

**10-Q - 2009-08-14**

Form: 10-Q

Filing date: 2009-08-14

Accession: 0001140905-09-000100

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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**

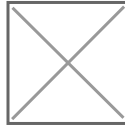
For the quarterly period ended June 30, 2009

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

**ACT OF 1934**

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

*Commission File Number: 0-51414*



**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.)*

6800 West Loop South, #415

Houston, TX 77401

*(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 X 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.

Class	Outstanding as of July 31, 2009
Common Stock, par value \$0.001 per share	10,375,088

**LUCAS ENERGY, INC.**  
**FORM 10-Q**  
**For the Quarterly Period Ended June 30, 2009**  
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## 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 of America 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 Forms 10-K and 10-K/A for the year ended March 31, 2009. 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 disclosure contained in the audited financial statements for the most recent fiscal year 2009 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. On June 16, 2006 the Company consummated a merger 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 the State of Texas. The merger was made pursuant to a May 19, 2006 Acquisition and Exchange Agreement whereby the Company acquired all of the issued and outstanding capital stock from the Lucas Resources shareholders. The merger was effected through a reverse merger with the shareholders of Lucas Resources assuming control of and responsibilities for the Company?s activities. In conjunction with the reverse merger, the name of the company 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 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' 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.

##### *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. At June 30, 2009, Lucas' cash balances were within federal insured limits and were fully insured. Lucas maintains cash accounts only at large high quality financial institutions and Lucas believes the credit risk associated with cash held in banks is remote.

Lucas' receivables primarily consist of accounts receivable from oil and gas sales. 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. As of June 30, 2009, no allowance for doubtful accounts has been recorded. Lucas' oil and gas accounts receivable are collateral to the Revolving Line of Credit with Amegy Bank that was closed on October 8, 2008 (See Note 5).

Sales to one customer comprised 87% and 88% of Lucas' total oil and gas revenues for the three months ended June 30, 2009 and 2008, respectively. Lucas believes that, in the event that its primary customer was unable or unwilling to continue to purchase Lucas' production, there are several alternative buyers for its production at comparable prices.

### ***Marketable Securities***

Lucas reports its short-term investments and other marketable securities at fair value. At June 30, 2009, Lucas' short-term investments consisted of shares of common stock held in Bonanza Oil & Gas, Inc. ("Bonanza"). The shares of Bonanza common stock held by Lucas have always been recorded on Lucas' balance sheet at fair value. Prior to Lucas' adoption of Statement of Financial Accounting Standards ("SFAS") No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities - Including an Amendment of FASB Statement No. 115* ("Statement No. 159") on April 1, 2008, Lucas reported changes in the fair value marketable securities that it held directly to stockholders' equity as part of "accumulated other comprehensive income",

Upon the April 1, 2008 adoption of Statement No. 159 provisions allowing the Company the option to value its financial assets and liabilities at fair value on an investment by investment basis, the changes in the fair value of assets and liabilities are now reported in Lucas' results of operations in the period that the change in fair value occurs. Prior to the adoption of Statement No. 159, Lucas had cumulative unrealized gains on Bonanza common stock of \$1,229,253 (net of deferred taxes of \$633,252) that were reported as other comprehensive income. The cumulative historical unrealized gain was reclassified on Lucas' balance sheet from "accumulated other comprehensive income" to retained earnings on April 1, 2008, and the associated deferred tax portion of the unrealized gain totaling \$633,252 was reflected in deferred tax liabilities.

In applying Statement No. 159, to the Bonanza shares of common stock held by Lucas for the three month period ended June 30, 2008, Lucas recognized an unrealized gain of \$1,645,315. The fair value of the shares of Bonanza common stock declined substantially during the remainder of fiscal year ended March 31, 2009; and in connection therewith, Lucas reported an unrealized loss totaling \$2,095,019 in its statement of operations for its fiscal year. For the three month period ended June 30, 2009 Lucas reported an unrealized gain on its Bonanza shares of common stock of \$220,444 and a realized loss on the sale of its Bonanza shares totaling \$30,081.

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

As at June 30, 2009, 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 county by county basis. 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 the realizability 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 exploration and development of individually significant properties and the ability of Lucas to obtain funds to finance such exploration and development. 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 equivalent physical unit of production amounted to \$20.56 per barrel of oil equivalent (?BOE?) for the fiscal year ended March 31, 2009 and for the quarter period ended June 30, 2009.

