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**10-Q**

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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

**FORM 10-Q**

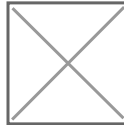
**QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE  
ACT OF 1934**

**For the quarterly period ended December 31, 2011**

**TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE  
ACT OF 1934**

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

**Commission File Number: 001-32508**



**LUCAS ENERGY, INC.**

(Exact name of registrant as specified in its charter)

**Nevada**

(State or other jurisdiction of incorporation or organization)

**20-2660243**

(I.R.S. Employer Identification  
No.)

**3555 Timmons Lane, Suite 1550, Houston, Texas 77027**

(Address of principal executive offices) (Zip Code)

**(713) 528-1881**

(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  No

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer", "accelerated filer", "non-accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

<u><b>Title of each class</b></u>	<u><b>Number of Shares</b></u>
Common Stock, par value \$0.001 per share	19,540,914 (as of February 3, 2011)

**LUCAS ENERGY, INC.**

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**PART 1. FINANCIAL INFORMATION**  
**ITEM 1. FINANCIAL STATEMENTS**

**LUCAS ENERGY, INC.**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**  
*(Unaudited)*

	<b>December 31, 2011</b>	<b>March 31, 2011</b>
	<u>          </u>	<u>          </u>
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash	\$ 2,255,164	\$ 2,471,108
Accounts Receivable	586,911	806,098
Property Sale Receivable	1,500,000	-
Inventories	63,868	-
Other Current Assets	169,238	152,793
Total	<u>4,575,181</u>	<u>3,429,999</u>
<b>Property, Plant and Equipment</b>		
Oil and Gas Properties (Full Cost Method)	61,594,252	24,650,840
Other Property, Plant and Equipment	594,817	93,199
Total Property, Plant and Equipment	<u>62,189,069</u>	<u>24,744,039</u>
Accumulated Depletion, Depreciation and Amortization	(4,985,089)	(3,753,275)
Total Property, Plant and Equipment, Net	<u>57,203,980</u>	<u>20,990,764</u>
<b>Deposit for Acquisition of Oil and Gas Properties</b>	-	500,000
<b>Other Assets</b>	<u>510,052</u>	<u>57,112</u>
<b>Total Assets</b>	<u><u>\$ 62,289,213</u></u>	<u><u>\$ 24,977,875</u></u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>Current Liabilities</b>		
Accounts Payable	\$ 5,231,879	\$ 2,236,917
Common Stock Payable	57,082	503,750
Accrued Expenses	790,044	255,239
Advances From Working Interest Owners	1,752,698	357,399
Notes Payable	22,255,000	-
Current Portion of Long-Term Debt	33,942	30,727
Total	<u>30,120,645</u>	<u>3,384,032</u>
<b>Asset Retirement Obligation</b>	624,452	409,112
<b>Long-Term Debt</b>	31,551	60,114
<b>Commitments and Contingencies (see Note 10)</b>		
<b>Stockholders' Equity</b>		
Preferred Stock, 10,000,000 Shares Authorized of \$0.001 Par, No Shares Issued and Outstanding at March 31, 2011		
Series A Convertible Preferred Stock, 2,000 Shares Issued and Outstanding at December 31, 2011	3,095,600	-
Series B Convertible Preferred Stock, 2,824 Shares Issued and Outstanding at December 31, 2011	5,166,754	-
Common Stock, 100,000,000 Shares Authorized of \$0.001 Par, 19,573,510 Shares Issued and 19,536,610 Outstanding Shares at December 31, 2011 and 16,727,713 Issued and 16,690,813 Outstanding Shares at March 31, 2011, Respectively	19,574	16,728
Additional Paid in Capital	35,719,605	28,461,239
Accumulated Deficit	(12,439,809)	(7,304,191)
Common Stock Held in Treasury, 36,900 Shares, at Cost	<u>(49,159)</u>	<u>(49,159)</u>

Total Stockholders' Equity	<u>31,512,565</u>	<u>21,124,617</u>
<b>Total Liabilities and Stockholders' Equity</b>	<u><u>\$ 62,289,213</u></u>	<u><u>\$ 24,977,875</u></u>

The accompanying notes are an integral part of these condensed consolidated financial statements.

**LUCAS ENERGY, INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**  
*(Unaudited)*

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>December 31,</b>		<b>December 31,</b>	
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
<b>Net Operating Revenues</b>				
Crude Oil	\$ 1,298,670	\$ 686,317	\$ 3,431,014	\$ 2,200,705
Natural Gas	8,202	276	75,748	2,018
Total	<u>1,306,872</u>	<u>686,593</u>	<u>3,506,762</u>	<u>2,202,723</u>
<b>Operating Expenses</b>				
Lease Operating Expenses	1,252,959	340,468	2,887,728	959,665
Severance and Property Taxes	69,275	47,584	188,800	136,358
Depreciation, Depletion, Amortization and Accretion	561,448	265,426	1,260,314	829,718
General and Administrative	1,430,130	1,165,246	3,861,508	2,523,443
Total	<u>3,313,812</u>	<u>1,818,724</u>	<u>8,198,350</u>	<u>4,449,184</u>
<b>Operating Loss</b>	<u>(2,006,940)</u>	<u>(1,132,131)</u>	<u>(4,691,588)</u>	<u>(2,246,461)</u>
<b>Other Income (Expense), Net</b>	303	-	(291,406)	(22,660)
<b>Interest Expense</b>	<u>(146,783)</u>	<u>-</u>	<u>(152,624)</u>	<u>(261,212)</u>
<b>Loss Before Income Taxes</b>	<u>(2,153,420)</u>	<u>(1,132,131)</u>	<u>(5,135,618)</u>	<u>(2,530,333)</u>
<b>Income Tax Provision</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Net Loss</b>	<u><u>\$ (2,153,420)</u></u>	<u><u>\$ (1,132,131)</u></u>	<u><u>\$ (5,135,618)</u></u>	<u><u>\$ (2,530,333)</u></u>
 <b>Net Loss Per Share</b>				
Basic and Diluted	<u>\$ (0.11)</u>	<u>\$ (0.08)</u>	<u>\$ (0.28)</u>	<u>\$ (0.19)</u>
 <b>Average Number of Common Shares</b>				
Basic and Diluted	<u>19,556,132</u>	<u>13,865,616</u>	<u>18,376,494</u>	<u>13,638,324</u>

The accompanying notes are an integral part of these condensed consolidated financial statements.

**LUCAS ENERGY, INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
*(Unaudited)*

	<b>Nine Months Ended December 31,</b>	
	<b>2011</b>	<b>2010</b>
<b>Cash Flows from Operating Activities</b>		
Reconciliation of Net Loss to		
Net Cash Used in Operating Activities:		
Net Loss	\$ (5,135,618)	\$ (2,530,333)
Items Not Requiring Cash		
Depreciation, Depletion, Amortization and Accretion	1,260,314	829,718
Share-Based Compensation	319,894	615,395
Non-Operating Expense Relating to Exercise of Warrants	293,278	-
Amortization of Deferred Financing Costs	-	250,921
Unrealized Loss on Marketable Securities	-	22,660
Changes in Components of Working Capital and Other Assets		
Accounts Receivable	219,187	(125,660)
Inventories	(63,868)	-
Other Current Assets	37,743	(46,546)
Accounts Payable and Accrued Expenses	3,129,767	192,180
Advances from Working Interest Owners	1,395,299	(2,308,724)
Other Assets	(7,128)	-
Changes in Components of Working Capital Associated with Investing Activities	(2,544,350)	(83,848)
<b>Net Cash Used in Operating Activities</b>	<b>(1,095,482)</b>	<b>(3,184,237)</b>
<b>Investing Cash Flows</b>		
Additions of Oil and Gas Properties	(9,863,314)	(8,887,722)
Additions of Other Property, Plant and Equipment	(176,618)	(52,791)
Proceeds from Sale of Oil and Gas Properties	2,210,096	11,973,620
Deposit for acquisition of property, plant and equipment	500,000	(500,000)
Other	-	(58,022)
Changes in Components of Working Capital Associated with Investing Activities	2,544,350	83,848
<b>Net Cash Provided by (Used In) Investing Activities</b>	<b>(4,785,486)</b>	<b>2,558,933</b>
<b>Financing Cash Flows</b>		
Net Proceeds from Sales of Common Stock	5,760,373	6,859,962
Repayment of Borrowings	(95,349)	(2,150,000)
<b>Net Cash Provided by Financing Activities</b>	<b>5,665,024</b>	<b>4,709,962</b>
Increase (Decrease) in Cash and Cash Equivalents	(215,944)	4,084,658
Cash and Cash Equivalents at Beginning of the Period	2,471,108	1,822,780
Cash and Cash Equivalents at End of the Period	<b>\$ 2,255,164</b>	<b>\$ 5,907,438</b>

The accompanying notes are an integral part of these condensed consolidated financial statements.

**LUCAS ENERGY, INC.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
(Unaudited)

**NOTE 1 - GENERAL**

**History.** Incorporated in Nevada in December 2003 under the name Panorama Investments Corp., the Company changed its name to Lucas Energy, Inc. effective June 9, 2006.

**Basis of Presentation.** The accompanying unaudited interim condensed consolidated financial statements of Lucas Energy, Inc., together with its subsidiaries (collectively, Lucas or the Company) have been prepared in accordance with accounting principles generally accepted in the United States and the rules of the Securities and Exchange Commission, and should be read in conjunction with the audited financial statements and notes thereto contained in Lucas's annual report filed with the SEC on Form 10-K for the year ended March 31, 2011. In the opinion of management, all adjustments, consisting of normal recurring adjustments, necessary for a fair presentation of financial position and the results of operations for the interim periods presented have been reflected herein. The results of operations for interim periods are not necessarily indicative of the results to be expected for the full year. Notes to the condensed consolidated financial statements which would substantially duplicate the disclosures contained in the audited financial statements for the most recent fiscal year 2011 as reported in Form 10-K have been omitted.

**Fiscal Year.** The Company's fiscal year ends on the last day of March of the calendar year. The Company refers to the twelve-month periods ended March 31, 2012 and 2011 as our 2012 and 2011 fiscal year, respectively.

**Use of Estimates.** The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Lucas's condensed consolidated financial statements are based on a number of significant estimates, including oil and gas reserve quantities which are the basis for the calculation of depreciation, depletion and impairment of oil and gas properties, and timing and costs associated with its retirement obligations, as well as those related to the fair value of stock options, stock warrants and stock issued for services.

**Reclassification.** Certain reclassifications have been made to prior period financial statements to conform with the current presentation.

**Cash and Cash Equivalents.** Cash and cash equivalents include cash in banks and financial instruments which mature within three months of the date of purchase.

**Income Taxes.** Deferred taxes are provided on the liability method whereby deferred tax assets are recognized for deductible temporary differences and operating loss and tax credit carry-forwards and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the reported amounts of assets and liabilities and their tax bases. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. Deferred tax assets and accrued tax liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment.

Lucas has evaluated and concluded that there are no significant uncertain tax positions requiring recognition in the Company's financial statements as of December 31, 2011. The Company's policy is to classify assessments, if any, for tax related interest and penalties as interest expense.

