VALUERICH INC
Form 10-K
March 31, 2009

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

FORM 10-K

(Mark One)

x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2008

OR

o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _____________ to _____________

Commission file number 000-52404

VALUERICH, INC.
(Exact name of registrant as specified in its charter)

Delaware	41-2102385
(STATE OR OTHER JURISDICTION OF INCORPORATION OR ORGANIZATION)	(I.R.S. EMPLOYER IDENTIFICATION NO.)

1804 N. Dixie Highway, Suite A, West Palm Beach, FL 33407

1-561-370-3617

(Address and telephone number, including area code, of registrant's principal executive offices)

Securities registered pursuant to Section 12(b) of the Act:
Common Stock, $0.01 par value per share
(Title of Class)

Securities registered pursuant to Section 12(g) of the Act:
None.
(Title of Class)

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

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes o No x

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. o

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

Large accelerated filer o	Accelerated filer o
Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company x

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

At June 30, 2008, the end of our second fiscal quarter, the aggregate market value of common stock held by non-affiliates of the registrant was approximately $1,000,000 based on the closing price of $0.20 as reported on the American Stock Exchange.

The number of outstanding shares of the registrant's Common Stock, $0.01 par value, was 8,669,571 shares as of March 23, 2009.

DOCUMENTS INCORPORATED BY REFERENCE

The information required by Part III of this Report, to the extent not set forth herein, is incorporated herein by reference from the registrant's definitive proxy statement relating to the Annual Meeting of Shareholders to be held in 2008, which definitive proxy statement shall be filed with the Securities and Exchange Commission within 120 days after the end of the fiscal year to which this Report relates.

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CAUTIONARY STATEMENT RELATING TO THE SAFE HARBOR PROVISIONS OF THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995

This Annual Report on Form 10-K and the information incorporated by reference 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. We intend those forward looking-statements to be covered by the safe harbor provisions for forward-looking statements. All statements regarding our expected financial position and operating results, our business strategy, our financing plans and the outcome of any contingencies are forward-looking statements. Any such forward-looking statements are based on current expectations, estimates, and projections about our industry and our business. Words such as ‘‘anticipates,’’ ‘‘expects,’’ ‘‘intends,’’ ‘‘plans,’’ ‘‘believes,’’ ‘‘seeks,’’ ‘‘estimates,’’ or variations of those wor expressions are intended to identify such forward-looking statements. Forward-looking statements are subject to risks and uncertainties that could cause actual results to differ materially from those stated in or implied by any forward-looking statements.

PART I

Item 1. Business

Our Current Business

Valuerich, Inc., (the Company), was incorporated under the laws of the state of Florida on July 11, 2003. Prior to 2009, the Company operated various online and offline media-based properties for corporate and financial professionals. Its properties included 1) iValueRich.com, 2) Valuerich magazine and 3) the Valuerich Small-cap Financial Expo.

In the first quarter of 2009, the Company became dedicated to a web-based financial media business model. Until December 2008, Valuerich magazine was published approximately three times per year and was a glossy full-color magazine of approximately 120 pages that was geared toward an affluent readership of investment related professionals and corporate leaders.

By the end of 2008, the Company had nearly completed, but not yet launched, the second generation of the ValueRich platform, which added a full spectrum of financial and web-based tools for small-cap companies seeking to go public and raise capital via a web-based Direct Public Offering ("DPO") format. Companies that want to raise capital could file their own registration statement through the DPO process and pay the Company for the use of the technology platform and access to its database of financial related professionals to help fund the issuing company's deal. For the first time, users of the ValueRich technology platform who have verified their qualified investor's status will be able to discover and participate in Direct Offerings featured on the ValueRich platform. While ValueRich, Inc. is not a registered broker-dealer or investment advisor, soon we will be able to provide companies with technology and marketing tools they need to communicate directly with qualified investors. The Company anticipates announcing the official launch of www.iValueRich.com platform in early 2009.

In January 2009, the Company announced plans to create a business talk show called ValueRich TV, which will be produced at a dedicated studio next door to its headquarters. Its purpose is to create a successful Wall Street based talk show that can be streamed over the internet for worldwide distribution. In January 2009, the Company purchased and closed on the building to be used as the studio.

The Company trades on the NYSE Amex under the trading symbol "IVA."

ITEM 1A. Risk Factors

In evaluating us and our business you should carefully consider the risks set forth below.

Risks Relating to Our Business

No assurance can be given that we will not be subject to liability if persons rely on information about other companies made available through the use of our services.