### ***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 June 30, 2009 no impairment of oil and gas properties was recorded.

### ***Furniture and Office Equipment***

Furniture and office equipment are stated at cost. Depreciation is computed on a straight-line basis over the estimated useful lives of two to five years.

### ***Deferred 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.

### ***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 reporting period. 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 June 30, 2009 all options and warrants outstanding were ?out of the money?; and are therefore, anti-dilutive and excluded from the calculation of 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***

In April 2009, the FASB issued FSP No. FAS 157-4, ?*Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly*? (FAS 157-4) to amend SFAS 157, . FAS 157-4 provides additional guidance for estimating fair value in accordance with SFAS 157 when the volume and level of activity for an asset or liability has significantly decreased. In addition, FAS 157-4 includes guidance on identifying circumstances that indicate a transaction is not orderly. FAS 157-4 is effective for interim and annual reporting periods ending after June 15, 2009. The Company is currently assessing the impact, if any, that the adoption of this pronouncement will have on the Company?s operating results, financial position or cash flows.

In December 2008, the SEC released Final Rule, *Modernization of Oil and Gas Reporting*. The new disclosure requirements include provisions that permit the use of new technologies to determine proved reserves if those technologies have been demonstrated empirically to lead to reliable conclusions about reserve volumes. The new requirements also will allow companies to disclose their probable and possible reserves to investors. In addition, the new disclosure requirements require that companies 1) report the independence and qualifications of its reserves preparer or auditor, 2) file reports when a third party is relied upon to prepare reserves estimates or conduct a reserves audit, 3) report oil and gas reserves using an average price based upon the prior 12-month period rather than year-end prices. The new disclosure requirements are effective for financial statements for fiscal years ending on or after December 31, 2009. Early adoption is not permitted. The Company is currently assessing the impact, if any that the adoption of the pronouncement will have on the Company's operating results, financial position or cash flows.

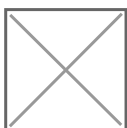
Lucas does not expect that any other recently issued accounting pronouncements will have a significant impact on the financial statements of the Company.

### ***Reclassifications***

Certain amounts in prior periods have been reclassified to conform to the current period presentation.

### **NOTE 4 - FAIR VALUE MEASUREMENTS**

The carrying values of cash and cash equivalents, accounts receivable and accounts payable (including income taxes payable and accrued expenses) included in the accompanying consolidated balance sheets approximated fair value at June 30, 2009, and they are not presented in the following table associated with the fair value measurement of Lucas' investments.



Statement No. 157 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. As presented in the table above, this hierarchy consists of three broad levels. Level 1 inputs on the hierarchy consist of unadjusted quoted prices in active markets for identical assets and liabilities and have the highest priority. Level 2 inputs consist of fair values of the investment in commodity futures contracts, which are estimated valuations provided by counterparties using the Black-Scholes model based upon the forward commodity price curves as of the end of the quarter, implied volatilities of commodities, and a risk free rate (using the treasury yield as of the end of the quarter). Level 3 inputs have the lowest priority. Lucas uses appropriate valuation techniques based on the available inputs to measure the fair values of its assets and liabilities. When available, Lucas measures fair value using Level 1 inputs because they generally provide the most reliable evidence of fair value.

The following methods and assumptions were used to estimate the fair values of the assets and liabilities in the table above.

#### **LEVEL 1 FAIR VALUE MEASUREMENTS**

Short-term Investments in Marketable Securities -- The fair values of these investments are based on quoted market prices. Lucas' short-term investments as of June 30, 2009 consisted entirely of trading securities which are subject to market fluctuations.

#### **MARKETABLE SECURITIES**

Lucas' marketable securities at June 30, 2009 are comprised of shares of common stock in Bonanza Oil & Gas, Inc. (Bonanza). The Bonanza shares were originally acquired by Lucas in October 2007 as consideration in the sale of

Lucas' 25% working interest in the ApClark prospect located in Borden County, Texas. At the time of the working interest sale its working interest was valued at \$848,850, and Lucas received 3,000,000 shares of Bonanza common stock in exchange for its working interest. In November 2007, Lucas sold 1,290,000 shares of the stock to a third party for \$365,000 and no gain or loss was recognized on the sale. On November 15, 2007 Bonanza effected a forward split of 2.1 to 1. In February 2008, Lucas exchanged a \$32,000 note receivable due from Global Production, Inc. for 75,700 shares of Bonanza valued at \$32,000. No gain or loss was recorded on this transaction.

