MONSTER WORLDWIDE INC
Form 10-Q
November 03, 2005

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2005

OR

o **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 000-21571

MONSTER WORLDWIDE, INC.

(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

DELAWARE	**13-3906555**
(STATE OR OTHER JURISDICTION OF INCORPORATION OR ORGANIZATION)	(IRS EMPLOYER IDENTIFICATION NUMBER)

622 Third Avenue, New York, New York 10017

(ADDRESS OF PRINCIPAL EXECUTIVE OFFICES)

(212) 351-7000

(REGISTRANT S TELEPHONE NUMBER, INCLUDING AREA CODE)

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 x No o

Indicate by checkmark whether the registrant is an accelerated filer (as defined in Exchange Act Rule 12 b-2). Yes x No o

Indicate the number of shares outstanding of each of the issuer s class of common stock as of October 31, 2005, the latest practicable date.

Class	**Outstanding on October 31, 2005**
Common Stock	118,340,064
Class B Common Stock	4,762,000

MONSTER WORLDWIDE, INC.
INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

(All other items on this report are inapplicable)

PART I FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

MONSTER WORLDWIDE, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except per share amounts)
(unaudited)

	Three Months Ended September 30, 2005	2004	Nine Months Ended September 30, 2005	2004
Revenue	**$ 249,288**	**$ 198,619**	**$ 720,320**	**$ 541,157**
Salaries and related	109,332	92,124	315,452	245,946
Office and general	45,931	42,706	139,175	116,454
Marketing and promotion	46,296	37,349	142,434	113,280
Total operating expenses	**201,559**	**172,179**	**597,061**	**475,680**
Operating income	**47,729**	**26,440**	**123,259**	**65,477**
Interest and other, net	715	(227)	1,691	(942)
Income from continuing operations before income taxes	48,444	26,213	124,950	64,535
Income taxes	16,955	8,532	43,990	21,295
Losses in equity interests	(641)		(1,217)	
Income from continuing operations	**30,848**	**17,681**	**79,743**	**43,240**
Income (loss) from discontinued operations, net of tax	(27)	2,307	(8,776)	5,393
Net income	**$ 30,821**	**$ 19,988**	**$ 70,967**	**$ 48,633**
Basic earnings (loss) per share(1):				
Income from continuing operations	$ 0.25	$ 0.15	$ 0.66	$ 0.37
Income (loss) from discontinued operations, net of tax		0.02	(0.07)	0.05
Net income	$ 0.25	$ 0.17	$ 0.59	$ 0.41
Diluted earnings (loss) per share:				
Income from continuing operations	$ 0.25	$ 0.15	$ 0.64	$ 0.36
Income (loss) from discontinued operations, net of tax		0.02	(0.07)	0.05
Net income	$ 0.25	$ 0.17	$ 0.57	$ 0.41
Weighted average shares outstanding:				
Basic	122,128	118,584	121,283	117,188
Diluted	124,757	120,351	123,798	119,392

(1) Basic earnings per share for the nine months ended September 30, 2004 do not add due to rounding.

See accompanying notes.

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MONSTER WORLDWIDE, INC.
CONSOLIDATED BALANCE SHEETS
(in thousands, except per share amounts)

We may not inspect every well, and we may not be able to identify structural and environmental problems even when we do inspect a well. If problems are identified, the seller may be unwilling or unable to provide effective contractual protection against all or part of those problems. Any acquisition of property interests may not be economically successful, and unsuccessful acquisitions may have a material adverse effect on our financial condition and future results of operations.

We cannot assure you that:

- we will be able to identify desirable natural gas and oil prospects and acquire leasehold or other ownership interests in such prospects at a desirable price;
- any completed, currently planned, or future acquisitions of ownership interests in natural gas and oil prospects will include prospects that contain proved natural gas or oil reserves;
- we will have the ability to develop prospects which contain proven natural gas or oil reserves;
- we will have the financial ability to consummate additional acquisitions of ownership interests in natural gas and oil prospects or to develop the prospects which we acquire to the point of production; or
- we will be able to consummate such additional acquisitions on terms favorable to us.

