CRIMSON EXPLORATION INC.
Form 10-K
April 02, 2007

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, 2006 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: 000-21644

CRIMSON EXPLORATION INC.

(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	**20-3037840** (I.R.S. Employer Identification No.)
480 N. Sam Houston Parkway East, Suite 300	
Houston, Texas (Address of principal executive offices)	**77060** (Zip Code)

(281) 820-1919

(Registrant s telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act: None

Securities registered pursuant to Section 12(g) of the Act: Common Stock, $0.001 par value per share

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

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 o No x

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 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. o

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

Large accelerated filer o Accelerated filer o Non-accelerated filer x

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes o No x

As of June 30, 2006, the aggregate market value of the registrant s common stock held by non-affiliates of the registrant was $6,531,699 based on the closing sales price of $6.80 of the common stock. For purposes of this computation, all executive officers, directors and 10% beneficial owners of the registrant are deemed to be affiliates. Such a determination should not be deemed an admission that such executive officers, directors and 10% beneficial owners are affiliates.

On March 19, 2007, there were 3,338,749 shares of common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of our Definitive Proxy Statement for the 2007 Annual Meeting, expected to be filed within 120 days of our fiscal year end, are incorporated by reference into Part III.

FORWARD-LOOKING STATEMENTS

Certain terms that we use in our industry are italicized and defined in the Glossary of Industry Terms and Abbreviations . Unless otherwise indicated, all references to Crimson , GulfWest , the Company , we , us and our refer to Crimson Exploration Inc. and our subsidiaries.

We make forward-looking statements throughout this Annual Report within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended.

These forward-looking statements include, but are not limited to, statements regarding:

- *estimates of proved reserve quantities and net present values of those reserves;*
- *estimates of probable and possible reserve quantities;*
- *reserve potential;*
- *business strategy;*
- *estimates of future commodity prices;*
- *amounts and types of capital expenditures and operating expenses;*
- *expansion and growth of our business and operations;*
- *expansion and development trends of the oil and natural gas industry;*
- *production of oil and natural gas reserves;*
- *exploration prospects;*
- *wells to be drilled, and drilling results;*
- *operating results and working capital; and*
- *future methods and types of financing.*

Whenever you read a statement that is not simply a statement of historical fact (such as when we describe what we believe, expect or anticipate will occur, and other similar statements), you must remember that our expectations may not be correct, even though we believe they are reasonable. We do not guarantee that the transactions and events described in this Annual Report will happen as described (or that they will happen at all). The forward-looking information contained in this Annual Report is generally located in the material set forth under the headings Business , Risk Factors , and Management s Discussion and Analysis of Financial Condition and Results of Operations but may be found in other locations as well. These forward-looking statements generally relate to our plans and objectives for future operations and are based upon our management s reasonable estimates of future results and trends.

PART I

ITEM 1. Business

Our Business

We are primarily engaged in the acquisition, development, exploitation and production of crude oil and natural gas, primarily in the onshore producing regions of the United States. Our focus is on increasing production from our existing properties through further exploitation, development and exploration, and on acquiring additional interests in undeveloped crude oil and natural gas properties.

Since we made our first significant acquisition in 1993, we have substantially increased our ownership in *producing properties* and our crude oil and natural gas reserves through a combination of acquisitions and the further exploitation and development of our properties. At December 31, 2006, our part of the estimated *proved reserves* these properties contained was approximately 2.5 million barrels (*MBbl*) of oil and 31.4 billion cubic feet (*Bcf*) of natural gas with an estimated *Net Present Value discounted at 10% (PV-10)* of $102.4 million. At present,

1

all of our properties are located on land in Texas, Colorado, Louisiana and Mississippi, except for the property in the shallow inland boundaries of Grand Lake, Louisiana. In the future, we plan to expand by acquiring additional properties in those areas, and in similar properties located in other producing regions of the United States, including the shallow waters of the Gulf of Mexico.

Our gross revenues are derived from the following sources:

1. **Oil and gas sales** that are proceeds from the sale of crude oil and natural gas production to midstream purchasers. This represents over 99% of our gross revenues.
2. **Operating overhead and other income** that consists of administrative fees received for operating crude oil and natural gas properties for other working interest owners and for marketing and transporting natural gas for those owners. This also includes earnings from other miscellaneous activities.

Our operations are considered to fall within a single industry segment, which is the acquisition, development, production and servicing of crude oil and natural gas properties. See Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations.

Our Common Stock is traded over-the-counter (OTC) under the symbol CXPO .

Our Company

We were formed as a corporation under the laws of the State of Utah in 1987 as Gallup Acquisitions, Inc., and subsequently changed our name to First Preference Fund, Inc in 1992. We became a Texas corporation by a merger effected in July 1992, through which our name became GulfWest Oil Company. On May 21, 2001, we changed our name to GulfWest Energy Inc.

On June 29, 2005 we merged with and into Crimson Exploration Inc., a Delaware corporation (Crimson), for the purpose of changing our state of incorporation from Texas to Delaware (the Reincorporation). The Reincorporation was accomplished pursuant to an Agreement and Plan of Merger, dated June 28, 2005, which was approved by GulfWest s shareholders at the 2005 Annual Shareholders Meeting held June 1, 2005.

Our principal office is currently located at 480 North Sam Houston Parkway East, Suite 300, Houston, Texas 77060 and our telephone number is (281) 820-1919. However, we look forward to moving our offices to downtown Houston at the end of April 2007.

Prior to March 2, 2006 Crimson Exploration Inc. had six active and three inactive, direct or indirect, wholly owned subsidiaries. The active subsidiaries were:

1. **GulfWest Oil and Gas Company**, a Texas corporation, was organized February 18, 1999 and was the owner of record of interests in certain crude oil and natural gas properties located in Colorado and Texas. It had one wholly owned subsidiary, GulfWest Oil and Gas Company (Louisiana) LLC.
2. **GulfWest Oil and Gas Company (Louisiana) LLC**, a Louisiana company, was formed July 31, 2001 and was the owner of record of interests in certain crude oil and natural gas properties in Louisiana.
3. **SETEX Oil and Gas Company**, a Texas corporation, was organized August 11, 1998 and was the operator of crude oil and natural gas properties in which we own a majority working interest.
4. **RigWest Well Service, Inc.**, a Texas corporation, was organized September 5, 1996 and operates well servicing equipment for our own account and for others when not being utilized for our own account.
5. **DutchWest Oil Company**, a Texas corporation, was organized July 28, 1997 and was the owner of record of interests in certain crude oil and natural gas properties located along the Gulf Coast of Texas.
6. **GulfWest Development Company**, a Texas corporation, was organized November 9, 2000 and was the owner of record of interests in certain crude oil and natural gas properties located in Texas and Mississippi.

On January 5, 2006 we formed Crimson Exploration Operating, Inc., a Delaware corporation, as our wholly owned subsidiary through which all oil and gas operations will be conducted. Effective March 2, 2006 we merged all our subsidiaries referred to above into this newly formed corporation. LTW Pipeline Co. remains an inactive subsidiary of Crimson Exploration Inc.

Balance. At December 31, 2006, our proved reserves were comprised of 32% crude oil and 68% natural gas. We will continue to expand our role in the domestic natural energy industry by (i) acquiring additional interests in crude oil and natural gas properties, (ii) increasing the production and reserve base of our existing producing properties, and (iii) developing an internal prospect generation capability for exploratory prospects. Our goal is to have greater control of our natural gas transportation and marketing, and an expanded role in the transportation of natural gas produced by other parties in our area of operations. We are presently focusing our *workover* and development efforts on both crude oil and natural gas reserves to take advantage of the higher prices of both commodities.

