing such indebtedness (and to a Non-Recourse Subsidiary) for payment on or in respect of such indebtedness, and (ii) no default with respect to such indebtedness (including any rights which the holders thereof may have to take enforcement action against a Non-Recourse Subsidiary) would permit (after notice or passage of time or both), according to the terms thereof, any holder of any Indebtedness for money borrowed of the Company or any Subsidiary to declare a default on such Indebtedness for money borrowed or cause the payment thereof to be accelerated or payable prior to its stated maturity.

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"Non-Recourse Subsidiary" means a Subsidiary or an Affiliate established for the purpose of acquiring or investing in property securing Non-Recourse Indebtedness and substantially all of the assets of which consist of such property.

"Person" means any individual, corporation, limited liability company, partnership, joint venture, association, joint stock company, trust, estate, unincorporated organization or government or any agency or political subdivision thereof.

"Subsidiary" means any corporation of which the Company, or the Company and one or more Subsidiaries, or any one or more Subsidiaries, directly or indirectly own voting securities entitling any one or more of the Company and its Subsidiaries to elect a majority of the directors of such corporation, either at all times or so long as there is no default or contingency permitting the holders of any other class or classes of securities to vote for the election of one or more directors.

"U.S. Government Obligations" means direct obligations of the United States of America, backed by its full faith and credit.

Global Securities. The Debt Securities of a series may be issued in whole or in part in the form of one or more global securities ("Global Securities")

that will be deposited with, or on behalf of, a depositary (the "Depositary") identified in the Prospectus Supplement relating to such series. Global Securities may be issued only in fully registered form and in either temporary or permanent form. Unless and until it is exchanged in whole or in part for the individual Debt Securities represented thereby, a Global Security may not be transferred except as a whole by the Depositary for such Global Security to its nominee or by a nominee of such Depositary to such Depositary or another nominee of such Depositary or by such Depositary or any such nominee to a successor Depositary or nominee of such successor Depositary (Sections 2.4 and 2.8).

The specific terms of the depositary arrangement with respect to a series of Debt Securities will be described in the Prospectus Supplement relating to such series. The Company anticipates that the following provisions will generally apply to depositary arrangements.

Upon the issuance of a Global Security, the Depositary for such Global Security or its nominee will credit, on its book-entry registration and transfer system, the respective principal amounts of the individual Debt Securities represented by such Global Security to the accounts of persons that have accounts with such Depositary. Such accounts shall be designated by the dealers, underwriters or agents with respect to such Debt Securities or by the Company if such Debt Securities are offered and sold directly by the Company. Ownership of beneficial interests in a Global Security will be limited to persons that have accounts with the applicable Depositary ("participants") or persons that may hold interests through participants. Ownership of beneficial interests in such Global Security will be shown on, and the transfer of that ownership will be effected only through, records maintained by the applicable Depositary or its nominee (with respect to interests of participants) and the records of participants (with respect to interests of persons other than participants). The laws of some states require that certain purchasers of securities take physical delivery of such securities in definitive form. Such limits and such laws may impair the ability to transfer beneficial interests in a Global Security.

So long as the Depositary for a Global Security or its nominee is the registered owner of such Global Security, such Depositary or its nominee, as the case may be, will be considered the sole owner or holder of the Debt Securities of the series represented by such Global Security for all purposes under the Indenture governing such Debt Securities. Except as provided below, owners of beneficial interests in a Global Security will not be entitled to have any of the individual Debt Securities of the series represented by such Global Security registered in their names, will not receive or be entitled to receive physical delivery of any such Debt Securities in definitive form and will not be considered the owners or holders thereof under the Indenture governing such Debt Securities.

Payments of principal of, premium, if any, and interest, if any, on individual Debt Securities represented by a Global Security registered in the name of a Depositary or its nominee will be made to the Depositary or its nominee, as the case may be, as the registered owner of the Global Security

representing such Debt Securities. Neither the Company, the Trustee for such Debt Securities, any paying agent nor the registrar for such Debt Securities will have any responsibility or liability for any aspect of the records relating to or payments made on account of beneficial ownership interests of the Global Security for such Debt Securities or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

The Company expects that the Depositary for a series of Debt Securities or its nominee, upon receipt of any payment of principal, premium or interest in

respect of a Global Security representing any such Debt Securities, immediately will credit participants' accounts with payments in amounts proportionate to their respective beneficial interests in the principal amount of such Global Security for such Debt Securities as shown on the records of such Depository or its nominee. The Company also expects that payments by participants to owners of beneficial interests in such Global Security held through such participants will be governed by standing instructions and customary practices, as is now the case with securities held for the accounts of customers in bearer form or registered in "street name." Such payments will be the responsibility of such participants.