We may experience difficulty in achieving and managing future growth.

Future growth may place strains on our resources and cause us to rely more on project partners and independent contractors, possibly negatively affecting our financial condition and results of operations. Our ability to grow will depend on a number of factors, including:

- our ability to obtain leases or options on properties;
- our ability to acquire geological & geophysical data;
- our ability to identify and acquire new development prospects;
- our ability to develop existing prospects;
- our ability to continue to retain and attract skilled personnel;
- our ability to maintain or enter into new relationships with project partners and independent contractors;
- the results of our drilling program;
- hydrocarbon prices; and

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- our access to capital.

We may not be successful in upgrading our technical, operations, and administrative resources or in increasing our ability to internally provide certain of the services currently provided by outside sources, and we may not be able to maintain or enter into new relationships with project partners and independent contractors. Our inability to achieve or manage growth may adversely affect our financial condition and results of operations.

We face strong competition from other natural gas and oil companies.

We encounter competition from other natural gas and oil companies in all areas of our operations, including the acquisition of exploratory prospects and proved properties. Our competitors include major integrated natural gas and oil companies and numerous independent natural gas and oil companies, individuals, and drilling and income programs. Many of our competitors are large, well-established companies that have been engaged in the natural gas and oil business much longer than we have and possess substantially larger operating staffs and greater capital resources than we do. These companies may be able to pay more for productive natural gas and oil properties and may be able to define, evaluate, bid for, and purchase a greater number of properties and prospects than our financial or human resources permit. In addition, these companies may be able to expend greater resources on the existing and changing technologies that we believe are and will be increasingly important to attaining success in the industry. We may not be able to conduct our operations, evaluate, and select suitable properties and consummate transactions successfully in this highly competitive environment.

The unavailability or high cost of drilling rigs, equipment, supplies or personnel could affect adversely our ability to execute on a timely basis our exploration and development plans within budget, which could have a material adverse effect on our financial condition and results of operations.

Shortages or the high cost of drilling rigs, equipment, supplies or personnel could delay or affect adversely our exploration and development operations, which could have a material adverse effect on our financial condition and results of operations. Demand for drilling rigs, equipment, supplies, and personnel are currently very high in the areas in which we operate. An increase in drilling activity in the areas in which we operate could further increase the cost and decrease the availability of necessary drilling rigs, equipment, supplies and personnel.

We cannot control activities on properties that we do not operate and are unable to ensure their proper operation and profitability.

We may not operate certain of the properties in the future in which we obtain a working interest. As a result, we would have a limited ability to exercise influence over, and control the risks associated with, the operations of these properties. The failure of an operator of our wells to adequately perform operations, an operator's breach of the applicable agreements or an operator's failure to act in ways that are in our best interests could reduce our production and revenues. The success and timing of our drilling and development activities on properties operated by others therefore depend upon a number of factors outside of our control, including the operator's:

- timing and amount of capital expenditures;
- expertise and financial resources;
- inclusion of other participants in drilling wells; and
- use of technology.

We depend on key management personnel and technical experts. The loss of key employees or access to third party technical expertise could impact our ability to execute our business.

If we lose the services of the senior management, or access to independent land men, geologists and reservoir engineers with whom the Company has strategic relationships, our ability to function and grow could suffer, in turn, negatively affecting our business, financial condition and results of operations.

The marketability of our natural gas production depends on facilities that we typically do not own or control, which could result in a curtailment of production and revenues.

The marketability of our natural gas production depends in part upon the availability, proximity and capacity of natural gas gathering systems, pipelines and processing facilities. We generally deliver natural gas through gas gathering systems and gas pipelines that we may not own under interruptible or short-term transportation agreements. Under the interruptible transportation agreements, the transportation of our gas may be interrupted due to capacity constraints on the applicable system, due to maintenance or repair of the system, or for other reasons as dictated by the particular agreements. Our ability to produce and market natural gas on a commercial basis could be harmed by any significant change in the cost or availability of such markets, systems or pipelines.

