RAM ENERGY RESOURCES INC
Form 10-K
March 11, 2010
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15 (d)**

OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2009

OR

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF**

THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from ________ to ________

Commission File Number: 000-50682

RAM Energy Resources, Inc.

(Exact name of registrant as specified in its charter)

Delaware	**20-0700684**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification Number)**
5100 East Skelly Drive, Suite 650	
Tulsa, Oklahoma	**74135**
(Address of principal executive office)	**(Zip Code)**

(918) 663-2800

(Registrant s telephone number, including area code)

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

Common Stock, $.0001 par value

Warrants to Purchase

Common Stock

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

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ¨ No þ

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes ¨ No þ

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes þ No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ¨ No ¨

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer ¨	Accelerated Filer ¨
Non-Accelerated Filer ¨	Smaller reporting company þ

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes ¨ No þ

As of March 10, 2010, there were outstanding 77,966,601 shares of registrant s $.0001 par value common stock. Based upon the closing price for the registrant s common stock on the NASDAQ Capital Market as of June 30, 2009, the aggregate market value of shares of common stock held by non-affiliates of the registrant was approximately $30.7 million. Documents incorporated by reference: The information called for by Part III is incorporated by reference to the definitive proxy statement for the Registrant s 2010 annual meeting of stockholders, which will be filed with the Securities and Exchange Commission, or SEC, no later than 120 days after December 31, 2009.

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RAM ENERGY RESOURCES, INC.

ANNUAL REPORT ON FORM 10-K

FOR THE YEAR ENDED DECEMBER 31, 2009

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PART I

Item 1. *Business*
Overview

We have included definitions of technical terms important to an understanding of our business under Glossary of Oil and Natural Gas Terms.

Unless the context otherwise requires, all references in this report to RAM Energy Resources, our, us, and we refer to RAM Energy Resources, Inc. (formerly known as Tremisis Energy Acquisition Corporation) and its subsidiaries, as a combined entity. All references in this report to RAM Energy refer to our wholly owned subsidiary RAM Energy, Inc. and its subsidiaries, and to Ascent or Ascent Energy refer to Ascent Energy Inc. and its subsidiaries as and when acquired by us in November 2007. Unless the context otherwise requires, the information contained in this report gives effect to the May 8, 2006 consummation of the merger of RAM Energy Acquisition, Inc., our wholly owned subsidiary, with and into RAM Energy, and the change of our name from Tremisis Energy Acquisition Corporation to RAM Energy Resources, Inc., which transactions are collectively called the RAM Energy acquisition, and to our November 29, 2007 acquisition of Ascent Energy, which we refer to as the Ascent acquisition. See Item 2. Properties Ascent Acquisition for a discussion of the merger. As used in this report, Modified EBITDA refers to net income (loss) before interest expense, amortization and depreciation, accretion, income taxes, share-based compensation, impairment charges, settlement charges and unrealized gains (losses) on derivatives.

We were incorporated in Delaware on February 5, 2004. Our operations are encompassed in our wholly owned primary subsidiaries, RAM Energy and RAM Operating Company, Inc., successor by merger to Ascent Energy, and their respective subsidiaries. Our executive offices are located at 5100 East Skelly Drive, Suite 650, Tulsa, Oklahoma 74135 (918) 663-2800. We also have offices in Plano and Houston, Texas.

We are an independent oil and natural gas company engaged in the acquisition, development, exploitation, exploration and production of oil and natural gas properties, primarily in Texas, Louisiana and Oklahoma. Our producing properties are located in highly prolific basins with long histories of oil and natural gas operations. We have been active in our core producing areas of Texas, Oklahoma and Louisiana since our inception in 1987 and have grown through a balanced strategy of acquisitions, development and exploratory drilling. We have completed over 24 acquisitions of producing oil and natural gas properties and related assets for an aggregate purchase price in excess of $735.0 million. On November 29, 2007, we acquired Ascent Energy in a cash and stock transaction valued at $303.8 million. Through December 31, 2009, we have drilled or participated in the drilling of over 750 oil and natural gas wells, approximately 94% of which were successfully completed and produced hydrocarbons in commercial quantities. Our management team has extensive technical and operating expertise in all areas of our geographic focus.

Our oil and natural gas assets are characterized by a combination of developing and mature reserves and properties. We have mature oil and mature natural gas reserves located primarily in Jack, Wise, Wichita and Wilbarger Counties, Texas, Pontotoc County, Oklahoma, and in several parishes in Louisiana. We have developing reserves and production in two main onshore locations:

- South Texas Starr, Wharton and Duval Counties, Texas; and

- North Texas Barnett Shale Our Tier 1 Barnett Shale acreage is located in Jack and Wise Counties, Texas, where we own interests in approximately 27,018 gross (6,594 net) acres. Our Tier 2 Barnett Shale acreage is located in Bosque and Hamilton Counties, Texas, where we own interests in approximately 1,079 gross (833 net) acres.

As of December 31, 2009, our estimated net proved reserves were 33.9 MMBoe, of which approximately 41% were crude oil, 44% were natural gas, and 15% were natural gas liquids, or NGLs. The PV-10 Value of our proved reserves was approximately $336.1 million based on benchmark prices of $61.18 per Bbl of oil and $3.87 per Mcf of natural gas. The benchmark prices reflect the unweighted arithmetic average of the first-day-of-the-month price for oil and natural gas during each month of 2009, as required by SEC Release No. 33-8995, *Modernization of Oil and Gas Reporting,* effective December 31, 2009. For more information regarding our PV-10 Value, including a reconciliation to the standardized measure of discounted future net cash flows relating to our estimated proved reserves, see Item 2. *Properties Oil and Natural Gas Reserves.* At December 31, 2009, our proved developed reserves comprised 57% of our total proved reserves.