If the Depository for a series of Debt Securities is at any time unwilling, unable or ineligible to continue as depository and a successor depository is not appointed by the Company within 90 days, the Company will issue individual Debt Securities of such series in exchange for the Global Security representing such series of Debt Securities. In addition, the Company may at any time and in its sole discretion, subject to any limitations described in the Prospectus Supplement relating to such Debt Securities, determine not to have any Debt Securities of a series represented by one or more Global Securities and, in such event, will issue individual Debt Securities of such series in exchange for the Global Security or Securities representing such series of Debt Securities. Further, if the Company so specifies with respect to the Debt Securities of a series, an owner of a beneficial interest in a Global Security representing Debt Securities of such series may, on terms acceptable to the Company and the Depository for such Global Security, receive individual Debt Securities of such series in exchange for such beneficial interests, subject to any limitations described in the Prospectus Supplement relating to such Debt Securities. In any such instance, an owner of a beneficial interest in a Global Security will be entitled to a physical delivery of individual Debt Securities of the series represented by such Global Security equal in principal amount to such beneficial interest and to have such Debt Securities registered in its name. Individual Debt Securities of such series so issued will be issued in denominations, unless otherwise specified by the Company, of \$1,000 and integral multiples thereof

Events of Default. Unless otherwise specified in the Prospectus Supplement, an Event of Default is defined under each Indenture with respect to the Debt Securities of any series issued under such Indenture as being: (a) default in the payment of any interest with respect to Debt Securities of such series when due, continued for 30 days; (b) default in the payment of principal or premium, if any, with respect to Debt Securities of such series when due; (c) default in the payment or satisfaction of any sinking fund or other purchase obligation with respect to Debt Securities of such series when due; (d) default in the performance of any other covenant of the Company applicable to Debt Securities of such series, continued for 60 days after written notice by the Trustee or the holders of at least 25% in aggregate principal amount of the Debt Securities of such series then outstanding (or, in the case of any series of Debt Securities originally issued at a discount from their stated principal amount, at least 25% of the amount of principal thereof that would be due and payable on such date of determination in the event of an acceleration of the maturity of such series on such date); (e) certain events of bankruptcy, insolvency or reorganization; and (f) default under any instrument under which there may be issued, or by which there may be secured or evidenced, any Indebtedness (as defined in such Indenture) for money borrowed (other than Non-Recourse Indebtedness) of the Company or (in the case of the Senior Debt Indenture) any Subsidiary resulting in the acceleration of such Indebtedness, or any default in payment of any such Indebtedness (after expiration of any applicable grace periods and presentation of any debt instruments, if required), if the total of all such Indebtedness which has been so accelerated and with respect to which there has been such a default in payment shall exceed \$25,000,000 and there shall have been a failure to obtain rescission or annulment of all such

accelerations or to discharge all such defaulted Indebtedness within 10 days after written notice of the type specified in the foregoing clause (d) (Section 5.1). If any Event of Default shall occur and be continuing, the Trustee or the holders of not less than 25% in aggregate principal amount of the Debt Securities of such series then outstanding (or, in the case of any series of Debt Securities originally issued at a discount from their stated principal amount, not less than 25% of the amount of principal thereof that would be due and payable on such date of determination in the event of an acceleration of the maturity of such series on such date), by notice in writing to the Company (and to the Trustee, if given by the holders), may declare the Debt Securities of such series due and payable immediately, but the holders of a majority in aggregate principal amount of the Debt Securities of such series then outstanding (or, in the case of any series of Debt Securities originally issued at a discount from their stated principal amount, a majority of the amount of principal thereof that would be due and payable on such date of determination in the event of an acceleration of the maturity of such series on such date), by notice in writing to the Company and the Trustee, may rescind such declaration if all defaults under such Indenture are cured or waived (Section 5.1).

Each Indenture provides that no holder of any series of Debt Securities then outstanding may institute any suit, action or proceeding with respect to, or otherwise attempt to enforce, such Indenture, unless (i) such holder shall have given to the Trustee written notice of default and of the continuance thereof, (ii) the holders of not less than 25% in aggregate principal amount of such series of Debt Securities then outstanding (or, in the case of any series of Debt Securities originally issued at a discount from their stated principal amount, not less than 25% of the amount of principal thereof that would be due and payable on such date of determination in the event of an acceleration of the maturity of such series on such date) shall have made written request to the Trustee to institute such suit, action or proceeding and shall have offered to the Trustee such reasonable indemnity as it may require with respect thereto and (iii) the Trustee for 60 days after its receipt of such notice, request and offer of indemnity, shall have neglected or refused to institute any such action, suit or proceeding; provided that, subject to the subordination provisions applicable to the Subordinated Debt Securities, the right of any holder of any Debt Security to receive payment of the principal of, premium, if any, and interest, if any, on such Debt Security, on or after the respective due dates, or, with respect to any convertible Subordinated Debt Security, the right to convert such Subordinated Debt Security, or to institute suit for the enforcement of any such payment or right to convert shall not be impaired or affected without the consent of such holder (Section 5.4). The holders of a majority in aggregate principal amount of the Debt Securities of such series then outstanding (or, in the case of any series of Debt Securities originally issued at a discount from their stated principal amount, a majority of the amount of principal thereof that would be due and payable on such date of determination in the event of an acceleration of the maturity of such series on such date) may direct the time, method and place of conducting any proceeding for any remedy available to the Trustee or exercising any trust or power conferred on the Trustee, provided that such direction shall not be in conflict with any rule of law or the Indenture or involve the Trustee in personal liability (Section 5.7).