In 2005, we recapitalized Crimson Exploration Inc. through the sale of preferred stock for $42.0 million. The net proceeds were used to repay all outstanding debt and other past due liabilities and for general corporate purposes. We also established a $100.0 million senior secured revolving credit facility with Wells Fargo Bank, N.A. In 2006, we also established a $150.0 million subordinate credit facility and effected a 1-for-10 reverse stock split. Details of this activity are described in Part II, Item 7 Financial Recapitalization .

Recent Developments

Effective August 31, 2006, we entered into a $150 million subordinate credit facility with Wells Fargo Energy Capital, Inc. (the Subordinate Credit Agreement). Initial availability under the Subordinate Credit Agreement is $15.0 million. No borrowings under the Subordinate Credit Agreement were made at closing, nor were any outstanding at December 31, 2006.

The facility will be secured on a subordinated basis by a lien on all the assets of the Company and its subsidiaries, as well as a security interest in the stock of all the Company s subsidiaries. The obligations under the Subordinate Credit Agreement will be subordinate and junior to those under our $100.0 million senior secured revolving credit facility with Wells Fargo Bank, National Association (the Senior Credit Agreement).

The Subordinate Credit Agreement has a term of three-and-a-half years, and all principal amounts, together with all accrued and unpaid interest, will be due and payable in full on February 28, 2010. Proceeds from extensions of credit under the facility will be for acquisitions of oil and gas properties and for general corporate purposes.

Advances under the Subordinate Credit Agreement will be in the form of either base rate loans or Eurodollar loans. The interest rate on the base rate loans fluctuates based upon the higher of (1) the lender s prime rate and (2) the Federal Funds rate, plus a margin of 0.50%, plus an additional margin of 3.75%. The interest rate on the Eurodollar loans fluctuates based upon the rate at which Eurodollar deposits in the London Interbank market (Libor) are quoted for the maturity selected, plus a margin of 5.25%. Eurodollar loans of one, three and six months may be selected by the Company. A commitment fee of 0.50% on the unused portion of the borrowing base will accrue, and be payable quarterly in arrears. Repayments made during the first twelve months of the term Subordinate Credit Agreement will be subject to a 1% prepayment penalty. Once repaid, amounts under the Subordinate Credit Agreement may not be re-borrowed.

Under the Subordinate Credit Agreement, borrowings are at our discretion. However, once the Company s outstanding balance under the Senior Credit Agreement reaches $10.0 million, the Company s next $10.0 million in borrowings must be funded under the Subordinate Credit Agreement.

The credit agreements include usual and customary affirmative covenants for credit facilities of this type and size, as well as customary negative covenants, including, among others, limitation on liens, hedging, mergers, asset sales or dispositions, payments of dividends, incurrence of additional indebtedness, certain leases and investments outside of the ordinary course of business. At December 31, 2006 we were in compliance with the aforementioned covenants.

3

On September 15, 2006, we effected a reverse stock split where each ten shares of outstanding common stock were exchanged for one new share of common stock. All periods presented have been adjusted to reflect the effects of the reverse stock split.

On March 24, 2006 we issued 323,565 shares of common stock, valued at approximately $2.4 million, as partial consideration for the acquisition of oil and gas leases via merger with Core Natural Resources, Inc. As a result of this transaction we also increased the book value of oil and gas leases by recording a $1.6 million deferred tax liability related to the difference in the fair market value of the assets acquired and their underlying tax basis. Related to this transaction, we also acquired a 2% overriding royalty interest in that leasehold acreage by issuing 46,224 shares of common stock valued at $0.3 million.

Our Business Strategy

We have pursued a business strategy of acquiring interests in crude oil and natural gas *producing properties* where production and reserves can be increased through exploitation activities. Such activities include *workovers*, development drilling, *recompletions*, replacement or addition of equipment and *waterflood* or other secondary recovery techniques. Key elements of our business strategy include:

Development and Exploitation of Existing Properties. Our strategy is to increase crude oil and natural gas production and reserves of our existing assets through relatively low-risk development activities, such as performing *workovers*, *recompletions* and *horizontal drilling* from existing well bores, infield drilling and more efficiently using production facilities.

Acquisition Program. Since we were capital constrained during 2002 through February 2005, we made no acquisitions during that period. To the extent financial resources are available, we intend to continue to pursue the acquisition of interests in producing crude oil and natural gas properties (i) held by small, under-capitalized operators and (ii) being divested by larger independent and major oil and gas companies, or through corporate transactions.

Significant Operating Control. Currently, we are the operator of all but three of the wells in which we own working interests. This operating control enables us to better manage the nature, timing and costs of developing and servicing such wells, and the timing and marketing of the resulting production.

Ownership of Workover Rigs. We currently own two workover service rigs that we operate for our own account. By owning and operating this equipment, we are better able to control costs, quality of operations and availability of equipment and services.

Expanded Exploration and Exploitation Role. Historically, we have not drilled exploratory wells due to the cost and risk associated with drilling prospective locations. However, since the end of 1998, we have acquired *producing properties* that have included significant acreage for prospective oil and gas exploration. These include producing wells and acreage in Grimes, Hardin, Jim Wells, Madison, Palo Pinto, Refugio, Victoria, Wharton and Zavala, Counties, Texas; Adams, Arapaho, Elbert and Weld Counties, Colorado; Cameron Parish, Louisiana; and Jones County, Mississippi. These acquisitions have added existing natural gas and crude oil production to our asset base and, as importantly, have provided us with immediate geological databases for development drilling opportunities as well as the potential for generating exploratory opportunities on the acquired acreage. We have expanded our evaluation efforts in these fields and intend to increase our development of reserves through workovers of existing wells and by drilling additional wells. As we develop exploration opportunities on these properties or see high-quality prospects generated by others, as capital resources are available, we will complement our development activities with capital for exploratory or exploitation projects.

We are also actively pursuing the development of an internal prospect generation capability to identify higher potential drilling opportunities and have entered into an exploration agreement with a prospect generator under which we get a right of first refusal on prospects they generate.

Our Employees

At March 19, 2007, we had 33 full time employees, of whom 14 were field personnel. None of our employees are covered by collective bargaining agreements.

Government Regulation

Federal and State Regulatory Requirements

We are a public company subject to the rules and regulations of the SEC. Recently enacted and proposed changes in the laws and regulations affecting public companies, including the provisions of the Sarbanes-Oxley Act of 2002 and rules adopted by the SEC, have resulted in increased costs to us. The new rules could make it more difficult for us to obtain certain types of insurance, including director and officer liability insurance, and we may be forced to accept reduced policy limits and coverage or incur substantially higher costs to obtain the same or similar coverage. The impact of these events could also make it more difficult for us to attract and retain qualified persons to serve on our board of directors, our board committees or as executive officers.

Our operations are subject to numerous laws and regulations governing the operation and maintenance of our facilities and the discharge of materials into the environment or otherwise relating to environmental protection. These laws and regulations may require that we acquire permits before commencing drilling; restrict the substances that can be released into the environment in connection with drilling and production activities; limit or prohibit drilling activities on protected areas such as wetlands or wilderness areas; or require remedial measures to mitigate pollution from former operations. Under these laws and regulations, we could be liable for personal injury and clean-up costs and other environmental and property damages, as well as administrative, civil and criminal penalties. These laws and regulations have been changed frequently in the past. In general, these changes have imposed more stringent requirements that increase operating costs or require capital expenditures in order to remain in compliance. It is also possible that unanticipated developments could cause us to make environmental expenditures that are significantly different from those we currently expect. Existing laws and regulations could be changed, and any changes could have an adverse effect on our business.