We may not be able to keep pace with technological developments in our industry.

The natural gas and oil industry is characterized by rapid and significant technological advancements and introduction of new products and services which utilize new technologies. As others use or develop new technologies, we may be placed at a competitive disadvantage or competitive pressures may force us to implement those new technologies at substantial costs. In addition, other natural gas and oil companies may have greater financial, technical, and personnel resources that allow them to enjoy technological advantages and may in the future allow them to implement new technologies before we are able to. We may not be able to respond to these competitive pressures and implement new technologies on a timely basis or at an acceptable cost. If one or more of the technologies we use now or in the future were to become obsolete or if we are unable to use the most advanced commercially available technology, our business, financial condition, and results of operations could be materially adversely affected.

If oil and natural gas prices decrease, we may be required to take write-downs of the carrying values of our oil and natural gas properties, potentially triggering earlier-than-anticipated repayments of any outstanding debt obligations and negatively impacting the trading value of our securities.

Accounting rules require that we review periodically the carrying value of our oil and natural gas properties for possible impairment. Based on specific market factors and circumstances at the time of prospective impairment reviews, and the continuing evaluation of development plans, production data, economics and other factors, we may be required to write down the carrying value of our oil and natural gas properties. In the future should our properties serve as collateral for credit facilities, a write down in the carrying values of our properties could require us to repay debt earlier than would otherwise be required. A write-down would also constitute a non-cash charge to earnings. It is likely that the effect of such a write-down could also negatively impact the trading price of our securities.

We account for our oil and gas properties using the successful efforts method of accounting. Under this method, all development costs and acquisition costs of proved properties are capitalized and amortized on a units-of-production basis over the remaining life of proved developed reserves and proved reserves, respectively. Costs of drilling exploratory wells are initially capitalized, but charged to expenses if and when a well is determined to be unsuccessful. We evaluate impairment of our proved oil and gas properties whenever events or changes in circumstances indicate an asset’s carrying amount may not be recoverable. The risk that we will be required to write down the carrying value of our oil and natural gas properties increases when oil and gas prices are low or volatile. In addition, write-downs would occur if we were to experience sufficient downward adjustments to our estimated proved reserves or the present value of estimated future net revenues.

We are subject to complex laws that can affect the cost, manner or feasibility of doing business.

The exploration, development, production and sale of oil and natural gas are subject to extensive federal, state, local and international regulation. We may be required to make large expenditures to comply with such governmental regulations. Matters subject to regulation include:

- natural disasters;
- permits for drilling operations;

- drilling and plugging bonds;
- reports concerning operations;
- the spacing and density of wells;
- unitization and pooling of properties;
- environmental maintenance and cleanup of drill sites and surface facilities; and
- Protection of human health.

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From time to time, regulatory agencies have also imposed price controls and limitations on production by restricting the rate of flow of natural gas and oil wells below actual production capacity in order to conserve supplies of natural gas and oil.

Under these laws, we could be liable for personal injuries, property damage and other damages. Failure to comply with these laws also may result in the suspension or termination of our operations and subject us to administrative, civil and criminal penalties. Moreover, these laws could change in ways that substantially increase our costs. Any such liabilities, penalties, suspensions, terminations or regulatory changes could materially adversely affect our financial condition and results of operations.

Our operations may cause us to incur substantial liabilities for failure to comply with environmental laws and regulations.