At December 31, 2009, we owned interests in approximately 4,000 wells and were the operator of leases upon which approximately 3,000 of these wells are located. The PV-10 Value attributable to our interests in the properties we operate represented approximately 91% of our aggregate PV-10 Value as of December 31, 2009. We also own a drilling rig, various gathering systems, a natural gas processing plant, service rigs and a supply company that service our properties.

During the twelve months ended December 31, 2009, we drilled or participated in the drilling of 49 wells on our oil and natural gas properties, 45 of which were successfully completed as producing wells, one of which was a dry hole well and three of which were either drilling or waiting to be completed at the end of that period. For the twelve months ended December 31, 2009, we generated Modified EBITDA of $58.3 million from production averaging nearly 7,000 Boe per day. For more information regarding our Modified EBITDA, including a reconciliation to our net income (loss), see Item 6. *Selected Financial Data.*

Our Business Strategy and Strengths

Our primary objective is to enhance stockholder value by increasing our net asset value, net reserves and cash flow per share through acquisitions, development, exploitation, exploration and divestiture of oil and natural gas properties. We intend to follow a balanced risk strategy by allocating capital expenditures in a combination of lower risk development and exploitation activities and higher potential exploration prospects. We intend to pursue acquisitions during periods of attractive acquisition values and emphasize development of our reserves during periods of higher acquisition values. Key elements of our business strategy include the following:

Maintain a policy of capital programs funded through operating cash flow. In this current period of financial industry uncertainty leading to more restrictive capital markets, we believe that maintaining ample liquidity for capital drilling programs to be a critical component of our strategy. Our 2010 capital budget of $50.0 million is expected to be fully funded through operating cash flows.

Concentrate on Our Existing Core Areas. We intend to focus a significant portion of our growth efforts in our existing core areas in Texas, Oklahoma and Louisiana. Our oil and natural gas properties in our core areas are characterized by long reserve lives and production histories in multiple oil and natural gas horizons. We believe our focus on and experience in our core areas may expose us to acquisition opportunities which may not be available to the entire industry.

Develop and Exploit Existing Oil and Natural Gas Properties. Since inception our principal growth strategy has been to develop and exploit our acquired and discovered properties until we determine that it is no longer economically attractive to do so. As of December 31, 2009, we have identified over 300 development and extension drilling projects and more than 140 recompletion/workover projects on our existing properties and wells.

Continue to Evaluate Our North Texas Barnett Shale Development. Due to the high degree of commercial success in the north Texas Barnett Shale by the oil and natural gas industry, we expect to continue drilling in our Tier 1 north Texas Barnett Shale properties as commodity prices warrant. We have drilled 20 gross (7 net) wells to date with a 100% success rate**.** One gross (0.04 net) additional well was in the process of completing at year end.

Complete Selective Acquisitions and Divestitures. We seek to acquire producing oil and natural gas properties, primarily in our core areas. Our experienced senior management team has developed our

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acquisition criteria designed to increase reserves, production and cash flow per share on an accretive basis. We will seek acquisitions of producing properties that will provide us with opportunities for reserve additions and increased cash flow through operating improvements, production enhancement and additional development and exploratory prospect generation opportunities. In addition, from time to time, we may engage in strategic divestitures when we believe our capital may be redeployed to higher return projects.

Maintain Emphasis on Exploration Activity to Build an Inventory of Opportunities. We are committed to maintaining our emphasis on exploration activities within the context of our balanced risk objectives. We will continue to acquire, review and analyze 3-D seismic data to generate exploratory prospects. Our exploration efforts utilize available geological and geophysical technologies to reduce our exploration and drilling risks and, therefore, maximize our probability of success. We believe these opportunities will provide a basis for structured growth as commodity prices improve in the future.

We believe that the following strengths complement our business strategy:

Management Experience and Technical Expertise. Our key management and technical staff possess an average of 30 years of experience in the oil and natural gas industry, a substantial portion of which has been focused on operations in our core areas. We believe that the knowledge, experience and expertise of our staff will continue to support our efforts to enhance stockholder value.

Balanced Oil and Natural Gas Production. At year-end 2009, approximately 41% of our estimated proved reserves were oil, 44% were natural gas and 15% were NGLs. We believe this balanced commodity mix, combined with our prudent use of derivative contracts, will provide sufficient diversification of sources of cash flow and will lessen the risk of significant and sudden decreases in revenue from localized or short-term commodity price movements.

Operating Efficiency and Control. We currently operate wells that represent approximately 91% of our aggregate PV-10 Value at December 31, 2009. Our high degree of operating control allows us to control capital allocation and expenses and the timing of additional development and exploitation of our producing properties.

Drilling Expertise and Success. Our management and technical staff have a long history of successfully drilling oil and natural gas wells. Through December 31, 2009, we drilled or have participated in the drilling of over 750 oil and natural gas wells with over 94% success rate. We expect to continue to grow by utilizing our drilling expertise and developing and finding additional reserves, although our success rate may decline as we drill more exploratory wells.