Environmental Regulations

The oil and gas business is subject to environmental hazards, such as oil spills, gas leaks and ruptures and discharges of petroleum products and hazardous substances, and historic disposal activities. These environmental hazards could expose us to material liabilities for property damages, personal injuries or other environmental harm, including costs of investigating and remediating contaminated properties. In addition, we also may be liable for environmental damages caused by the previous owners or operators of properties that we have purchased or are currently operating. A variety of stringent federal, state and local laws and regulations govern the environmental aspects of our business and impose strict requirements for, among other things, well drilling or workover, operation and abandonment, waste management; land reclamation; and controlling air, water and waste emissions.

Any noncompliance with these laws and regulations could subject us to material administrative, civil or criminal penalties or other liabilities. Additionally, our compliance with these laws may, from time to time, result in increased costs to our operations or decreased production, and may affect our costs of acquisitions. Environmental laws may, in the future, cause a decrease in our production or an increase in the costs of production, development or exploration. Pollution and similar environmental risks generally are not fully insurable.

We have not incurred any material costs relating to our compliance with federal, state or local laws during the year ended December 31, 2006, or during the subsequent interim period.

Title to Properties

Our properties are subject to customary royalty interests, liens incident to operating agreements, liens for current taxes and other burdens, including other mineral encumbrances and restrictions. We do not believe that any of these burdens materially interfere with our use of the properties in the operation of our business.

We believe that we have generally satisfactory title to or rights in all of our producing properties. As is customary in the oil and gas industry, we make minimal investigation of title at the time we acquire undeveloped properties. We make title investigations and receive title opinions of local counsel only before we commence drilling operations. We believe that we have satisfactory title to all of our other assets. Although title to our properties is subject to encumbrances in certain cases, we believe that none of these burdens will materially detract from the value of our properties or from our interest therein or will materially interfere with our use in the operation of our business.

Competition

The oil and gas industry is highly competitive and we compete with a substantial number of other companies that have greater resources. Many of these companies explore for, produce and market oil and gas, carry on refining operations and market the resultant products on a worldwide basis. The primary areas in which we encounter substantial competition are in locating and acquiring desirable leasehold acreage for our drilling and development operations, locating and acquiring attractive producing oil and gas properties, and obtaining purchasers and transporters of the oil and gas we produce. There is also competition between producers of oil and gas and other industries producing alternative energy and fuel. Furthermore, competitive conditions may be substantially affected by various forms of energy legislation and/or regulation considered from time to time by the government of the United States; however, it is not possible to predict the nature of any such legislation or regulation that may ultimately be adopted or its effects upon our future operations. Such laws and regulations may, however, substantially increase the costs of exploring for, developing or producing gas and oil and may prevent or delay the commencement or continuation of a given operation. The effect of these risks cannot be accurately predicted.

Insurance Matters

As is common in the oil and gas industry, we will not insure fully against all risks associated with our business either because such insurance is not available or because premium costs are considered prohibitive. A loss not fully covered by insurance could have a materially adverse effect on our financial position, results of operations or cash flows.

Executive Officers

See Item 10 of this report, which information is incorporated herein by reference.

ITEM 1A. Risk Factors

Our success depends heavily upon our ability to market our crude oil and natural gas production at favorable prices.

In recent decades there have been both periods of worldwide overproduction and underproduction of crude oil and natural gas and periods of increased and relaxed energy conservation efforts. Such conditions have resulted in excess supply of, and reduced demand for, crude oil on a worldwide basis and for natural gas on a domestic basis. At other times, there has been short supply of, and increased demand for, crude oil and, to a lesser extent, natural gas. These changes have resulted in dramatic price fluctuations.

We may borrow funds to finance capital expenditures and for other purposes which could possibly have important consequences to our shareholders, including the following:

(i) Our indebtedness, acquisitions, working capital, capital expenditures or other purposes may be impaired;
(ii) Funds available for our operations and general corporate purposes or for capital expenditures will be reduced as a result of the dedication of a portion of our consolidated cash flow from operations to the payment of the principal and interest on our indebtedness;
(iii) We may be more highly leveraged than certain of our competitors, which may place us at a competitive disadvantage;

(iv) The agreements governing our long-term indebtedness and bank loans may contain restrictive financial and operating covenants;
(v) An event of default (not cured or waived) under financial and operating covenants contained in our debt instruments could occur and have a material adverse effect;
(vi) Certain of the borrowings under our debt agreements could have floating rates of interest, which would cause us to be vulnerable to increases in interest rates; and
(vii) Our degree of leverage could make us more vulnerable to a downturn in general economic conditions.
(viii) Our revolving credit facility and subordinate credit agreement contain a number of significant negative covenants that place limits on our activities and operations, including those relating to:

creation of liens,

hedging,

mergers, acquisitions, asset sales or dispositions,

payments of dividends,

incurrence of additional indebtedness, and

certain leases and investments outside of the ordinary course of business.

In addition, our revolving credit facility and subordinate credit agreement require us to maintain compliance with specified financial ratios and satisfy certain financial condition tests. Our ability to comply with these ratios and financial condition tests may be affected by events beyond our control, and we cannot assure you that we will meet these ratios and financial condition tests. These financial ratio restrictions and financial condition tests could limit our ability to obtain future financings, make needed capital expenditures, withstand a future downturn in our business or the economy in general or otherwise conduct necessary or desirable corporate activities.

A breach of any of these covenants or our inability to comply with the required financial ratios or financial condition tests could result in a default under our credit facilities. A default, if not cured or waived, could result in all of our indebtedness becoming immediately due and payable. If that should occur, we may not be able to pay all such debt or to borrow sufficient funds to refinance it. Even if new financing were then available, it may not be on terms that are acceptable to us.

We have outstanding debt of $8.5 million on our revolving credit facility and shareholders equity of $60.2 million at December 31, 2006. We may borrow up to an additional $16.5 million under our revolving credit facility and $15.0 million under our subordinate credit facility to fund acquisitions or for general corporate purposes. Our debt obligations could increase substantially.

We have incurred net losses in the past and there can be no assurance that we will be profitable in the future.

We have incurred net losses in four of the last five fiscal years. We cannot assure you that our current level of operating results will continue or improve. Our activities could require additional debt or equity financing on our part. Since the terms and availability of this financing depend to a large degree upon general economic conditions and third parties over which we have no control, we can give no assurance that we will obtain the needed financing or that we will obtain such financing on attractive terms. In addition, our ability to obtain financing depends on a number of other factors, many of which are also beyond our control, such as interest rates and national and local business conditions. If the cost of obtaining needed financing is too high or the terms of such financing are otherwise unacceptable in relation to the opportunity we are presented with, we may decide to forego that opportunity. Additional indebtedness could increase our leverage and make us more vulnerable to economic downturns and may limit our ability to withstand competitive pressures. Additional equity financing could result in dilution to our shareholders. Our future operating results may fluctuate significantly depending upon a number of factors, including industry conditions, prices of crude oil and natural gas, rates of production, timing of capital expenditures and drilling success. These variables could have a material adverse effect on our business, financial condition, results of operations and the market price of our Common Stock.

Estimates of crude oil and natural gas reserves depend on many assumptions that may turn out to be inaccurate.

Estimates of our *proved reserves* for crude oil and natural gas and the estimated future net revenues from the production of such reserves rely upon various assumptions, including assumptions as to crude oil and natural gas prices, drilling and operating expenses, capital expenditures, taxes and availability of funds. The process of estimating crude oil and natural gas reserves is complex and imprecise. Actual future production, crude oil and natural gas prices, revenues, taxes, development expenditures, operating expenses and quantities of recoverable crude oil and natural gas reserves may vary substantially from the estimates we obtain from reserve engineers. Any significant variance in these assumptions could materially affect the estimated quantities and *present value* of reserves we have set forth. In addition, our *proved reserves* may be subject to downward revision due to factors that are beyond our control, such as production history, results of future exploration and development, prevailing crude oil and natural gas prices and other factors.