Our oil and natural gas operations are subject to stringent federal, state and local laws and regulations relating to the release or disposal of materials into the environment or otherwise relating to environmental protection. These laws and regulations may require the acquisition of a permit or other authorizations before drilling commences, restrict the types, quantities and concentration of substances that can be released into the environment in connection with drilling and production activities, require permitting or authorization for release of pollutants into the environment, limit or prohibit drilling activities on certain lands lying within wilderness, wetlands, areas inhabited by endangered or threatened species, and other protected areas, and impose substantial liabilities for pollution resulting from historical and current operations. Failure to comply with these laws and regulations may result in the assessment of administrative, civil and criminal penalties, incurrence of investigatory or remedial obligations or the imposition of injunctive relief. Changes in environmental laws and regulations occur frequently, and any changes that result in more stringent or costly waste handling, storage, transport, disposal or cleanup requirements could require us to make significant expenditures to maintain compliance, and may otherwise have a material adverse effect on our results of operations, competitive position or financial condition as well as on the industry in general. Under these environmental laws and regulations, we could be held strictly liable for the removal or remediation of previously released materials or property contamination regardless of whether we were responsible for the release or if our operations were standard in the industry at the time they were performed.

Market conditions or operational impediments may hinder our access to oil and natural gas markets or delay our production.

Market conditions or the unavailability of satisfactory oil and natural gas transportation arrangements may hinder our access to oil and natural gas markets or delay our production. The availability of a ready market for our oil and natural gas production depends on a number of factors, including the demand for and supply of oil and natural gas and the proximity of reserves to pipelines and terminal facilities. Our ability to market our production depends in substantial part on the availability and capacity of gathering systems, pipelines and processing facilities, some of which may be owned and operated by third parties. Our failure to obtain such services on acceptable terms could materially harm our business.

Our productive properties may be located in areas with limited or no access to pipelines, thereby necessitating delivery by other means, such as trucking, or requiring compression facilities. Such restrictions on our ability to sell our oil or natural gas may have several adverse effects, including higher transportation costs, fewer potential purchasers (thereby potentially resulting in a lower selling price) or, in the event we were unable to market and sustain production from a particular lease for an extended time, possibly causing us to lose a lease due to lack of production.

The financial condition of our operators could negatively impact our ability to collect revenues from operations.

We may not operate all of the properties in the future in which we have working interests. In the event that an operator of our properties experiences financial difficulties, this may negatively impact our ability to receive payments for our share of net production that we are entitled to under our contractual arrangements with such operator. While we seek to minimize such risk by structuring our contractual arrangements to provide for production payments to be made directly to us by first purchasers of the hydrocarbons, there can be no assurances that we can do so in all situations covering our non-operated properties.

The Company, or our Operator partners, may not have enough insurance to cover all of the risks that we face and operations of prospects in which we participate may not maintain or may fail to

obtain adequate insurance.

In accordance with customary industry practices, we maintain insurance coverage against some, but not all, potential losses in order to protect against the risks we face. We do not carry business interruption insurance. We may elect not to carry insurance if our management believes that the cost of available insurance is excessive relative to the risks presented. In addition, we cannot insure fully against pollution and environmental risks. The occurrence of an event not fully covered by insurance could have a material adverse effect on our financial condition and results of operations. The impacts of Hurricanes Katrina, Rita and Ike have resulted in escalating insurance costs and less favorable coverage terms.

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Oil and natural gas operations are subject to particular hazards incident to the drilling and production of oil and natural gas, such as blowouts, cratering, explosions, uncontrollable flows of oil, natural gas or well fluids, fires and pollution and other environmental risks. These hazards can cause personal injury and loss of life, severe damage to and destruction of property and equipment, pollution or environmental damage and suspension of operation. We do not operate all of the properties in which we have an interest. In the projects in which we own a non-operating interest directly or own an equity interest in a limited partnership which in turn owns a non-operating interest, the operator for the prospect maintains insurance of various types to cover our operations with policy limits and retention liability customary in the industry. We believe the coverage and types of insurance in place by our Operator partners are adequate. However, the occurrence of a significant adverse event that is not fully covered by insurance could result in the loss of our total investment in a particular prospect which could have a material adverse effect on our financial condition and results of operations.

Terrorist attacks aimed at our energy operations could adversely affect our business.