Ownership and Control of Service and Supply Assets. In our Electra/Burkburnett mature oil field, we own and control service and supply assets, including a drilling rig, service rigs, a supply company, gathering systems and other related assets. We believe that ownership and use of these assets for our own account provides us with a significant competitive advantage with respect to availability, lead-time and cost of these services.

Insider Ownership. At March 11, 2010 our directors, executive officers and our two principal stockholders beneficially owned approximately 52% of our outstanding shares of common stock, providing a strong alignment of interest between management, the board of directors and our outside stockholders.

Glossary of Oil and Natural Gas Terms

The definitions set forth below apply to the indicated terms as used in this report. All volumes of natural gas referred to herein are stated at the legal pressure base of the state or area where the reserves exist and at 60 degrees Fahrenheit and in most instances are rounded to the nearest major multiple.

Bbl. One stock tank barrel, or 42 U.S. gallons liquid volume, used herein in reference to crude oil or other liquid hydrocarbons.

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Bcf. One billion cubic feet of natural gas.

Boe. Barrels of oil equivalent in which six Mcf of natural gas equals one Bbl of oil.

Btu. British thermal unit, which is the heat required to raise the temperature of a one-pound mass of water from 58.5 to 59.5 degrees Fahrenheit.

Completion. The installation of permanent equipment for the production of oil or natural gas or, in the case of a dry hole, the reporting of abandonment to the appropriate agency.

Development well. A well drilled within the proved areas of an oil or natural gas reservoir to the depth of a stratigraphic horizon known to be productive.

Dry hole or well. A well found to be incapable of producing hydrocarbons in sufficient quantities such that proceeds from the sale of such production exceed production expenses and taxes.

Exploratory well. A well drilled to find a new field or to find a new reservoir in a field previously found to be productive of oil or natural gas in another reservoir.

Field. An area consisting of a single reservoir or multiple reservoirs all grouped on or related to the same individual geological structural feature and/or stratigraphic condition.

Gross acres or gross wells. The total acres or wells, as the case may be, in which a working interest is owned.

MBbls. One thousand barrels of crude oil or other liquid hydrocarbons.

MBoe. One thousand Boe.

MMBoe. One million Boe.

Mcf. One thousand cubic feet of natural gas.

MMBbls. One million barrels of crude oil or other liquid hydrocarbons.

MMBtu. One million Btus.

MMcf. One million cubic feet of natural gas.

Net acres or net wells. The sum of the fractional working interests owned in gross acres or gross wells, as the case may be.

Operator. The individual or company responsible for the exploration, exploitation and production of an oil or natural gas well or lease.

PV-10 Value. When used with respect to oil and natural gas reserves, the estimated future gross revenues to be generated from the production of proved reserves, net of estimated production and future development costs, using the prices provided in this report and costs in effect as of the date indicated, without giving effect to non-property related expenses such as general and administrative expenses, debt service and future income tax expenses or to depreciation, depletion and amortization, discounted using an annual discount rate of 10%.

Productive well. A well that is found to be capable of producing hydrocarbons in sufficient quantities such that proceeds from the sale of such production exceed production expenses and taxes.

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Proved developed producing reserves. Proved developed reserves that are expected to be recovered from completion intervals currently open in existing wells and capable of production.

Proved developed reserves. Proved reserves that are expected to be recovered from existing wellbores, whether or not currently producing, without drilling additional wells. Production of such reserves may require a recompletion.

Proved reserves. Those quantities of oil and natural gas, which, by analysis of geoscience and engineering data, can be estimated with reasonable certainty to be economically producible from a given date forward, from known reservoirs, and under existing economic conditions, operating methods, and government regulations prior to the time at which contracts providing the right to operate expire, unless evidence indicates that renewal is reasonably certain, regardless of whether deterministic or probabilistic methods are used for estimation.

Proved undeveloped location. A site on which a development well can be drilled consistent with spacing rules for purposes of recovering proved undeveloped reserves.

Proved undeveloped reserves. Proved reserves that are expected to be recovered from new wells on undrilled acreage or from existing wells where a relatively major expenditure is required for recompletion.

Recompletion. The completion for production of an existing wellbore in another formation from that in which the well has been previously completed.

Reserve life. A ratio determined by dividing our estimated existing reserves determined as of the stated measurement date by production from such reserves for the prior twelve month period.

Reservoir. A porous and permeable underground formation containing a natural accumulation of producible oil and/or natural gas that is confined by impermeable rock or water barriers and is individual and separate from other reservoirs.

3-D seismic. The method by which a three dimensional image of the earth s subsurface is created through the interpretation of reflection seismic data collected over a surface grid. 3-D seismic surveys allow for a more detailed understanding of the subsurface than do conventional surveys and contribute significantly to field appraisal, exploitation and production.

Undeveloped acreage. Lease acreage on which wells have not been drilled or completed to a point that would permit the production of commercial quantities of oil and natural gas regardless of whether such acreage contains proved reserves.

Working interest. The operating interest that gives the owner the right to drill, produce and conduct operating activities on the property and a share of production.

Workover. Operations on a producing well to restore or increase production.