**Concentration of Credit Risk.** Financial instruments, that potentially subject Lucas to concentration of credit risk, consist of accounts receivable. Under Section 343 of the Dodd-Frank Wall Street Reform and Consumer Protection Act, for the two-year period of January 1, 2011 through December 31, 2012, cash balances in noninterest-bearing transaction accounts at all FDIC-insured depository institutions are provided temporary unlimited deposit insurance coverage. At December 31, 2011, cash balances in interest-bearing accounts totaled \$4,800.

Accounts receivable are recorded at the invoiced amount and generally do not bear interest. Any allowance for doubtful accounts is based on management's estimate of the amount of probable losses due to the inability to collect from customers. As of December 31, 2011, no allowance for doubtful accounts has been recorded.

**Fair Value of Financial Instruments.** As of December 31, 2011 and March 31, 2011, the fair value of Lucas's cash, accounts receivable, note receivable, accounts payable and notes payable approximate their carrying values because of the short-term maturity of these instruments.

**Earnings per Share of Common Stock.** Basic and diluted net income per share calculations are calculated on the basis of the weighted average number of shares of the Company's common stock (Common Shares) outstanding during the period. Purchases of treasury stock reduce the outstanding shares commencing on the date that the stock is purchased. Common stock equivalents, for example, stock option, warrant and convertible preferred stock, are excluded from the calculation when a loss is incurred as their effect would be anti-dilutive.

At December 31, 2011, stock options to purchase 456,000 common shares at an average exercise price of \$2.88 per share and warrants to purchase 2,966,136 common shares at an average exercise price of \$2.67 per share were outstanding. During the three months ended December 2011, Lucas issued 2,000 shares of Series A Convertible Preferred Stock and 2,824 shares of Series B Convertible Preferred Stock for interests in oil and gas properties. Both the Series A and Series B Convertible Preferred Stock shares are convertible into an aggregate of 1,000 shares of the Company's common stock and have no liquidation preference and no maturity date.

At December 31, 2010, stock options to purchase 96,000 common shares at an average exercise price of \$2.07 per share and warrants to purchase 5,476,642 common shares at an average exercise price of \$2.65 per share were outstanding at December 31, 2010.

**Subsequent Events.** Lucas evaluated all transactions from December 31, 2011 through the financial statement issuance date for subsequent event disclosure.

**Recent Accounting Pronouncements.** In May 2011, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2011-04, which amends the Fair Value Measurements and Disclosures topic of the Accounting Standards Codification. The amendments clarify the FASB's intent about the application of existing fair value measurement requirements and change certain principles or requirements for measuring fair value or disclosing information about fair value measurements. ASU 2011-04 is effective for interim and annual fiscal periods beginning after December 15, 2011. The Company does not expect that the adoption of ASU 2011-04 will have a material impact on its financial statements.

## **NOTE 2 - MARKETABLE SECURITIES**

At December 31, 2011 and March 31, 2011, Lucas held 3,300,000 shares of Bonanza Oil and Gas Inc. (Bonanza) common stock recorded at zero value. During the nine months ended December 31, 2010, pursuant to mark-to-market accounting, Lucas reported a non-cash unrealized loss on Bonanza common shares of \$21,450.

## **NOTE 3 - PROPERTY, PLANT AND EQUIPMENT**

### **Oil and Gas Properties**

Lucas uses the full cost method of accounting for oil and gas producing activities. Costs to acquire mineral interests in oil and gas properties, to drill and equip exploratory wells used to find proved reserves, and to drill and equip development wells including directly related overhead costs and related asset retirement costs are capitalized. Properties not subject to amortization consist of acquisition, exploration and development costs, which are evaluated on a property-by-property basis. Amortization of these unproved property costs begins when the properties become proved or their values become impaired and the corresponding costs are added to the capitalized costs subject to amortization. Costs of oil and gas properties are amortized using the units of production method. Amortization expense calculated per equivalent physical unit of production amounted to \$30.47 per barrel of oil equivalent ("BOE") for the three months ended December 31, 2011, and was \$26.12 per BOE for the three months ended December 31, 2010. Amortization expense calculated per equivalent physical unit of production amounted to \$30.47 per BOE for the nine months ended December 31, 2011, and was \$26.12 per BOE for the nine months ended December 31, 2010. Sales of oil and natural gas properties are accounted for as adjustments to the net full cost pool and generally, no gain or loss is recognized.

In applying the full cost method, Lucas performs an impairment test (ceiling test) at each reporting date, whereby the carrying value of property and equipment is compared to the “estimated present value,” of its proved reserves discounted at a 10-percent interest rate of future net revenues, based on current economic and operating conditions at the end of the period, plus the cost of properties not being amortized, plus the lower of cost or fair market value of unproved properties included in costs being amortized, less the income tax effects related to book and tax basis differences of the properties. If capitalized costs exceed this limit, the excess is charged as an impairment expense. As of December 31, 2011, no impairment of oil and gas properties was indicated.

All of Lucas's oil and gas properties are located in the United States. Below are the components of Lucas's oil and gas properties recorded at cost as of December 31, 2011:

Proved leasehold costs	\$	27,880,935
Costs of wells and development		26,174,353
Capitalized asset retirement costs		492,486
Oil and gas properties not subject to amortization		7,046,478
Total oil and gas properties		<u>61,594,252</u>
Accumulated depreciation and depletion		<u>(4,910,807)</u>
Net capitalized costs	\$	<u><u>56,683,445</u></u>

The oil and gas properties not subject to amortization consists primarily of the costs relating to the Hall Phoenix acquisition. The following table sets forth the changes in the total cost of oil and gas properties during the nine months ended December 31, 2011:

Balance at beginning of period	\$	24,650,840
Acquisition of oil and gas interests using		
Cash		676,926
Non-Cash		30,890,194
Tangible and intangible drilling costs and title related expenses		9,186,388
Sale of oil and gas interests provided by		
Cash proceeds		(2,210,096)
Non-Cash proceeds		(1,600,000)
Balance at end of period	\$	<u><u>61,594,252</u></u>

Acquisitions using cash and tangible and intangible drilling costs and title related expenses for the nine months ended December 31, 2011 total to \$9,863,314.

In September 2011, Lucas entered into several joint venture agreements to drill new Austin Chalk horizontal wells. Under the agreement, the counterparty purchased a working interest in the well operated by Lucas. Proceeds from the sale of the partial working interest were approximately \$100,100 and were recorded as a reduction in the full cost pool.

On October 13, 2011, Lucas entered into a purchase and sale agreement with Nordic Oil USA I, LLLP (Nordic 1), with an effective date of July 1, 2011, to purchase all of Nordic 1's interests in certain oil, gas and mineral leases, rights and assets located in Gonzales, Karnes and Wilson Counties, Texas, which represent all of Nordic 1's interests in the existing two capital programs operated by Lucas (the Nordic 1 Transaction). Pursuant to the agreement, the closing of the Nordic 1 Transaction was deferred until Nordic 1's shareholders ratified the transaction effective November 18, 2011. Pursuant to the transaction, Lucas agreed to pay \$22.0 million to Nordic 1 in the form of a non-recourse senior secured promissory note. See Note 6 - Note Payable.

The following depicts the unaudited fair value of the consideration paid and the fair value allocation of assets acquired for the Nordic 1 acquisition at the closing date:

Assets Acquired:		
Oil and Gas Properties	\$	22,000,000
		<u>22,000,000</u>
Consideration Paid:		
Note Payable	\$	22,000,000
		<u>22,000,000</u>

The following table presents unaudited pro forma condensed consolidated results of operations for the Company as if the Nordic 1 acquisition had occurred on April 1, 2010:

	<b>Nine Months Ended</b>	
	<b>December 31,</b>	
	<b>2011</b>	<b>2010</b>
Net Operating Revenues	\$ 4,368,733	\$ 2,849,783
Operating Loss	(4,937,333)	(2,215,781)
Interest Expense	(997,624)	(1,251,212)
Net Loss	\$ (6,226,363)	\$ (3,489,653)
<b>Net Loss Per Share</b>		
Basic and Diluted	\$ (0.34)	\$ (0.26)
	<u>(0.34)</u>	<u>(0.26)</u>
<b>Average Number of Common Shares</b>		
Basic and Diluted	18,376,494	13,638,324
	<u>18,376,494</u>	<u>13,638,324</u>

The unaudited pro forma results reflect the revenues and direct operating expenses of the properties acquired and adjustments to recognize depreciation, depletion and amortization expense and accretion expense based on the fair value determination and our closing date oil and gas reserve estimates as well as interest expense on the \$22.0 million note at 6% interest beginning April 1, 2010 and an increase in asset retirement obligation as of April 1, 2010. The unaudited pro forma results are not necessarily indicative of what the Company's consolidated results of operations actually would have been had the acquisitions been completed on April 1, 2010. In addition, the unaudited pro forma results do not purport to project the future results of operations going forward due to both changes in the business and the omission of various operating expenses. Production and reserves, as well as costs and expenses, associated with the acquired properties may differ significantly from those characteristics when such properties became owned and operated by Lucas.

On October 13, 2011, Lucas also entered into a purchase agreement with a company, with an effective date of July 1, 2011, to purchase all of that company's interests in the properties acquired from Nordic 1, as discussed above, in consideration for 2,000 shares of designated Series A Convertible Preferred Stock of the Company, each of which shares are convertible into an aggregate of 1,000 shares of the Company's common stock. The closing of the transaction with the holder was subject to the successful closing of the Nordic 1 Transaction. The transaction was valued at \$3.8 million. Due to the six-month holding period during which the holder of the Series A Convertible Preferred Stock is not allowed to sell the shares of the Company's common stock when converted, the value of the transaction was recorded at a discount. The Series A Convertible Preferred Stock contains a provision that limits the amount of common shares that the holder can own at any time upon conversion to an aggregate of 4.99% of the Company's then issued and outstanding shares of common stock.

In October 2011, Lucas entered into a purchase and sale agreement with Nordic Oil USA 2, LLLP (Nordic 2), with an effective date of February 1, 2011, to sell to Nordic 2 all of Lucas's interests in certain oil, gas and mineral leases located in McKinley County, New Mexico for \$4 million in cash, of which \$2.5 million was received prior to December 31, 2011, and the remaining \$1.5 million has been received as of the date of this report. The proceeds from this sale were recorded as a reduction in the full cost pool with no gain or loss recorded from the sale. The Company acquired the properties in January 2011 in a purchase transaction for \$2.5 million, which included a deposit of \$0.5 million. Nordic 2 acquired, among other things, the rights to the \$0.5 million deposit. Net proceeds to the Company from the sale were approximately \$3.6 million after deducting commissions. No revenues or expenses were recorded by Lucas relating to these properties since the properties were acquired in January 2011.



On December 1, 2011, Lucas entered into an asset sale agreement with a company to sell certain underperformed wells. Lucas received as consideration \$100,000 in cash and a \$500,000 secured promissory note, of which approximately \$54,000 was current as of December 31, 2011. The proceeds from sale were recorded as a reduction in the full cost pool with no gain or loss recorded on the sale. The note bears interest at 6% per annum with monthly installments of \$7,300, including accrued interest, through 2018. The note is included in Other Assets with the current portion included in Other Current Assets.