Approximately 12% of our total estimated *proved reserves* at December 31, 2006 were *proved undeveloped reserves*, which are by their nature less certain.

Recovery of such reserves requires significant capital expenditures and successful drilling operations. The reserve data set forth in the reserve engineer reports assumes that substantial capital expenditures are required to develop such reserves. Although cost and reserve estimates attributable to our crude oil and natural gas reserves have been prepared in accordance with industry standards, we cannot be sure that the estimated costs are accurate, that development will occur as scheduled or that the results of such development will be as estimated.

You should not interpret the *present value* referred to in this annual report as the current market value of our estimated crude oil and natural gas reserves.

In accordance with Securities and Exchange Commission requirements, the estimated discounted future net cash flows from *proved reserves* are generally based on prices and costs as of the date of the estimate. Actual future prices and costs may be materially higher or lower.

The estimates of our *proved reserves* and the future net revenues from which the *present value* of our properties is derived were calculated based on the actual prices of our various properties on a property-by-property basis at December 31, 2006. The average sales prices of all properties were $57.67 per barrel of oil and $5.40 per thousand cubic feet (*Mcf*) of natural gas at that date.

Actual future net cash flows will also be affected by increases or decreases in consumption by crude oil and natural gas purchasers and changes in governmental regulations or taxation. The timing of both the production and the incurring of expenses in connection with the development and production of crude oil and natural gas properties affect the timing of actual future net cash flows from *proved reserves*. In addition, the 10% discount factor, which is required by the Securities and Exchange Commission to be used in calculating discounted future net cash flows for reporting purposes, is not necessarily the most appropriate discount factor. The effective interest rate at various times and the risks associated with our business or the oil and gas industry in general will affect the accuracy of the 10% discount factor.

Except to the extent that we acquire properties containing *proved reserves* or conduct successful development or exploitation activities, our *proved reserves* will decline as they are produced.

In general, the volume of production from crude oil and natural gas properties declines as reserves are depleted. Our future crude oil and natural gas production is highly dependent upon our success in finding or acquiring additional reserves.

The business of acquiring, enhancing or developing reserves requires considerable capital.

Our ability to make the necessary capital investment to maintain or expand our asset base of crude oil and natural gas reserves could be impaired to the extent that cash flow from operations is reduced and external sources of capital become limited or unavailable. In addition, we cannot be sure that our future acquisition and development activities will result in additional *proved reserves* or that we will be able to drill productive wells at acceptable costs.

Crude oil and natural gas drilling and production activities are subject to numerous risks, many of which are beyond our control. These risks include (i) the possibility that no commercially productive oil or gas reservoirs will be encountered; and, (ii) that operations may be curtailed, delayed or canceled due to title problems, weather conditions, governmental requirements, mechanical difficulties, or delays in the delivery of drilling rigs and other equipment that may limit our ability to develop, produce and market our reserves. We cannot assure you that new wells we drill will be productive or that we will recover all or any portion of our investment in such new wells.

Drilling for crude oil and natural gas may not be profitable.

Any wells that we drill may be dry wells or wells that are not sufficiently productive to be profitable after drilling. Such wells will have a negative impact on our profitability. In addition, our properties may be susceptible to drainage from production by other operators on adjacent properties.

The interpretation and analysis of 3-D seismic data does not allow the interpreter to know if hydrocarbons are present or economically producible.

Our decisions to purchase, explore, develop and exploit prospects or properties depend in part on data obtained through geophysical and geological analyses, production data and engineering studies, the results of which are uncertain. Even when used and properly interpreted, 3-D seismic data and visualization techniques only assist geoscientists and geologists in identifying subsurface structures and hydrocarbon indicators. They do not allow the interpreter to know if hydrocarbons are present or producible economically. In addition, the use of 3-D seismic and other advanced technologies require greater predrilling expenditures than traditional drilling strategies.

Our industry experiences numerous operating risks that could cause us to suffer substantial losses.

Such risks include fire, hurricanes, explosions, blowouts, pipe failure and environmental hazards, such as oil spills, natural gas leaks, ruptures or discharges of toxic gases. We could also suffer losses due to personnel injury or loss of life; severe damage to or destruction of property; or environmental damage that could result in clean-up responsibilities, regulatory investigation, penalties or suspension of our operations. In accordance with customary industry practice, we maintain insurance policies against some, but not all, of the risks described above. Our insurance policies may not adequately protect us against loss or liability. There is no guarantee that insurance policies that protect us against the many risks we face will continue to be available at justifiable premium levels.

As owners and operators of crude oil and natural gas properties, we may be liable under federal, state and local environmental regulations for activities involving water pollution, hazardous waste transport, storage, disposal or other activities.

Our past growth has been attributable to acquisitions of producing crude oil and natural gas properties with *proved reserves*. There are risks involved with such acquisitions.

The successful acquisition of properties requires an assessment of recoverable reserves, future crude oil and natural gas prices, operating costs, potential environmental and other liabilities, and other factors beyond our control. Such assessments are necessarily inexact and their accuracy uncertain. In connection with such an assessment, we perform a review of the subject properties that we believe to be generally consistent with industry practices. Such a review, however, will not reveal all existing or potential problems, nor will it permit us, as the buyer, to become sufficiently familiar with the properties to fully assess their capabilities or deficiencies. We may not inspect every well and, even when an inspection is undertaken, structural and environmental problems may not necessarily be observable.

When we acquire properties, in most cases, we are not entitled to contractual indemnification for pre-closing liabilities, including environmental liabilities.

We generally acquire interests in properties on an as is basis with limited remedies for breaches of representations and warranties, and in these situations we cannot assure you that we will identify all areas of existing or potential exposure. In those circumstances in which we have contractual indemnification rights for pre-closing liabilities, we cannot assure you that the seller will be able to fulfill its contractual obligations. In addition, the competition to acquire producing crude oil and natural gas properties is intense and many of our larger competitors have financial and other resources substantially greater than ours. We cannot assure you that we will be able to acquire producing crude oil and natural gas properties that have economically recoverable reserves for acceptable prices.

We may acquire *royalty, overriding royalty* or *working interests* in properties that are less than the controlling interest.

In such cases, it is likely that we will not operate, nor control the decisions affecting the operations, of such properties. We intend to limit such acquisitions to properties operated by competent parties with whom we have discussed their plans for operation of the properties.

We will need additional financing in the future to continue to fund our development and exploitation activities.

We have made and will continue to make substantial capital expenditures in our exploitation and development projects. We intend to finance these capital expenditures with cash flow from operations, existing financing arrangements or new financing. We cannot assure you that such additional financing will be available. If it is not available, our development and exploitation activities may have to be curtailed, which could adversely affect our business, financial condition and results of operations.

The marketing of our natural gas production depends, in part, upon the availability, proximity and capacity of natural gas gathering systems, pipelines and processing facilities.

We could be adversely affected by changes in existing arrangements with transporters of our natural gas since we do not own most of the gathering systems and pipelines through which our natural gas is delivered to purchasers. Our ability to produce and market our natural gas could also be adversely affected by federal, state and local regulation of production and transportation.

The crude oil and natural gas industry is highly competitive in all of its phases.

Competition is particularly intense with respect to the acquisition of desirable *producing properties*, the acquisition of crude oil and natural gas prospects suitable for enhanced production efforts, the obtaining of goods and services from industry providers, and the hiring of experienced personnel. Our competitors in crude oil and natural gas acquisition, development, and production include the major oil companies, in addition to numerous independent crude oil and natural gas companies, individual proprietors and drilling programs.