The Company is required to furnish to the Trustee annually a statement as to the fulfillment by the Company of all of its obligations under each Indenture (Section 4.3).

Consolidation, Merger, Sale, Etc. Each Indenture provides that the Company may consolidate or merge with or into any other corporation, and may sell, lease, exchange or otherwise dispose of all or substantially all of its property and assets to any other corporation, provided that in any such case (i) immediately after such transaction the Company will not be in default under such

Indenture, (ii) the corporation (if other than the Company) formed by or surviving any such consolidation or merger, or to which such sale, lease, exchange or other disposition shall have been made, shall be a corporation organized under the laws of the United States of America, any state thereof or the District of Columbia, and (iii) the corporation (if other than the Company) formed by such consolidation, or into which the Company shall have been merged, or the corporation which shall have acquired or leased such property and assets, shall assume, by a supplemental indenture, the Company's obligations under such Indenture (Section 9.1). In case of any such consolidation, merger, sale, lease, exchange or

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other disposition and upon any such assumption by the successor corporation, such successor corporation shall succeed to and be substituted for the Company, with the same effect as if it had been named in such Indenture as the Company, and the Company shall be relieved of any further obligation under such Indenture and any Debt Securities issued thereunder (Section 9.2 of the Subordinated Debt Indenture and Section 9.3 of the Senior Debt Indenture).

Discharge and Defeasance. The Company may discharge or defease its obligations with respect to each series of Debt Securities as set forth below (Article Ten).

The Company may discharge all of its obligations (except those set forth below) to holders of any series of Debt Securities issued under either Indenture which have not already been delivered to the Trustee for cancellation and which either have become due and payable or are by their terms due and payable within one year (or are to be called for redemption within one year) by depositing with the Trustee cash or U.S. Government Obligations, or a combination thereof, as trust funds in an amount certified to be sufficient to pay when due the principal of, premium, if any, and interest, if any, on all outstanding Debt Securities of such series and to make any mandatory sinking fund payments thereon when due (Section 10.1(B)).

Unless otherwise provided in the applicable Prospectus Supplement, the Company may also discharge at any time all of its obligations (except those set forth below) to holders of any series of Debt Securities issued under either Indenture (other than convertible Subordinated Debt Securities) ("defeasance") only if, among other things: (i) the Company irrevocably deposits with the Trustee cash or U.S. Government Obligations, or a combination thereof, as trust funds in an amount certified to be sufficient to pay when due the principal of, premium, if any, and interest, if any, on all outstanding Debt Securities of such series and to make any mandatory sinking fund payments thereon when due and such funds have been so deposited for 91 days; (ii) such defeasance will not result in a breach or violation of, or cause a default under, any agreement or instrument to which the Company is a party or by which it is bound; and (iii) the Company delivers to the Trustee an opinion of counsel to the effect that the holders of such series of Debt Securities will not recognize income, gain or loss for United States federal income tax purposes as a result of such defeasance and that defeasance will not otherwise alter the United States federal income tax treatment of such holders' principal and interest payments on such series of Debt Securities. Such opinion of counsel must be based on a ruling of the Internal Revenue Service or a change in United States federal income tax law occurring after the date of the Indenture relating to the Debt Securities of such series (Section 10.1(C)).

In the event of such discharge and defeasance of a series of Debt Securities, the holders thereof would be entitled to look only to such trust funds for payment of the principal of and any premium and interest on such Debt Securities.

Notwithstanding the foregoing, no discharge or defeasance described above shall affect the following obligations to or rights of the holders of any series of Debt Securities: (i) rights of registration of transfer and exchange of Debt Securities of such series; (ii) rights of substitution of mutilated, defaced, destroyed, lost or stolen Debt Securities of such series; (iii) rights of holders of Debt Securities of such series to receive payments of principal thereof and premium, if any, and interest, if any, thereon, when due and to receive mandatory sinking fund payments thereon when due, if any, from the trust funds held by the Trustee; (iv) the rights, obligations, duties and immunities of the Trustee; (v) the rights of holders of Debt Securities of such series as beneficiaries with respect to property deposited with the Trustee payable to all or any of them; (vi) the obligations of the Company to maintain an office or agency in respect of Debt Securities of such series, and (vii), if applicable, the obligations of the Company with respect to the conversion of Debt Securities of such series into Common Stock.

Modification of the Indenture. Each Indenture provides that the Company and the Trustee may enter into supplemental indentures without the consent of the holders of the Debt Securities to (a) evidence the assumption by a successor corporation of the obligations of the Company under such Indenture, (b) add covenants or new events of default for the protection of the holders of such Debt

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Securities, (c) cure any ambiguity or correct any inconsistency in the Indenture, (d) establish the form and terms of such Debt Securities, (e) evidence the acceptance of appointment by a successor trustee, (f) amend the Indenture in any other manner which the Company may deem necessary or desirable and which will not adversely affect the interests of the holders of Debt Securities issued thereunder or (g), in the case of Senior Debt Securities, secure such Debt Securities (Section 8.1).