At March 31, 2009 Lucas held 3,666,700 shares of Bonanza common stock. During the quarter ended June 30, 2009, Lucas sold 516,000 shares of Bonanza common stock with a realized loss of \$30,081, net of commissions. On June 30, 2009, Lucas held 3,150,700 shares of Bonanza common stock. On July 1, 2009 Lucas sold 1,000,000 shares of its Bonanza common stock holding for \$81,296, net of commissions with a realized gain of \$1,296 on the sale.

On May 2, 2008 Lucas purchased six commodity contracts that were linked to the NYMEX crude oil futures contracts. At the time the contracts were closed out in July 2008, Lucas had a realized loss on the NYMEX contracts totaling \$125,420.

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

On October 8, 2008, Lucas entered into a Revolving Line of Credit and Letter of Credit Facility with Amegy Bank (the "Credit Facility"). The Credit Facility provides Lucas with up to a \$100 million oil and gas reserve-based revolving line of credit that matures on October 8, 2011 (the "Revolving Line of Credit"). The availability of credit and repayments under the Credit Facility are subject to periodic borrowing base redeterminations. The Credit Facility provides for scheduled semiannual borrowing base redeterminations on June 1 and December 1, or at any other time that Amegy or Lucas may request an unscheduled redetermination; but neither is obligated to accommodate an unscheduled redetermination more than once between the scheduled semiannual redeterminations.

At closing, Lucas had immediate access to a \$3.0 million line of credit with Amegy Bank. The Credit Facility provides for Lucas' borrowing capacity to periodically increase or decrease as the collateral value of the proved reserves securing the Credit Facility fluctuates from factors such as change in market prices, revisions to reserve estimates and operating cost estimates, and as the results of drilling and development activities are acquired and interpreted. Proceeds from borrowings under the Credit Facility are to be used to: (1) finance trade payables; (2) fund Lucas' continuing lateral drilling and revitalization programs on existing wells; (3) finance leasehold acquisitions; (4) conduct other activities on the Lucas properties; and (5) fund general working capital requirements. The Credit Facility is secured by first liens on Lucas' existing and after acquired oil and gas properties.

The Credit Facility provides for interest on borrowed funds at rates set forth in the Credit Facility, but not less than a 5.0% annual rate. Borrowing under the Credit Facility bear interest at either of the greater of a base rate or the Federal Funds Rate plus 0.50% per annum. The base rate is published Amegy prime rate. Additionally, the Credit Facility provides for a variable commitment fee not to exceed a 0.05% annual rate for the unused portion of the full line of credit; and for Lucas' repayment of funds borrowed within three (3) years of closing the Credit Facility. Lucas' interest rate on the Credit Facility for borrowed funds since its execution was and continues to be 5.0% per annum paid monthly.

In connection with the Revolving Line of Credit Facility, Lucas capitalized transaction costs totaling \$421,751. These deferred financing costs are being amortized over the three year term of the Credit Facility using the effective interest rate method and are recorded to interest expense. For the three months ended June 30, 2009, Lucas recorded interest expense for the amortization of the deferred financing costs totaling \$27,866, and the unamortized balance of the transactions costs total \$344,662 at June 30 2009. The current portion of the deferred financing costs totaling \$128,274 is reported in other current assets in Lucas' consolidated balance sheet.

Amegy Bank's initial lending commitment to Lucas under the Credit Facility was set at \$3.0 million. In connection with a scheduled periodic borrowing base redetermination, on March 30, 2009 Amegy adjusted their lending commitment to Lucas to \$2.7 million, with a \$25,000 per month reduction in their commitment until the next borrowing base redetermination is made. There is no requirement on Amegy's part to eliminate the monthly commitment reduction in their next determination. On June 30, 2009 Amegy's lending commitment to Lucas totaled \$2,575,000

which equals the principal balance outstanding on the Credit Facility and there was no borrowing availability to Lucas under the Facility.

The Credit Facility contains covenants that Lucas is required to meet including: a) maintain a current ratio not less than 1.00 to 1.00 at any time; b) prohibit the ratio of Indebtedness to adjusted earnings before interest, taxes, depreciation and amortization (?EBITDA?) from being more than 3.75 to 1.00 (as defined in the credit agreement) for the preceding four quarterly periods; and c) limit general and administrative expenses (determined in accordance with generally accepted accounting principles) during a fiscal quarter to no more than twenty-five percent (25.0%) of revenue less recurring lease operating expenses and taxes for the quarter.