The continued threat of terrorism and the impact of military and other government action have led and may lead to further increased volatility in prices for oil and natural gas and could affect these commodity markets or the financial markets used by us. In addition, the U.S. government has issued warnings that energy assets may be a future target of terrorist organizations. These developments have subjected our oil and natural gas operations to increased risks. Any future terrorist attack on our facilities, those of our customers, the infrastructure we depend on for transportation of our products, and, in some cases, those of other energy companies, could have a material adverse effect on our business.

We may issue additional shares of capital stock that could affect the value of existing holders of the Company’s stock, stock options, or warrants.

Our board of directors is authorized to issue additional classes or series of shares of our capital stock without any action on the part of our stockholders. Our board of directors also has the power, without stockholder approval, to set the terms of any such classes or series of shares of our capital stock that may be issued, including voting rights, dividend rights, conversion features, preferences over shares of our existing class of common stock with respect to dividends or if we liquidate, dissolve or wind up our business and other terms. If we issue shares of our capital stock in the future that have preference over shares of our existing class of common stock with respect to the payment of dividends or upon our liquidation, dissolution or winding up, or if we issue shares of capital stock with voting rights that dilute the voting power of shares of our existing class of common stock, the rights of holders of shares of our common stock or the trading price of shares of our common stock and, as a result, the market value of the options and warrants into shares of common stock could be adversely affected.

The market price of our common stock may be volatile.

As we are in the early stages of being a publicly traded stock, the trading price of our common stock and the price at which we may sell common stock in the future are subject to large fluctuations in response to any of the following:

- limited trading volume in our common stock;
- quarterly variations in operating results;
- our involvement in litigation;
- general financial market conditions;
- the prices of natural gas and oil;
- announcements by us and our competitors;
- our liquidity;
- our ability to raise additional funds;
- changes in government regulations; and

- other events.

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Moreover, our common stock does not have substantial trading volume. As a result, relatively small trades of our common stock may have a significant impact on the price of our common stock and, therefore, may contribute to the price volatility of our common stock.

Because of the possibility of limited trading volume of our common stock and the price volatility of our common stock, you may be unable to sell your shares of our common stock when you desire or at the price you desire. The inability to sell your shares of our common stock in a declining market because of such illiquidity or at a price you desire may substantially increase your risk of loss.

We have not previously paid cash dividends on the shares of our common stock and do not anticipate doing so in the foreseeable future.

We have not in the past paid any cash dividends on the shares of our common stock and do not anticipate that we will pay any cash dividends on our common stock in the foreseeable future. Any future decision to pay a dividend on our common stock and the amount of any dividend paid, if permitted, will be made at the discretion of our board of directors.

Our results of operations could be adversely affected as a result of impairments of oil and gas properties.

While we provide that our assets will be depleted over the estimated productive reserves of the oil and gas wells, these assets must also be tested at least annually for impairment. Management makes certain estimates and assumptions when determining the fair value of net assets and liabilities, including, among other things, an assessment of market conditions, projected cash flows, investment rates, cost of capital and growth rates, which could significantly impact the reported value of drilling costs and other intangible assets. Fair value is determined using a combination of the discounted cash flow, market multiple and market capitalization valuation approaches. Absent any impairment indicators, we perform our impairment tests annually during the fourth quarter. Any future impairment, including impairments of the carrying values of drilling costs and other intangible assets, would negatively impact our results of operations for the period in which the impairment is recognized.

Pending litigation may place a financial burden on our resources and the outcome of the litigation may not be favorable to the Company.

We are currently defending two lawsuits filed against us by landowners for trespass. Litigation continues and the outcome is uncertain. The risk is that our investment in each of the two wells could be lost.

We are also prosecuting a lawsuit against our former drilling contractor, former operator, and other related parties. In that case, an interlocutory Default Judgment against the defendants was awarded to Victory and James Capital, which is a general partner of Navitus. The judgment amounted to $17,183,987. No monies have yet been received related to this favorable judgment.

Item 1B. Unresolved Staff Comments

None

Item 2. Properties

Office Space Leases.