Each Indenture also contains provisions permitting the Company and the Trustee, with the consent of the holders of not less than a majority in aggregate principal amount of Debt Securities of each series then outstanding (or, in the case of any series of Debt Securities originally issued at a discount from their stated principal amount, not less than a majority of the amount of principal thereof that would be due and payable on such date of determination in the event of an acceleration of the maturity of such series on such date) and affected, to add any provisions to, or change in any manner or eliminate any of the provisions of, such Indenture or modify in any manner the rights of the holders of the Debt Securities of such series; provided that the Company and the Trustee may not, without the consent of the holder of each outstanding Debt Security affected thereby, (a) extend the stated maturity of the principal of any Debt Security, reduce the principal amount thereof, reduce the rate or extend the time of payment of any interest thereon, reduce or alter the method of computation of any amount payable on redemption, repayment or purchase thereof, reduce the portion of the principal amount of any Original Issue Discount Security (as defined in the Indentures) payable upon acceleration or provable in bankruptcy, change the coin or currency in which principal and interest, if any, are payable, impair or affect the right to institute suit for the enforcement of any payment, repayment or purchase thereof or, if applicable, adversely affect the right to convert Debt Securities or any right of repayment at the option of the holder or (b) reduce the percentage in aggregate principal amount of Debt Securities of any series issued under such Indenture, the consent of the holders of which is required for any such modification (Section 8.2).

The Subordinated Debt Indenture may not be amended to alter the subordination of any outstanding Subordinated Debt Securities without the

consent of each holder of Senior Indebtedness (as defined below under "-- Provisions Applicable Solely to Subordinated Debt Securities") then outstanding that would be adversely affected thereby (Section 8.6 of the Subordinated Debt Indenture).

PROVISIONS APPLICABLE SOLELY TO SENIOR DEBT SECURITIES

General. Senior Debt Securities will be issued under the Senior Debt Indenture, and each series will rank pari passu as to the right of payment of principal, premium, if any, and interest, if any, with each other series and with all other Senior Debt (as defined below) of the Company.

Certain Definitions. For purposes of the following discussion, the following definitions, together with those under "Provisions Applicable to Both Senior and Subordinated Debt Securities -- Certain Definitions," are applicable (Article One of the Senior Debt Indenture).

"Assets" means any property of the Company or a Subsidiary used in businesses in which the Company and its Subsidiaries are engaged at the date of the Senior Debt Indenture.

"Capitalized Lease" means any lease of property where the obligations of the lessee thereunder are required to be classified and accounted for as a capitalized lease on a balance sheet of such lessee under generally accepted accounting principles.

"Indebtedness" means (i) any indebtedness of the Company or any Subsidiary for money borrowed or for the deferred purchase price of property or services including obligations as lessee under Capitalized Leases, (ii) any such indebtedness or obligation of others secured by any lien on the assets of the Company or any Subsidiary, and (iii) any such indebtedness or obligation of others which the Company or any Subsidiary has directly or indirectly guaranteed, endorsed with recourse (otherwise than for collection, deposit or other similar transactions in the ordinary course of business), agreed to purchase or repurchase or in respect of which the Company or any Subsidiary has

agreed contingently to supply or advance funds. Indebtedness shall not include Non-Recourse Indebtedness of the Company, its Subsidiaries or its Affiliates.

"Senior Debt" means Indebtedness which is not (i) Indebtedness of the Company to any Subsidiary and (ii) Indebtedness of the Company which by its terms is subordinate or junior in any respect to any other Indebtedness or other obligation of the Company.

"Stock" means any capital stock of any corporation or any partnership interest in any partnership (limited or general), any joint venture interest in any joint venture, and any similar interest.

Limitation on Liens. The Company may not, and may not permit any Subsidiary to, create or incur any mortgage, pledge or lien as to assets, properties or systems owned by it other than: (a) liens for taxes not yet delinquent or being contested in good faith and for which adequate reserves have been established, (b) mechanics', workmen's, materialmen's or similar liens arising in the ordinary course of business; (c) minor imperfections of title that do not impair the value of property in its intended use; (d) any mortgage, encumbrance or lien on properties acquired after the date of the Senior Debt Indenture that are created at or within one year of acquisition of such property and which secure only Indebtedness not in excess of the fair market value of such property, the assumption of any mortgage, encumbrance or lien upon property acquired that