On December 29, 2011, Lucas entered into a purchase and sale agreement with Hall Phoenix Energy, LLC (Hall Phoenix), with an effective date of December 1, 2011, to purchase all of Hall Phoenix's interests in certain primarily undeveloped oil, gas and mineral leases, rights and assets located in Leon, Madison and Wilson Counties, Texas. Pursuant to the transaction, Lucas agreed to pay as consideration 2,824 shares of Series B Convertible Preferred Stock of the Company, each of which shares are convertible into an aggregate of 1,000 shares of the Company's common stock. The transaction was valued at \$6.4 million. Due to the six-month holding period during which the holder of the Series B Convertible Preferred Stock is not allowed to sell the shares of the Company's common stock when converted, the value of the transaction was discounted. The Series B Convertible Preferred Stock contains a provision that limits the amount of common shares that the holder can own at any time upon conversion to an aggregate of 9.99% of Company's then issued and outstanding shares of common stock.

On April 1, 2010, Lucas entered into a purchase and sale agreement with HilCorp Energy I, L.P. (HilCorp) for the development of Lucas's Eagle Ford Shale properties located in Gonzales County, Texas. The agreement provided for HilCorp to acquire an undivided eighty-five (85%) working interest in all the formations below the Austin Chalk formation held by Lucas in Gonzales County, Texas. During the nine months ended December 31, 2010, Lucas received gross proceeds of approximately \$10.1 million and net proceeds of approximately \$8.9 million, after distribution to Lucas's working interest participants of their proportionate share of proceeds totaling approximately \$1.2 million. Final closing occurred in March 2011.

#### ***Other Property, Plant, and Equipment***

On November 21, 2011, Lucas entered into a purchase agreement for a building in Gonzales County for \$450,000 to be used as office space. Pursuant to the agreement, the Company agreed to pay \$325,000 in the form of a promissory note to be repaid in monthly installments. The final payment is due on May 1, 2012. The note bears an interest rate of 8% per annum and is collateralized by the property. As of December 31, 2011, the balance of the note was \$255,000 and is included in Notes Payable. At the issuance date of these financial statements, the balance of the note was \$185,000.

#### ***NOTE 4 – ASSET RETIREMENT OBLIGATIONS***

The following table presents the reconciliation of the beginning and ending aggregate carrying amounts of long-term legal obligations associated with the retirement of oil and gas property, plant and equipment for the nine-month periods ended December 31, 2011 and 2010. Lucas did not have any short-term asset retirement obligations as of December 31, 2011.

	Nine Months Ended December 31,	
	2011	2010
Carrying amount at beginning of period	\$ 409,112	\$ 327,412
Liabilities incurred	232,126	43,170
Liabilities settled	-	-
Accretion	28,385	18,000
Revisions	-	-
Reduction for sale of oil and gas property	(45,171)	-
Carrying amount at end of period	<u>\$ 624,452</u>	<u>\$ 388,582</u>

#### ***NOTE 5 - REVOLVING LINE OF CREDIT AND LETTER OF CREDIT FACILITY***

On May 5, 2010, Lucas terminated its credit facility with Amegy Bank and paid off the then outstanding balance of \$2.15 million. Lucas expensed the remaining unamortized deferred financing costs totaling \$250,921 as interest expense during the nine months ended December 31, 2010.

## NOTE 6 – NOTE PAYABLE

As discussed in Note 3, pursuant to the purchase of Nordic 1's interest in certain properties, Lucas agreed to pay \$22.0 million to Nordic 1 in the form of a non-recourse senior secured promissory note. As such, Nordic 1's only recourse is against the properties acquired in the transaction, and the note is not secured by any of the Company's other assets. The note is due on or before November 17, 2012 and bears interest at 6% per annum. As of December 31, 2011, Lucas has accrued approximately \$145,000 of interest payable for this note.

## NOTE 7 – STOCKHOLDERS' EQUITY

### Preferred Stock

Preferred stock issuances for property acquisitions are recorded at the fair value of the shares on the date of issuance. Both the Series A and Series B Convertible Preferred Stock shares are convertible into an aggregate of 1,000 shares of the Company's common stock and have no liquidation preference and no maturity date. The Series B Preferred Stock has dividend rights when and if cash dividends are declared by the Company on an "if converted" basis. Additionally, the conversion rate of the Series A and B Convertible Preferred Stock adjusts automatically in connection with and in proportion to any dividends payable by the Company in common stock.

During the three months ended December 2011, Lucas issued 2,000 shares of Series A Convertible Preferred Stock and 2,824 shares of Series B Convertible Preferred Stock for interests in oil and gas properties. See Note 3 – Property, Plant and Equipment.

### Common Stock

The following summarizes Lucas's common stock activity during the nine-month period ended December 31, 2011:

	Common Shares				
	Amount	Issued		Treasury	Outstanding
		Per Share	Shares		
Balance at March 31, 2011			16,727,713	(36,900)	16,690,813
Series C Warrants Exercised	\$ 5,760,373	\$ 2.29	2,510,506	-	2,510,506
Property Acquisitions	441,000	2.94	150,000	-	150,000
Share-Based Compensation	613,983	3.31	185,291	-	185,291
Balance at December 31, 2011			<u>19,573,510</u>	<u>(36,900)</u>	<u>19,536,610</u>

The exercise price of the Series C Warrants was \$2.48 per share. The per share price of \$2.29 shown in the above tabulation was net of commissions paid to the placement agent, see "Warrants" below for additional information. Common stock issuances for property acquisitions and share-based compensation are recorded at the grant date fair value of the shares on the date of issuance. See Note 9 – Share-Based Compensation for information on common stock activity related to Share-Based Compensation, including shares granted to the board of directors, officers, employees and consultants.

### Warrants

During the nine months ended December 31, 2011, the Company did not issue any warrants, and none of the Company's outstanding warrants expired. The Company's Series C Warrants were exercised as discussed below.

The following is a summary of the Company's outstanding warrants at December 31, 2011:

Warrants Outstanding	Exercise Price (\$)	Expiration Date	Intrinsic Value at December 31, 2011
305,000 <sup>(1)</sup>	1.00	August 31, 2012	\$ -
150,630 <sup>(2)</sup>	2.98	July 3, 2014	-
2,510,506 <sup>(3)</sup>	2.86	July 6, 2016	-
<u>2,966,136</u>	<u>2.67</u>		<u>\$ -</u>

- (1) Warrants issued in connection with the sale of units in a private equity placement in September 2009.
- (2) Placement agent warrants issued in connection with the sale of units in the Company's unit offering in December 2010. The warrants were not exercisable until July 4, 2011 and will remain exercisable until, and including, July 3, 2014.
- (3) Series B Warrants issued in connection with the sale of units in the Company's unit offering in December 2010. The Series B Warrants became exercisable on July 4, 2011 and will remain exercisable until, and including, July 3, 2016.

In July 2011, in an effort to secure the funding for the capital expenditure program for the current fiscal year and to avoid the unpredictable nature of the financial market, the Company incentivized the institutional investors who purchased securities in the Company's December 2010 offering to exercise the Series C Warrants they purchased as part of the offering by entering into an amendment to the original Series C Warrant Agreement on July 18, 2011 (the Amendment Agreement). The expiration date for the Series C Warrants was August 3, 2011. Without changing the expiration date, the Amendment Agreement required the investors to immediately exercise 25% of the Series C Warrants they held and the Company to lower the exercise price of the Series C Warrants to \$2.48 per share from the original exercise price of \$2.62 per share. Pursuant to the Series C Warrant Agreement, as amended, the investors were required to exercise all of their remaining Series C Warrants if the closing bid price of the Company's stock was higher than the amended exercise price on August 3, 2011. Since the closing bid price on that date for the Company's stock was \$2.51, all remaining Series C Warrants were exercised. Net proceeds to the Company from exercises of all of the 2,510,506 Series C Warrants were approximately \$5.8 million after deducting commissions paid to the placement agent. The Company used the net proceeds for general corporate purposes, including the funding of capital expenditures. Based on the Black Scholes option pricing model, the change in the exercise price resulted in an increase of \$293,277 in the aggregate value of the Series C Warrants. Pursuant to the Stock Compensation Topic of the Financial Accounting Standards Board Accounting Standards Codification (ASC Topic 718), the Company recorded the increase as a non-operating expense in Other Income (Expense) in the Condensed Consolidated Statements of Operations and recorded the same amount in Additional Paid in Capital in the Condensed Consolidated Balance Sheets.

#### ***NOTE 8 – INCOME TAXES***

The Company has estimated that its effective tax rate for U.S. purposes will be zero for the 2012 fiscal year and consequently, recorded no provision or benefit for income taxes for the nine months ended December 31, 2011.

#### ***NOTE 9 – SHARE-BASED COMPENSATION***

In accordance with the provisions of ASC Topic 718, Lucas measures the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award.

##### ***Common Stock***

Lucas awarded 35,724 and 60,291 shares of its common stock with an aggregate grant date fair value of \$51,500 and \$115,000 during the three and nine-month periods ended December 31, 2011, respectively, which were valued based on the trading value of Lucas's common stock on the dates of grant. The shares were awarded according to the employment agreements with certain officers and other managerial personnel. The stock compensation expense recognized for the awards of these shares was \$51,500 and \$167,300 for the three and nine-month periods ended December 31, 2011, respectively.

In April 2011, Lucas issued 125,000 shares of its common stock, which were previously accrued for and valued at \$498,750 as of March 31, 2011, to a business consultant for his services provided during the 2011 fiscal year.

##### ***Stock Options***

None of the Company's outstanding options expired, were exercised or forfeited during the nine months ended December 31, 2011. During the nine months ended December 31, 2010, 200,000 of the Company's outstanding options expired.

The following table sets forth stock option activity for the three-month and nine-month periods ended December 31, 2011 and 2010:

	Three Months Ended December 31, 2011		Three Months Ended December 31, 2010	
	Number of Stock Options	Weighted Average Grant Price	Number of Stock Options	Weighted Average Grant Price
Outstanding at September 30	456,000	\$ 2.88	200,000	\$ 2.60
Granted	-	-	96,000	2.07
Expired	-	-	(200,000)	2.60
Outstanding at December 31	<u>456,000</u>	<u>\$ 2.88</u>	<u>96,000</u>	<u>\$ 2.07</u>
	Nine Months Ended December 31, 2011		Nine Months Ended December 31, 2010	
	Number of Stock Options	Weighted Average Grant Price	Number of Stock Options	Weighted Average Grant Price
Outstanding at March 31	256,000	\$ 1.96	200,000	\$ 2.60
Granted	200,000	4.05	96,000	2.07
Expired	-	-	(200,000)	2.60
Outstanding at December 31	<u>456,000</u>	<u>\$ 2.88</u>	<u>96,000</u>	<u>\$ 2.07</u>
Exercisable at December 31	<u>96,000</u>	<u>\$ 2.00</u>	<u>96,000</u>	<u>\$ 2.07</u>

During the quarter ended June 30, 2011, Lucas granted 200,000 stock options to an officer valued at approximately \$604,000. Lucas did not grant any stock options during the three months ended December 31, 2011. Lucas granted 96,000 stock options during the three months ended December 31, 2010. The grant date fair values of the stock options are amortized and recognized as compensation expenses over the service period.

