

**10-Q - 2010-11-15**

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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**

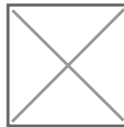
For the quarterly period ended September 30, 2010

**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)

98-0417780

(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>Class</u>	<u>Outstanding as of October 29, 2010</u>
Common Stock, par value \$0.001 per share	13,710,462

**LUCAS ENERGY, INC.**  
**FORM 10-Q**  
**For the Quarterly Period Ended September 30, 2010**  
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**PART 1. FINANCIAL INFORMATION**

**ITEM 1. FINANCIAL STATEMENTS**

**LUCAS ENERGY, INC.**  
**Consolidated Balance Sheets**  
(Unaudited)

	<b>September 30, 2010</b>	<b>March 31, 2010</b>
<b>CURRENT ASSETS</b>		
Cash	\$ 1,444,707	\$ 1,822,780
Marketable securities	-	21,450
Accounts receivable-oil and gas sales	492,440	198,083
Accounts receivable-working interest owners	41,848	46,081
Notes receivable	30,000	-
Deferred financing costs, net of amortization of \$421,751 and \$170,830, respectively	-	250,921
Deferred offering costs	-	119,912
Other current assets	78,213	43,769
<b>TOTAL CURRENT ASSETS</b>	<b><u>2,087,208</u></b>	<b><u>2,502,996</u></b>
<b>OIL AND GAS PROPERTIES, FULL COST METHOD</b>		
Properties not subject to amortization	621,085	-
Properties subject to amortization	21,752,935	24,699,722
Accumulated depletion, depreciation and amortization	(3,020,138)	(2,482,433)
<b>OIL AND GAS PROPERTIES, NET</b>	<b><u>19,353,882</u></b>	<b><u>22,217,289</u></b>
Property, plant and equipment, net of accumulated depreciation of \$29,648 and \$15,062, respectively	57,870	20,907
Other assets	64,327	57,515
<b>TOTAL ASSETS</b>	<b><u>\$ 21,563,287</u></b>	<b><u>\$ 24,798,707</u></b>
<b>CURRENT LIABILITIES</b>		
Accounts payable – trade	\$ 1,799,659	\$ 1,391,446
Accrued expenses	31,722	65,541
Advances from working interest owners	1,274,764	3,045,292
Borrowings on credit facility, current portion	-	2,150,000
Stock payable	256,700	-
<b>TOTAL CURRENT LIABILITIES</b>	<b><u>3,362,845</u></b>	<b><u>6,652,279</u></b>
<b>NON-CURRENT LIABILITIES</b>		
Asset retirement obligations	382,582	327,412
<b>TOTAL LIABILITIES</b>	<b><u>3,745,427</u></b>	<b><u>6,979,691</u></b>
<b>STOCKHOLDERS' EQUITY</b>		
Preferred stock, 10,000,000 shares authorized of \$0.001 par value, no shares issued and outstanding	-	-
Common stock, 100,000,000 shares authorized of \$0.001 par value, 13,747,362 issued and 13,710,462 outstanding shares at September 30, 2010, and 12,837,220 issued and 12,800,320 outstanding shares at March 31, 2010, respectively	13,747	12,837
Additional paid-in capital	22,035,383	20,639,247
Treasury stock, at cost 36,900 shares	(49,159)	(49,159)
Accumulated deficit	(4,182,111)	(2,783,909)
<b>TOTAL STOCKHOLDERS' EQUITY</b>	<b><u>17,817,860</u></b>	<b><u>17,819,016</u></b>
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b><u>\$ 21,563,287</u></b>	<b><u>\$ 24,798,707</u></b>

See notes to unaudited consolidated financial statements.



**LUCAS ENERGY, INC.**  
**Consolidated Statements of Operations**  
(Unaudited)

	For the Three Months Ended		For the Six Months Ended	
	September 30,		September 30,	
	2010	2009	2010	2009
OIL AND GAS REVENUES	\$ 938,590	\$ 414,218	\$ 1,516,130	\$ 855,682
<b>EXPENSES</b>				
Lease operating expenses	309,090	134,811	619,197	442,007
Severance and property taxes	50,473	15,706	88,774	34,855
Depreciation, depletion, amortization and accretion	352,183	141,056	564,292	325,682
General and administrative	763,781	264,128	1,358,197	633,109
Total Expenses	<u>1,475,527</u>	<u>555,701</u>	<u>2,630,460</u>	<u>1,435,653</u>
LOSS FROM OPERATIONS	(536,937)	(141,483)	(1,114,330)	(579,971)
<b>OTHER INCOME (EXPENSES)</b>				
Unrealized loss on marketable securities	(6,600)	(242,000)	(21,450)	(21,556)
Realized gain (loss) on marketable securities	(1,210)	1,296	(1,210)	(28,785)
Interest expense	-	(102,873)	(261,212)	(163,474)
Total Other Income (Expenses)	<u>(7,810)</u>	<u>(343,577)</u>	<u>(283,872)</u>	<u>(213,815)</u>
NET LOSS BEFORE INCOME TAXES	(544,747)	(485,060)	(1,398,202)	(793,786)
INCOME TAX BENEFIT	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
NET LOSS	<u>\$ (544,747)</u>	<u>\$ (485,060)</u>	<u>\$ (1,398,202)</u>	<u>\$ (793,786)</u>
LOSS PER SHARE -BASIC AND DILUTED	\$ (0.04)	\$ (0.05)	\$ (0.10)	\$ (0.08)
<b>WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING – BASIC AND DILUTED</b>				
	<u>13,696,043</u>	<u>10,484,861</u>	<u>13,524,702</u>	<u>10,417,213</u>

See notes to unaudited consolidated financial statements.

**LUCAS ENERGY, INC.**  
**Consolidated Statement of Stockholders' Equity**  
**For the Six Months Ended September 30, 2010**  
**(Unaudited)**

	Preferred Stock		Common Stock		Treasury Stock	Additional Paid- In Capital	Accumulated Deficit	Total
	Shares	Amount	Shares	Amount				
Balance, March 31, 2010	-	\$ -	12,837,220	\$ 12,837	\$(49,159)	\$20,639,247	\$(2,783,909)	\$17,819,016
Common shares issued for:								
Cash	-	-	778,170	778	-	1,224,122	-	1,224,900
Warrants	-	-	25,000	25	-	24,975	-	25,000
Services	-	-	16,000	16	-	29,624	-	29,640
Oil and gas properties	-	-	90,972	91	-	117,415	-	117,506
Net loss	-	-	-	-	-	-	(1,398,202)	(1,398,202)
Balance, September 30, 2010	-	\$ -	13,747,362	\$ 13,747	\$(49,159)	\$22,035,383	\$(4,182,111)	17,817,860

See notes to unaudited consolidated financial statements.