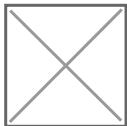
Lucas is subject to the aforementioned financial covenants under the Credit Facility, and at June 30, 2009 Lucas did not meet the financial covenant requirements of the Credit Facility. Lucas has requested and received waivers from Amegy for the current ratio, the EBITDA ratio and general and administrative expense covenants at June 30, 2009, and Amegy waived any remedies at June 30, 2009 for Lucas? not meeting the covenants until September 30, 2009 at which time Lucas will be subject to the existing covenants. In the future, Amegy may or may not grant Lucas waivers of its debt covenants.

***NOTE 6 ? EQUITY***

During the three months ended June 30, 2009, Lucas received \$67,500 in proceeds from two directors for 112,500 shares of common stock. Although funds had been received as of June 30, 2009, the shares had not been issued. The obligation for these shares is reflected in stock payable at June 30, 2009.

***NOTE 7 ? OPTIONS AND WARRANTS***

**Summary information regarding options and warrants are as follows:**



## 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, 2009 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

Lucas is an independent oil and gas company based in Houston, Texas with approximately 15,000 gross and 12,000 net acres of oil and gas leases in South Texas primarily in the Gonzales County, Texas area. Our strategy is to acquire underperforming oil and gas properties in which we believe we can restore, revitalize or increase production. We currently operate 22 producing wells that produce approximately 100 - 135 barrels of oil per day ("BOPD"), gross. We control another 16 shut-in or plugged wellbores. As of June 30, 2009 we owned 100% working interests in all but one of our operated wells, and we have non-operating interests in three wells. Our average daily production, net to our interest, from our oil and gas properties totaled approximately 94 barrels of oil equivalent ("boe") per day for the three months ended June 30, 2009.

On July 28, 2009 we announced the kick-off of our LEI 2009-II capital program which is being conducted through a joint venture with two partners. One partner is a foreign entity that bought into and acquired an 80% working interest (before payout) in six existing wellbores that are currently shut-in or plugged and abandoned, and who has committed to fund their 80% share of the drilling and completion capital expenditures required to re-enter the six wells and restore production. The other partner acquired a 10% working interest in the six wells. We retained a 10% working

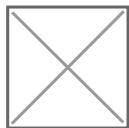
interest in the wells prior to payout, and a 20% working interest in the wells after payout. We will operate the six wells that comprise the joint venture. On August 4, 2009 we commenced work on the first well ? the Mills Oil No. 1. Work on the six wells that comprise the LEI 2009-II capital program is expected to be completed in approximately 9 ? 12 weeks.

Crude oil represents approximately 93% of our total production, while approximately 98% of our revenues are derived from the sale of crude oil production. Oil sales are made on a month-to-month basis and our monthly cash flows are positively or negatively affected with upward and downward movements in crude oil price postings. Actual prices realized from our sales of crude oil for the three months ended June 30, 2009 ranged from a low of \$46.70 per barrel in April 2009 to a high of \$66.35 per barrel for June 2009. Over the past 15 months the average prices realized from our crude oil production sales ranged from an average of \$123.00 per barrel during the quarter ended June 30, 2008 to an average of \$54.00 per barrel in the quarter ended June 30, 2009, respectively.

Acquisitions of shut-in wells, plugged and abandoned wells or wells with marginal production are core to our growth strategy; in that we target wells that our assessment indicate have a high probability of additional recovery of reserves through our revitalization process or through the drilling of new horizontal laterals. We actively seek out opportunities to acquire wells located in mature oil fields that we believe are underdeveloped or have potential to recover significant oil reserves that are still in place. 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.

## **RESULTS OF OPERATIONS**

The following table sets forth the revenue and production data for continuing operations for the three months ended June 30, 2009 and 2008.





### *Oil and Gas Revenue*

The \$882,340 decrease in our oil and gas net sales was primarily attributable to a decline of \$67.92 per barrel (-56%) in the price realized for oil sales and a 2,699 barrel (-25%) decrease in oil production sold. The decrease in oil volumes is due to having several wells down for workovers during the period. Sales of natural gas production increased during the three months which was offset entirely with an approximately 77% decline in price.