Many of these competitors possess and employ financial and personnel resources substantially in excess of those which are available to us and may, therefore, be able to pay more for desirable *producing properties* and *prospects* and to define, evaluate, bid for, and purchase a greater number of *producing properties* and *prospects* than our financial or personnel resources will permit. Our ability to generate reserves in the future will be dependent on our ability to select and acquire suitable *producing properties* and *prospects* while competing with these companies.

The domestic oil industry is extensively regulated at both the federal and state levels. Although we believe we are presently in compliance with all laws, rules and regulations, we cannot assure you that changes in such laws, rules or regulations, or the interpretation thereof, will not have a material adverse effect on our financial condition or the results of our operations.

Legislation affecting the oil and gas industry is under constant review for amendment or expansion, frequently increasing the regulatory burden on the industry. There are numerous federal and state agencies authorized to issue rules and regulations affecting the oil and gas industry. These rules and regulations are often difficult and costly to comply with and carry substantial penalties for noncompliance.

State statutes and regulations require permits for drilling operations, drilling bonds, and reports concerning operations. Most states also have statutes and regulations governing conservation matters, including the unitization or pooling of properties, and the establishment of maximum rates of production from wells. Some states have also enacted statutes prescribing price ceilings for natural gas sold within their states.

Our industry is also subject to numerous laws and regulations governing plugging and abandonment of wells, discharge of materials into the environment and other matters relating to environmental protection. The heavy regulatory burden on the oil and gas industry increases the costs of our doing business as an oil and gas company, consequently affecting our profitability.

We have blank check preferred stock.

Our Certificate of Incorporation authorizes the Board of Directors to issue preferred stock without further shareholder action in one or more series and to designate the dividend rate, voting rights and other rights preferences and restrictions. The issuance of preferred stock could have an adverse impact on holders of Common Stock. Preferred stock is senior to Common Stock. Additionally, preferred stock could be issued with dividend rights senior to the rights of holders of Common Stock. Finally, preferred stock could be issued as part of a poison pill , which could have the effect of deterring offers to acquire the Company. See Description of Securities

We are not paying dividends on our Common Stock.

Our board of directors presently intends to retain all of our earnings for the expansion of our business; therefore we do not anticipate distributing cash dividends on our Common Stock in the foreseeable future. Any decision of our board of directors to pay cash dividends will depend upon our earnings, financial position, cash requirements and other factors.

One investor controls us.

As a result of preferred stock offerings in February 2005, OCMGW Holdings (OCMGW) acquired a controlling interest in us. OCMGW has or has the right to acquire approximately 5.2 million shares of our Common Stock pursuant to conversion of Series G Preferred Stock, including undeclared convertible dividends, and Series H Preferred Stock owned by it which represents approximately 54% of the currently outstanding Common Stock, assuming the conversion of preferred stock and undeclared dividends held by it. Pursuant to the terms of Series G Preferred Stock, the holders of the Series G Preferred Stock, voting as a class, have the right to elect a majority of our board of directors. OCMGW currently owns approximately 95% of the Series G Preferred Stock.

Additionally, OCMGW and all current directors and officers as a group represent approximately 55% of the outstanding voting power (assuming they convert all preferred stock other than the Series G Preferred Stock and Series H Preferred Stock, which vote on an as converted basis, and exercise all currently exercisable warrants and options held by them). For as long as OCMGW and the other directors and officers continue to own over a majority of the outstanding voting power, they will be able to control matters submitted to shareholders. The percentage ownership of OCMGW, directors and officers could be reduced by the issuance of Common Stock on conversion of preferred stock and the exercise of warrants, although it is impossible to say how many shares will be actually issued.

The holders of our Common Stock do not have cumulative voting rights, preemptive rights or rights to convert their Common Stock to other securities.

We are authorized to issue 200.0 million shares of Common Stock, $0.001 par value per share. As of March 19, 2007 there were 3.3 million shares of Common Stock issued and outstanding. Since the holders of our Common Stock do not have cumulative voting rights, the holder(s) of a majority of the shares of Common Stock, and Series G Preferred Stock and Series H Preferred Stock (on an as converted basis) present, in person or by proxy, will be able to elect all of the remaining members of our board of directors that the holders of the Series G Preferred Stock are not entitled to elect as a class. The holders of shares of our Common Stock do not have preemptive rights or rights to convert their Common Stock into other securities.

The number of shares of outstanding Common Stock could increase significantly as a result of the 2005 sale of Series G Preferred Stock sold to OCMGW and Affiliates.

If all of the Common Stock underlying our various convertible and derivative securities, including warrants and granted employee stock options, is issued by us, the number of our outstanding shares of Common Stock would increase to approximately 8.7 million shares. Currently, we are only authorized to issue 200.0 million shares of our Common Stock, 3.3 million shares of which are outstanding as of March 19, 2007. It is impossible to say how many shares, if any, we will issue and how many shares, in turn, will be resold. However, it is possible that our stock price could decline significantly as a result of an increased number of shares being offered into the market.

Our 1-for-10 reverse stock split could cause a reduction in the total market value of our common stock, increase the volatility of our stock price and has increased the number of shares of common stock we may issue.

Our 1-for-10 reverse stock split effectuated after the close of business on September 15, 2006, where each 10 shares of our common stock was combined and converted into one share of common stock, with any fractional shares resulting from the split rounded upward to the nearest whole number of shares, could reduce the liquidity of our common stock. Reduced liquidity may reduce the value of our common stock and our ability to use our equity as consideration for an acquisition or other corporate opportunity. In addition, the reverse split has decreased the number of shares outstanding, giving individual orders the potential to create increased volatility in our stock price. As a result of the reverse stock split, we are able to issue significantly more shares of our common stock which could have a material adverse affect on the market price of our common stock. We are currently authorized to issue 200.0 million shares of common stock and, as a result of the reverse stock split, have approximately 3.3 million shares outstanding based on our capitalization as of March 19, 2007.

ITEM 2. Properties

At December 31, 2006, we owned a total of 245 *gross wells*, of which 119 were *producing*, 105 were shut-in or temporarily abandoned and 21 were injection or saltwater wells. We owned an average 86% *working interest* in the 119 gr*oss* (103 *net*) *producing wells*. Gross *wells* are the total wells in which we own a *working interest*. *Net wells* are the sum of the fractional *working interests* we own in *gross wells*. Our part of the estimated *proved reserves* these properties contain was approximately 2.5 million barrels (*MMBL*) of oil and 31.4 billion cubic feet (*Bcf*) of natural gas at December 31, 2006. Substantially all of our properties are located onshore in Texas, Colorado, Mississippi and Louisiana or shallow inland waters in Louisiana.

Proved Reserves

The following table reflects our estimated *proved reserves* at December 31 for each of the preceding three years.

	2006	**2005**	**2004**
Crude Oil (*MBbl*)			
Developed	2,250	2,423	2,575
Undeveloped	251	285	388
Total	2,501	2,708	2,963
Natural Gas (*MMcf*)			
Developed	27,146	19,658	20,966
Undeveloped	4,242	4,992	8,125
Total	31,388	24,650	29,091
Total (*MMcfe*)	46,394	40,898	46,869

(a) Approximately 88% of our total *proved reserves* was classified as proved developed at December 31, 2006.

Standardized Measure of Discounted Future Net Cash Flows

The following table sets forth as of December 31 for each of the preceding three years, the estimated future net cash flow from and *standardized measure* of discounted future net cash flows of our *proved reserves*, which were prepared in accordance with the rules and regulations of the SEC and the Financial Accounting Standard Board. Future net cash flow represents future gross cash flow from the production and sale of *proved reserves*, net of crude oil and natural gas production costs (including production taxes, ad valorem taxes and operating expenses) and future development costs. The calculations used to produce the figures in this table are based on current cost and price factors at December 31 for each year. We cannot assure you that the *proved reserves* will all be developed within the periods used in the calculations or those prices and costs will remain constant.