**LUCAS ENERGY, INC.**  
**Consolidated Statements of Cash Flows**  
(Unaudited)

**For the Six Months Ended**  
**September 30,**  
2010      2009

**CASH FLOWS FROM OPERATING ACTIVITIES**

Net loss	\$ (1,398,202)	\$ (793,786)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation, depletion, amortization and accretion	564,292	325,682
Amortization of deferred financing costs	250,921	57,667
Unrealized loss on marketable securities	21,450	21,556
Realized loss on marketable securities	1,210	28,785
Share-based compensation	29,640	40,828
Stock payable for services	56,700	-
Changes in operating assets and liabilities:		
(Increase) decrease in accounts receivable	(290,124)	(33,965)
(Increase) decrease in other current assets	(34,444)	13,542
(Increase) decrease in other assets	(6,812)	-
Increase (decrease) in accounts payable and accrued expense	374,394	175,177
<b>Net Cash Used in Operating Activities</b>	<u>(430,975)</u>	<u>(164,514)</u>

**CASH FLOWS FROM INVESTING ACTIVITIES**

Proceeds from sale of oil and gas properties	9,739,114	1,010,632
Purchase of oil and gas properties and equipment	(7,052,736)	(561,619)
Investment in marketable securities	(6,045)	-
Note receivable paid	(30,000)	-
Proceeds from sale of marketable securities	4,835	92,495
Purchase office furniture and equipment	(51,549)	(4,419)
<b>Net Cash Provided by Investing Activities</b>	<u>2,603,619</u>	<u>537,089</u>

**CASH FLOWS FROM FINANCING ACTIVITIES**

Proceeds from sale of common stock	1,369,811	157,500
Advances from working interest owners	(1,770,528)	728,904
Cash paid for deferred financing costs	-	(50,916)
Principal payments on credit facility	(2,150,000)	(150,000)
<b>Net Cash Provided by (Used in) Financing Activities</b>	<u>(2,550,717)</u>	<u>685,488</u>

<b>NET INCREASE (DECREASE) IN CASH</b>	(378,073)	1,058,063
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<b>CASH AT BEGINNING OF PERIOD</b>	<u>1,822,780</u>	<u>136,841</u>
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<b>CASH AT END OF PERIOD</b>	<u>\$ 1,444,707</u>	<u>\$ 1,194,904</u>
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**SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION**

**CASH PAID FOR:**

Interest	\$ 10,291	\$ 103,761
Income taxes	\$ -	\$ -

**NON-CASH INVESTING AND FINANCING ACTIVITIES:**

Stock issued to acquire oil and gas properties	\$ 117,506	\$ 45,185
Stock payable for oil and gas properties	\$ 200,000	\$ -
Deferred offering costs applied to sale of common stock	\$ 119,912	\$ -
Increase in asset retirement obligations	\$ 43,170	\$ -

See notes to unaudited consolidated financial statements.



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

***NOTE 1 - BASIS OF PRESENTATION***

The accompanying unaudited interim consolidated financial statements of Lucas Energy, Inc. ("Lucas") 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' annual report filed with the SEC on Form 10-K for the year ended March 31, 2010. 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 financial statements which would substantially duplicate the disclosures contained in the audited financial statements for the most recent fiscal year 2010 as reported in Form 10-K have been omitted.

***NOTE 2 - ORGANIZATION AND HISTORY***

The Company was incorporated on December 16, 2003 in the State of Nevada as Panorama Investments, Corp. ("Panorama"). On June 16, 2006, the Company consummated a share exchange with Lucas Energy Resources, Inc. ("Lucas Resources"), a privately held oil and gas company, which held oil and gas lease acreage and producing reserves in Texas. The share exchange was made pursuant to a May 19, 2006 Acquisition and Exchange Agreement whereby the shareholders of Lucas Resources assumed control of and responsibilities for the Company's activities. In conjunction with the share exchange, the name of Panorama was changed to Lucas Energy, Inc. ("Lucas").

***NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES***

***Use of Estimates***

The preparation of financial statements in conformity with accounting principles generally accepted in the United States 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' 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, as well as the cost and timing of its asset retirement obligations.

***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.

***Concentration of Credit Risk***

Financial instruments that potentially subject Lucas to concentration of credit risk consist of cash and accounts receivable. Cash balances exceeded FDIC insurance protection levels by approximately \$1,182,000 at September 30, 2010, and at certain points throughout the year, subjecting Lucas to risk related to the uninsured balance. Lucas' deposits are held at large established bank institutions and it believes that the risk of loss associated with these uninsured balances is remote.

Accounts receivable are recorded at 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 and working interest owners. As of September 30, 2010, no allowance for doubtful accounts has been recorded.

Sales to one customer comprised 92% of Lucas' total revenues for the three and six months ended September 30, 2010 and 90% for the fiscal year ended March 31, 2010. Lucas believes that, in the event that its primary customer was unable or unwilling to continue to purchase Lucas' production, there are a substantial number of alternative buyers for its production at comparable prices.

### ***Marketable Securities***

Lucas reports its short-term investments and other marketable securities at fair value in accordance with ASC 825 "Financial Instruments".

### ***Fair Value of Financial Instruments***

As of September 30, 2010, the fair value of cash, accounts receivable and accounts payable approximate carrying values because of the short-term maturity of these instruments.

### ***Oil and Gas Properties, Full Cost Method***

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.

Under this method, all costs, including internal costs directly related to acquisition, exploration and development activities are capitalized as oil and gas property costs on a country-by-country basis. Sales of oil and gas properties or interests therein are credited against capitalized costs in the full cost pool. Properties not subject to amortization consist of 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. Lucas assesses overall values of unproved properties, if any, on at least an annual basis or when there has been an indication that impairment in value may have occurred. Impairment of unproved properties is assessed based on management's intention with regard to future development of individually significant properties and the ability of Lucas to obtain funds to finance their programs. If the results of an assessment indicate that the properties are impaired, the amount of the impairment is added to the capitalized costs to be amortized.

Costs of oil and gas properties are amortized using the units of production method. Amortization expense calculated per unit of production amounted to \$25.46 per barrel of oil equivalent ("BOE") for the six months ended September 30, 2010.

### ***Ceiling Test***

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 September 30, 2010, no impairment of oil and gas properties was recorded.

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

Property, plant and equipment are stated at cost and consist primarily of furniture and office equipment. Depreciation is computed on a straight-line basis over the estimated useful lives of three to five years.

### ***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 September 30, 2010. The Company's policy is to classify assessments, if any, for tax related interest as interest expense and penalties as interest expense.

### ***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 common shares outstanding during the year. Purchases of treasury stock reduce the outstanding shares commencing on the date that the stock is purchased. Common stock equivalents are excluded from the calculation when a loss is incurred as their effect would be anti-dilutive. On September 30, 2010 all options and warrants were anti-dilutive and are therefore excluded from the calculation of the basic and diluted net income (loss) earnings per share.

### ***Revenue and Cost Recognition***

Lucas recognizes oil and natural gas revenue under the sales method of accounting for its interests in producing wells as oil and natural gas is produced and sold from those wells. Oil and natural gas sold by Lucas is not significantly different from Lucas' share of production. Costs associated with production are expensed in the period incurred.

### ***Recent Accounting Pronouncements***

There were various accounting standards and interpretations issued recently, none of which are expected to have a material impact on our consolidated financial position, operations or cash flows.

### ***Subsequent Events***

Lucas has evaluated all transactions through the financial statement issuance date for subsequent event disclosure consideration.

### ***NOTE 4 - MARKETABLE SECURITIES AND NOTE RECEIVABLE***

At September 30, 2010, Lucas held 3,300,000 shares of Bonanza common stock. During the six months ended September 30, 2010, pursuant to mark-to-market accounting, Lucas reported a non-cash unrealized loss on Bonanza common shares of \$21,450. The shares of common stock held in Bonanza were recorded at zero value at September 30, 2010.

During the three months ended September 30, 2010, Lucas advanced \$30,000 to a working interest partner under a secured promissory note. The note is due on demand, it carries an 8% per annum interest rate, and is secured by a lien upon the holder's revenue and royalty interest in their oil and gas wells, including but not limited to the Arco Fee A-418 Unit No. 1-H, located in Sabine County, Texas.