### *Lease Operating Expenses*

Lease operating expenses increased \$78,251 during the three months ended June 30, 2009 as compared to the prior year period principally due to higher workover and treatment costs for the current period.

### *General and Administrative Expenses*

General and administrative expenses increased \$106,191 for the three months ended June 30, 2009 as compared to the prior period primarily due to \$35,338 in stock based compensation in the current period while there was no stock based compensation in the prior year period; increases in a) expenditures related to building investor awareness, b) higher field supervision and administrative charges and c) office expenditures; and reductions in i) payroll, and ii) travel and entertainment.

### *Interest Expense*

Interest expense increased by \$60,602 due to interest and commitment fees associated with the Amegy Credit Facility executed in October 2008.

### *Unrealized and Realized Losses*

Unrealized gain on investments for the three months ended June 30, 2009 totaling \$220,444 is due to the mark-to-market for shares held by the Company in Bonanza Oil and Gas, Inc. resulting from an increase in quoted price on the OTC between March 31, 2009 (\$0.08 per share) and June 30, 2009 (\$0.15 per share). For the three month period ended June 30, 2008, Lucas recognized an unrealized gain on Bonanza common stock of \$1,645,315, and subsequently the fair value of the shares of Bonanza common stock declined sharply resulting in the Company reporting an unrealized loss totaling \$2,095,019 in its statement of operations for the fiscal year ended March 31, 2009. On July 1, 2009 the Company sold 1,000,000 shares of Bonanza common stock for \$81,296 net of commissions.

### *Interest Income*

Interest income decreased \$1,774 for the three months ended compared to the prior year period due to a decrease in the average cash on hand as cash raised in the sale of common stock in the fiscal year 2008 was expended.

### *Income Tax Expense*

Income tax expense decreased due primarily to net losses incurred in the current fiscal year and the associated reduction in deferred income taxes.

### *Net Income (Loss)*

The \$1,698,856 decrease in net income is primarily attributable to the \$1,424,871 reduction in the unrealized gain on Bonanza shares of common stock between the current three month period and the prior year three month period, and the \$882,340 reduction in revenues from oil and gas sales partially offset with the \$717,640 reduction in deferred income taxes due to the net loss for the current three month period.

### *Liquidity and Capital Resources*

Between June 30, 2009 and the end of our prior fiscal year of March 31, 2009, we had a reduction in net cash of \$89,091 with cash on hand of \$47,750. Negative working capital at June 30, 2009 totaled \$689,409 as compared to \$513,240 at March 31, 2009. During the three months ended June 30, 2009 we funded our cash for operating activities, capital expenditures on our oil and gas properties and principal reductions on our Amegy credit facility through subscription advances on our private equity raise, the sale of certain non-core marginally economic wells and cash on hand at March 31, 2009.

We anticipate that cash flow from operations combined with cash on hand is sufficient to cover our operating and general and administrative requirements for our fiscal year 2010. Since our quarter end June 30, 2009 we have raised approximately \$1.0 million through the LEI 2009-II capital program joint venture and private equity placement. In order to fully execute our capital program over the next twelve months we intend to seek additional financing in the form of common equity, convertible preferred or convertible debt, and joint venture partners. An acceleration of acquisitions or our planned drilling operations would require that we secure additional financing more quickly. We have no definitive agreements or arrangements for additional funding. Additional financing, if needed, through partnering, public or private equity financings, lease transactions or other financing sources may not be available on acceptable terms, or at all. Additional equity financings could result in significant dilution to our stockholders.

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

For the three months ended June 30, 2009, net cash used in operating activities was \$71,187 compared to net cash provided from operating activities of \$443,329 for the three months ended June 30, 2008. The \$514,516 decrease in net cash provided from operating activities is primarily due to the reduction in net income for the current period partially offset with an increase in accounts payables during the current period.

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

For the three months ended June 30, 2009 net cash used in investing activities was \$10,404 compared to net cash used in investing activities for the prior year period of \$1,072,858. Cash used in investment activities declined due to a scaling back and reduction in capital expenditures associated with our oil and gas properties as the price for crude oil declined.

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

For the three months ended June 30, 2009, net cash flow used in financing activities was \$7,500 was comprised of \$75,000 reduction in the outstanding principal balance on the Amegy Credit Facility and stock subscription advances of \$67,500 during the three month period. For the three months ended June 30, 2008 the Company did not have any financing activities.