Compensation expense related to stock options granted during the three-month period and nine-month period ended December 31, 2011 was \$50,900 and \$152,600, respectively. The options vest 25% on each of the first four anniversary dates and have a 5 year exercise period. The exercise prices for the options equal the closing price of the Company stock on the grant dates. All issuances were valued at fair value on the date of grant based on the market value of Lucas' common stock using the Black Scholes option pricing model with the following weighted average assumptions used for grants; dividend yield of 0.00%; expected volatility of 116%; risk-free interest rate of 1.31% and expected term of 3.1 years.

Options outstanding and options exercisable at December 31, 2011 had an intrinsic value of \$88,960. Options outstanding and options exercisable at December 31, 2010 had no intrinsic value. The intrinsic value is based upon the difference between the market price of Lucas's common stock on the date of exercise and the grant price of the stock options.

The following tabulation summarizes the remaining terms of the options outstanding:

Exercise Price	Remaining Life (Yrs)	Options Outstanding	Options Exercisable
\$ 2.00	(0.25)	96,000	96,000
\$ 1.94	(0.25)	160,000	-
\$ 4.05	(0.25)	200,000	-
	Total	<u>456,000</u>	<u>96,000</u>

As of December 31, 2011, total unrecognized stock-based compensation expense related to all non-vested stock options was \$650,249, which is being recognized over a weighted average period of approximately 3.2 years.



On December 16, 2011, the shareholders of the Company approved the Company's 2012 Stock Incentive Plan (the 2012 Plan). The 2012 Plan is intended to secure for the Company the benefits arising from ownership of the Company's common stock by the employees, officers, directors and consultants of the Company, all of whom are and will be responsible for the Company's future growth. The 2012 Plan provides an opportunity for any employee, officer, director or consultant of the Company to receive incentive stock options (to eligible employees only), nonqualified stock options, restricted stock, stock awards, and shares in performance of services. As of December 31, 2011, there were 1,500,000 shares available for issuance under the 2012 Plan and 11,700 shares available for issuance under the Company's 2010 Long-Term Incentive Plan.

**NOTE 10 – COMMITMENTS AND CONTINGENCIES**

*Legal Proceedings.* The Company is periodically named in legal actions arising from normal business activities. Lucas evaluates the merits of these actions and, if the Company determines that an unfavorable outcome is probable and can be reasonably estimated, we will establish the necessary reserves. Lucas does not anticipate any material losses as a result of commitments and contingent liabilities. Lucas is not involved in any material legal proceedings.

**NOTE 11 – POSTRETIREMENT BENEFITS**

On April 1, 2011, Lucas established a matched defined contribution savings plan for its employees. During the three and nine months ended December 31, 2011, Lucas's total costs recognized for the savings plan were approximately \$8,816 and \$23,484, respectively.

**NOTE 12 – SUPPLEMENTAL CASH FLOW INFORMATION**

	Nine Months Ended December 31,	
	2011	2010
Cash Paid for Interest	\$ 7,964	\$ 261,212
Noncash Investing and Financing Activities:		
Issuance of note payable for the purchase of certain oil and gas properties	22,000,000	-
Issuance of note payable for the purchase of certain other property, plant and equipment	325,000	-
Issuance of preferred stock for the purchase of certain oil and gas properties	8,262,354	-
Issuance of common stock for the purchase of certain oil and gas properties	441,000	317,506
Accounts receivable for the sale of certain oil and gas properties	1,500,000	-
Note receivable for the sale of certain oil and gas properties	500,000	-
Increase in asset retirement obligations	186,840	43,170
Deferred payment on property acquisition	-	838,075
Deferred offering costs applied to sale of common stock	-	119,912
Receivable extinguished for oil and gas properties	-	21,947

## ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

*The following discussion and analysis should be read in conjunction with the unaudited financial statements and notes thereto included elsewhere in this report, and should be read in conjunction with management's discussion and analysis contained in Lucas's Annual Report on Form 10-K for the fiscal year ended March 31, 2011 (the 2011 Annual Report) and related discussion of our business and properties contained therein. The terms "Company," "Lucas Energy," "Lucas," "we," "us" and "our" refer to Lucas Energy, Inc. and its subsidiary. See also, "Cautionary Note Regarding Forward-Looking Statements", below.*

### Overview

Lucas Energy, Inc., a Nevada corporation, is an independent oil and gas company based in Houston, Texas. Lucas Energy, Inc. together with its subsidiary, acquires oil and gas properties and develops, produces and markets crude oil and natural gas from various known geological formations, including the Austin Chalk, Eagle Ford and Buda Formations, primarily in Gonzales, Wilson, Karnes and Atascosa Counties south of the city of San Antonio and Leon and Madison Counties north of the city of Houston. Our goal is to become a recognized player in the development and production of crude oil and natural gas in established oil fields.

The Company's strategy is twofold:

- We focus on building and developing a portfolio of oil and gas assets by acquiring what we believe are undervalued, underdeveloped and underperformed properties for which we believe we can increase production economically and profitably. We do not operate in land not known to be a productive field; that is, we do not drill wildcat wells.
- To efficiently pave the way towards growth, we monetize and divest non-core oil and gas assets and enter into joint ventures, farm-outs and drilling arrangements with select, reputable oil and gas companies to exploit the productive geological formations in our properties.

Our fiscal year ends on the last day of March of the calendar year. We refer to the twelve-month period ended March 31, 2012 as our 2012 fiscal year and the nine months ended December 31, 2011 as our third quarter of fiscal year 2012.

### Operations

During the first nine months of our fiscal year 2012, we continued our efforts on improving production, especially from our existing Austin Chalk wells, to capitalize on their undeveloped potential. During the quarter ended December 31, 2011, we also increased our production by acquiring additional property interests in the Austin Chalk. Our efforts resulted in 75% growth in our crude oil sale volume and an 89% growth in our crude oil sales for the quarter ending December 31, 2011 as compared to the same period a year ago. For the nine months ended December 31, 2011, our crude oil sale volume increased 28% and crude oil sales increased 56% as compared to the same period a year ago.

To expedite the production growth of the Company, we prepared for our 2012 Austin Chalk horizontal well drilling program early in the first quarter of the 2012 fiscal year; and in late June, commenced the program by drilling a new horizontal well, the Rainey Unit No.1H, in Gonzales County. A portion of the well is on the same lease as the two Hagen Eagle Ford No. 1H and No. 2H wells operated by Marathon Oil Company (Marathon). The Rainey Unit No.1H well was successfully completed in early September and is currently producing 80–100 gross barrels of oil per day (BOPD) from the Austin Chalk formation. Lucas owns an approximate 30% working interest in the well. To date, the well has produced over 6,500 barrels (Bbls) of oil. Recently, the well was acidized and production increased above 100 BOPD.

During the quarter ended December 31, 2011, the Company completed the re-drilling of the lateral on Milton Hines No. 1 and spudded the Kuntschik No.1 HST and Hagen Ranch No. 4H wells. These wells are located in Gonzales County, Texas and are horizontal wells in the Austin Chalk formation. The Milton Hines No. 1 well is currently producing 80–100 gross BOPD. Lucas owns a 100% working interest in this well. The Kuntschik No. 1HST well is recovering load water but is making approximately 40 BOPD. Production is anticipated to increase after recovery of the load water. The Hagen Ranch No.4H well is on the same lease as our Hagen EF No.1H and No.2H wells, which are operated by Marathon and are producing from the Eagle Ford formation. We anticipate commencing production and testing soon. This well is also located on the same lease as the two Marathon-operated

Eagle Ford wells. As reported in early February 2012, the official 24 hour test indicated production of approximately 475 BOPD, 232 thousands of cubic feet (MCFPD) of natural gas, and 103 barrels of water per day (BWPD) with 419 pounds per square inch (psig) of flowing tubing pressure (FTP) on a 20/64" choke. Further testing indicated that the well was capable of producing 846 BOPD, 422 MCFPD, and 264 BWPD at 283 psig of FTP on a 36/64" choke. This choke size was slightly greater than a 1/2" pipe, or approximately 60% of the full opening choke size. We believe that the Hagen Ranch No.4H well may have a greater capacity during the initial production period. Future production rates will be determined by technical information, safety, tank capacity, and other factors. It is likely that, the well may be put on an artificial lift in the future; specifically a pumping unit may be added. Lucas has an approximate 25% working interest in this well.

In January 2012, the Company spudded the Hagen Ranch Unit No.1HST well in Gonzales County, Texas. The well is a new lateral from an old horizontal well in the Austin Chalk formation. This well is also located on the same lease as the two Marathon-operated Eagle Ford wells.

The Company plans to drill additional new Austin Chalk horizontal wells and new Austin Chalk laterals from old well bores during the remainder of the 2012 calendar year. In addition, the Marathon-operated Eagle Ford program is anticipated to add another two to three wells during the same period. Marathon and the predecessor company to the participation agreement did not drill the minimum number of two wells during the 2011 calendar year as anticipated by the agreement. Lucas has been in discussions with Marathon regarding the drilling program, and lingering issues left over from before Marathon took over management of the program. Marathon has assured us that their intention is to propose to drill the maximum number of three wells (two is the minimum) in the Eagle Ford on the Lucas property allowed under the participation agreement for calendar year 2012. The participation agreement also provides that if both parties consent, additional wells beyond the aforementioned three wells may be drilled by Marathon.

On November 18, 2011, Lucas was informed by Nordic Oil USA I, LLLP (Nordic 1) that its shareholders had ratified the purchase and sale agreement which the Company and Nordic 1 entered into on October 13, 2011. Pursuant to the agreement, effective July 1, 2011, the Company purchased all of Nordic 1's right, title and interest in certain oil, gas and mineral leases located in Gonzales, Karnes and Wilson Counties, Texas. The property interests acquired represent all of Nordic 1's interests in the LEI 2009 II and III Capital Programs. Pursuant to the transaction, Lucas paid \$22.0 million to Nordic 1 in the form of a non-recourse senior secured promissory note. The payment of the note is secured solely by a deed of trust, security agreement, financing statement and assignment of production on the properties acquired. As such, Nordic 1's only recourse is against the properties acquired in the transaction, and the note is not secured by any of the Company's other assets. The note is due on or before November 17, 2012 (a year from the official closing date) and bears interest at 6% per annum. The Company also entered into a purchase agreement with an entity pursuant to which the Company agreed to purchase the entity's property interests in the same properties acquired from Nordic 1 in consideration for 2,000 shares of Series A Convertible Preferred Stock of the Company. The Series A Convertible Preferred Stock has no voting rights, no liquidation rights and no redemption rights, but has conversion rights. The conversion rights provide the holder thereof the right to convert each Series A Convertible Preferred Stock share into 1,000 shares of the Company's common stock, from time to time at the option of the holder, provided that no conversion will be allowed at any time that the number of shares to be issued to the holder thereof, together with any other shares of common stock beneficially owned by the holder, would exceed 4.99% of the Company's then outstanding common stock.