existed at the time of such acquisition or the acquisition of property subject to any mortgage, encumbrance or lien; (e) deposits or pledges to secure obligations under worker's compensation, social security or similar laws or under unemployment insurance; (f) mortgages on particular assets, properties or systems (or pledges of Stock of any Person having a beneficial interest in any such assets, properties or systems) to secure all or part of the cost incurred in the ordinary course of business of exploration, drilling, construction, development or operation thereof or the costs of improvements thereto; (g) mortgages on fractionation facilities, processing or petrochemical plants, pumping stations, pipelines or other pipeline facilities; (h) mortgages on residential commercial industrial and investment real estate incurred in the ordinary course of business; (i) liens created by or existing from any litigation or legal proceedings that are being contested in good faith by appropriate proceedings or the payment of which is covered in full (subject to customary deductibles) by insurance; (j) liens granted to any bank or other institution on the payments to be made by such institution to the Company or a Subsidiary pursuant to any interest rate swap arrangement between the Company or such Subsidiary and such institution; (k) extensions and renewals of permitted liens; (l) liens incurred in the ordinary course of business that are not material to the business or financial condition of the Company and its Subsidiaries and which do not secure Indebtedness exceeding \$25,000,000 in the aggregate; and (m) any lien resulting from the deposit of moneys or evidences of indebtedness in trust for the purpose of defeasing Indebtedness of the Company or any Subsidiary. The following types of transactions shall not be deemed to violate the foregoing limitation on liens: (i) mortgages in favor of governmental bodies to secure partial, progress, advance or other payments pursuant to any contract or statute or to secure Indebtedness incurred to finance the purchase price or cost of constructing or improving property subject to such mortgages; and (ii) the sale or other transfer of oil, gas, coal or other minerals in place for a period of time until, or in an amount such that, the purchaser will realize therefrom a specified amount of money (however determined) or a specified amount of such minerals, or any other interest in property of the character commonly referred to as a "production payment" (Section 3.6 of the Senior Debt Indenture).

Limitations on Subsidiary Dividend Restrictions. The Company may not, and may not permit any Subsidiary (other than a Non-Recourse Subsidiary) to, create or otherwise cause or permit to exist or become effective any consensual encumbrance or restriction on the ability of such Subsidiary to pay dividends or make any other distributions on its capital stock unless the encumbrance or restriction is (i) in effect at the time of acquisition of such Subsidiary and any Indebtedness of such Subsidiary is non-recourse to the Company or any other Subsidiary or (ii) on terms and conditions no less favorable than terms and conditions pursuant to an agreement in effect on the date of the Senior Debt Indenture (Section 3.7 of the Senior Debt Indenture).

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The Company is a holding company for both energy and real estate subsidiaries. The energy subsidiary's bank revolving credit agreement limits cash advances and dividend payments by the energy subsidiary to the holding company. At October 31, 1992, the energy subsidiary was able to transfer by way of dividends and cash advances a total of approximately \$207 million to the holding company under this agreement and, in addition, could repay advances from the holding company totaling \$257 million at that date. The real estate subsidiary has a bank revolving credit facility that is guaranteed by the holding company. As of October 31, 1992, under the terms of this agreement, the real estate subsidiary was permitted to transfer approximately \$313 million to the holding company by way of dividends and repayment of subordinated indebtedness, subject to compliance with certain other covenants. Advances to the holding company by the real estate subsidiary are not directly restricted.

Limitations on Sale and Leaseback Transactions. The Company may not, and may not permit any Subsidiary to, enter into any arrangement providing for the leasing by the Company or any Subsidiary of any property (except for leases for a term of not more than three years) if the property has been or is to be sold or transferred by the Company or such Subsidiary to the lessor in contemplation of such leasing unless (i) the Company would be permitted under the Senior Debt Indenture to create a lien on the property or (ii) the proceeds from such sale or transfer are applied to the payment or defeasance of Senior Debt of the Company or its Subsidiaries (including, without limitation, any Senior Debt Securities) or are used within 12 months to purchase, acquire or invest in Assets (Section 3.8 of the Senior Debt Indenture).

Senior Debt Securities to be Secured in Certain Events. If, upon any consolidation or merger of the Company, or any sale, lease, exchange or other disposition of all or of substantially all of its property, permitted by the Senior Debt Indenture, any property of the Company or a Subsidiary would become subject to any mortgage or lien (other than those permitted by Section 3.6 of the Senior Debt Indenture), then the Company, at or prior to the consummation of any such transaction, shall by supplemental indenture secure all Senior Debt Securities then outstanding equally and ratably with (or prior to) all Indebtedness secured thereby (Section 9.2 of the Senior Debt Indenture).

PROVISIONS APPLICABLE SOLELY TO SUBORDINATED DEBT SECURITIES

Subordination. The Subordinated Debt Securities will be subordinate and junior in right of payment, to the extent set forth in the Subordinated Debt Indenture, to all Senior Indebtedness (as defined below) of the Company. If the Company should default in the payment of any principal of or premium or interest on any Senior Indebtedness when the same becomes due and payable, whether at maturity or at a date fixed for prepayment or by declaration of acceleration or otherwise, then, upon written notice of such default to the Company by the holders of such Senior Indebtedness or any trustee therefor and subject to certain rights of the Company to dispute such default and subject to proper notification of the Trustee, unless and until such default shall have been cured or waived or shall have ceased to exist, no direct or indirect payment (in cash, property, securities, by set-off or otherwise) will be made or agreed to be made for principal of, premium, if any, or interest, if any, on the Subordinated Debt Securities, or in respect of any redemption, retirement, purchase or other acquisition of the Subordinated Debt Securities other than those made in capital stock of the Company (or cash in lieu of fractional shares thereof) pursuant to any conversion right of the Subordinated Debt Securities or otherwise made in capital stock of the Company (Sections 14.1, 14.4 and 14.5 of the Subordinated Debt Indenture).