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FORWARD LOOKING STATEMENTS

This report, including information included in, or incorporated by reference from future filings by us with the SEC, as well as information contained in written material, press releases and oral statements issued by us or on our behalf, contain, or may contain, certain statements that are forward-looking statements within the meaning of federal securities laws that are subject to a number of risks and uncertainties, many of which are beyond our control. This report modifies and supersedes documents filed by us before this report. In addition, certain information that we file with the SEC in the future will automatically update and supersede information contain in this report. All statements, other than statements of historical fact, included or incorporated by reference in this report, regarding our strategy, future operations, financial position, estimated revenues and losses, projected costs, prospects, plans and objectives of management are forward-looking statements. When used in this report, the words could, believe, anticipate, intend, estimate, expect, project and similar expressions are intended to identify forwa statements, although not all forward-looking statements contain such identifying words.

Forward-looking statements may include statements about our:

- business strategy;
- reserves;
- technology;
- financial strategy;
- oil and natural gas realized prices;
- timing and amount of future production of oil and natural gas;
- the amount, nature and timing of capital expenditures;
- drilling of wells;
- competition and government regulations;
- marketing of oil and natural gas;
- property acquisitions;
- costs of developing our properties and conducting other operations;

general economic conditions;

uncertainty regarding our future operating results; and

plans, objectives, expectations and intentions contained in this report that are not historical.

All forward-looking statements speak only as of the date of this report, and, except as required by law, we do not intend to update any of these forward-looking statements to reflect changes in events or circumstances that arise after the date of this report. You should not place undue reliance on these forward-looking statements. Although we believe that our plans, intentions and expectations reflected in or suggested by the forward-looking statements we make in this report are reasonable, we can give no assurance that these plans, intentions or expectations will be achieved. We disclose important factors that could cause our actual results to differ materially from our expectations under *Risk Factors* and *Management s Discussion and Analysis of Financial Condition and Results of Operations* and elsewhere in this report. These cautionary statements qualify all forward-looking statements attributable to us or persons acting on our behalf. The market data and certain other statistical information used throughout this report are based on independent industry publications, government publications or other published independent sources. Some data are also based on our good faith estimates. Although we believe these third-party sources are reliable, we have not independently verified the information and cannot guarantee its accuracy and completeness.

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Item 1A. ***Risk Factors***
We face a variety of risks that are inherent in our business and our industry, including operational, legal and regulatory risks. The following are the known, material risks that could affect our business and our results of operations.

Risks Related to Our Business

The volatility of oil and natural gas prices greatly affects our profitability.

Our revenues, operating results, profitability, future rate of growth and the carrying value of our oil and natural gas properties depend primarily upon the prevailing prices for oil and natural gas. Historically, oil and natural gas prices have been volatile and are subject to fluctuations in response to changes in supply and demand, market uncertainty and a variety of additional factors that are beyond our control. Any substantial decline in the price of oil and natural gas will likely have a material adverse effect on our operations, financial condition and level of expenditures for the development of our oil and natural gas reserves, and may result in further write-downs of the carrying values of our oil and natural gas properties as a result of our use of the full cost accounting method.

Wide fluctuations in oil and natural gas prices may result from relatively minor changes in the supply of and demand for oil and natural gas, market uncertainty and other factors that are beyond our control, including:

- worldwide and domestic supplies of oil and natural gas;
- speculation in the price of commodities in the commodity futures market;
- weather conditions;
- the level of consumer demand;
- the price and availability of alternative fuels;
- the availability of drilling rigs and completion equipment;
- the availability of pipeline capacity;
- the price and volume of foreign imports;
- domestic and foreign governmental regulations and taxes;
- the ability of the members of the Organization of Petroleum Exporting Countries to agree to and maintain oil price and production controls;
- political instability or armed conflict in oil-producing regions; and

the overall economic environment.

These factors and the volatility of the energy markets make it extremely difficult to predict future oil and natural gas price movements with any certainty.

Oil and natural gas prices could decline to a point where it would be uneconomic for us to sell our oil and natural gas at those prices, which could result in a decision to shut in production until the prices increase.

Our oil and natural gas properties will become uneconomic when oil and natural prices decline to the point at which our revenues are insufficient to recover our lifting costs. For example, in 2009, our average lifting costs were approximately $16.82 per Boe, or $2.80 per Mcf. A market price decline below that price would result in our having to shut in certain production until prices increase.

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A continued decline of oil and natural gas prices or a prolonged period of reduced oil and natural gas prices could result in a decrease in our exploration and development expenditures, which could negatively impact our future production.

We currently expect to have sufficient cash flows from operations to meet our projected non-acquisition capital expenditure needs for 2010. However, if oil and natural gas prices decline or reduce to lower levels for a prolonged period of time, we may be unable to continue to fund capital expenditures at historical levels due to the decreased cash flows that will result from such reduced oil and natural gas prices. Additionally, a continuing decline in oil and natural gas prices or a prolonged period of lower oil and natural gas prices could result in a reduction of our borrowing base under our current credit facility, which will further reduce the availability of cash to fund our operations. As a result, we may have to reduce our capital expenditures in future years. A decrease in our capital expenditures will likely result in a decrease in our production levels.

Continued weakness in economic conditions or uncertainty in financial markets may have material adverse impacts on our business that we cannot predict.