On January 25, 2011, we extended the one (1)-year lease of approximately 1,200 square feet of executive office space located in Austin, Texas. The initial lease for one year commenced on January 25, 2010, and has been extended to expire on January 31, 2013. The monthly lease cost is $1,750.

Our core properties are primarily based in West Texas and Southeast New Mexico. Commercial accumulations of hydrocarbons now occur in multiple horizons, at depths ranging from 4,700 to 13,100 feet.

At December 31, 2011, our proved developed reserves were 6.4% oil and 93.6% gas and liquids, respectively.

During 2011 we had a working interest in the drilling of eight (8) gross wells. Three of those eight wells became producing wells. Four of the five dry holes were drilled on the Jones County acreage.

Adams – Baggett Ranch, Crockett County, Texas

Aurora initially acquired leases in the Adams – Baggett Ranch area in Crockett County, Texas in January 2008. At the end of 2011, we held a 100% working interest in seven (7) producing gas wells and a 50% working interest in two (2) other gas wells within the boundary of our currently held acreage. Current production is liquids-rich and is derived from zones at depths of 4,600 – 4,800 feet. We plan to evaluate the hydrocarbon potential of others zones in these wells during the first half of 2012 and additional development on this existing acreage is highly probable during 2012 and 2013.

Lea County, New Mexico

Aurora holds a 10% working interest in the Uno Mas well, located in Lea County, New Mexico. The well was spud in October 2011 and targeted the Mississippian formation. The well was successfully completed late in December 2011. This is the largest single discovery for the Company to-date. Both oil and gas reserves were found. We expect to receive the first revenue from this well in April 2012. Its oil production life is estimated to be in the 5-8 year range. Due to the completion of the well late in 2011, there was insufficient data available to calculate and report proved reserves for this well in our reserve data for 2011.

Padre Island Gas Fields, South Padre Island, Texas

On December 31, 2010, Aurora entered into an option agreement to acquire an oil and gas lease in a 1,000 acre tract of South Padre Island, Texas. The option gave Aurora exclusive rights to acquire an oil and gas lease at the property for a period of one (1) year. Under the terms of the option, we had full access to the land and could have conducted geophysical or seismic testing of the land to ascertain the potential gas reserves. The option agreement was not exercised and has now expired.

Jones County, Texas

On February 28, 2011, Aurora acquired a 2.5 percent working interest in the Young No. 1 oil - producing well located in Jones County, Texas. Interest assignment was effective February 1, 2011. Oil production is from the Caddo formation. The agreement also included a working interest of no less than 1.5 percent in an eighty two square mile 3-D seismic shoot over the area. During 2011 a total of five additional exploration wells were drilled. The Olson #1, which we have a 2.0% working interest, was successfully completed and production commenced on August 1, 2011. The other four wells drilled with our participation were either dry or deemed non-commercial. We maintain a thirty (30)-day first right of refusal to participate in each new well.

Bootleg Canyon, Pecos County, Texas

On April 14, 2011, Aurora acquired a 5%working interest in the University 6 #1 oil and gas prospect (“Tunis Creek”), which has a land position of 2,397 gross acres. The Company holds a 5 percent working interest (WI) and a 3.75 percent net revenue interest (NRI). The well was successful and production commenced on July 9, 2011. The operator of the prospect plans to drill additional wells across the prospect area.

Clearwater Wolfberry Resource Play, Howard County, Texas

Aurora acquired a 1.5% working interest in this West Texas resource play in December 2011 which has an acreage position of 3,186 gross acres. Our initial buy-in covered costs associated with two producing wells and an exploration well in progress. At year-end 2011, there were three producing oil wells on this property. The Operator of the prospect believes that the acreage could support an additional seven wells.

Atwood Water Flood – Hughes County, Oklahoma

In May 2011, Aurora acquired a 2% working interest in the Atwood project in Oklahoma, which is operated by CO Energy. This 1,240 gross acre field previously produced over 500,000 barrels of oil. We have advanced funds to the Operator ahead of a water flood project planned for the second quarter of 2012. No new reserves had been booked at year-end 2011 because injection operations had not yet commenced.