"Senior Indebtedness" is defined in Article One of the Subordinated Debt Indenture as Indebtedness (as defined below) of the Company outstanding at any time except (a) any Indebtedness as to which, by the term of the instrument creating or evidencing the same, it is provided that such Indebtedness is not senior in right of payment to the Subordinated Debt Securities, (b) the Subordinated Debt Securities, (c) any Indebtedness of the Company to a wholly-owned Subsidiary of the Company, (d) interest accruing after the filing of a petition initiating certain bankruptcy or insolvency proceedings unless such interest is an allowed claim enforceable against the Company in a

proceeding under federal or state bankruptcy laws and (e) trade accounts payable. "Indebtedness" is defined in Article One of the Subordinated Debt Indenture as, with respect to any Person, (a)(i) the principal of and premium and interest, if any, on indebtedness for money borrowed of such Person

evidenced by bonds, notes, debentures or similar obligations, including any guaranty by such Person of any indebtedness for money borrowed of any other Person, whether any such indebtedness or guaranty is outstanding on the date of the Subordinated Debt Indenture or is thereafter created, assumed or incurred, (ii) the principal of and premium and interest, if any, on indebtedness for money borrowed, incurred, assumed or guaranteed by such Person in connection with the acquisition by it or any of its subsidiaries of any other businesses, properties or other assets and (iii) lease obligations which such Person capitalizes in accordance with Statement of Financial Accounting Standards No. 13 promulgated by the Financial Accounting Standards Board or such other generally accepted accounting principles as may be from time to time in effect, (b) any other indebtedness of such Person, including any indebtedness representing the balance deferred and unpaid of the purchase price of any property or interest therein, including any such balance that constitutes a trade account payable, and any guaranty, endorsement or other contingent obligation of such Person in respect of any indebtedness of another, which is outstanding on the date of the Subordinated Debt Indenture or is thereafter created, assumed or incurred by such Person and (c) any amendments, modifications, refundings, renewals or extensions of any indebtedness or obligation described as Indebtedness in clause (a) or (b) above.

If (i) without the consent of the Company a court shall enter (A) an order for relief with respect to the Company under the United States federal bankruptcy laws, (B) a judgment, order or decree adjudging the Company a bankrupt or insolvent, or (C) an order for relief for reorganization, arrangement, adjustment or composition of or in respect of the Company under the United States federal bankruptcy laws or state insolvency laws or (ii) the Company shall institute proceedings for the entry of an order for relief with respect to the Company under the United States federal bankruptcy laws or for an adjudication of insolvency, or shall consent to the institution of bankruptcy or insolvency proceedings against it, or shall file a petition seeking, or seek or consent to reorganization, arrangement, composition or similar relief under any applicable law, or shall consent to the filing of such petition or to the appointment of a receiver, custodian, liquidator, assignee, trustee, sequestrator or similar official in respect of the Company or of substantially all of its property, or the Company shall make a general assignment for the benefit of creditors, then all Senior Indebtedness (including any interest thereon accruing after the commencement of any such proceedings) will first be paid in full before any payment or distribution, whether in cash, securities or other property, is made on account of the principal of, premium, if any, or interest, if any, on the Subordinated Debt Securities. In such event, any payment or distribution on account of the principal of, premium, if any, or interest, if any, on the Subordinated Debt Securities, whether in cash, securities or other property (other than securities of the Company or any other corporation provided for by a plan of reorganization or readjustment the payment of which is subordinate, at least to the extent provided in the subordination provisions with respect to the Subordinated Debt Securities, to the payment of all Senior Indebtedness then outstanding and to any securities issued in respect thereof under any such plan of reorganization or readjustment), which would otherwise (but for the subordination provisions) be payable or deliverable in respect of the Subordinated Debt Securities will be paid or delivered directly to the holders of Senior Indebtedness in accordance with the priorities then existing among such holders until all Senior Indebtedness (including any interest thereon accruing after the commencement of any such proceedings) has been paid in full. If any payment or distribution on account of the principal of, premium, if any, or interest, if any, on the Subordinated Debt Securities of any character, whether in cash, securities or other property (other than securities of the Company or any other corporation provided for by a plan of reorganization or readjustment the payment of which is subordinate, at least to the extent provided in the subordination provisions with respect to the Subordinated Debt Securities, to the payment of all Senior Indebtedness then outstanding and to any securities issued in respect thereof under any such plan of reorganization or readjustment), shall be received by the Trustee or any

holder of any Subordinated Debt Securities in contravention of any of the terms of the

Subordinated Debt Indenture, such payment or distribution will be received in trust for the benefit of, and will be paid over or delivered and transferred to, the holders of the Senior Indebtedness then outstanding in accordance with the priorities then existing among such holders for application to the payment of all Senior Indebtedness remaining unpaid, to the extent necessary to pay all such Senior Indebtedness in full. In the event of any such proceeding, after payment in full of all sums owing with respect to Senior Indebtedness, the holders of Subordinated Debt Securities, together with the holders of any obligations of the Company ranking on a parity with the Subordinated Debt Securities, will be entitled to be repaid from the remaining assets of the Company the amounts at that time due and owing on account of unpaid principal of or any premium or any interest on the Subordinated Debt Securities and such other obligations before any payment or other distribution, whether in cash, property or otherwise, shall be made on account of any capital stock or obligations of the Company ranking junior to the Subordinated Debt Securities and such other obligations (Section 14.1 of the Subordinated Debt Indenture).