U.S. and global economies and financial systems have recently experienced turmoil and upheaval characterized by extreme volatility and declines in prices of securities, diminished liquidity and credit availability, inability to access capital markets, the bankruptcy, failure, collapse or sale of financial institutions, increased levels of unemployment, and an unprecedented level of intervention by the U.S. federal government and other governments. Although some portions of the economy appear to have stabilized and there have been signs of the beginning of recovery, the extent and timing of a recovery, and whether it can be sustained, are uncertain. Continued weakness in the U.S. or global economies could materially adversely affect our business and financial condition. For example:

- the demand for oil and natural gas in the U.S. has declined and may remain at low levels or further decline if economic conditions remain weak, and continue to negatively impact our revenues, margins, profitability, operating cash flows, liquidity and financial condition;
- the tightening of credit or lack of credit availability to our customers could adversely affect our ability to collect our trade receivables;
- our ability to access the capital markets may be restricted at a time when we would like, or need, to raise capital for our business, including for exploration and/or development of our reserves; and
- our commodity hedging arrangements could become ineffective if our counterparties are unable to perform their obligations or seek bankruptcy protection.

Oil and natural gas prices have declined significantly in 2009 as compared to 2008 and may continue to decline. Our profitability is directly related to the prices we receive for the sale of the oil and natural gas we produce. In early July 2008, commodity prices reached record levels in excess of $140.00 per barrel for crude oil and $13.00 per Mcf for natural gas. The 2008 year ended with market prices dropping to $44.00 for crude oil and $4.00 for natural gas, a 69% to 73% decline from the earlier highs. As of December 31, 2009, market prices were in the range of $72.00 for crude oil and $4.00 for natural gas.

Our success depends on acquiring or finding additional reserves.

Our future success depends upon our ability to find, develop or acquire additional oil and natural gas reserves that are economically recoverable. Our proved reserves will generally decline as reserves are produced, except to the extent that we conduct successful exploration or development activities or acquire properties containing proved reserves, or both. To increase reserves and production, we must commence exploratory drilling, undertake other replacement activities or utilize third parties to accomplish these activities. There can be no assurance, however, that we will have sufficient resources to undertake these actions, that our exploratory

projects or other replacement activities will result in significant additional reserves or that we will succeed in

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drilling productive wells at low finding and development costs. Furthermore, although our revenues may increase if prevailing oil and natural gas prices increase significantly, our finding costs for additional reserves could also increase.

In accordance with customary industry practice, we rely in part on independent third party service providers to provide most of the services necessary to drill new wells, including drilling rigs and related equipment and services, horizontal drilling equipment and services, trucking services, tubular goods, fracing and completion services and production equipment. The oil and natural gas industry has experienced significant volatility in cost for these services in recent years and this trend is expected to continue into the future. Any future cost increases could significantly increase our development costs and decrease the return possible from drilling and development activities, and possibly render the development of certain proved undeveloped reserves uneconomical.

The actual quantities and present values of our proved oil and natural gas reserves may be less than we have estimated.

This report and other SEC filings by us contain estimates of our proved oil and natural gas reserves and the estimated future net revenues from those reserves. These estimates are based on various assumptions, including assumptions required by the SEC relating to oil and natural gas prices, drilling and operating expenses, capital expenditures, taxes, timing of operations, and availability of funds. The process of estimating oil and natural gas reserves is complex. The process involves significant decisions and assumptions in the evaluation of available geological, geophysical, engineering, and economic data for each reservoir. These estimates are dependent on many variables, and therefore changes often occur as these variables evolve. Therefore, these estimates are inherently imprecise.

Actual future production, oil and natural gas prices, revenues, production taxes, development expenditures, operating expenses, and quantities of producible oil and natural gas reserves will most likely vary from those estimated. Any significant variance could materially affect the estimated quantities of and present values related to proved reserves disclosed by us, and the actual quantities and present values may be less than we have previously estimated. In addition, we may adjust estimates of proved reserves to reflect production history, results of exploration and development activity, prevailing oil and natural gas prices, costs to develop and operate properties, and other factors, many of which are beyond our control. Our properties may also be susceptible to hydrocarbon drainage from production on adjacent properties.

As of December 31, 2009, approximately 43%, or 14.6 MMBoe, of our estimated proved reserves were proved undeveloped, and approximately 5%, or 1.7 MMBoe, were proved developed non-producing. In order to develop our proved undeveloped reserves, we estimate approximately $135.0 million of capital expenditures would be required. Production revenues from proved developed non-producing reserves will not be realized until sometime in the future and after some investment of capital. In order to bring production on-line for our proved developed non-producing reserves, we estimate capital expenditures of approximately $6.4 million will be required. The estimated abandonment costs associated with our Louisiana production facilities make up the balance of our anticipated capital expenditures. Although we have estimated our reserves and the costs associated with these reserves in accordance with industry standards, estimated costs may not be accurate, development may not occur as scheduled and actual results may not occur as estimated.

You should not assume that the PV-10 value and standardized measure of discounted future net cash flows included in this report represent the current market value of our estimated proved oil and natural gas reserves. Management has based the estimated discounted future net cash flows from proved reserves on price and cost assumptions required by the SEC, whereas actual future prices and costs may be materially higher or lower. For example, our proved reserves and PV-10 Values as of December 31, 2009, were estimated using the 12-month unweighted arithmetic average of the first-day-of-the-month price of $61.18 per Bbl of oil (NYMEX West Texas Intermediate settle price) and $3.87 per Mcf of natural gas (Platts Henry Hub spot price). We then adjust these base prices to reflect appropriate basis, quality, and location differentials over that period in estimating our proved reserves. During 2009, our monthly average realized oil prices, excluding the effect of hedging, were as high as $75.28 per Bbl and as low as $33.18 per Bbl. For the same period, our monthly average realized natural gas prices before hedging were as high as $5.23 per Mcf and as low as $2.66 per Mcf. Many other factors will affect actual future net cash flows, including:

- Amount and timing of actual production;
- Supply and demand for oil and natural gas;
- Curtailments or increases in consumption by oil purchasers and natural gas pipelines; and
- Changes in government regulations or taxes.