### ***NOTE 5 – OIL AND GAS PROPERTIES***

#### ***Hilcorp Energy I, L.P. Purchase and Sale Agreement dated April 1, 2010***

On April 1, 2010, Lucas entered into a purchase and sale agreement with HilCorp Energy I, L.P. ("HilCorp") for the development of Lucas' Eagle Ford Shale properties located in Gonzales County, Texas. The agreement provides for HilCorp to acquire an undivided eighty-five (85%) working interest in the "deep rights" held by Lucas in Gonzales County, Texas. On May 5, 2010, Lucas and HilCorp held the first closing with total gross proceeds to Lucas of \$7,520,560. The second and third closings occurred on June 28, 2010 and August 31, 2010, with total gross proceeds to Lucas of \$1,381,270 and \$1,307,990, respectively, for total gross proceeds to date of \$10,209,820. Net proceeds to Lucas for the three closings were \$8,921,615, after distribution to Lucas' working interest participants and expenses.

A portion of the proceeds from the May 5, 2010 closing was used to terminate and fully repay the Amegy Bank Credit Facility. After repayment, Amegy released all of its liens and security interests in Lucas' oil and gas properties.

The proceeds from HilCorp were recorded as a reduction to Lucas' full cost pool with no recognition of gain or loss on the transaction. Lucas has analyzed the tax effects of the "deep rights" sale, and concluded that no taxable income or tax liability will occur. In the event that a tax liability would arise, Lucas expects that it will be fully offset by its net operating tax loss carry-forwards.

#### *Acquisition of Oil and Gas Properties*

During the six months ended September 30, 2010, Lucas' capital expenditures are as follows:

Acquisition costs	(1) \$ 3,921,943
Drilling completion and equipment costs	3,130,793
Capital expenditure costs	<u>\$ 7,052,736</u>

(1) Total acquisition cost for lease acreage, wellbores, and associated equipment purchased.

#### *LEI 2009-II Capital Program*

Lucas began the LEI 2009-II capital program in July 2009. There are two working interest participants in the program. One participant holds an eighty percent (80%) working interest (before payout) in the six well program and bears eighty percent (80%) of the capital costs expended in the program. The amount paid by the participant to Lucas for its interest in the six wells was reflected by Lucas as a reduction to the full cost pool with no gain or loss reported on the sale. A second participant holds a ten percent (10%) working interest. Lucas retained a ten percent (10%) working interest in the program prior to payout, and has an additional ten percent (10%) "back in" after payout to the 80% working interest participant (or a total 20% working interest, after payout). Lucas is the operator of all wells in the program, and five wells are located in Gonzales County, Texas while the sixth well is located in Wilson County, Texas. Commercial sales of crude oil production have occurred from six wells in the program.

#### *LEI 2009-III Capital Program*

The LEI 2009-III capital program is comprised of seven wells located in the Gonzales, Wilson and Karnes counties, Texas. The principal working interest participant in the LEI 2009-II capital program is the same participant in the LEI 2009-III program, and is responsible for paying eighty percent (80%) of the capital costs to earn a seventy percent (70%) working interest in the wells. The amount paid to Lucas for the interests acquired was reflected as a reduction to the full cost pool with no gain or loss recorded by Lucas on the sale. Commercial sales of crude oil production have occurred from five wells in the program through September 30, 2010. Funds received by Lucas pursuant to cash calls to the working interest participant in excess of funds expended in the capital program are reflected in Lucas' financial statement as a current liability – "Advances from working interest owners".

#### *Acquisition of Oil and Gas Properties from El Tex Petroleum*

Lucas acquired approximately 2,771 gross acres (approximately 2,078 net acres) located in Wilson County, Texas from El Tex Petroleum, LLC ("El Tex"). The leases have eight shut-in or plugged wellbores that the Company believes are good candidates for restoration and revitalization procedures. The leasehold, wellbore and surface equipment acquisition price totaled approximately \$1 million comprised of \$490,000 of Lucas common stock valued at \$0.77 per share, the assumption of \$500,000 in debt plus accrued interest; and the payment of \$68,000 in cash.

One director of Lucas holds an approximate 25.2% interest in El Tex while a second Lucas director holds an indirect beneficial ownership interest of approximately 18.8% in El Tex. Pursuant to NYSE Amex exchange rules, Company shareholders were required to approve the issuance of shares of common stock to El Tex due to the directors holding in the aggregate more than a five percent indirect interest in the assets being acquired by Lucas from El Tex. Additionally, the note holder of the debt assumed by Lucas is a director of Lucas. The note holder subsequently agreed to convert the debt plus accrued interest into shares of Lucas common stock. Pursuant to NYSE Amex exchange rules, Company shareholders were also required to approve the conversion of the debt and the related issuance of common stock to the director.

At the Lucas shareholder meeting held on March 30, 2010, the Lucas shareholders approved the issuance of the shares to El Tex and the issuance of shares to the Company director for the conversion of debt plus accrued interest assumed by Lucas. NYSE Amex approved the listing application for the shares to be issued and, on May 25, 2010, Lucas issued 637,887 shares of common stock to El Tex and 683,686 shares of common stock for the note conversion. The stock was issued at \$0.77 per share, which was the fair value of the shares at the effective date in September 2009.

Wells acquired by Lucas from El Tex are included in the LEI 2009-II and LEI 2009-III capital programs.

#### *Purchase of Working Interest*

On September 7, 2010, Lucas purchased a 10% working interest in oil and gas properties from Mr. Stephan Vogt, a private individual, for \$200,000 payable in Lucas common stock. At September 30, 2010 Mr. Vogt is due 131,579 shares of Lucas common stock valued at \$1.52 per share, the quoted stock price on the date of the transaction. Also, effective with the date of the agreement, Lucas agreed to pay Mr. Vogt 10% of the net profits from any wells in the LEI 2009-II and LEI 2009-III JV programs for as long as the partners hold working interests in any of the wells in the programs.

#### **NOTE 6 - REVOLVING LINE OF CREDIT AND LETTER OF CREDIT FACILITY**

On October 8, 2008, Lucas entered into a three-year Revolving Line of Credit and Letter of Credit Facility with Amegy Bank (the "Credit Facility"). At the closing of the Credit Facility in October 2008, Lucas had a lending commitment and borrowing capacity of \$3 million.

On May 5, 2010, Lucas terminated the Credit Facility and paid off the outstanding balance. As a result, Amegy released all liens and security interests securing the Lucas' obligations under the Credit Facility and Lucas recorded the remaining unamortized deferred financing costs totaling \$250,921 as interest expense.

#### **NOTE 7 - EQUITY**

On March 26, 2010, Lucas entered into a Placement Agent Agreement with WR Hambrecht + Co., under which Lucas may issue and sell up to 4 million shares of common stock from time to time in an at-the-market ("ATM") public equity offering program. Under the ATM offering, Lucas sold a total of 778,170 newly issued shares during the period April 12, 2010 through May 6, 2010 with gross and net proceeds of \$1,381,103 and \$1,224,900, respectively. The ATM was terminated September 28, 2010.

On April 29, 2010, a warrant holder exercised warrants to purchase 25,000 shares of common stock at \$1.00 per share. The warrant was originally issued to the warrant holder in connection with the purchase of units in a private equity placement in September 2009.

During the six months ending September 30, 2010, Lucas issued 11,000 shares of common stock valued at \$21,290 to its CFO as part of his compensation arrangement with the Company.

During the six months ending September 30, 2010, Lucas issued 39,502 shares of common stock valued at \$38,757 to a consultant in connection with the acquisition of oil and gas properties.

On August 19, 2010, the Company issued 5,000 shares of common stock to two employees as compensation for their services. The shares were issued at the grant date fair value which totaled \$8,350, or \$1.67 per common share.