### **Hedging**

We did not hedge any of our oil or natural gas production during fiscal 2009 and have not entered into any such hedges from June 30, 2009 through the date of this filing.

## **Contractual Commitments**

None

## **Off-Balance Sheet Arrangements**

None.

## **Related Party Transactions**

None.

## **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.

In February 2007, the Financial Accounting Standards Board (FASB) issued SFAS No. 159 (SFAS 159), "The Fair Value Option for Financial Assets and Financial Liabilities Including an Amendment of FASB Statement No. 115." This pronouncement permits entities to use the fair value method to measure certain financial assets and liabilities by electing an irrevocable option to use the fair value method at specified election dates. After election of the option, subsequent changes in fair value would result in the recognition of unrealized gains or losses as period costs during the period the change occurred. SFAS 159 becomes effective as of the beginning of the first fiscal year that begins after November 15, 2007, with early adoption permitted. However, entities may not retroactively apply the provisions of SFAS 159 to fiscal years preceding the date of adoption. We are currently evaluating the impact that SFAS 159 may have on our financial position, results of operations or cash flows.

In December 2008, the SEC released Final Rule, "Modernization of Oil and Gas Reporting." The new disclosure requirements include provisions that permit the use of new technologies to determine proved reserves if those technologies have been demonstrated empirically to lead to reliable conclusions about reserve volumes. The new requirements also will allow companies to disclose their probable and possible reserves to investors. In addition, the new disclosure requirements require that companies 1) report the independence and qualifications of its reserves preparer or auditor, 2) file reports when a third party is relied upon to prepare reserves estimates or conduct a reserves audit, 3) report oil and gas reserves using an average price based upon the prior 12-month period rather than year-end prices. The new disclosure requirements are effective for financial statements for fiscal years ending on or after December 31, 2009. Early adoption is not permitted. We are currently assessing the impact, if any, that the adoption of the pronouncement will have on our operating results, financial position or cash flows.

## **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.**

There have been no material changes to the risk factors set forth in our Annual Report on Form 10-K for the year ended March 31, 2009, as filed with the SEC on June 29, 2009. The risk factors disclosed in our Annual Report on Form 10-K for the fiscal year ended March 31, 2009, 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.**

None.

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

None.

### **ITEMS 4. SUBMISSION OF MATTERS TO A VOLTE OF SECURITY HOLDERS.**

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 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)
- 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.

<b>Signature</b>	<b>Title</b>	<b>Date</b>
<u>/s/ William A. Sawyer</u> William A. Sawyer	President and C.E.O. (Principal Executive Officer)	August 14, 2009
<u>/s/ Donald L. Sytsma</u> Donald L. Sytsma	Chief Financial Officer and Accounting Officer	August 14, 2009



**EX-31**

EX-31 2 lei063009qex311.htm EXHIBIT 31.1

**Exhibit 31.1**

Pursuant to the requirements of Rule 13a-14 of the Securities Exchange Act of 1934, as amended, provides the following certifications.

I, William A. Sawyer, certify that:

1. I have reviewed this quarterly report on Form 10-Q for the three months ended June 30, 2009, 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: August 14, 2009

/s/ William A. Sawyer

William A. Sawyer  
Chief Executive Officer



**EX-31**

EX-31 3 lei063009qex312.htm EXHIBIT 31.2

**Exhibit 31.2**

Pursuant to the requirements of Rule 13a-14 of the Securities Exchange Act of 1934, as amended, provides the following certifications.

I, Donald L. Sytsma, certify that:

1. I have reviewed this quarterly report on Form 10-Q for the three months ended June 30, 2009, 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: August 14, 2009

/s/ Donald L. Sytsma  
Donald L. Sytsma  
Chief Financial Officer



**EX-32**

EX-32 4 lei063009qex321.htm EXHIBIT 32.1

**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 June 30, 2009, 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 result of operations of the Company.

/s/ William A. Sawyer

William A. Sawyer

Chief Executive Officer

August 14, 2009



**EX-32**

EX-32 5 lei063009qex322.htm EXHIBIT 32.2

**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 June 30, 2009, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Donald L. Sytsma, 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 result of operations of the Company.

/s/ Donald L. Sytsma

Donald L. Sytsma

Chief Financial Officer

August 14, 2009