The timing of production from oil and natural gas properties and of related expenses affects the timing of actual future net cash flows from proved reserves, and thus their actual present value. Our actual future net cash flows could be less than the estimated future net cash flows for purposes of computing PV-10 Values. In addition, the ten percent discount factor required by the SEC to be used to calculate PV-10 Values for reporting purposes is not necessarily the most appropriate discount factor given actual interest rates, costs of capital, and other risks to which our business and the oil and natural gas industry in general are subject.

Reserve estimates as of December 31, 2009, have been prepared under the SEC s new rules for oil and gas reporting that are effective for fiscal years ending on or after December 31, 2009. These new rules require SEC reporting companies to prepare their reserve estimates using, among other things, revised reserve definitions and revised pricing based on 12-month unweighted first-day-of-the-month average pricing, instead of the prior requirement to use pricing at the end of the period. The SEC has released only limited interpretive guidance regarding reporting of reserve estimates under the new rules and may not issue further interpretive guidance on the new rules in the near future. The interpretation of these rules and their applicability in different situations remains unclear in many respects. Changing interpretations of the rules or disagreements with our interpretations could result in revisions to our reserve estimates or write-downs in our reserves.

We expect to obtain a substantial portion of our funds for property acquisitions and for the drilling and development of our oil and natural gas properties through a combination of cash flows from operations and borrowings. If such borrowed funds were not available to us, or if the terms upon which such funds would be available to us were unfavorable, our ability to acquire oil and natural gas properties, the further development of our oil and natural gas reserves, and our financial condition and results of operations, could be adversely affected.

We expect to fund a substantial portion of our future property acquisitions and our drilling and development operations with a combination of cash flows from operations and borrowed funds. To the extent such borrowed funds are not available to us at all, or if the terms under which such funds would be available to us would be unfavorable, our ability to acquire oil and natural gas properties and the further development of our oil and natural gas reserves could be adversely impacted. In such events, we may be unable to replace our reserves of oil and natural gas which, subsequently, could adversely affect our financial condition and results of operations.

The continued tightness in the financial and credit markets may expose us to counterparty risk with respect to our sales of oil and natural gas.

We sell our crude oil, natural gas and natural gas liquids to a variety of purchasers. Some of these parties are not as creditworthy as we are and may experience liquidity problems**.** Nonperformance by a trade creditor could result in our incurring losses.

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The soundness of financial institutions could place our cash deposits at risk.

Current market conditions also elevate the concern over our cash accounts, which total approximately $0.1 million, as of December 31, 2009. Our cash investments and deposits with any financial institution that exceed the amount insured by the Federal Deposit Insurance Corporation are at risk in the event one of these financial institutions should fail.

Operating hazards and uninsured risks may result in substantial losses.

Our operations are subject to all of the hazards and operating risks inherent in drilling for, and the production of, oil and natural gas, including the risk of fire, explosions, blow-outs, pipe failure, abnormally pressured formations and environmental hazards such as oil spills, gas leaks, ruptures or discharges of toxic gases. The occurrence of any of these events could result in substantial losses to us due to injury or loss of life, severe damage to or destruction of property, natural resources and equipment, pollution or other environmental damage, clean-up responsibilities, regulatory investigation and penalties and suspension of operations. In accordance with customary industry practice, we maintain insurance against some, but not all, of these risks. There can be no assurance that any insurance will be adequate to cover any losses or liabilities. We cannot predict the continued availability of insurance, or its availability at premium levels that justify its purchase. In addition, we may be liable for environmental damage caused by previous owners of properties purchased by us, which liabilities would not be covered by our insurance.

Our operations are subject to various governmental regulations that require compliance that can be burdensome and expensive.

Our operations are subject to various federal, state and local governmental regulations that may be changed from time to time in response to economic and political conditions. Matters subject to regulation include discharge from drilling operations, drilling bonds, reports concerning operations, the spacing of wells, unitization and pooling of properties and taxation. From time to time, regulatory agencies have imposed price controls and limitations on production by restricting the rate of flow of oil and natural gas wells below actual production capacity to conserve supplies of oil and natural gas. In addition, the production, handling, storage, transportation and disposal of oil and natural gas, by-products thereof and other substances and materials produced or used in connection with oil and natural gas operations are subject to regulation under federal, state and local laws and regulations primarily relating to protection of human health and the environment. These laws and regulations have continually imposed increasingly strict requirements for water and air pollution control and solid waste management, and compliance with these laws may cause delays in the additional drilling and development of our properties. Significant expenditures may be required to comply with governmental laws and regulations applicable to us. We believe the trend of more expansive and stricter environmental legislation and regulations will continue. While historically we have not experienced any material adverse effect from regulatory delays, there can be no assurance that such delays will not occur in the future.

Unusual weather patterns or natural disasters, whether due to climate change or otherwise, could negatively impact our financial condition.