Lucas expects the performance of the Company's existing wells, its current capital expenditure program and the newly acquired property interests to give rise to an average daily production rate of approximately 300 gross BOPD for the last three months of the 2012 fiscal year and the daily production rate at the end of the 2012 fiscal year to be approximately 500 gross BOPD, subject to operational risks, economic uncertainties and other factors that may cause the actual results to be materially different.

### **Eagle Ford Acreage**

On December 29, 2011, the Company closed a purchase and sale transaction with Hall Phoenix Energy, LLC (Hall Phoenix), whereby the Company purchased all of Hall Phoenix's right, title and interest in certain oil, gas, and mineral leases in the Eagle Ford/Eaglebine Trend effective December 1, 2011 for 2,824 shares of Lucas's Series B Convertible Preferred Stock, each of which is convertible into 1,000 shares of the Company's common stock. The Series B Convertible Preferred Stock contains a provision that limits the amount of common shares that the holder can own at any time upon conversion to an aggregate of 9.99% of the Company's then issued and outstanding shares of common stock. The properties are located in Wilson, Leon and Madison Counties, Texas. The

transaction increases the amount of Eagle Ford/Eaglebine acreage owned by the Company by approximately 5,500 net acres. Lucas now owns approximately 8,900 net and 27,000 gross acres in the Eagle Ford/Eaglebine Trend.

The Company has been meeting with potential buyers and investment banking groups to discuss the possible monetizing of its Eagle Ford acres into cash and focusing on the development of the Austin Chalk reserves. Shortly after the closing of the Hall Phoenix transaction, the Company retained Global Hunter Securities, LLC and Knight Capital Group, Inc. to advise the Company in selling certain of the Company's properties in the Eaglebine and Eagle Ford properties in Texas. The Company anticipates soliciting bids for the properties and hopes to close on a transaction, assuming favorable terms can be obtained within the next three months.

### **Financial Strengths**

The only material debt that the Company has is the \$22.0 million non-recourse senior secured promissory note issued in connection with the Nordic 1 acquisition described above.

In an effort to secure the funding for the capital expenditure program for the current fiscal year and to avoid the unpredictable nature of the financial market, the Company incentivized the institutional investors who purchased securities in the Company's December 2010 unit offering to exercise the Series C Warrants they purchased as part of the offering by entering into an amendment to the original Series C Warrant Agreement on July 18, 2011 (the Amendment Agreement). The expiration date for the Series C Warrants was August 3, 2011. Without changing the expiration date, the Amendment Agreement required the investors to exercise immediately 25% of the Series C Warrants they held and the Company to lower the exercise price of the Series C Warrants to \$2.48 per share from the original exercise price of \$2.62 per share. Pursuant to the Series C Warrant Agreement, as amended, the investors were required to exercise all of their remaining Series C Warrants if the closing bid price of the Company's stock was higher than the amended exercise price on August 3, 2011. Since the closing bid price on that date for the Company's stock was \$2.51, all remaining Series C Warrants were exercised and a total of 2,510,506 shares of the Company's common stock were issued. Net proceeds to the Company from the exercises of the Series C Warrants were approximately \$5.8 million after deducting commission to the placement agent. The Company used the net proceeds for general corporate purposes, including the funding of capital expenditures.

To further secure the funding for its capital expenditure program, the Company entered into a purchase and sale agreement with Nordic Oil USA 2 LLLP (Nordic 2) on October 13, 2011. Pursuant to the agreement, which had an effective date of February 1, 2011, the Company sold to Nordic 2 for \$4.0 million all of its interests, in and to certain oil, gas and mineral leases located in McKinley County, New Mexico. All proceeds from the sale have been received as of the date of this report. The Company acquired the properties in January 2011 in a purchase transaction for \$2.5 million, which included a deposit of \$0.5 million. Nordic 2 acquired, among other things, the rights to the \$0.5 million deposit. Net proceeds to the Company from the sale were approximately \$3.6 million after deducting commissions.

### **RESULTS OF OPERATIONS**

The following discussion and analysis of the results of operations for the three and nine months ended December 31, 2011 and 2010 should be read in conjunction with the condensed consolidated financial statements of Lucas Energy and notes thereto included in this Quarterly Report on Form 10-Q. As used below, the abbreviations "Bbls" stands for barrels, "Mcf" for thousand cubic feet and "Boe" for barrels of oil equivalent on the basis of six Mcf per barrel.

#### ***Three Months Ended December 31, 2011 vs. Three Months Ended December 31, 2010***

We reported a net loss for the three months ended December 31, 2011 of \$2.2 million, or \$0.11 per share. For the same period a year ago, we reported a net loss of \$1.1 million, or \$0.08 per share. Our net loss increased by \$1.1 million primarily due to increased operating expenses, partially offset by an increase in operating revenues.

The following table sets forth the operating results and production data for the three months ended December 31, 2011 and 2010.

	<b>Three Months Ended December 31,</b>		<b>Increase</b>	<b>% Increase</b>
	<b>2011</b>	<b>2010</b>		
<b>Sale Volumes:</b>				
Crude Oil (Bbls)	14,235	8,152	6,083	75%
Natural Gas (Mcf)	1,215	89	1,126	1265%
Total (Boe)	14,438	8,167	6,271	77%
<b>Per Day Sale Volumes:</b>				
Crude Oil (Bbls per day)	155	89	66	74%
Natural Gas (Mcf per day)	13	1	12	1200%
Total (Boe per day)	157	89	68	76%
<b>Average Sale Price:</b>				
Crude Oil (\$/Bbl)	\$ 91.23	\$ 84.19	\$ 7.04	8%
Natural Gas (\$/Mcf)	\$ 6.75	\$ 3.10	\$ 3.65	118%
<b>Net Operating Revenues:</b>				
Crude Oil	\$ 1,298,670	\$ 686,317	\$ 612,353	89%
Natural Gas	8,202	276	7,926	2873%
Total Revenues	<u>\$ 1,306,872</u>	<u>\$ 686,593</u>	<u>\$ 620,279</u>	90%

#### *Oil and Gas Revenues*

Total crude oil and natural gas revenues for the three months ended December 31, 2011 increased significantly to \$1.3 million from \$0.7 million for the same period a year ago due primarily to a favorable crude oil volume variance of \$0.6 million and a slightly favorable crude oil price variance of less than \$0.1 million.

#### *Operating and Other Expenses*

	<b>Three Months Ended December 31,</b>		<b>Increase (Decrease)</b>	<b>% Incr (Decr)</b>
	<b>2011</b>	<b>2010</b>		
Lease Operating Expenses	\$ 1,252,959	\$ 340,468	\$ 912,491	268%
Severance and Property Taxes	69,275	47,584	21,691	46%
Depreciation, Depletion, and Amortization	561,448	265,426	296,022	112%
General and Administrative				
General and Administrative (Cash)	1,327,786	636,191	691,595	109%
Share-Based Compensation (Non-Cash)	102,344	529,055	(426,711)	-81%
Interest Expense	146,783	-	146,783	100%

#### *Lease Operating Expenses*

Lease operating expenses increased \$0.9 million for the current quarter as compared to the prior year period principally due to higher work-over costs of \$0.7 million as well as increased production costs of \$0.2 million from expanded efforts during the current quarter to increase production volumes from existing wells.

#### *Depreciation, Depletion, Amortization and Accretion (DD&A)*

DD&A increased \$0.3 million primarily due to an increase in production for the current quarter ended December 31, 2011 totaling 6,271 barrels of oil equivalent in excess of the prior year period. The rate per Boe decreased from \$32.50 to \$30.47.



### General and Administrative Expenses

General and administrative expenses, including share-based compensation, increased \$0.3 million for the current quarter as compared to the prior year's quarter. The increase is primarily due to higher employee-related costs (\$0.1 million) and higher legal and other professional fees (\$0.2 million).

### Interest Expense

During the three months ended December 31, 2011, we incurred interest expense of \$145,000 on the Nordic 1 note issued during a property acquisition described above.

### Nine Months Ended December 31, 2011 vs. Nine Months Ended December 31, 2010

We reported a net loss for the nine months ended December 31, 2011 of \$5.1 million, or \$0.28 per share. For the same period a year ago, we reported a net loss of \$2.5 million, or \$0.19 per share. Our net loss increased by \$2.6 million primarily due to increased operating expenses, depreciation, depletion, amortization and accretion, and general and administrative expenses of \$1.9 million, \$0.4 million and \$1.3 million, respectively, partially offset by increased net operating revenues of \$1.3 million.

The following table sets forth the operating results and production data for the nine months ended December 31, 2011 and 2010.

	Nine Months Ended December 31,		Increase	% Increase
	2011	2010		
<b>Sale Volumes:</b>				
Crude Oil (Bbls)	37,076	29,028	8,048	28%
Natural Gas (Mcf)	14,054	669	13,385	2001%
Total (Boe)	39,418	29,140	10,278	35%
<b>Per Day Sale Volumes:</b>				
Crude Oil (Bbls per day)	135	106	29	27%
Natural Gas (Mcf per day)	51	2	49	2450%
Total (Boe per day)	144	106	38	36%
<b>Average Sale Price:</b>				
Crude Oil (\$/Bbl)	\$ 92.54	\$ 75.81	\$ 16.73	22%
Natural Gas (\$/Mcf)	\$ 5.39	\$ 3.02	\$ 2.37	78%
<b>Net Operating Revenues:</b>				
Crude Oil	\$ 3,431,014	\$ 2,200,705	\$ 1,230,309	56%
Natural Gas	75,748	2,018	73,730	3654%
Total Revenues	<u>\$ 3,506,762</u>	<u>\$ 2,202,723</u>	<u>\$ 1,304,039</u>	59%

### Oil and Gas Revenues

Total crude oil and natural gas revenues for the nine months ended December 31, 2011 increased \$1.3 million, or 59%, to \$3.5 million from \$2.2 million for the same period a year ago due primarily to a favorable crude oil volume variance of \$0.8 million coupled with a favorable crude oil price variance of \$0.5 million.

## *Operating and Other Expenses*

	<b>Nine Months Ended</b>		<b>Increase</b>	<b>%</b>
	<b>December 31,</b>			
	<b>2011</b>	<b>2010</b>	<b>(Decrease)</b>	<b>Incr (Decr)</b>
Lease Operating Expenses	\$ 2,887,728	\$ 959,665	\$ 1,928,063	201%
Severance and Property Taxes	188,800	136,358	52,442	38%
Depreciation, Depletion, and Amortization	1,260,314	829,718	430,596	52%
General and Administrative				
General and Administrative (Cash)	3,541,614	2,272,522	1,269,092	56%
Share-Based Compensation (Non-Cash)	319,894	250,921	68,973	27%
Other Expense, Net	291,406	22,660	268,746	1186%
Interest Expense	152,624	261,212	(108,588)	-42%

### *Lease Operating Expenses*

Lease operating expenses increased \$1.9 million for the current period as compared to the prior year period principally due to higher work-over costs of \$1.5 million as well as increased production costs of \$0.2 million from expanded efforts during the current quarter to increase production volumes from existing wells.