	2006	**2005**	**2004**
Future cash inflows	$ 313,312,927	$ 425,080,357	$ 290,998,312
Future production and development costs:			
Production	108,693,762	101,677,305	80,880,330
Development	26,229,488	27,467,896	24,141,982
Future cash flows before income taxes	178,389,677	295,935,156	185,976,000
Future income taxes	(43,534,046)	(91,664,228)	(49,871,272)
Future net cash flows after income taxes	134,855,631	204,270,928	136,104,728
10% annual discount for estimated timing of cash flows	(57,442,604)	(85,873,789)	(52,602,351)
Standardized measure of discounted future net cash flows	$ 77,413,027	$ 118,397,139	$ 83,502,377

(1) The average sales prices utilized in the estimation of our proved reserves were $57.67 per Bbl and $5.40 per Mcf, $57.79 per Bbl and $10.90 per Mcf and $40.41 per Bbl and $5.89 per Mcf, at December 31, 2006, 2005 and 2004, respectively.

Significant Properties

Summary information on our properties with *proved reserves* is set forth below as of December 31, 2006.

	Productive Wells		Proved Reserves			Present Value[1]
	Gross Productive Wells	Net Productive Wells	Crude Oil (*MBbl*)	Natural Gas (*MMcf*)	Total (*MMcfe*)	Amount ($M)
Texas	66	61.64	968	19,329	25,137	$46,242
Colorado	35	24.44	323	5,879	7,817	18,492
Louisiana	16	16.00	1,163	6,180	13,156	36,964
Mississippi	1	0.37	47		284	704
Offshore	1	0.25				
Total	119	102.70	2,501	31,388	46,394	$102,402

(1) The average sales prices used in the estimation of our proved reserves were $57.67 per Bbl and $5.40 per Mcf at December 31, 2006.

All information set forth herein relating to our proved reserves, estimated future net cash flows and present values is taken from reports prepared by independent petroleum engineers. The estimates of these engineers were based upon their review of production histories and other geological, economic, ownership and engineering data

provided by and relating to us. No reports on our reserves have been filed with any federal agency. In accordance with the SEC s guidelines, our estimates of proved reserves and the future net revenues from which present values are derived are made using year end crude oil and natural gas sales prices held constant throughout the life of the properties (except to the extent a contract specifically provides otherwise). Operating costs, development costs and certain production-related taxes were deducted in arriving at estimated future net revenues, but such costs do not include debt service, general and administrative expenses and income taxes.

There are numerous uncertainties inherent in estimating crude oil and natural gas reserves and their values, including many factors beyond our control. The reserve data set forth in this report are based upon estimates. Reservoir engineering is a subjective process, which involves estimating the sizes of underground accumulations of crude oil and natural gas that cannot be measured in an exact manner. The accuracy of any reserve estimate is a function of the quality of available data, engineering and geological interpretation of that data and judgment. As a result, estimates of different engineers, including those used by us, may vary. In addition, estimates of reserves are subject to revision based upon actual production, results of future development, exploitation and exploration activities, prevailing crude oil and natural gas prices, operating costs and other factors. Such revisions may be material. Accordingly, reserve estimates are often different from the quantities of crude oil and natural gas that are ultimately recovered and are highly dependent upon the accuracy of the assumptions upon which they are based. We cannot assure you that the estimates contained in this report are accurate predictions of our crude oil and natural gas reserves or their values. Estimates with respect to proved reserves that may be developed and produced in the future are often based upon volumetric calculations and upon analogy to similar types of reserves rather than upon actual production history. Estimates based on these methods are generally less reliable than those based on actual production history. Subsequent evaluation of the same reserves based upon production history will result in potentially substantial variations in the estimated reserves.

Production, Revenue and Price History

The following table sets forth information (associated with our proved reserves) regarding production volumes of crude oil and natural gas, revenues and expenses attributable to such production (all net to our interests) and certain price and cost information as of December 31 for each of the preceding three years.

	2006	**2005**	**2004**
Production			
Oil (*Bbl*)	184,881	177,833	173,865
Natural gas (*Mcf*)	1,542,423	1,482,250	1,033,433
Total (*MCFE*)	2,651,709	2,549,248	2,076,623
Revenue			
Oil production	$ 10,908,030	$ 7,044,429	$ 5,498,598
Natural gas production	10,569,705	10,507,221	5,602,516
Total	$ 21,477,735	$ 17,551,650	$ 11,101,114
Operating Expenses	$ 7,527,589	$ 5,585,297	$ 4,879,754
Production Data			
Average sales price (1)			
Per barrel of oil	$ 59.00	$ 39.61	$ 31.63
Per *Mcf* of natural gas	$ 6.85	$ 7.09	$ 5.42
Per *MCFE*	$ 8.10	$ 6.89	$ 5.35
Average expenses per *MCFE*			
Lease operating	$ 2.84	$ 2.19	$ 2.35
Exploration expenses	$ 0.17	$ 0.16	$
Depreciation, depletion and Amortization	$ 1.49	$ 1.23	$ 1.05
General and administrative(2)	$ 3.29	$ 1.48	$ 0.92

(1) Average sales prices are shown net of the settled amounts of our oil and gas hedge contracts. Average sales prices per MCFE, before adjustments for the hedge contracts, were $8.34, $8.43 and $6.23 in 2006, 2005 and 2004, respectively.
(2) Non-cash stock option expense related to our adoption of SFAS 123R on January 1, 2006 was $1.39 per mcfe.

Productive Wells

The following table shows the number of producing wells we own by location at December 31, 2006:

	Gross Oil Wells	Net Oil Wells	Gross Gas Wells	Net Gas Wells
Texas	20	19.48	46	42.16
Colorado	18	11.89	17	12.55
Louisiana	12	12.00	4	4.00
Mississippi	1	0.37		
Offshore			1	0.25
Total	51	43.74	68	58.96

In addition, we have 105 inactive wells (101 net) and 21 salt water disposal wells (21 net).

Developed Acreage

The following table shows the developed acreage that we own, by location, at December 31, 2006 which is acreage spaced or assigned to productive wells. *Gross acres* are the total acres in which we own a working interest. Net acres are the sum of the fractional *working interests* we own in gross acres.

	Gross Acres	Net Acres
Texas	10,172	9,359
Colorado	3,000	2,100
Louisiana	1,440	1,440
Total	14,612	12,899

Undeveloped Acreage

The following table shows the undeveloped acreage that we own, by location at December 31, 2006. Undeveloped acreage is acreage on which wells have not been drilled or completed to a point that would form the basis to determine whether the property is capable of production of commercial quantities of crude oil and natural gas.

	Gross Acres	Net Acres
Texas	31,791	30,456
Colorado	14,300	10,700
Louisiana	160	160
Total	46,251	41,316

Drilling Results

During 2006, we drilled the Johnston Gas Unit #2 well and the Fuhlberg Gas Unit #1 well in the Madisonville (Rodessa) Field, Madison County, Texas. These wells contain high levels of hydrogen sulfide and other inert components and must be treated before being merchantable. The wells were completed and we are awaiting the completion of natural gas treating facilities and a salt water disposal well before bringing them online. Actual production levels will not be determined until the wells commence actual production.

Also, in 2006, we drilled two wells in the DJ Basin in Colorado. The wells are the Kissler #2 well located in Weld County, Colorado and the Amoco State Lease #41-16 well located in Adams County, Colorado. Both wells were successfully completed and are producing oil and natural gas.