Our business depends, in part, on normal weather patterns across the United States Natural gas demand and prices are particularly susceptible to seasonal weather trends. Warmer than usual winters can result in reduced demand and high season-end storage volumes, which can depress prices to unacceptably low levels. In addition, because a majority of our properties are located in Texas, Louisiana and Oklahoma, our operations are constantly at risk of extreme adverse weather conditions such as hurricanes and tornadoes. Any unusual or prolonged adverse weather patterns in our areas of operations or markets, whether due to climate change or otherwise, could have a material and adverse impact on our business, financial condition and cash flow. In addition, our business, financial condition and cash flow could be adversely affected if the businesses of our key vendors, purchasers, contractors, suppliers or transportation service providers were disrupted due to severe weather, such as hurricanes or floods, whether due to climate change or otherwise.

Climate change and government laws and regulations related to climate change could negatively impact our financial condition.

In addition to other climate-related risks set forth in this Risk Factors section, we are and will be, directly and indirectly, subject to the effects of climate change and may, directly or indirectly, be affected by government laws and regulations related to climate change. We cannot predict with any degree of certainty what effect, if any, possible climate change and government laws and regulations related to climate change will have on our operations, whether directly or indirectly. While we believe that it is difficult to assess the timing and effect of climate change and pending legislation and regulation related to climate change on our business, we believe that climate change and government laws and regulations related to climate change may affect, directly or indirectly, (i) the cost of the equipment and services we purchase, (ii) our ability to continue to operate as we have in the past, including drilling, completion and operating methods, (iii) the timeliness of delivery of the materials and services we need and the cost of transportation paid by us and our vendors and other providers of services, (iv) insurance premiums, deductibles and the availability of coverage, and (v) the cost of utility services, particularly electricity, in connection with the operation of our properties. In addition, climate change may increase the likelihood of property damage and the disruption of our operations, especially in coastal states. As a result, our financial condition could be negatively impacted by significant climate change and related governmental regulation, and that impact could be material.

Regulation and recent court decisions related to greenhouse gas emissions could have an adverse effect on our operations and demand for oil and natural gas.

The U.S. Congress is actively considering legislation to reduce emissions of greenhouse gases, including carbon dioxide, methane and nitrous oxide among others, which some recent studies have suggested may be contributing to warming of the earth s atmosphere. In addition, several states have already taken legal measures to reduce emissions of greenhouse gases.

As a result of the U.S. Supreme Court s decision on April 2, 2007 in Massachusetts, et al. v. EPA, 549 U.S. 497 (2007), finding that greenhouse gases fall within the Clean Air Act (CAA) definition of air pollutant, the Environmental Protection Agency (EPA) was required to determine whether emissions of greenhouse gases endanger public health or welfare. In April 2009, EPA proposed a finding of such endangerment. Consistent with its proposed endangerment finding, in September 2009, EPA proposed regulations to control greenhouse gas emissions from light duty vehicles. The EPA also announced that its proposed action to control greenhouse gas emissions from light duty vehicles, should it become final, would automatically trigger application of the CAA prevention of significant deterioration and Title V operating permit programs to major stationary sources of greenhouse gas emissions. In September 2009, the EPA issued a proposed tailoring rule explaining the legal mechanism upon which it would rely to raise the major stationary source air pollutant emission threshold of 250 tons per year and 100 tons per year to 25,000 tons per year. With its proposed tailoring rule, the EPA also explained the manner in which it would implement the CAA permitting programs to major stationary source greenhouse gas emission sources. In September 2009, the EPA promulgated a final mandatory greenhouse gas reporting rule which will assist EPA in implementing the major stationary source permitting programs triggered by the mobile source rules. This reporting rule became effective on December 29, 2009. On December 15, 2009, the EPA promulgated its final endangerment rule, Endangerment and Cause or Contribute Findings for Greenhouse Gases Under Section 202(a) of the Clean Air Act. This final rule became effective on January 14, 2010. Currently, the EPA is expected to promulgate its final rules regulating and controlling greenhouse gas emissions from light duty vehicles, as well as its final tailoring rule, in March 2010. Though subject to legal challenge, the EPA s rules promulgated thus far are currently final and effective, and will remain so unless successfully challenged directly in court, or unless Congress adopts legislation preempting EPA s regulatory authority to address greenhouse gases under the CAA.

Beyond legislative and regulatory developments, there have been several court cases impacting this area of risk. These cases expose other significant emission sources of greenhouse gases to litigation risk. The effect of this recent case law may be mitigated by actions that the courts determine displace federal common law,

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potentially including Congressional adoption of greenhouse gas legislation or the EPA s final adoption of the light duty vehicle emission regulations which, without legislative intervention, will trigger application of other CAA provisions to greenhouse gas emissions.

Other nations have already agreed to regulate emissions of greenhouse gases, pursuant to the United Nations Framework Convention on Climate Change, also known as the Kyoto Protocol, an international treaty pursuant to which participating countries (not including the United States) have agreed to reduce their emissions of greenhouse gases to below 1990 levels by 2012. Though the 15th meeting of the Council of the Parties in Copenhagen in December 2009 failed to result in a final agreement, international negotiations continue, with the participation of the United States.

International developments, passage of state or federal climate control legislation or other regulatory initiatives, the adoption of regulations by EPA and analogous state agencies that restrict emissions of greenhouse gases in areas in which we conduct business, or further development of case law allowing claims based upon greenhouse gas emissions, could have an adverse effect on our operations and the demand for oil and natural gas and increase the costs of our operations.

Potential legislative and regulatory actions relating to Federal income taxation and derivatives trading could increase our costs, reduce our revenue and cash flow from oil and natural gas sales, reduce our liquidity or otherwise alter the way we conduct our business.