### *Depreciation, Depletion, Amortization and Accretion*

DD&A increased \$0.4 primarily due to an increase in production for the nine months ended December 31, 2011 totaling 10,278 barrels of oil equivalent in excess of the prior year period. The rate per Boe increased from \$28.47 to \$30.47.

### *General and Administrative Expenses*

General and administrative expenses, including share-based compensation, increased \$1.3 million for the nine months ended December 31, 2011 as compared to the prior year period. The increase is primarily due to higher employee-related costs (\$0.9 million) resulting from expanded land, production management and production administration functions and higher legal and other professional fees (\$0.4 million).

### *Other Expense, Net*

Other Expense increased primarily due to the increase of \$291,000 in the value of the Series C Warrants as a result of the modification of the warrant agreements to incentivize the warrant holders to exercise the warrants (as described above). The value was calculated based on the Black Scholes option pricing model.

### *Interest Expense*

During the nine months ended December 31, 2011, we incurred interest expense of \$145,000 on a note issued during a property acquisition. Interest expense of \$261,000 for the nine months ended December 31, 2010 was due primarily to our expensing the remaining unamortized balance of deferred financing costs originally incurred in connection with our credit facility with Amegy Bank, which we terminated and repaid in full during the nine months ended December 31, 2010.

## **LIQUIDITY AND CAPITAL RESOURCES**

The primary sources of cash for Lucas during the nine months ended December 31, 2011 were funds generated from operations, proceeds from sale of oil and gas properties and proceeds from the exercise of the Series C Warrants as further discussed below. The primary uses of cash were funds used in operations and additions of oil and gas properties. Our cash balance decreased from \$2.5 million to \$2.3 million as of December 31, 2011 as compared to March 31, 2011.

At December 31, 2011, our Total Current Liabilities of \$30.1 million exceeded our Total Current Assets of \$4.6 million due primarily to the \$22.0 million non-recourse senior secured promissory note issued during the quarter in connection with the Nordic 1 acquisition described above. The Company intends to repay the note and the accrued interests on or before the note's maturity date using proceeds from one of or a combination of various sources, which may include sale of its Eagle Ford and Eaglebine acreage, joint venture arrangements, sales of crude oil and natural gas production, exercise of warrants issued to investors in conjunction with the previously completed equity offerings, and entering into farm-out agreements and other arrangements with strategic partners, among other alternatives.

In an effort to secure the funding for the capital expenditure program for the current fiscal year and to avoid the unpredictable nature of the financial market, the Company incentivized the institutional investors who purchased securities in the Company's December 2010 unit offering to exercise the Series C Warrants they purchased as part of the offering by entering into an amendment to the original Series C Warrant Agreement on July 18, 2011 (the "Amendment Agreement"). The expiration date for the Series C Warrants was August 3, 2011. Without changing the original expiration date, the Amendment Agreement required the investors to exercise immediately 25% of the Series C Warrants they held and the Company to lower the exercise price to purchase a share of the Company's common stock to \$2.48 per share from the original exercise price of \$2.62 per share. Pursuant to the Series C Warrant Agreement, as amended, the investors were required to exercise all of their remaining Series C Warrants if the closing bid price of the Company's stock was higher than the amended exercise price on August 3, 2011. Since the closing bid price on that date for the Company's stock was \$2.51, all remaining Series C Warrants were exercised. Net proceeds to the Company from the exercises of all of the 2,510,506 Series C Warrants were approximately \$5.8 million after deducting commissions paid to the placement agent. The Company used the net proceeds for general corporate purposes, including the funding of capital expenditures.

On October 13, 2011, the Company entered into a purchase and sale agreement with Nordic Oil USA 2 LLLP (Nordic 2). Pursuant to the agreement, which had an effective date of February 1, 2011, the Company sold to Nordic 2 for \$4.0 million all of its interests in certain oil, gas and mineral leases located in McKinley County, New Mexico. All proceeds from the sale have been received as of the date of this report. The Company acquired the properties in January 2011 in a purchase transaction for \$2.5 million, which included a deposit of \$0.5 million. Nordic 2 acquired, among other things, the rights to the \$0.5 million deposit. Net proceeds to the Company from the sale were approximately \$3.6 million after deducting commissions.

#### *Cash Flows.*

Net cash used in operating activities for the nine months ended December 31, 2011 decreased \$2.1 million to \$1.1 million from \$3.2 million for the prior year period. The \$2.1 million decrease was primarily due to favorable changes in working capital and other assets of \$4.5 million and increased revenues of \$1.3 million, partially offset by the increase of cash operating expenses of \$3.6 million.

Net cash used in investing activities for the nine months ended December 31, 2011 of \$4.8 million increased by \$7.4 million compared to net cash provided by investing activities of \$2.6 million for the prior year period due primarily to a decrease in net proceeds from the sale of oil and gas properties of \$9.8 million, an increase in additions of oil and gas properties of \$1.0 million, and an increase in cash used for property, plant and equipment additions of \$0.1 million, partially offset by the collection of the \$0.5 million deposit which was made in the prior year period (represented a change of \$1.0 million of cash inflow period over period) and favorable changes in working capital of \$2.5 million. For the prior year period, net proceeds from the sale of oil and gas properties primarily included \$12.0 million for our sale of an undivided 85% interest in our "deep rights" located in Gonzales County, Texas.

Net cash provided by financing activities for the nine months ended December 31, 2011 was \$5.7 million resulting primarily from the proceeds from the exercise of the Series C Warrants as discussed above. For the nine months ended December 31, 2010, net cash provided in financing activities was \$4.7 million and consisted of funds from equity offerings of \$6.9 million, partially offset by the payment of the outstanding principal on our credit facility with Amegy Bank of \$2.2 million.

## CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, (the Securities Act) and Section 21E of the Securities Exchange Act of 1934, as amended, (the Exchange Act). These forward-looking statements are generally located in the material set forth under the headings "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 are subject to risks and uncertainties and other factors that may cause our actual results, performance or achievements to be materially different from the results, performance or achievements expressed or implied by the forward-looking statements. You should not unduly rely on these statements. Factors, risks, and uncertainties that could cause actual results to differ materially from those in the forward-looking statements include, among others,

- our growth strategies;
- anticipated trends in our business;
- our ability to make or integrate acquisitions;
- our liquidity and ability to finance our exploration, acquisition and development strategies;
- market conditions in the oil and gas industry;
- the timing, cost and procedure for proposed acquisitions;
- the impact of government regulation;
- estimates regarding future net revenues from oil and natural gas reserves and the present value thereof; planned capital expenditures (including the amount and nature thereof);
- increases in oil and gas production;
- the number of wells we anticipate drilling in the future;
- estimates, plans and projections relating to acquired properties; the number of potential drilling locations; and
- our financial position, business strategy and other plans and objectives for future operations.

We identify forward-looking statements by use of terms such as "may," "will," "expect," "anticipate," "estimate," "hope," "plan," "believe," "predict," "envision," "intend," "will," "continue," "potential," "should," "confident," "could" and similar words and expressions, although some forward-looking statements may be expressed differently. You should be aware that our actual results could differ materially from those contained in the forward-looking statements. You should consider carefully the statements under the "Risk Factors" section of this report and our Annual Report on Form 10-K and other sections of this report and our Form 10-K, which describe factors that could cause our actual results to differ from those set forth in the forward-looking statements, and the following factors

- the possibility that our acquisitions may involve unexpected costs;
- the volatility in commodity prices for oil and gas;
- the accuracy of internally estimated proved reserves;
- the presence or recoverability of estimated oil and gas reserves;
- the ability to replace oil and gas reserves;
- the availability and costs of drilling rigs and other oilfield services;
- environmental risks;
- exploration and development risks;
- competition;
- the inability to realize expected value from acquisitions;
- the ability of our management team to execute its plans to meet its goals; and
- other economic, competitive, governmental, legislative, regulatory, geopolitical and technological factors that may negatively impact our businesses, operations and pricing.

Forward-looking statements speak only as of the date of this report or the date of any document incorporated by reference in this report. Except to the extent required by applicable law or regulation, we do not undertake any obligation to update forward-looking

statements to reflect events or circumstances after the date of this report or to reflect the occurrence of unanticipated events.

### **ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.**

Market risk is the risk of loss arising from adverse changes in market rates and prices. We are exposed to risks related to increases in the prices of fuel and raw materials consumed in exploration, development and production. We do not engage in commodity price hedging activities.

### **ITEM 4. CONTROLS AND PROCEDURES.**

#### *Disclosure Controls and Procedures.*

Disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934 (the Exchange Act)) are designed to ensure that information required to be disclosed in reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms and that such information is accumulated and communicated to management, including the Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosures. The Company's management, including the Chief Executive Officer and Principal Financial Officer, evaluated the effectiveness of the Company's disclosure controls and procedures as of the end of the period covered by this report. Based upon that evaluation, the Company's Chief Executive Officer and Principal Financial Officer concluded that the Company's disclosure controls and procedures were effective as of December 31, 2011.

#### *Changes in Internal Control Over Financial Reporting*

There have not been any changes in our internal control over financial reporting during the nine months ended December 31, 2011 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## **PART II - OTHER INFORMATION**

### **ITEM 1. LEGAL PROCEEDINGS.**

See Part 1, Item 1, Note 10 to Condensed Consolidated Financial Statements, which is incorporated herein by reference.

### **ITEM 1A. RISK FACTORS.**

In addition to the risk factors set forth in our Annual Report on Form 10-K for the year ended March 31, 2011 (2011 Annual Report), as filed with the SEC on June 28, 2011, you should carefully consider the risk factors identified below. The risk factors disclosed in this section and in our 2011 Annual Report, in addition to the other information set forth in this quarterly report, could materially affect our business, financial condition or results of operations. Additional risks and uncertainties not currently known to us or that we deem to be immaterial could also materially adversely affect our business, financial condition or results of operations.

*If the holders of our outstanding warrants sell a large number of shares all at once or in blocks after exercising such warrants, the trading value of our shares could decline in value.*

We currently have 2,510,506 outstanding Series B Warrants which have an exercise price of \$2.86 per share; 150,630 outstanding warrants held by our placement agent in our December 2010 unit offering, which have an exercise price of \$2.98 per share; and 305,000 outstanding warrants which have an exercise price of \$1.00 per share. The trading price of our common stock has recently fluctuated from between approximately \$2.86 and \$2.23 per share. We have 19,540,914 shares of common stock issued and outstanding as of the date of this report. As a result, the exercise of outstanding warrants (including, but not limited to warrants which have an exercise price substantially below the current trading price of our common stock) in the future and the subsequent resale of the shares of common stock issuable upon exercise thereof (which shares of common stock issuable upon exercise of the Series B Warrants and the placement agent warrants, will be eligible for immediate resale) may cause dilution to existing shareholders and cause the market price of our securities to decline in value.