Alwan West Natural Gas Prospect

On April 25, 2011, we acquired a 5% working interest in the Alwan West natural gas prospect which involved a land position of 175 gross acres. An exploration well was drilled in June 2011 to target the Frio and Yegua formations’ high potential for natural gas and associated natural gas liquids. Drilling was not successful and a dry hole expense was incurred.

Developed and Undeveloped Lease Acreage

The following table sets forth certain information regarding our developed and undeveloped lease acreage as of December 31, 2011. “Developed Acreage” refers to acreage on which wells have been drilled or completed to a point that would permit production of oil and natural gas in commercial quantities. “Undeveloped Acreage” refers to acreage on which wells have not been drilled or completed to a point that would permit production of oil and natural gas in commercial quantities whether or not the acreage contains proved reserves.

	Average Working Interest %	Developed Acreage Gross	Net	Undeveloped Acreage Gross	Net	Total Acreage Gross	Net
As of December 31, 2011							
Adams -Baggett Ranch, Texas	88.00%	180.00	160.00	-	-	180.00	160.00
Hughes County, OK	2.00 %	1,240.00	24.80	-	-	1,240.00	24.80
Jones County, Texas	2.25 %	1,569.00	31.63	-	-	1,569.00	31.63
Pecos County, Texas	5.00 %	180.00	9.00	2,217.70	110.89	2,397.70	119.89
Lea County, New Mexico	10.00%	320.00	32.00	-	-	320.00	32.00
Howard County, Texas	1.50 %	160.00	2.40	3,186.00	47.79	3,346.00	50.19
Total Acreage		3,649.00	259.83	5,403.70	158.68	9,052.70	418.51

Summary of Oil and Gas Reserves as of Year-End 2011

The reserves as of December 31, 2011 were derived from reserve estimates prepared by an independent reserve engineer, Mr. James Nicolson. James A. Nicholson is an engineering consultant who specializes in preparing reservoir studies, reserve estimates, and property evaluations. Mr. Nicolson, a Registered Professional Engineer, is a member of the Society of Petroleum Engineers. He is former chairman of the Permian Basin Oil & Gas Recovery Conference. He holds a PhD ME from the University of Texas at Austin, an MSME from the University of Texas at Austin, and a BSME from Lamar University.

The reserve reports prepared by Mr. Nicolson were reviewed and approved by our independent consultants, including a geologist and an oil & gas operations professional. The PV-10 value was derived using average prices throughout the calendar year, discounted at 10% per annum on a pretax basis, and is not intended to represent the current market value of the estimated oil and natural gas reserves owned by us.

The following table sets forth our estimated net proved oil and natural gas reserves and the PV-10 value of such reserves as of December 31, 2011.

Oil and condensate (MBbls)	8.0
Natural gas (MMcf)	691.1
PV-10 Value	$1,357,440

(1) The PV 10% Value as of December 31, 2011 is pre-tax and was determined by using the average of the preceding, 12-month product prices, which ranged from $6.26 per MCF to $6.56 per MCF per gas well and $89.47 per BBL to $91.31 per BBL per oil well pursuant to SEC guidelines. Management believes that the presentation of PV-10 value may be considered a non-GAAP financial measure. Therefore, we have included a reconciliation of the most directly comparable GAAP financial measure (standard measure of discounted net cash flows in Note 16 below). Management believes that the presentation of PV-10 value provides useful information to investors because it is widely used by professional analysts and sophisticated investors in evaluating oil and natural gas companies. Because many factors that are unique to each individual company may impact the amount of future income taxes to be paid, the use of the pre-tax measure provides greater comparability when evaluating companies. It is relevant and useful to investors for evaluating the relative monetary significance of our oil and natural gas properties. Further, investors may utilize the measure as a basis for comparison of the relative size and value of our reserves to other companies.