On August 24, 2010, the Company issued 51,470 shares of common stock to two individuals in connection with the acquisition of oil and gas properties. The shares were issued at the grant date fair value which totaled \$78,750, or \$1.52 per common share.

**NOTE 8 – OPTIONS AND WARRANTS**

Summary information regarding options and warrants are as follows:

	Options	Weighted Average Exercise Price	Warrants	Weighted Average Exercise Price
Outstanding at March 31, 2010	200,000	\$ 2.60	3,360,549	\$ 8.00
Options and warrants issued	-	-	-	-
Warrants exercised	-	-	(25,000)	1.00
Outstanding at September 30, 2010	<u>200,000</u>	<u>\$ 2.60</u>	<u>3,335,549</u>	<u>\$ 7.32</u>

**Options and warrants outstanding and exercisable as of September 30, 2010:**

Exercise Price	Remaining Life	Options Outstanding	Options Exercisable	Warrants Outstanding	Warrants Exercisable
\$ 8.00	.10 Years	-	-	3,010,549	3,010,549
\$ 2.60	.14 Years	200,000	200,000	-	-
\$ 1.00	2.14 Years	-	-	325,000	325,000
Total		<u>200,000</u>	<u>200,000</u>	<u>3,335,549</u>	<u>3,335,549</u>

All options are vested, and all options and warrants are exercisable. Warrants to purchase 325,000 shares of common stock at \$1.00 per share had an intrinsic value of \$214,500 at September 30, 2010. Neither the outstanding options nor the warrants to purchase shares of common stock at \$8.00 per share had intrinsic value at September 30, 2010.

**NOTE 9 – SUBSEQUENT EVENTS**

*Resignation of CFO*

On October 7, 2010 Mr. Donald Sytsma resigned his position as CFO and Corporate Secretary of Lucas. The position was filled by Mr. John O’Keefe under a service agreement with Tatum LLC and he became the CFO, Treasurer and Corporate Secretary of Lucas Energy, Inc. Mr. Sytsma was awarded 30,000 restricted shares valued at \$61,800 and severance pay of \$33,000 both of which are payable over 90 days.

*Director compensation*

On October 7, 2010, the Lucas Board of Directors granted to each Director of Lucas for services 12,000 shares of common stock valued at \$24,700 and of options to purchase 24,000 shares of common stock under Lucas’ 2010 Long Term Incentive Plan. The options have an exercise price of \$2.00 per share and vest 1/4th per quarter beginning April 1, 2010 provided individuals remain as Directors of Lucas.

*Officer compensation*

On October 7, 2010, Lucas’ Board of Directors granted the issuance of 17,500 shares of common stock valued at \$36,050 to William A. Sawyer, the Company’s CEO and director, for services and approved the additional issuance of 17,500 shares of common stock upon the achievement of a net production average over 10,000 barrels of oil per month for a period of six months under the Plan.

Management evaluated subsequent events through the date at which the financial statements were issued. Management determined that, except as disclosed herein, no such events have occurred that would require adjustment to or disclosure in the financial statements.

## **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' Annual Report on Form 10-K for the fiscal year ended March 31, 2010 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.*

### **OVERVIEW**

#### **Cautionary Statement Regarding Forward-Looking Statements**

This Quarterly Report includes "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, and Section 21E of the Securities Exchange Act of 1934. These forward-looking statements may relate to such matters as anticipated financial performance, future revenues or earnings, business prospects, projected ventures, new products and services, anticipated market performance and similar matters. 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.

These risks and uncertainties, many of which are beyond our control, include:

- \* the sufficiency of existing capital resources and our ability to raise additional capital to fund cash requirements for future operations;
- \* uncertainties involved in the rate of growth of our business and acceptance of any products or services;
- \* volatility of the stock market, particularly within the energy sector; and
- \* general economic conditions.

Although we believe the expectations reflected in these forward-looking statements are reasonable, such expectations cannot guarantee future results, levels of activity, performance or achievements.

All forward-looking statements included in this report and all subsequent written or oral forward-looking statements attributable to us or persons acting on our behalf are expressly qualified in their entirety by these cautionary statements. The forward-looking statements speak only as of the date made, other than as required by law, and we undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

### **NATURE OF OPERATIONS**

#### **General**

Lucas Energy, Inc. is an independent oil and gas company based in Houston, Texas with approximately 12,500 gross acres (8,940 acres net) of oil and gas leases in South Texas primarily in Gonzales County and Wilson County, Texas. We hold oil and gas interests in the Austin Chalk formation (proved and producing), Buda formation (proved and producing), and Eagle Ford Shale formation (proved undeveloped). We focus on building, revitalizing and developing a portfolio of oil and gas properties by acquiring what we believe are undervalued and underperforming oil and gas assets for which we believe we can increase production.

We operate forty-nine producing wells that produced an average of 194 gross and 114 net barrels of oil per day ("BOPD") during the six months ended September 30, 2010. In total, we hold interests in fifty two producing, shut-in, and previously plugged and abandoned wellbores. We operate all of our oil and gas properties with the exception of one property located in Sabine County, Texas.

Acquisitions of oil and gas properties are a core part of our growth strategy. We focus on acquiring shut-in wells that we believe have been overlooked by other companies and have, in our assessment, a high probability of additional recovery of reserves through our revitalization process or through the drilling of new laterals. Specifically, we seek out opportunities to acquire wells located in mature oil fields that we believe are underdeveloped and have the potential to recover significant oil reserves that are still in place. The term underdeveloped is an industry term meaning that the reservoirs of interest have either not been fully exploited through drilling, or the reserves in current well bores, whether active or plugged and abandoned, have not been fully recovered by primary recovery techniques. In many instances the fields that we target have lost some or all of the reservoir pressure required to drive the oil through the overlying rock and sand and into the well bores of the producing wells, or they have experienced mechanical problems.

Most of the acquisition prospects that we conduct initial screening on are sourced directly by our senior management or specialized third-party consultants with local area knowledge. Prospects that are of further interest to us after we complete our initial review, are evaluated for technical and economic viability. We target well acquisitions that we estimate: (a) have a good opportunity and the appropriate acreage to drill additional laterals; (b) payback period of less than 12 months; and (c) projected internal rate of return on capital invested is accretive to earnings.

Our revitalization process is directed toward bringing wells back into production or enhancing production through proven practices used in the oil and gas industry. Our revitalization procedures used on acquired wells include the installation of better equipment on the well; cleaning out the well with open ended tubing, tubing with a bit, or tubing with a mule shoe; treating the well with acid, soapy water, or other proprietary chemicals sourced from third parties; re-entry of a plugged and abandoned well; and drilling of a new lateral extension on an existing well. Our well revitalization program enables us to generate short-term cash and to hold leases for additional future development. Additionally we have conducted reservoir engineering studies on a program to drill new laterals from existing well-bores or offset locations that we have already leased. The purpose of these laterals is to provide increased aerial access to the formation in order to increase the flow rate and to recover additional oil and gas reserves not recoverable from the existing vertical (straight) holes.

Our primary focus is to grow our portfolio and profitability of oil and gas properties. Our primary revenues are derived from the sale of the oil that we produce from our wells. We derive ancillary revenue from associated natural gas produced in connection with production from our oil wells. Our assets deplete as our reserves are produced. Our business is capital intensive requiring substantial funding to make property acquisitions, drill and complete wells, and conduct well revitalizations in order for us to maintain and increase our reserve base. Our primary recurring costs are expenses associated with lease operations and with operating the Company.