*Upon expiration of a six month holding period, if the Series A Convertible Preferred Stock holder and/or the Series B Convertible Preferred Stock shareholder converts and sells a large number of shares of our common stock, it will cause dilution to our existing shareholders and the trading value of our shares could decline in value.*

The issuance of common stock upon conversion of the 2,000 shares of Series A Convertible Preferred Stock currently outstanding and the 2,824 outstanding shares of Series B Convertible Preferred Stock (collectively the Preferred Stock Shares), which shares each convert on a 1,000-for-one basis into shares of our common stock at the option of the holders thereof, will result in immediate dilution to the interests of our common stock holders. Additionally, although the Preferred Stock Shares may not be converted if such conversion would cause the holder thereof to own more than 4.99% (9.99% in the case of the Series B Convertible Preferred Stock) of our outstanding common stock, this restriction does not prevent the holders from converting some of their Preferred Stock Shares, selling those shares, subject to applicable exemptions from registration (e.g., a period of at least six months passing after the issuance of such preferred stock shares in order for such holders to sell the shares of common stock issuable upon exercise of such preferred stock pursuant to Rule 144 of the Securities Act of 1933, as amended), and then converting the rest of their holdings, while still staying below the 4.99% / 9.99% limit, as applicable. In this way, the holders could sell more than this limit while never actually holding more shares than this limit allows. If the holders of the Preferred Stock Shares choose to do this, or choose to convert and sell their Preferred Stock Shares in the future, it will cause substantial dilution to the then holders of our common stock. Additionally, the subsequent sale by the holders of the Preferred Stock Shares of large numbers of shares in the future may cause the market price of our securities to decline in value. As of the date of this filing, if the 4,824 outstanding Preferred Stock Shares were converted into common stock and sold (subject to the ownership limitations set forth above) an additional 4,824,000 shares of common stock of the Company or 19.8% of the Company's currently outstanding shares, would be issued and outstanding.

Finally, the common stock issuable upon conversion of the Preferred Stock Shares may represent overhang that may also adversely affect the market price of our common stock. Overhang occurs when there is a greater supply of a company's stock in the market than there is demand for that stock. When this happens the price of the company's stock will decrease, and any additional shares which shareholders attempt to sell in the market will only further decrease the share price. If the share volume of our common stock cannot absorb the Preferred Stock Shares converted into common stock and sold by the holders thereof, then the value of our common stock will likely decrease.

***We face potential liability under the Amendment Agreement in the event we do not satisfy the current public information requirements of Rule 144(c) of the Securities Act of 1933, as amended, prior to the date the Warrants and shares of common stock issuable upon exercise thereof have been sold by the holders thereof or have expired.***

Pursuant to the Amendment Agreement, we agreed that if at any time prior to the date that all of the Warrants and any shares of common stock issuable upon exercise of such Warrants are sold by the holders thereof, we fail to satisfy the current public information requirement of Rule 144(c) of the Securities Act of 1933, as amended (a Public Information Failure), as partial relief for the damages to any holder of Warrants, we would pay the holders, based on their pro rata ownership of non-exercised and non-expired Warrants on the first day of a Public Information Failure, an aggregate of \$80,000 for the first thirty calendar days that there is a Public Information Failure (pro-rated for a period of less than thirty days) and an amount in cash equal to one and one-half percent (1.5%) of the aggregate Black Scholes Value (as defined in the Warrants) of such holder's non-exercised and non-expired Warrants on the sixty-first (61st) calendar day after the Public Information Failure (covering the 31st to 60th calendar days) and on every thirtieth day (pro-rated for periods totaling less than thirty days) thereafter until the earlier of (i) the date such Public Information Failure is cured; (ii) such time that such public information is no longer required pursuant to Rule 144; and (iii) the expiration date of the Warrants. Additionally, upon the occurrence of any Public Information Failure during the 12 months prior to the expiration of any Warrant, the expiration date of such Warrant will be automatically extended for one day for each day that a Public Information Failure occurs and is continuing. As such, in the event of the occurrence of a Public Information Failure, we will face liability and penalties under the Amendment Agreement.

***The \$22 million note payable in connection with the Nordic 1 acquisition is secured by a security interest solely in the assets acquired from Nordic 1.***

On October 13, 2011, Lucas entered into a purchase and sale agreement with Nordic Oil USA I, LLLP (Nordic 1), with an effective date of July 1, 2011, to purchase all of Nordic 1's interests in certain oil, gas and mineral leases, rights and assets located in Gonzales, Karnes and Wilson Counties, Texas, which represent all of Nordic 1's interests in the existing two capital programs operated by Lucas (the Nordic 1 Transaction). The Nordic 1 Transaction closed in November 2011 and Lucas paid \$22 million to Nordic 1 in the form of a non-recourse senior secured promissory note. The note bears interest at 6% per annum and is due and payable on or before November 17, 2012.

We do not currently have sufficient cash on hand to repay the note payable. If we default in the repayment of the note payable at maturity, Nordic 1 may seek to enforce its security interest over the assets acquired in the Nordic 1 Transaction, which secure the repayment of such note. Nordic 1 may seek to enforce its security interest by retaking full or partial ownership and control of the assets securing the note payable in an attempt to recover any deficiency between the value of the secured assets and the then amount owed in connection with such note payable, which pursuant to the terms of the note is Nordic 1's sole recourse in the event that we default under the terms of the note. If we lose ownership of and right to the assets acquired and our total assets, results of operations and revenues may be adversely affected from the loss of such assets. Consequently, the value of our securities may decline in value.

***The Investors in the Company's December 2010 sale of 2,510,506 Units obtained a right of first refusal to provide additional funding to the Company.***

Pursuant to the Securities Purchase Agreement (the Purchase Agreement), pursuant to which the investors purchased an aggregate of 2,510,506 units in December 2010, the Company agreed that until December 30, 2012, the Company would not undertake any of the following: (A), directly or indirectly, file any registration statement with the SEC, or (B) directly or indirectly, offer, sell, grant any option to purchase, or otherwise dispose of (or announce any offer, sale, grant or any option to purchase or other disposition of) any of its equity securities, including without limitation any debt, preferred stock or other instrument or security (a Subsequent Placement), unless the Company first provides the investors notice of such Subsequent Placement and provides such investors an opportunity to purchase up to 25% of the securities offered in such Subsequent Placement pursuant to the terms and conditions described in greater detail in the Purchase Agreement.

However, the above requirements do not apply to the Company's issuance or grant of any common stock issued or issuable: (i) in connection with any employee benefit plan approved by the Board of Directors, subject to a maximum of 150,000 shares to be issued to consultants in any calendar year; (ii) upon exercise of the Warrants (and other warrants granted in connection with the Purchase Agreement); (iii) upon exercise of any options or convertible securities which were outstanding on the day immediately preceding the closing date of the offering; and (iv) in connection with mergers, acquisitions, strategic business transactions or joint ventures with a strategic partner who is

not in the business of making financial investments, in each case with non-affiliated third parties and otherwise on an arm's-length basis, the primary purpose of which is not to raise additional capital (collectively (i) through (iv), "Excluded Securities"); provided that any shares issued or issuable in connection with any transaction contemplated by this clause (iv) that is either primarily (A) attributable to capital raising for the Company (other than nominal amounts of capital) or (B) to raise capital for the Company, directly or indirectly, in connection with any transaction contemplated by this clause (iv), including, without limitation, securities issued in one or more related transactions or that result in similar economic consequences, shall not be deemed to be Excluded Securities.

As a result of the above, it may be harder for the Company to raise funding and/or issue securities in consideration for certain business purposes not included in the Excluded Securities, described above, which could prevent the Company from meeting its capital needs, limit the Company's ability to grow its operations and implement its business plan and ultimately cause the value of the Company's securities to decline in value.

***We incur certain costs to comply with government regulations, particularly regulations relating to environmental protection and safety, and could incur even greater costs in the future.***

Our exploration, production and marketing operations are regulated extensively at the federal, state and local levels, as well as by the governments and regulatory agencies in the foreign countries in which we do business, and are subject to interruption or termination by governmental and regulatory authorities based on environmental or other considerations. Moreover, we have incurred and will continue to incur costs in our efforts to comply with the requirements of environmental, safety and other regulations. Further, the regulatory environment in the oil and gas industry could change in ways that we cannot predict and that might substantially increase our costs of compliance and, in turn, materially and adversely affect our business, results of operations and financial condition.

Specifically, as an owner or lessee and operator of crude oil and natural gas properties, we are subject to various federal, state, local and foreign regulations relating to the discharge of materials into, and the protection of, the environment. These regulations may, among other things, impose liability on us for the cost of pollution cleanup resulting from operations, subject us to liability for pollution damages and require suspension or cessation of operations in affected areas. Moreover, we are subject to the United States (U.S.) Environmental Protection Agency's (U.S. EPA) rule requiring annual reporting of greenhouse gas (GHG) emissions. Changes in, or additions to, these regulations could lead to increased operating and compliance costs and, in turn, materially and adversely affect our business, results of operations and financial condition.

We are aware of the increasing focus of local, state, national and international regulatory bodies on GHG emissions and climate change issues. In addition to the U.S. EPA's rule requiring annual reporting of GHG emissions, we are also aware of legislation proposed by U.S. lawmakers to reduce GHG emissions.

Additionally, there have been various proposals to regulate hydraulic fracturing at the federal level. Currently, the regulation of hydraulic fracturing is primarily conducted at the state level through permitting and other compliance requirements. Any new federal regulations that may be imposed on hydraulic fracturing could result in additional permitting and disclosure requirements (such as the reporting and public disclosure of the chemical additives used in the fracturing process) and in additional operating restrictions. In addition to the possible federal regulation of hydraulic fracturing, some states and local governments have considered imposing various conditions and restrictions on drilling and completion operations, including requirements regarding casing and cementing of wells, testing of nearby water wells, restrictions on the access to and usage of water and restrictions on the type of chemical additives that may be used in hydraulic fracturing operations. Such federal and state permitting and disclosure requirements and operating restrictions and conditions could lead to operational delays and increased operating and compliance costs and, moreover, could delay or effectively prevent the development of crude oil and natural gas from formations which would not be economically viable without the use of hydraulic fracturing.

We will continue to monitor and assess any new policies, legislation, regulations and treaties in the areas where we operate to determine the impact on our operations and take appropriate actions, where necessary. We are unable to predict the timing, scope and effect of any currently proposed or future laws, regulations or treaties, but the direct and indirect costs of such laws, regulations and treaties (if enacted) could materially and adversely affect our business, results of operations and financial condition.

*We incur significant costs as a result of operating as a fully reporting company and our management is required to devote substantial time to compliance initiatives.*

We incur significant legal, accounting and other expenses in connection with our status as a fully reporting public company. Specifically, we are required to prepare and file annual, quarterly and current reports, proxy statements and other information with the Securities and Exchange Commission (SEC). Additionally, our officers, directors and significant shareholders are required to file Form 3, 4 and 5's and Schedule 13d/g's with the SEC disclosing their ownership of the Company and changes in such ownership. Furthermore, the Sarbanes-Oxley Act of 2002 (the Sarbanes-Oxley Act) and rules subsequently implemented by the SEC have imposed various new requirements on public companies, including requiring changes in corporate governance practices. As a result, our management and other personnel are required to devote a substantial amount of time and resources to the preparation of required filings with the SEC and SEC compliance initiatives. Moreover, these filing obligations, rules and regulations increase our legal and financial compliance costs and quarterly expenses and make some activities more time-consuming and costly than they would be if we were a private company. In addition, the Sarbanes-Oxley Act requires, among other things, that we maintain effective internal controls for financial reporting and disclosure of controls and procedures. Our testing may reveal deficiencies in our internal controls over financial reporting that are deemed to be material weaknesses. The costs and expenses of compliance with SEC rules and our filing obligations with the SEC, or our identification of deficiencies in our internal controls over financial reporting that are deemed to be material weaknesses, could materially adversely affect our results of operations or cause the market price of our stock to decline in value.