By reason of such subordination, in the event of the insolvency of the Company, holders of Senior Indebtedness and holders of other obligations of the Company that are not subordinated to Senior Indebtedness may receive more, ratably, than holders of the Subordinated Debt Securities. Such subordination will not prevent the occurrence of an Event of Default or limit the right of acceleration in respect of the Subordinated Debt Securities.

Conversion. The Subordinated Debt Indenture may provide for a right of conversion of Subordinated Debt Securities into Common Stock (or cash in lieu thereof) (Sections 2.3 and 14.1 of the Subordinated Debt Indenture). The following provisions will apply to Debt Securities that are convertible Subordinated Debt Securities unless otherwise provided in the Prospectus Supplement for such Debt Securities.

The holder of any convertible Subordinated Debt Securities will have the right exercisable at any time prior to maturity, unless previously redeemed or otherwise purchased by the Company, to convert such Subordinated Debt Securities into shares of Common Stock at the conversion price or conversion rate set forth in the Prospectus Supplement, subject to adjustment (Section 13.2 of the Subordinated Debt Indenture). The holder of convertible Subordinated Debt Securities may convert any portion thereof which is \$1,000 in principal amount or any integral multiple thereof (Section 13.2 of the Subordinated Debt Indenture).

In certain events, the conversion price or conversion rate will be subject to adjustment as set forth in the Subordinated Debt Indenture. Such events include the issuance of shares of Common Stock of the Company as a dividend or distribution on the Common Stock; subdivisions, combinations and reclassifications of the Common Stock; the issuance to all holders of Common Stock of rights or warrants entitling the holders thereof (for a period not exceeding 45 days) to subscribe for or purchase shares of Common Stock at a price per share less than the then current market price per share of Common Stock (as determined pursuant to the Subordinated Debt Indenture); and the distribution to substantially all holders of Common Stock of evidences of indebtedness, equity securities (including equity interests in the Company's Subsidiaries) other than Common Stock, or other assets (excluding cash dividends paid from surplus) or subscription rights or warrants (other than those referred to above). No adjustment of the conversion price or conversion rate will be required unless an adjustment would require a cumulative increase or decrease of

at least 1% in such price or rate (Section 13.4 of the Subordinated Debt Indenture). The Company has been advised by its counsel, Vinson & Elkins, L.L.P., that certain adjustments in the conversion price or conversion rate in accordance with the foregoing provisions may result in constructive distributions to either holders of the Subordinated Debt Securities or holders of Common Stock which would be taxable pursuant to Treasury Regulations issued under section 305 of the Internal Revenue Code of 1986. The amount of any such taxable constructive distribution will be the fair market value of the Common Stock which is treated as having been constructively received, such value being determined as of the time the adjustment resulting in the constructive distribution is made.

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Fractional shares of Common Stock will not be issued upon conversion, but, in lieu thereof, the Company will pay a cash adjustment based on the then current market price for the Common Stock (Section 13.3 of the Subordinated Debt Indenture). Upon conversion, no adjustments will be made for accrued interest or dividends, and therefore convertible Subordinated Debt Securities surrendered for conversion between the record date for an interest payment and the interest payment date (except convertible Subordinated Debt Securities called for redemption on a redemption date during such period) must be accompanied by payment of an amount equal to the interest thereon which the registered holder is to receive (Sections 13.4 and 13.2 of the Subordinated Debt Indenture).

In the case of any consolidation or merger of the Company (with certain exceptions) or any sale, lease, exchange or other disposition of all or substantially all the property and assets of the Company, the holder of convertible Subordinated Debt Securities, after the consolidation, merger, sale, lease, exchange or other disposition, will have the right to convert such convertible Subordinated Debt Securities only into the kind and amount of securities, cash and other property which the holder would have been entitled to receive upon or in connection with such consolidation, merger, sale, lease, exchange or other disposition, if the holder had held the Common Stock issuable upon conversion of such convertible Subordinated Debt Securities immediately prior to such consolidation, merger, sale, lease, exchange or other disposition (Section 13.5 of the Subordinated Debt Indenture).

CONCERNING THE TRUSTEE

Pursuant to the Trust Indenture Act of 1939, as amended, should a default occur with respect to either the Senior Debt Securities or the Subordinated Debt Securities, NationsBank of Texas, National Association would be required to resign as Trustee under one of the Indentures within 90 days of such default unless such default were cured, duly waived or otherwise eliminated.