Pending federal budget proposals released by the White House on February 26, 2009 and February 1, 2010 would potentially increase and accelerate the payment of federal income taxes of independent producers of oil and natural gas. Proposals that would significantly affect us include, but are not limited to, repealing the expensing of intangible drilling costs, repealing the percentage depletion allowance, repealing the manufacturing tax deduction for oil and natural gas companies and increasing the amortization period of geological and geophysical expenses. Additionally, the Senate Bill version of the Oil Industry Tax Break Repeal Act of 2009, introduced on April 23, 2009, and the Senate Bill version of the Energy Fairness for America Act, introduced on May 20, 2009, include many of the proposals outlined in the federal budget proposals. It is unclear, however, whether any such changes will be enacted or how soon such changes could be effective. The passage of any legislation as a result of the budget proposals, either Senate Bill or any other similar change in U.S. federal income tax law could eliminate certain tax deductions that are currently available with respect to oil and gas exploration and development, and any such change (i) would make it more costly for us to explore for and develop our oil and natural gas reserves and (ii) could negatively affect our financial condition and results of operations.

The U.S. Congress is considering measures aimed at increasing the transparency and stability of the over-the-counter (OTC) derivative markets and preventing excessive speculation. We maintain an active price and basis protection hedging program related to the oil and natural gas we produce. Additionally, we have used the OTC market exclusively for our oil and natural gas derivative contracts and rely on our hedging activities to manage the risk of low commodity prices and to predict with greater certainty the cash flow from our hedged production. Proposals being considered would impose clearing and standardization requirements for all OTC derivatives and restrict trading positions in the energy futures markets. Such changes would likely materially reduce our hedging opportunities and could negatively affect our revenues and cash flow during periods of low commodity prices.

Federal and state legislation and regulatory initiatives relating to hydraulic fracturing could result in increased costs and additional operating restrictions or delays.

We utilize hydraulic fracturing as a means to enhance the productive capability of our wells, particularly in shale formations such as the producing zone in our North Texas Barnett Shale wells. Congress is currently considering legislation to amend the federal Safe Drinking Water Act to require the disclosure of chemicals used by the oil and natural gas industry in the hydraulic fracturing process. Hydraulic fracturing involves the injection of water, sand and chemicals under pressure into rock formations to stimulate natural gas production. Sponsors of bills currently pending before the Senate and House of Representatives have asserted that chemicals used in the fracturing process could adversely affect drinking water supplies. The proposed legislation would require the reporting and public disclosure of chemicals used in the fracturing process, which could make it easier for third parties opposing the hydraulic fracturing process to initiate legal proceedings based on allegations that specific chemicals used in the fracturing process could adversely affect groundwater. In addition, these bills, if adopted, could repeal the exemptions for hydraulic fracturing from the Safe Drinking Water Act which would allow the EPA to establish an additional level of regulation at the federal level that could lead to operational delays or increased operating costs and could result in additional regulatory burdens that could make it more difficult to perform hydraulic fracturing, which could result in limiting the productive capability of future wells in which we likely would utilize hydraulic fracturing and increase our costs of compliance and doing business.

We may not be able to borrow the full amount of the borrowing base under our revolving credit facility because of the amount of our Modified EBITDA. The inability to fully borrow funds up to our borrowing base could reduce our capital expenditures.

As of December 31, 2009, our borrowing base under our revolving credit facility was $175.0 million. As of the same date, we had outstanding advances under the revolving credit facility of $135.0 million, leaving an aggregate availability under our revolver of $40.0 million. However, because of the amount of our Modified EBITDA, the financial covenants set forth in our credit facility would have limited us to additional borrowings under our revolving credit facility as of December 31, 2009 of $25.3 million. We will be unable to borrow the full amount of our borrowing base until our Modified EBITDA for the preceding four fiscal quarters equals or exceeds $63.6 million. Our inability to borrow the full amount of our borrowing base under our revolving credit facility could reduce our current year capital expenditures if we do not meet our goal of funding our 2010 capital expenditures from our operating cash flow.

Our method of accounting for investments in oil and natural gas properties may result in a further impairment of asset value, which could affect our stockholder equity and net profit or loss.

We use the full cost method of accounting for our investment in oil and natural gas properties. Under the full cost method of accounting, all costs of acquisition, exploration and development of oil and natural gas reserves are capitalized into a full cost pool. Capitalized costs in the pool are amortized and charged to operations using the units-of-production method based on the ratio of current production to total proved oil and natural gas reserves. To the extent that such capitalized costs, net of amortization, exceed the after tax present value of estimated future net revenues from our proved oil and natural gas reserves (using a 10% discount rate) at any reporting date, such excess costs are charged to operations. In 2009, we recorded a $47.6 million charge for the impairment of our oil and natural gas properties. This amount is in addition to the $269.4 million charge we recorded in 2008. These writedowns are not reversible at a later date, even if the present value of our proved oil and natural gas reserves increases as a result of an increase in oil or natural gas prices. Further price declines could result in additional impairments of asset value.

Properties that we acquire may not produce as projected, and we may be unable to identify liabilities associated with the properties or obtain protection from sellers against them.

As part of our business strategy, we continually seek acquisitions of oil and natural gas properties. The successful acquisition of oil and natural gas properties requires assessment of many factors, which are inherently inexact and may be inaccurate, including the following:

- future oil and natural gas prices;
- the amount of recoverable reserves;