(2) Management also uses this pre-tax measure when assessing the potential return on investment related to its oil and natural gas properties and in evaluating acquisition candidates. The PV-10 value is not a measure of financial or operating performance under GAAP, nor is it intended to represent the current market value of the estimated oil and natural gas reserves owned by us. The PV-10 value should not be considered in isolation or as a substitute for the standardized measure of discounted future net cash flows as defined under GAAP.

Productive Wells

Productive wells are producing wells or wells capable of production. This does not include water source wells, water injection wells or water disposal wells. Productive wells do not include any wells in the process of being drilled and completed that are not yet capable of production, but does include old productive wells that are currently shut-in, because they are still capable of production. The following table sets forth the number of productive oil and natural gas wells in which we owned an interest as of December 31, 2011 and 2010.

	December 31,			
	2011		2010	
	Gross	Net	Gross	Net
Natural Gas	9	8	9	8
Oil	8	.25	-	-
Totals	17	8.25	9	8

Technologies Used in Establishing Proved Reserves in 2011 and 2010

Our proved reserves in 2011 and 2010 were based on estimates generated through the integration of available and appropriate data, utilizing well established technologies that have been demonstrated in the field to yield repeatable and consistent results.

Data used in these integrated assessments included information obtained directly from the subsurface via wellbores, such as well logs, reservoir core samples, fluid samples, static and dynamic pressure information, production test data, and surveillance and performance information. The data utilized also included subsurface information obtained through indirect measurements, including high-quality 2-D and 3-D seismic data, calibrated with available well control. Surface geological information was also utilized in the preparation of the data where applicable. The tools used to interpret the data included proprietary seismic processing software, proprietary reservoir modeling and simulation software, and commercially available data analysis packages.

Proved Undeveloped Reserves

At December 31, 2011 and 2010, our proved undeveloped reserves were none.

Oil and Gas Production, Production Prices and Production Costs

A. Oil and Gas Production

The table below summarizes production by final product sold and by geographic area as of December 31, 2011, 2010, and 2009.

	December 31, 2011	2010	2009
Crude oil and natural gas production			
United States (natural gas only, thousand cubic feet)	44,682	53,813	77,420
United States (oil only, barrels of oil)	572.4	—	—
Available for sale			
United States (natural gas only, thousand cubic feet)	44,682	53,813	77,420
United States (oil only, barrels of oil)	572.4	—	—

B. Sales Prices and Production Costs

The table below summarizes average sales prices and average production costs by geographic area and by product type for the years ended December 31, 2011 and 2010.

	United States	Total
During 2011		
Average Sales Prices		
Crude Oil and NGL, per barrel	$88.10	$88.10
Natural gas, per thousand cubic feet	$6.59	$6.59
Average Production Costs		
Crude Oil and NGL, per barrel	$31.82	$31.82
Natural gas, per thousand cubic feet	$2.36	$2.36
During 2010		
Average Sales Prices		
Crude Oil and NGL, per barrel	None	None
Natural gas, per thousand cubic feet	$6.23	$6.23
Average Production Costs		
Crude Oil and NGL, per barrel	None	None
Natural gas, per thousand cubic feet	$1.12	$1.12

During 2009		
Average Sales Prices		
Crude Oil and NGL, per barrel	None	None
Natural gas, per thousand cubic feet	$4.66	$4.66
Average Production Costs		
Crude Oil and NGL, per barrel	None	None
Natural gas, per thousand cubic feet	$1.98	$1.98

Drilling and Other Exploratory and Development Activities

The table below summarizes the number of net productive and dry exploratory wells and net productive and dry development wells drilled by geographic area as of December 31, 2011, 2010 and 2009.

	December 31, 2011	2010	2009
Net Productive Exploratory Wells Drilled			
United States	.19	None	None

Total Productive Exploratory Wells Drilled	4.0	None	None
Net Dry Exploratory Wells Drilled			
United States	.11	None	None
Total Dry Exploratory Wells Drilled	5.0	None	None
Net Productive Development Wells Drilled			
United States	None	None	None