## **ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS.**

In connection with the purchase agreement entered into with the holder described above, which was entered into in connection with the November 2011 purchase and sale agreement with Nordic 1, the Company issued the holder 2,000 shares of Series A Convertible Preferred Stock.

In connection with the December 2011 purchase and sale agreement described above, the Company issued Hall Phoenix 2,824 shares of Series B Convertible Preferred Stock.

The Series A Convertible Preferred Stock and Series B Convertible Preferred Stock have no voting rights, no liquidation rights and no redemption rights, but have conversion rights providing the holder thereof the right to convert each outstanding Series A and B Convertible Preferred Stock share into 1,000 shares of the Company's common stock. The Series A Convertible Preferred Stock contains a provision that limits the amount of common shares that the holder can own at any time upon conversion to an aggregate of 4.99% of the Company's then issued and outstanding shares of common stock. The Series B Convertible Preferred Stock contains a similar provision, limiting the amount of common shares that the holder can own upon any conversion to an aggregate of 9.99% of the Company's then issued and outstanding shares of common stock.

The Company claims an exemption from registration afforded by Section 4(2) of the Securities Act of 1933, as amended (the Act) since the foregoing issuances did not involve a public offering, the recipients took the securities for investment and not resale, the Company took appropriate measures to restrict transfer, and the recipients were either (a) "accredited investors" and/or (b) had access to similar documentation and information as would be required in a Registration Statement under the Act.

## EXHIBIT INDEX

<u>Exhibit No.</u>	<u>Description</u>
3.1	Certificate of Designations of Series A Convertible Preferred Stock (Filed as an Exhibit to the Company's Quarterly Report on Form 10-Q, filed with the Commission on November 14, 2011, and incorporated herein by reference)
3.2	Certificate of Designations of Series B Convertible Preferred Stock (Filed as an Exhibit to the Company's Report on Form 8-K, filed with the Commission on January 4, 2012, and incorporated herein by reference)
10.1	Purchase and Sale Agreement – Lucas Energy, Inc. and Nordic Oil USA 2 LLLP (October 13, 2011)(Filed as an exhibit to the Company's Form 8-K, filed with the Commission on October 19, 2011 and incorporated herein by reference)
10.2	Purchase and Sale Agreement – Lucas Energy, Inc. and Nordic Oil USA 1, LLLP (October 13, 2011) (Filed as an Exhibit to the Company's Report on Form 8-K, filed with the Commission on November 23, 2011, and incorporated herein by reference)
10.3	Promissory Note – Lucas Energy, Inc. and Nordic Oil USA 1, LLLP (Filed as an Exhibit to the Company's Report on Form 8-K, filed with the Commission on November 23, 2011, and incorporated herein by reference)
10.4	Deed of Trust, Security Agreement, Financing Statement and Assignment of Production (Filed as an Exhibit to the Company's Report on Form 8-K, filed with the Commission on November 23, 2011, and incorporated herein by reference)
10.5	Purchase Agreement (Filed as an Exhibit to the Company's Report on Form 8-K, filed with the Commission on November 23, 2011, and incorporated herein by reference)
10.6	Purchase and Sale Agreement – Lucas Energy, Inc. and Hall Phoenix Energy, LLC (December 29, 2011) (Filed as an Exhibit to the Company's Report on Form 8-K, filed with the Commission on January 4, 2012, and incorporated herein by reference)
10.7	Assignment, Conveyance and Bill of Sale (Filed as an Exhibit to the Company's Report on Form 8-K, filed with the Commission on January 4, 2012, and incorporated herein by reference)
* 31.1	Section 302 Certification of Periodic Report of Principal Executive Officer.
* 31.2	Section 302 Certification of Periodic Report of Principal Financial Officer.
* 32.1	Section 906 Certification of Periodic Report of Principal Executive Officer.
* 32.2	Section 906 Certification of Periodic Report of Principal Financial Officer.
99.1	Audited Financial Statements of Nordic 1's right, title and interest in certain oil, gas, and mineral leases located in Gonzales, Karnes and Wilson Counties, Texas (the Nordic Acquisition Properties). for the years ended September 30, 2011 and 2010, Unaudited Supplemental Oil and Gas Reserve Information in connection with the Nordic Acquisition Properties and Unaudited Pro Forma Condensed Financial Statements (Filed as an Exhibit to the Company's Report on Form 8-K/A, filed with the Commission on February 3, 2012, and incorporated herein by reference)
* **101.INS	XBRL Instance Document.
* **101.SCH	XBRL Schema Document.
* **101.CAL	XBRL Calculation Linkbase Document.



\* \*\*101.LAB XBRL Label Linkbase Document.

\* \*\*101.PRE XBRL Presentation Linkbase Document.

\* Exhibits filed herewith

\*\* Attached as Exhibit 101 to this report are the following documents formatted in XBRL (Extensible Business Reporting Language): (i) the Condensed Consolidated Balance Sheets –December 31, 2011 and March 31, 2011, (ii) the Condensed Consolidated Statements of Operations - Three and Nine Months Ended December 31, 2011 and 2010, (iii) the Condensed Consolidated Statements of Cash Flows - Nine Months Ended December 31, 2011 and 2010; and (iv) Notes to Condensed Consolidated Financial Statements. Users of this data are advised pursuant to Rule 406T of Regulation S-T that this interactive data file is deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, is deemed not filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and otherwise is not subject to liability under these sections.

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

LUCAS ENERGY, INC.  
(Registrant)

Date: February 13, 2012

Chief Financial Officer

By: /s/ K. ANDREW LAI  
K. Andrew Lai

(Principal Financial Officer and  
Duly Authorized Officer)

## EXHIBIT INDEX

<u>Exhibit No.</u>	<u>Description</u>
3.1	Certificate of Designations of Series A Convertible Preferred Stock (Filed as an Exhibit to the Company's Quarterly Report on Form 10-Q, filed with the Commission on November 14, 2011, and incorporated herein by reference)
3.2	Certificate of Designations of Series B Convertible Preferred Stock (Filed as an Exhibit to the Company's Report on Form 8-K, filed with the Commission on January 4, 2012, and incorporated herein by reference)
10.1	Purchase and Sale Agreement – Lucas Energy, Inc. and Nordic Oil USA 2 LLP (October 13, 2011)(Filed as an exhibit to the Company's Form 8-K, filed with the Commission on October 19, 2011 and incorporated herein by reference)
10.2	Purchase and Sale Agreement – Lucas Energy, Inc. and Nordic Oil USA 1, LLLP (October 13, 2011) (Filed as an Exhibit to the Company's Report on Form 8-K, filed with the Commission on November 23, 2011, and incorporated herein by reference)
10.3	Promissory Note – Lucas Energy, Inc. and Nordic Oil USA 1, LLLP (Filed as an Exhibit to the Company's Report on Form 8-K, filed with the Commission on November 23, 2011, and incorporated herein by reference)
10.4	Deed of Trust, Security Agreement, Financing Statement and Assignment of Production (Filed as an Exhibit to the Company's Report on Form 8-K, filed with the Commission on November 23, 2011, and incorporated herein by reference)
10.5	Purchase Agreement (Filed as an Exhibit to the Company's Report on Form 8-K, filed with the Commission on November 23, 2011, and incorporated herein by reference)
10.6	Purchase and Sale Agreement – Lucas Energy, Inc. and Hall Phoenix Energy, LLC (December 29, 2011) (Filed as an Exhibit to the Company's Report on Form 8-K, filed with the Commission on January 4, 2012, and incorporated herein by reference)
10.7	Assignment, Conveyance and Bill of Sale (Filed as an Exhibit to the Company's Report on Form 8-K, filed with the Commission on January 4, 2012, and incorporated herein by reference)
* 31.1	Section 302 Certification of Periodic Report of Principal Executive Officer.
* 31.2	Section 302 Certification of Periodic Report of Principal Financial Officer.
* 32.1	Section 906 Certification of Periodic Report of Principal Executive Officer.
* 32.2	Section 906 Certification of Periodic Report of Principal Financial Officer.
99.1	Audited Financial Statements of Nordic 1's right, title and interest in certain oil, gas and mineral leases located in Gonzales, Karnes and Wilson Counties, Texas (the "Nordic Acquisition Properties") for the years ended September 30, 2011 and 2010, Unaudited Supplemental Oil and Gas Reserve Information in connection with the Nordic Acquisition Properties and Unaudited Pro Forma Condensed Financial Statements (Filed as an Exhibit to the Company's Report on Form 8-K/A, filed with the Commission on February 3, 2012, and incorporated herein by reference)
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- \* \*\*101.SCH XBRL Schema Document.
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\* Exhibits filed herewith

\*\* Attached as Exhibit 101 to this report are the following documents formatted in XBRL (Extensible Business Reporting Language): (i) the Condensed Consolidated Balance Sheets –December 31, 2011 and March 31, 2011, (ii) the Condensed Consolidated Statements of Operations - Three and Nine Months Ended December 31, 2011 and 2010, (iii) the Condensed Consolidated Statements of Cash Flows - Nine Months Ended December 31, 2011 and 2010; and (iv) Notes to Condensed Consolidated Financial Statements. Users of this data are advised pursuant to Rule 406T of Regulation S-T that this interactive data file is deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, is deemed not filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and otherwise is not subject to liability under these sections.



## CERTIFICATION

I, William A. Sawyer, certify that:

1. I have reviewed this quarterly report on Form 10-Q for the three months ended December 31, 2011, of Lucas Energy, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 13, 2012

/s/ William A. Sawyer

William A. Sawyer

Chief Executive Officer (Principal Executive Officer)



**EX-31.2**

EX-31.2 3 ex31-2.htm

**Exhibit 31.2**

**CERTIFICATION**

I, K. Andrew Lai, certify that:

1. I have reviewed this quarterly report on Form 10-Q for the three months ended December 31, 2011, of Lucas Energy, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 13, 2012

/s/ K. Andrew Lai

K. Andrew Lai

Chief Financial Officer (Principal Financial Officer)



**EX-32.1**

EX-32.1 4 ex32-1.htm **Exhibit 32.1**

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Lucas Energy, Inc. on Form 10-Q for the three months ended December 31, 2011, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, William A. Sawyer, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of my knowledge and belief: (1) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ William A. Sawyer

William A. Sawyer

Chief Executive Officer (Principal Executive Officer)

February 13, 2012



**EX-32.2**

EX-32.2 5 ex32-2.htm

**Exhibit 32.2**

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Lucas Energy, Inc. on Form 10-Q for the three months ended December 31, 2011, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, K. Andrew Lai, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of my knowledge and belief: (1) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ K. Andrew Lai

K. Andrew Lai

Chief Financial Officer (Principal Financial Officer)

February 13, 2012