## RESERVES

Our proved and probable reserves and the standardized measure of discounted future net cash flows of our interests in proved oil and gas reserves as set forth in our Annual Report on Form 10-K for our fiscal year ended March 31, 2010 are:

<b>Proved Reserves</b>	<b>Oil (Bbls)</b>	<b>Natural Gas (MCF)</b>	<b>Discounted Future Net Cash Flow (at 10% per year)</b>
Developed Producing	73,010	11,760	\$ 1,614,720
Developed Non Producing	63,540	19,410	2,549,300
Undeveloped	<u>1,833,680</u>	<u>-</u>	<u>43,354,360</u>
Total, before income taxes	1,970,230	31,170	\$ 47,518,380
Less: Estimated income taxes on future net cash flows (discounted at 10% per year)	n/a	n/a	\$ (8,311,887)
Total, March 31, 2010	<u><u>1,970,230</u></u>	<u><u>31,170</u></u>	<u><u>\$ 39,206,493</u></u>
<b>Probable Reserves</b>	<b>Oil (Bbls)</b>	<b>Natural Gas (MCF)</b>	<b>Discounted Future Net Cash Flow (at 10% per year)</b>

Undeveloped, at March 31, 2010

680,770      -      \$ 4,464,910

## RESULTS OF OPERATIONS

The following table sets forth the revenue and production data for continuing operations for the three months ended September 30, 2010 and 2009.

	For the Three Months Ended September 30,		Amount	%
	2010	2009	Increase/ (Decrease)	Increase/ (Decrease)
<b>OIL AND GAS REVENUES</b>	\$ 938,590	\$ 414,218	\$ 524,372	127%
<b>PRODUCTION SALES:</b>				
Oil (barrels)	12,991	6,382	6,609	104%
Natural gas (thousand cubic feet)	580	1,286	(706)	-55%
Total (barrels oil equivalent)	13,088	6,596	6,492	98%
Oil (barrels per day)	141	70	73	104%
Natural gas (thousand cubic feet per day)	6	14	(8)	-55%
Total (barrels oil equivalent per day)	142	72	71	98%
<b>AVERAGE SALES PRICES:</b>				
Oil (per barrel)	\$ 72.12	\$ 64.41	\$ 7.71	12%
Natural gas (per thousand cubic feet)	\$ 3.00	\$ 2.49	\$ 0.51	20%
Lease operating expenses	309,090	134,811	174,279	129%
Severance and property taxes	50,473	15,706	34,767	221%
Depreciation, depletion, and amortization	352,183	141,056	211,127	150%
General and administrative	763,781	264,128	499,653	189%
<b>Total Expenses</b>	<b>1,475,527</b>	<b>555,701</b>	<b>919,826</b>	<b>166%</b>
<b>LOSS FROM OPERATIONS</b>	<b>(536,937)</b>	<b>(141,483)</b>	<b>(395,454)</b>	<b>280%</b>
<b>OTHER INCOME (EXPENSES)</b>				
Unrealized (loss) gain on investments	(6,600)	(242,000)	(235,400)	-97%
Realized loss on investments	(1,210)	1,296	(2,506)	-193%
Interest expense	-	(102,873)	102,873	-100%
<b>Total Other Income (Expenses)</b>	<b>(7,810)</b>	<b>(343,577)</b>	<b>335,767</b>	<b>-98%</b>
<b>NET LOSS BEFORE INCOME TAXES</b>	<b>(544,747)</b>	<b>(485,060)</b>	<b>(59,687)</b>	<b>12%</b>
INCOME TAX (BENEFIT) EXPENSE	-	-	-	0%
<b>NET LOSS</b>	<b>\$ (544,747)</b>	<b>\$ (485,060)</b>	<b>\$ (59,687)</b>	<b>12%</b>

### *Oil and Gas Revenue*

The \$524,372 increase in our oil and gas revenues for the current quarter was primarily attributable to an increase of 6,609 barrels (104%) in oil production sold along with an increase of \$7.71 per barrel (12%) in the price realized for oil sales compared to the prior year quarter. The increase in oil volumes is due to production from seven newly acquired wells along with production from eight successfully completed wells during the six months ended September 30, 2010.

### *Lease Operating Expenses*

Lease operating expenses increased \$174,279 for the current quarter as compared to the prior year period principally due to higher work-over and treatment costs along with higher fuel and water hauling costs resulting from increased production from newly acquired and successfully completed wells.

### *General and Administrative Expenses*

General and administrative expenses totaled \$763,781 for the current quarter as compared to \$264,128 for the prior year's quarter. The increase of \$499,653 for the current quarter from the prior year's quarter is due to an increase in compensation for employees and contractors as well as administrative costs arising from the continued ramp up of our drilling and development initiatives; fees for services and expenses incurred in connection with our investor awareness program; and public company costs for professional, legal, reserve engineering and stock exchange fees.

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

DD&A increased \$211,127 primarily due to an increase in production for the current quarter ended September 30, 2010 totaling 6,492 barrels of oil equivalent in excess of the prior year period.

### *Unrealized and Realized Losses*

The unrealized loss on marketable securities for the current quarter totaling \$6,600 is due to the mark-to-market adjustment to 3.3 million shares of common stock held by the Company in Bonanza Oil and Gas, Inc ("BGOI"), which have been written down to zero value. For the prior year's quarter, the Company reported an unrealized mark-to-market loss on BGOI shares of \$242,000.

### *Interest Expense*

On May 5, 2010, we repaid the outstanding balance and terminated the Amegy Credit Facility. Interest expense decreased by \$102,873 during the current quarter as compared to the prior year's quarter due to our expensing of the remaining unamortized balance of deferred financing costs originally incurred in creating the Credit Facility.

### *Income Tax Expense*

Income tax expense was zero for the current quarter and for the prior year's quarter. The tax benefits from operating losses for the current period and the prior year period have been fully reserved in our valuation allowance due to uncertainty whether some portion or all of the deferred tax asset arising from the operating losses may or may not be realized in the future. The Company determined that an adjustment to the valuation allowance resulting from the anticipated utilization of net operating tax loss carry-forwards for the sale of the oil and gas property "deep rights" to HilCorp is not significant.

### *Net Loss*

The \$59,687 increase in the net loss between the current quarter and the prior year period is attributable to an increase in general and administrative expenses; the write off of the Bonanza shares; partially offset by the increase in revenues between the periods for higher production volumes and prices realized on the sale of production.

The following table sets forth the revenue and production data for continuing operations for the six months ended September 30, 2010 and 2009.

	For the Six Months Ended September 30,		Amount	%
	2010	2009	Increase/ (Decrease)	Increase/ (Decrease)
<b>OIL AND GAS REVENUES</b>	\$ 1,516,130	\$ 855,682	\$ 660,448	77%
<b>PRODUCTION SALES:</b>				
Oil (barrels)	20,876	14,348	6,528	45%
Natural gas (thousand cubic feet)	580	4,951	(4,371)	-88%
Total (barrels oil equivalent)	20,973	15,173	5,800	38%
Oil (barrels per day)	114	78	36	45%
Natural gas (thousand cubic feet per day)	3	27	(24)	-88%
Total (barrels oil equivalent per day)	115	83	32	38%
<b>AVERAGE SALES PRICES:</b>				
Oil (per barrel)	\$ 72.54	\$ 58.74	\$ 13.80	23%
Natural gas (per thousand cubic feet)	\$ 3.00	\$ 2.61	\$ 0.39	15%
Lease operating expenses	619,197	442,007	177,190	40%
Severance and property taxes	88,774	34,855	53,919	155%
Depreciation, depletion, and amortization	564,292	325,682	238,610	73%
General and administrative	1,358,197	633,109	725,088	115%
<b>Total Expenses</b>	<b>2,630,460</b>	<b>1,435,653</b>	<b>1,194,807</b>	<b>83%</b>
<b>LOSS FROM OPERATIONS</b>	<b>(1,114,330)</b>	<b>(579,971)</b>	<b>(534,359)</b>	<b>92%</b>
<b>OTHER INCOME (EXPENSES)</b>				
Unrealized (loss) gain on investments	(21,450)	(21,556)	106	0%
Realized loss on investments	(1,210)	(28,785)	27,575	-96%
Interest expense	(261,212)	(163,474)	(97,738)	60%
<b>Total Other Income (Expenses)</b>	<b>(283,872)</b>	<b>(213,815)</b>	<b>(70,057)</b>	<b>33%</b>
<b>NET LOSS BEFORE INCOME TAXES</b>	<b>(1,398,202)</b>	<b>(793,786)</b>	<b>(604,416)</b>	<b>76%</b>
INCOME TAX (BENEFIT) EXPENSE	-	-	-	0%
<b>NET LOSS</b>	<b>\$ (1,398,202)</b>	<b>\$ (793,786)</b>	<b>\$ (604,416)</b>	<b>76%</b>