In 2005, we drilled the Upchurch McDougald Gas Unit #1 well in the Iola Field, Grimes County, Texas. This well was completed as a natural gas well. Also in 2005, we participated as a working interest owner, but not as well operator, in the LyLidia #1 well, Jim Webb County, Texas and the Mustang Island Block 749 Gas Unit No. 2 exploratory well that was drilled in Texas state waters. Neither well was commercially productive.

During 2004, we drilled the Hassler Gas Unit #1 well in the Iola Field, Grimes County, Texas which was completed as a natural gas well.

Costs Incurred

The following table shows the costs incurred in our oil and gas producing activities for the past three years:

	2006	2005	2004
Property Acquisitions:			
Proved	$	$ 142,867	$ 6,742
Unproved	8,745,363	1,244,975	17,347

Development Costs	6,465,719	6,171,241	6,117,899
Exploration Costs	10,783,663	3,157,841	
Total	$ 25,994,745	$ 10,716,924	$ 6,141,988

Property Dispositions

The following table shows oil and gas property dispositions:

	2006	2005	2004
Oil and gas properties	$	$ 31,337	$ 5,425,040
Accumulated DD&A			(1,659,001)
Oil and gas properties, net	$	$ 31,337	$ 3,766,039

As a result of these sales, we recorded a loss on sale of $13,022 and $2.0 million in 2005 and 2004 respectively.

Marketing

We sell substantially all of our crude oil and natural gas production to purchasers pursuant to sales contracts that typically have a thirty-day primary term, although occasionally we enter into longer term contracts when it is advantageous to do so. The sales prices for crude oil and condensate are tied to industry standard posted prices plus negotiated premiums. The sales prices for natural gas are based upon published index prices, subject to negotiated price deductions.

ITEM 3. Legal Proceedings

From time to time, we are involved in litigation relating to claims arising out of our operations or from disputes with vendors in the normal course of business. As of March 19, 2007, we were not engaged in any legal proceedings that are expected, individually or in the aggregate, to have a material adverse effect on the Company.

ITEM 4. Submission of Matters to a Vote of Security Holders

We did not submit any matters to a vote of our security holders during the fourth quarter of the fiscal year ended December 31, 2006.

PART II

ITEM 5. Market for Registrant s Common Equity and Related Stockholder Matters

The high and low trading prices for the Common Stock for each quarter in 2006 and 2005 are set forth below. The trading prices represent prices between dealers, without retail mark-ups, mark-downs, or commissions, and may not necessarily represent actual transactions.

	High	Low
2006		
First Quarter	$ 10.10	$ 5.60
Second Quarter	8.90	6.30
Third Quarter	7.90	6.40
Fourth Quarter	7.30	5.20
2005		
First Quarter	$ 14.90	$ 7.50
Second Quarter	12.10	8.40
Third Quarter	13.90	8.50
Fourth Quarter	11.10	8.50

Stock Performance Chart

The following chart compares the yearly percentage change in the cumulative total stockholder return on our Common Stock during the five years ended December 31, 2006 with the cumulative total return of the Standard and Poor s 500 Stock Index and of the Dow Jones U.S. Exploration and Production Index (formerly Dow Jones Secondary Oils Stock Index). The comparison assumes $100 was invested on December 31, 2001 in our Common Stock and in each of the foregoing indices and assumes reinvestment of dividends. We paid no dividends on our Common Stock during such five-year period.

Comparison of Five-Year Cumulative Total Return Among Crimson Exploration,

S&P 500 Index and the Dow Jones U.S. Exploration and Production Index

	Crimson	S&P 500 Index	DJ US Expl & Prod Index*
December 31, 2001	$ 100.00	$ 100.00	$ 100.00
December 31, 2002	$ 65.67	$ 76.63	$ 102.17
December 31, 2003	$ 62.69	$ 96.85	$ 133.90
December 31, 2004	$ 135.82	$ 105.56	$ 189.97
December 31, 2005	$ 134.33	$ 108.73	$ 314.06
December 31, 2006	$ 93.28	$ 123.54	$ 330.93

* formerly Dow Jones Secondary Oils Stock Index

Common Stock

We are authorized to issue up to 200.0 million shares of Common Stock, par value $0.001 per share. As of March 19, 2007, there were 3,338,749 shares of Common Stock issued and outstanding and held by approximately 242 record holders. Our Common Stock is traded over-the-counter (OTC) under the symbol CXPO . Fidelity Transfer Company, 1800 South West Temple, Suite 301, Box 53, Salt Lake City, Utah 84115, (801) 484-7222 is the transfer agent for the Common Stock.

Holders of Common Stock are entitled, among other things, to one vote per share on each matter submitted to a vote of shareholders and, in the event of liquidation, to share ratably in the distribution of assets remaining after payment of liabilities (including preferential distribution and dividend rights of holders of preferred stock). Holders of Common Stock have no cumulative rights. The holders of a majority of the outstanding shares of the Common Stock and Series G and H Preferred Stock (on an as converted basis) have the ability to elect all of the directors that the Series G does not elect. On February 28, 2005, the holders of the Series G Preferred Stock were granted the right to elect a majority of our Board of Directors.

Holders of Common Stock have no preemptive or other rights to subscribe for shares. Holders of Common Stock are entitled to such dividends as may be declared by the Board out of funds legally available therefor. We have never paid cash dividends on the Common Stock and do not anticipate paying any cash dividends in the foreseeable future.

Preferred Stock

Our board of directors is authorized, without further shareholder action, to issue preferred stock in one or more series and to designate the dividend rate, voting rights and other rights, preferences and restrictions of each such series. Our preferred stock is senior to our Common Stock regarding liquidation. The holders of the preferred stock do not have voting rights (except for the holders of the Series G and Series H Preferred Stock as discussed below) or preemptive rights, nor are they subject to the benefits of any retirement or sinking fund. We are authorized to issue up to 10.0 million shares of preferred stock.

As of March 19, 2007, there were a total of 103,220 shares of preferred stock issued and outstanding in four series: Series D, E, G and H Preferred Stock.

The Series D Preferred Stock is not entitled to dividends, nor is it redeemable; however it is convertible to Common Stock at anytime based on $80.00 per share of Common Stock. The 8,000 outstanding shares of Series D Preferred Stock are held by a former director and none have been converted. On a fully converted basis, the 8,000 shares of Series D Preferred Stock would convert to 50,000 shares of Common Stock.

The Series E Preferred Stock is entitled to receive dividends at the rate of 6% per share per annum, which may be deferred for the first four years after issuance and those deferred dividends will be convertible into Common Stock at the conversion price of $9.00 per share of Common Stock. The conversion price for the Series E Preferred Stock is otherwise based on $20.00 per share of Common Stock. The Series E Preferred Stock is held by a former director and none of the 9,000 outstanding shares has been redeemed or converted. On a fully converted basis, the 9,000 shares of Series E Preferred Stock would convert to 225,000 shares of Common Stock. The Series E Preferred Stock has an aggregate liquidation preference of $4.5 million, excluding accumulated and undeclared dividends, and is senior to all of our Common Stock and of equal preference with our Series D Preferred Stock and junior to our Series G Preferred Stock and Series H Preferred Stock.

The 81,000 shares of our Series G Preferred Stock bear a coupon of 8% per year and have an aggregate liquidation preference of $40.5 million, excluding accumulated and undeclared dividends. For the first four years after issuance, we may defer the payment of dividends on the Series G Preferred Stock and these deferred dividends will also be convertible into our Common Stock at $9.00 per share. In addition, the Series G Preferred Stock is entitled to vote on an as-converted basis with the holders of our Common Stock and, as a class, is entitled to nominate and elect a majority of the members of our Board of Directors. The Series G Preferred Stock is senior to all of our outstanding capital stock in liquidation preference.