NationsBank of Texas, National Association, the Trustee under both Indentures, is a depository for funds of, makes loans to and performs other services for the Company in the normal course of business.

PLAN OF DISTRIBUTION

GENERAL

The Company may sell Debt Securities to or through underwriters or dealers, and also may sell Debt Securities directly to one or more other purchasers or through agents. The Prospectus Supplement sets forth the names of any underwriters or agents involved in the sale of the Offered Debt Securities and any applicable commissions or discounts.

Underwriters, dealers or agents may offer and sell the Offered Debt

Securities at a fixed price or prices, which may be changed, or from time to time at market prices prevailing at the time of sale, at prices related to such prevailing market prices or at negotiated prices. In connection with the sale of the Debt Securities, underwriters or agents may be deemed to have received compensation from the Company in the form of underwriting discounts or commissions and may also receive commissions from purchasers of the Debt Securities for whom they may act as agent. Underwriters or agents may sell the Debt Securities to or through dealers, and such dealers may receive compensation in the form of discounts, concessions or commissions from the underwriters or commissions from the purchasers for whom they may act as agent.

The Debt Securities, when first issued, will have no established trading market. Any underwriters or agents to or through whom Debt Securities are sold by the Company for public offering and sale may make a market in such Debt Securities, but such underwriters or agents will not be obligated to do so and may discontinue any market making at any time without notice. No assurance can be given as to the liquidity of the trading market for any Debt Securities.

Any underwriters, dealers or agents participating in the distribution of the Debt Securities may be deemed to be underwriters, and any discounts and commissions received by them and any profit

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realized by them on resale of the Debt Securities may be deemed to be underwriting discounts and commissions under the 1933 Act. Underwriters, dealers or agents may be entitled, under agreements entered into with the Company, to indemnification against or contribution toward certain civil liabilities, including liabilities under the 1933 Act.

DELAYED DELIVERY ARRANGEMENTS

If so indicated in the Prospectus Supplement, the Company will authorize underwriters or other persons acting as the Company's agents to solicit offers by certain institutions to purchase Debt Securities from the Company pursuant to contracts providing for payment and delivery on a future date. Institutions with which such contracts may be made include commercial and savings banks, insurance companies, pension funds, investment companies, educational and charitable institutions and others, but in all cases will be subject to the approval of the Company. The obligations of any purchaser under any such contract will be subject to the condition that the purchase of the Debt Securities shall not at the time of delivery be prohibited under the laws of the jurisdiction to which such purchaser is subject. The underwriters and such agents will not have any responsibility in respect of the validity or performance of such contracts.

LEGAL MATTERS

The legality of the Debt Securities, as well as certain tax matters in connection therewith, are being passed upon for the Company by Vinson & Elkins L.L.P., Houston, Texas. Certain legal matters in connection with the Debt Securities may be passed upon for any underwriters, dealers or agents by Fulbright & Jaworski L.L.P., Houston, Texas.

EXPERTS

The financial statements and schedules incorporated by reference in this Prospectus and elsewhere in the Registration Statement to the extent and for the periods indicated in their reports have been audited by Arthur Andersen & Co., independent public accountants, and are incorporated by reference herein in reliance upon the authority of said firm as experts in accounting and auditing in giving said reports.

 NO DEALER, SALESMAN OR OTHER INDIVIDUAL HAS BEEN AUTHORIZED TO GIVE ANY INFORMATION OR TO MAKE ANY REPRESENTATION NOT CONTAINED IN THIS PROSPECTUS SUPPLEMENT OR THE ACCOMPANYING PROSPECTUS AND, IF GIVEN OR MADE, SUCH INFORMATION OR REPRESENTATION MUST NOT BE RELIED UPON AS HAVING BEEN AUTHORIZED BY THE COMPANY OR ANY UNDERWRITER. NEITHER THIS PROSPECTUS SUPPLEMENT NOR THE ACCOMPANYING PROSPECTUS CONSTITUTES AN OFFER TO SELL OR A SOLICITATION OF AN OFFER TO BUY ANY OF THE SECURITIES OFFERED HEREBY IN ANY JURISDICTION TO ANY PERSON TO WHOM IT IS UNLAWFUL TO MAKE SUCH OFFER IN SUCH JURISDICTION. NEITHER THE DELIVERY OF THIS PROSPECTUS SUPPLEMENT OR THE ACCOMPANYING PROSPECTUS NOR ANY SALE MADE HEREUNDER SHALL, UNDER ANY CIRCUMSTANCES, CREATE ANY IMPLICATION THAT THE INFORMATION HEREIN IS CORRECT AS OF ANY TIME SUBSEQUENT TO THE DATE HEREOF OR THAT THERE HAS BEEN NO CHANGE IN THE AFFAIRS OF THE COMPANY SINCE SUCH DATE.

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(LOGO)

Mitchell Energy &

Development Corp.

\$250,000,000

6 3/4% Senior Notes Due 2004

 PROSPECTUS SUPPLEMENT

CS First Boston

Goldman, Sachs & Co.