#### *Oil and Gas Revenue*

The \$660,448 increase in our oil and gas revenues during the six months ended September 30, 2010 was primarily attributable to an increase of 6,528 barrels (45%) in oil production sold along with an increase of \$13.80 per barrel (23%) in the price realized for oil sales compared to the six months ended September 30, 2009. The increase in oil volumes is due to production from seven newly acquired wells along with production from eight successfully completed wells.

### *Lease Operating Expenses*

Lease operating expenses increased \$177,190 during the six months ended September 30, 2010 as compared to the prior year period principally due to increased production resulting in higher work-over and treatment costs along with higher fuel and water hauling costs resulting from newly acquired and successfully completed wells.

### *General and Administrative Expenses*

General and administrative expenses totaled \$1,358,197 for the six month period ended September 30, 2010 as compared to \$633,109 for the prior year period. The increase of \$725,088 for the current year period from the prior year is due to an increase in labor (compensation and contract employees) and administrative costs arising from the continued ramp up of our drilling and development programs; fees for services and expenses incurred in connection with our investor awareness program; and public company costs for professional, legal, reserve engineering and stock exchange fees.

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

DD&A increased \$238,610 primarily due to an increase in production for the six month period ended September 30, 2010 totaling 5,800 barrels of oil equivalent in excess of the prior year period.

### *Unrealized and Realized Losses*

The unrealized loss on investments for the six months ended September 30, 2010 totaling \$21,450 and is due to the mark- to-market adjustment to 3.3 million shares of common stock held by the Company in Bonanza Oil and Gas, Inc ("BGOI") which have been written down to zero value. For the six month period ended September 30, 2009, the Company reported an unrealized mark-to-market loss on BGOI shares of \$21,556 and a realized loss of \$28,785 on BGOI shares sold during the prior year period.

### *Interest Expense*

On May 5, 2010 we paid off the outstanding balance and terminated the Amegy Credit Facility. Interest expense increased by \$97,738 during the current year period as compared to the prior year period due to our expensing of the remaining unamortized balance of deferred financing costs originally incurred in creating the Credit Facility.

### *Income Tax Expense*

Income tax expense was zero for the current period and for the same six month period of the prior year. The tax benefits from operating losses for the current period and the prior year period have been fully reserved in our valuation allowance due to uncertainty whether some portion of or all of the deferred tax asset arising from the operating losses may or may not be realized in the future. The Company determined that an adjustment to the valuation allowance resulting from the anticipated utilization of net operating tax loss carry-forwards for the sale of the oil and gas property "deep rights" to HilCorp is not significant.

### *Net Loss*

The \$604,416 increase in the net loss between the current year period and the prior year period is attributable to an increase in general and administrative expenses; an increase in Lease operating and depletion expenses; the write off the remaining unamortized balance of deferred financing costs associated with the repayment of the Amegy Credit Facility; offset by the increase in revenues between the periods for higher production volumes and prices realized on the sale of production.

### *Liquidity and Capital Resources*

Between September 30, 2010 and the end of our prior fiscal year, we had a decrease in cash of \$378,073 with total cash of \$1,444,707 at September 30, 2010. Our working capital deficit at September 30, 2010 totaled \$1,275,637 as compared to \$4,149,300 at March 31, 2010. On May 5, 2010, we utilized proceeds from the first close on the HilCorp purchase of an undivided 85% in our "deep rights" in Gonzales County, Texas to repay the outstanding principal balance with Amegy. Total proceeds to date from the "deep rights" sale to HilCorp are \$10,209,820, and the net proceeds to Lucas totals \$9,039,364. A portion of the proceeds from the first HilCorp closing on May 5, 2010 (See Note 5 – "Acquisition of Oil and Gas Properties") were used to fund purchases of additional oil and gas properties. A portion of the acreage acquired in Gonzales County, Texas was subsequently sold to HilCorp in connection with the transactions on June 28, 2010 and August 31, 2010.



During the six months ended September 30, 2010, we raised approximately \$1.2 million, net to Lucas through an “at-the-market” (“ATM”) public equity offering in which we sold 778,170 newly issued shares of common stock from our effective S-3 shelf registration statement; approximately \$9 million net to us under the “deep rights” sale of oil and gas properties in Gonzales County to HilCorp; and approximately \$0.44 million through our working interest partner’s “buy-in” to the LEI 2009-III capital program. During the six month period we expended approximately \$6.7 million for the purchases of oil and gas properties and capital expenditures on existing oil and gas properties; approximately \$2.2 million to repay the outstanding principal balance on the Amegy Credit Facility; and \$0.3 million for fund our operating, administrative and business development activities.

We anticipate that cash flows from operating activities; cash on hand at September 30, 2010; equity placements under our S-3 shelf registration through an ATM public offering(s) or registered direct placement(s); and/or other debt or equity placements will be sufficient to fund our operating and administrative requirements for the next twelve month period. Additionally, we expect to fund our oil and gas capital expenditure requirements through a combination of sales of additional properties; joint venture arrangements, working interest participants’ buy-in to existing wells and programs, and other sources of capital such as private equity and debt placements, public offerings, and traditional reserve-based financing and credit facilities.

We currently have no definitive agreements or arrangements for additional funding, and financings could result in significant dilution to our shareholders or not be available on acceptable terms in the time frame necessary, or may not be available or acceptable to us at all.

### **Cash flow from operating activities**

For the six months ended September 30, 2010, net cash used in operating activities was \$430,975 compared to net cash used in operating activities of \$164,514 for the six months ended September 30, 2009. The \$266,461 increase in net cash used in operating activities is primarily due to the increase in net loss for the current period.

### **Cash flow from investing activities**

For the six months ended September 30, 2010, net cash provided by investing activities was \$2,603,619 compared to net cash provided by investing activities for the prior year period of \$537,089. Cash from investing activities increased during the six months ended September 30, 2010 as a result of our sale of an undivided 85% interest in our “deep rights” located in Gonzales County, Texas less the purchase of oil and gas properties and capital expended on existing oil and gas properties.

### **Cash flow from financing activities**

For the six months ended September 30, 2010, net cash flow used in financing activities was \$2,550,717 comprised of the repayment of the outstanding principal on the Amegy Credit Facility of \$2,150,000 and reduction in advances from working interest owners of \$1,770,528, offset by net proceeds from the sale of common stock of \$1,369,811 off-set by deferred offering costs of \$119,912. During the prior year six month period, cash provided by financing activities was \$685,488, which were funds used to repay \$150,000 on the Amegy Credit Facility partially funded through the sale of common stock in an equity private placement, less an increase in advances from working interest owners of \$728,904.