The Series H Preferred Stock is required to be paid a dividend of 40 shares of Common Stock per Series H Preferred Stock share per year. In addition, the Series H Preferred Stock is convertible into Common Stock at a conversion price of $3.50 per share. The Series H Preferred Stock has an aggregate liquidation value of $2.6 million and is senior to all of our outstanding capital stock in liquidation preference other than its Series G Preferred Stock. There were 5,220 shares of Series H Preferred Stock outstanding at December 31, 2006.

Outstanding Options and Warrants.

At December 31, 2006, we had outstanding employee stock options, under our 1994 and 2004 Stock Option and Compensation Plans, to purchase 150,800 (all vested) shares of Common Stock at prices ranging from $4.50 to $18.10 per share and warrants to purchase 3,000 shares of Common Stock at $0.10 per share. On February 28, 2005 we established our 2005 Stock Incentive Plan and authorized the issuance of 2.7 million shares of Common Stock pursuant to awards under the plan, of which approximately 2.2 million (321,000 vested) shares were outstanding at December 31, 2006.

Recent Sales of Unregistered Securities.

As shown in the table that follows, during 2006 we issued Common Stock not registered under the Securities Act of 1933, as amended, in transactions we believe are exempt under Section 4(2) of the Act due to the limited number of persons involved and their relationship with us. No underwriters were used, and no underwriting discounts or commissions were paid in connection with the sales.

Date	Derivative	Holder(s)	Underlying Shares	Exercise/ Conversion Price	Consideration
3/01/06	Common Stock	Accredited Investors	26,234	NA	Bonus compensation to Company s Executive Officers
5/12/06	Common Stock	Accredited Investors	2,410	N/A	Director Compensation

*Received reduced number of shares in exchange for the exercise price.

ITEM 6. Selected Financial Data

The following table sets forth our selected consolidated financial data for the last five years ended as of December 31. This data should be read in conjunction with our Consolidated Financial Statements and the accompanying notes in Item 8, Item 1. Business and Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations included elsewhere in this Form 10-K.

	Year Ended December 31,				
	2006	**2005**	**2004**	**2003**	**2002**
Income Statement Data					
Operating revenues	$21,659,481	$17,682,808	$11,207,673	$11,010,723	$10,839,797
Net income (loss) from operations [1]	(2,458,685)	637,823	(476,264)	558,774	310,290
Net income (loss)	1,858,944	(3,543,239)	8,072,221	(3,024,426)	(4,502,313)
Dividends on preferred stock	(3,648,925)	(3,562,472)	(455,612)	(127,083)	(112,500)
Net income (loss) available to common shareholders	(1,789,981)	(7,105,711)	7,616,609	(3,151,509)	(4,614,813)
Net income (loss), per share of common stock, basic	$(0.55)	$(2.66)	$4.11	$(1.71)	$(2.46)
Weighted average number of shares of common stock outstanding	3,231,000	2,673,882	1,853,503	1,849,255	1,849,255

(1) Our adoption of SFAS 123r on January 1, 2006 resulted in expense of $3.7 million.

Balance Sheet Data					
Current assets	$4,231,983	$5,825,078	$3,808,878	$1,742,689	$2,353,046
Total assets	84,702,722	63,114,949	57,876,164	52,428,774	53,088,941
Current liabilities	10,932,155	6,855,735	37,249,217	44,619,652	43,998,566
Long-term liabilities	12,444,784	3,453,952	1,950,304	1,393,607	137,808
Other liabilities				591,467	1,128,993
Stockholders equity	$61,325,783	$52,805,262	$ 18,676,643	$ 5,824,648	$ 7,823,574

20

ITEM 7. Management s Discussion and Analysis of Financial Condition and Results of Operations

Overview

We are primarily engaged in the acquisition, development, exploitation and production of crude oil and natural gas, primarily in the onshore producing regions of the United States. Our focus is on increasing production from our existing properties through further exploitation, development and exploration, and on acquiring additional interests in undeveloped crude oil and natural gas properties. Our gross revenues are derived from the following sources:

1. **Oil and gas sales** that are proceeds from the sale of crude oil and natural gas production to midstream purchasers. This represents over 99% of our gross revenues.
2. **Operating overhead and other income** that consists of administrative fees received for operating crude oil and natural gas properties for other working interest owners and for marketing and transporting natural gas for those owners. This also includes earnings from other miscellaneous activities.

The following is a discussion of our consolidated results of operations, financial condition and capital resources. You should read this discussion in conjunction with our Consolidated Financial Statements and the Notes thereto contained elsewhere in this Form 10-K.

Results of Operations

Comparative results of operations for the periods indicated are discussed below.

Year Ended December 31, 2006 Compared to Year Ended December 31, 2005

Revenues

Oil and Gas Sales. Revenues from the sale of crude oil and natural gas, net of realized losses from our hedging instruments, increased approximately $3.9 million, or 22%, to $21.5 million in 2006 from $17.6 million in 2005. We realized a loss of $0.8 million on our oil hedges and a gain of $0.2 million on our gas hedges in 2006 compared to losses of approximately $2.4 million for oil and $1.5 million for gas in 2005. Hedging contracts in place for 2006 had better relative terms than those in effect in 2005. The increase in net revenues was due to higher realized crude oil and natural gas prices and slightly higher sales volumes.

For 2006, sales volumes were 184,881 barrels of crude oil and 1,542,423 mcf of natural gas, or 2,651,709 natural gas equivalents (mcfe) compared to 177,833 barrels of crude oil and 1,482,250 mcf of natural gas, or 2,549,248 mcfe in 2005. On a daily basis we produced an average of 7,265 mcfe in 2006 compared to a daily average of 6,984 mcfe in 2005.

Oil and gas prices are reported net of the realized effects of our hedging agreements. Prices realized in 2006 were $59.00 per bbl and $6.85 per mcf compared to $39.61 per bbl and $7.09 per mcf in 2005. Prices before the effects of the hedging agreements were $63.29 per bbl and $6.76 per mcf in 2006 compared to $53.49 per bbl and $8.08 per mcf in 2005.

Operating Overhead and Other Income. Revenues from these activities increased to $0.2 million in 2006 from $0.1 million in 2005 due to an increase in overhead reimbursements from non-operating partners.

Costs and Expenses

Lease Operating Expenses. Lease operating expenses increased $1.9 million, or 35%, to $7.5 million in 2006 from $5.6 million in 2005. The increase was due to higher production taxes from higher revenues, higher expense related to production enhancing costs incurred on producing wells and higher cost of goods and services prevalent in the industry.

On a per unit basis, expenses increased to $2.84 per mcfe in 2006 from $2.19 per mcfe in 2005 on the higher costs and lower production.

Exploration Expense. Exploration expense was $0.4 million in both 2006 and 2005 as we acquired seismic data for prospect generation and made a delay rental payment in association with our Culberson County leases. We will continue to invest capital in seismic data and lease rentals costs as we develop and expand our internal exploratory prospect generation capability.

Depreciation, Depletion and Amortization (DD&A). DD&A expense for 2006 was $4.0 million compared to $3.1 million for 2005, due primarily to the increase in the DD&A rate per unit to $1.49 per mcfe in 2006 from $1.23 per mcfe in 2005.

Dry Holes, Abandonment Costs and Impaired Assets. Dry hole, abandonment and impairment expense was $3.2 million in 2006 compared to $4.1 million in 2005. The expense in 2006 included an impairment of $3.1 million on our Iola property due to the expiration of certain undeveloped leasehold interests and the impairment of proved reserves related to declining performance and the lower gas prices upon which the proved reserves were valued. Included in the 2005 expense were two exploratory dry holes.

General and Administrative (G&A) Expenses. Our G&amp