### **Hedging**

We did not hedge any of our oil or natural gas production during the current year or prior year periods.

### **Contractual Commitments**

None.

## **Off-Balance Sheet Arrangements**

None.

## **Related Party Transactions**

As discussed under the “Nature of Operations – *Acquisition of Oil and Gas Properties Located in Wilson County, Texas* ” one Lucas board of director member (J. Fred Hofheinz) holds an approximate 25.2% interest in El Tex Petroleum, LLC (the “El Tex”) while a second Lucas board of director member (W. Andrew Krusen, Jr.) holds an indirect beneficial ownership interest in the Seller of approximately 18.8%. We entered into an agreement to acquire approximately 2,771 gross oil and gas lease acreage (approx. 2,078 net to our interest) located in Wilson County, Texas. The leasehold, wellbore and surface equipment acquisition price totals approximately \$1.0 million with approximately \$490,000 of the consideration comprised from the issuance of Lucas common stock to El Tex (specifically 637,887 shares of common stock at \$0.77 per share), assumption of \$500,000 in debt and \$68,000 in cash. Pursuant to NYSE Amex exchange rules, issuance of shares of common stock in connection with the acquisition of the oil and gas properties from El Tex requires shareholders’ approval. Lucas shareholders approved the share issuance in the annual shareholder meeting held on March 30, 2010. Upon exchange approval of the listing application for the shares to be issued, the shares of common stock were issued on May 25, 2010.

## **Critical Accounting Policies**

Our discussion and analysis of our financial condition and results of operations is based on our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities and expenses. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

### **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.

#### *Management's Report on Internal Control over Financial Reporting*

Management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act. Internal control over financial reporting is a process designed under the supervision of our principal executive and principal financial officers to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP.

Due to inherent limitations, internal control over financial reporting may not prevent or detect misstatements and, even when determined to be effective, can only provide reasonable, not absolute, assurance with respect to financial statement preparation and presentation. Projections of any evaluation of effectiveness to future periods are subject to risk that controls may become inadequate as a result of changes in conditions or deterioration in the degree of compliance.

Under the supervision and with the participation of our management, including our chief executive officer and chief financial officer, we evaluated the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the period covered by this report. Based on the evaluation, our management concluded that the design and operation of such disclosure controls and procedures were effective.

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

There have not been any changes in our internal control over financial reporting 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.**

The Company is not aware of any significant litigation, pending or threatened, that would have a material adverse effect on our financial position or results of operations.

### **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, 2010, as filed with the SEC on July 14, 2010, you should carefully consider risk factors identified below.

*The crude oil and natural gas reserves we will report in our SEC filings will be estimates and may prove to be inaccurate.*

There are numerous uncertainties inherent in estimating crude oil and natural gas reserves and their estimated values. The reserves we will report in our filings with the SEC will only be estimates and such estimates may prove to be inaccurate because of these uncertainties. Reservoir engineering is a subjective and inexact process of estimating underground accumulations of crude oil and natural gas that cannot be measured in an exact manner. Estimates of economically recoverable crude oil and natural gas reserves depend upon a number of variable factors, such as historical production from the area compared with production from other producing

areas and assumptions concerning effects of regulations by governmental agencies, future crude oil and natural gas prices, future operating costs, severance and excise taxes, development costs and work-over and remedial costs. Some or all of these assumptions may in fact vary considerably from actual results. For these reasons, estimates of the economically recoverable quantities of crude oil and natural gas attributable to any particular group of properties, classifications of such reserves based on risk of recovery, and estimates of the future net cash flows expected there from prepared by different engineers or by the same engineers but at different times may vary substantially. Accordingly, reserve estimates may be subject to downward or upward adjustment. Actual production, revenue and expenditures with respect to our reserves will likely vary from estimates, and such variances may be material.

Currently oil and natural gas companies are only permitted by the SEC to disclose proved reserves in their statutory SEC filings. Proved reserves are oil and natural gas reserves that a company has demonstrated by actual production or conclusive formation tests to be economically and legally producible under existing economic and operating conditions. Accordingly, the SEC has historically prohibited us from including “probable reserves” and “possible reserves” in statutory public filings. We may periodically disclose such reserves in information disseminations in documents that are not filed with the SEC. In addition to permitting us to disclose proved reserve estimates, effective January 1, 2010 the SEC will allow us to report “probable” and “possible” reserves realizing that both reserve categories are considered unproved reserves and as such, the SEC views the estimates to be inherently unreliable. Probable and possible reserve estimates may be misunderstood or seen as misleading to investors that are not “experts” in the oil or natural gas industry. Unless you have such expertise, you should not place undue reliance on these estimates. Except as required by applicable law, we undertake no duty to update this information and do not intend to update this information.

***We face intense competition.***

We are in direct competition with numerous oil and natural gas companies, drilling and income programs and partnerships exploring various areas of the Texas and elsewhere competing for properties. Many competitors are large, well-known oil and gas and/or energy companies, although no single entity dominates the industry. Many of our competitors possess greater financial and personnel resources enabling them to identify and acquire more economically desirable energy producing properties and drilling prospects than us. Additionally, there is competition from other fuel choices to supply the energy needs of consumers and industry. Management believes that a viable market place exists for smaller producers of natural gas and oil.

***We may not be able to operate profitably in the near future, if at all.***

We will face all of the challenges of a smaller microcap oil and natural gas company that operates in a highly competitive industry, including but not limited to: locating, acquiring and successfully developing oil and gas properties; raising financing to fund our capital expenditure program; attracting, engaging and retaining the services of qualified management, technical and support personnel; establishing budgets and maintaining internal operating policies and procedures; and the design and implementation of effective financial and disclosure controls to meet public company statutory compliance requirements. We can provide no assurance that we will achieve a level of profitability that will provide a return on invested capital or that will result in an increase in the market value of our securities. Accordingly, we are subject to the risk that because of these factors and other general business risks noted throughout these “Risk Factors,” we may, in particular, not be able to profitably execute our plan of operation.

***We require financing to execute our business plan and fund capital program requirements.***

We believe that our current cash reserves, together with anticipated cash flow from operations, will be sufficient to meet our working capital and operating needs for approximately the next twelve months. However, to continue growth and to fund our business and expansion plans we will require additional financing. The amount of capital available to us is limited, and may not be sufficient to enable us to fully execute our growth plans without additional fund raising. Additional financing may be required to meet our desired growth and strategic objectives and to provide more working capital for expanding our development and marketing capabilities and to achieve our ultimate plan of expansion and a larger scale of operations. There can be no assurance that we will be able to obtain such financing on attractive terms, if at all. We have no firm commitments for additional cash funding beyond the proceeds of the recently completed private placement.

The risk factors disclosed in this section and in our Annual Report on Form 10-K for the fiscal year ended March 31, 2010, 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.

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

On August 24, 2010, Lucas issued 24,123 shares of common stock valued at \$26,717 to a consultant in connection with capital raising services. The shares were issued to accredited investors pursuant to the exemption from the registration requirements of the Securities Act provided by Section 4(2) and Regulation D under the Securities Act.

On August 24, 2010, the Company issued 51,470 shares of common stock to two individuals as compensation for their assistance in Lucas acquiring certain oil and gas properties. The shares were issued at the grant date fair value which totaled \$78,750, or \$1.52 per common share. The shares were issued to accredited investors pursuant to the exemption from the registration requirements of the Securities Act provided by Section 4(2) and Regulation D under the Securities Act.

**ITEM 3. DEFAULTS UPON SENIOR SECURITIES.**

None.

**ITEMS 4. (REMOVED AND RESERVED).**

None.

**ITEM 5. OTHER INFORMATION.**

None.

## ITEM 6. EXHIBITS.

### Exhibit No. Description

- 3.1 Articles of Incorporation (incorporated by reference to the Company Annual Report of Form 10-KSB for the fiscal year ended November 30, 2005 filed with the SEC on February 14, 2006 as Exhibit 3.1)
- 3.2 Certificate of Amendment to Articles of Incorporation of Lucas Energy, Inc. (incorporated by reference to Exhibit B to the Information Statement on Schedule 14C filed with the SEC on February 16, 2007).
- 3.3 Bylaws (incorporated by reference to the Company Annual Report of Form 10-KSB for the fiscal year ended November 30, 2005 filed with the SEC on February 14, 2006 as Exhibit 3.2)
- 10.1 Contract with SMC (incorporated by reference to the Company Annual Report of Form 10-KSB for the fiscal year ended November 30, 2005 filed with the SEC on February 14, 2006 as Exhibit 10.1)
- 10.2 Consignment Agreement (incorporated by reference to the Company Annual Report of Form 10-KSB for the fiscal year ended November 30, 2005 filed with the SEC on February 14, 2006 as Exhibit 10.2)
- 10.3 Stock Purchase Agreement between Lucas Energy, Inc. and The Delphic Oil Co., LLC, dated December 20, 2006 (incorporated by reference to the Form 8-K dated December 20, 2006 filed with the SEC on December 21, 2009 as Exhibit 10.1)
- 10.4 Oil, Gas and Mineral Lease between Lucas Energy, Inc. and Griffin, filed of record on February 23, 2007 (incorporated by reference to the Form 8-K dated February 24, 2007 filed with the SEC on March 1, 2007 as Exhibit 10.4)
- 10.5 Employment Agreement between Lucas Energy, Inc. and James J. Cerna, dated March 20, 2007 (incorporated by reference to the Company Annual Report on Form 10-KSB for the fiscal year ended March 31, 2007 filed with the SEC on June 29, 2007, Exhibit 10.5)
- 10.6 Employment Agreement between Lucas Energy, Inc. and William A. Sawyer, dated March 20, 2007 (incorporated by reference to the Company Annual Report on Form 10-KSB for the fiscal year ended March 31, 2007 filed with the SEC on June 29, 2007, Exhibit 10.6)
- 10.7 Credit Agreement between Lucas Energy, Inc. and Amegy Bank National Association (Incorporated by reference to the Form 8-K dated October 8, 2008 filed with the SEC October 14, 2008)
- 10.8 Secured Promissory Note between Lucas Energy, Inc. and Amegy Bank National Association (Incorporated by reference to the Form 8-K dated October 8, 2008 filed with the SEC October 14, 2008)
- 10.9 Deed of Trust, Security Agreement, Financing Statement and Assignment of Production from Lucas Energy to Kenneth R. Batson, Trustee, for the benefit of Amegy Bank National Association (Incorporated by reference to the Form 8-K dated October 8, 2008 filed with the SEC October 14, 2008)
- 10.10 Security Agreement by Lucas Energy, Inc. in favor of Amegy Bank National Association (Incorporated by reference to the Form 8-K dated October 8, 2008 filed with the SEC October 14, 2008)
- 10.11 Unregistered Sale of Equity Securities and Departure of Director and Appointment of Director (Incorporated by reference to the Form 8-K dated October 8, 2009 filed with the SEC October 13, 2009)
- 10.12 Placement Agent Agreement with WR Hambrecht & Co (Incorporated by reference to the Form 8-K dated March 26, 2009 filed with the SEC March 26, 2010)
- 10.13 Submission of Matters to a Vote of Security Holders, Election of Directors and Compensatory Arrangements of Certain Officers (Incorporated by reference to the Form 8-K/A dated March 30, 2010 filed with the SEC April 22, 2010).

- 10.14 Lucas Energy, Inc. 2010 Long Term Incentive Plan (Incorporated by reference to the Form S-8 filed with the SEC on April 23, 2010)
- 10.15 Purchase and Sale Agreement Between Lucas Energy, Inc. and HilCorp Energy I, L.P. dated April 1, 2010. (Incorporated by reference to the Form 10-K Annual Report for the year ended March 31, 2010 filed with the SEC on July 14, 2010)
- 10.16 Termination of Credit Agreement with Amegy Bank and Release of all Liens and Security Interests held dated May 5, 2010 (Incorporated by reference to the Form 8-K dated May 5, 2010 filed with the SEC May 6, 2010)
- 10.17 Unregistered Sale of Equity Securities (Incorporated by reference to the Form 8-K dated May 25, 2010 filed with the SEC May 27, 2010)
- 10.18 Report of Forrest A. Garb & Associates, Inc on the Estimated Reserves and Future Net Revenue as of April 1, 2010 Attributable to Interests Owned by Lucas Energy, Inc. dated July 1, 2010. (Incorporated by reference to the Form 10-K Annual Report, Exhibit 99.1 for the year ended March 31, 2010 filed with the SEC on July 14, 2010)
- 14.1 Code of Ethics (Incorporated by reference to the Company Annual Report on Form 10-K/A, Amendment No. 1, for the fiscal year ended March 31, 2009 filed with the SEC on July 29, 2009).
- 14.2 Whistleblower Protection Policy (Incorporated by reference to the Company Annual Report on Form 10-K/A, Amendment No. 1, for the fiscal year ended March 31, 2009 filed with the SEC on July 29, 2009).
- 14.3 Charter of the Audit and Ethics Committee (Incorporated by reference to the Company Annual Report on Form 10-K/A, Amendment No. 1, for the fiscal year ended March 31, 2009 filed with the SEC on July 29, 2009).
- 14.4 Charter of the Nominating Committee (Incorporated by reference to the Company Annual Report on Form 10-K/A, Amendment No. 1, for the fiscal year ended March 31, 2009 filed with the SEC on July 29, 2009).
- 14.5 Charter of the Compensation Committee (Incorporated by reference to the Company Annual Report on Form 10-K/A, Amendment No. 1, for the fiscal year ended March 31, 2009 filed with the SEC on July 29, 2009).
- 31.1 Certification of CEO Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 **(1)**
- 31.2 Certification of CFO Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 **(1)**
- 32.1 Certification of CEO Pursuant to 18 U.S.C. Section 1350 as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 **(1)**
- 32.2 Certification of CFO Pursuant to 18 U.S.C. Section 1350 as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 **(1)**

**(1) Filed herewith.**

## 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.

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/ William A. Sawyer</u> William A. Sawyer	President and C.E.O. (Principal Executive Officer)	November 15, 2010
<u>/s/ John O'Keefe</u> John O'Keefe	Chief Financial Officer and Accounting Officer (Principal Financial Officer)	November 15, 2010



**EX-31.1**

EX-31.1 2 ex31-1.htm

**Exhibit 31.1**

**CERTIFICATION**

I, William A. Sawyer, certify that:

1. I have reviewed this quarterly report on Form 10-Q for September 30, 2010, 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: November 15, 2010

/s/ William A. Sawyer

William A. Sawyer

Chief Executive Officer



**EX-31.2**

EX-31.2 3 ex31-2.htm

**Exhibit 31.2**

**CERTIFICATION**

I, John O'Keefe, certify that:

1. I have reviewed this quarterly report on Form 10-Q for September 30, 2010, 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: November 15, 2010

*/s/ John O'Keefe*

John O'Keefe

Chief 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 September 30, 2010, 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

November 15, 2010



**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 September 30, 2010, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, John O'Keefe, 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/ John O'Keefe*

John O'Keefe

Chief Financial Officer

November 15, 2010