Although we believe that we should not be held liable if information made available through our services about other companies, and/or relied on by persons using our services, turns out to be fraudulent or otherwise misleading, there can be no assurance given that any potential liability for any such fraudulent or otherwise misleading information would lie exclusively with the companies providing such information, and not us. If we were found to be held liable for damages resulting from any such fraudulent or otherwise misleading information, the damages could be significant. In this regard, we are not involved at any level with the preparation of the content of the information provided by our participating member companies, nor do we check, verify or confirm any of this information; but, merely organize the manner in which it is presented and make it available to be searched. All substantive information about other companies that is made available through our services is provided directly to us by the respective companies themselves. In addition, there are disclaimers in place required to be accepted by paying members in connection with gaining membership to our website which are intended to further restrict our liability for the accuracy of this information.

We have not been profitable in the past and may never become profitable.

We have not yet achieved profitability and there can be no assurance that we will become profitable. During our fiscal years ended December 31, 2008 and December 31, 2007, we incurred net losses of approximately $1,010,595 and $1,747,987,170, respectively. Our ability to generate revenues and to become profitable depends on many factors, including the market acceptance of our products and services, our ability to control costs and our ability to implement and maintain our business strategy. There can be no assurance that we will become or remain profitable.

There is an uncertain market for our products.

We have only a limited operating history to determine the market acceptance by small capitalization companies, investment banks and buy-side professionals of our expos, magazine and internet community. No assurance can be given that a significant market for our products and services will be developed or sustained.

If we are unable to hire and retain key personnel, then we may not be able to implement our business plan.

The success and growth of our business will depend on the contributions of our Chairman, President and Chief Executive Officer, Joseph Visconti, and a small number of other key personnel, as well as our ability to attract, motivate and retain other highly qualified personnel. Competition for such personnel is intense. We do not have an employment agreement with Mr. Visconti or any of our other employees. The loss of the services of any of our key personnel, or our inability to hire or retain qualified personnel, could have a material adverse effect on our business.

If our business plan fails, our company will dissolve and investors may not receive any portion of their investment back.

If we are unable to realize profitable operations, or raise sufficient capital, our business will eventually fail. In such circumstances, it is likely that we will dissolve and, depending on our remaining assets at the time of dissolution, we may not be able to return any funds back to investors.

If we do not meet the American Stock Exchange requirements for continued listing, our common stock may be delisted and our securities may then become illiquid.

If our securities are delisted from AMEX, they will likely be quoted in the over-the-counter market in the “pink sheets” or the OTC Bulletin Board. Consequently, an investor would find it more difficult to trade our securities. In addition, if our common stock is delisted from AMEX, it will be subject to the rules relating to “penny stocks.” These rules require brokers who sell securities subject to such rules to persons other than established customers and “institutional accredited investors” to complete certain documentation, make suitability inquiries of investors and provide investors with certain information concerning the risks of trading in the securities. Application of the penny stock rules to our securities will adversely affect the market liquidity of our securities, which may adversely affect the ability of purchasers in this offering to resell our securities.

We utilize third parties to provide reliable software, systems and related services.

We utilize various third parties for technology, software, systems and related services in order to provide our clients with the most comprehensive menu of publicly available business and financial information by providing historical data in chart format, daily updates and live feeds. Currently we have not entered into any agreements with any third party for technology, software, systems or related services. If for any reason one or more of these service providers becomes unable or unwilling to continue to provide services of acceptable quality, at acceptable costs and in a timely manner, our ability to deliver our product and services offering to our members could be impaired. We would have to identify and qualify substitute service providers, which could be time consuming and difficult and could result in unforeseen difficulties. Although we are confident that alternative service providers are available, we cannot assure that we will be able to obtain such services on our favorable terms as we currently receive or in a timely manner.

The operating performance of computer systems and Web servers is critical to our business and reputation.

Any system failure, including network, software or hardware failure due to a computer virus break-ins or otherwise that causes an interruption to our website could lead to reduced revenues for our business. In addition, our members depend on internet service providers, online service providers and other website operators for access to our websites. Many of them have experienced significant outages in the past, and could experience outages, delays and other difficulties due to system failures unrelated to our degraded service, number satisfaction would decrease, we would likely lose revenue and our reputation could be permanently harmed.

We may issue shares of preferred stock with greater rights than our common stock.

Our articles of incorporation authorize our board of directors to issue up to ten million shares of preferred stock in one or more series and determine the price for those shares without seeking any further approval from our stockholders. Further, under Delaware law, the board of directors may at its discretion, and without stockholder approval, set the other terms of the preferred stock. Any preferred stock that is issued may rank ahead of our common stock, in terms of dividends, liquidation rights and voting rights that could adversely affect the voting power or other rights of the holders of our common stock. In the event of issuance, the preferred stock could be utilized, under certain circumstances, as a method of discouraging, delaying or preventing a change in control of our company. Such provisions could have the effect of depriving stockholders of an opportunity to sell their shares at a premium over prevailing market prices. Any delay or prevention of, or significant payments required to be made upon, a change of control transaction or changes in our board of directors or management could deter potential acquirers or prevent the completion of a transaction in which our stockholders could receive a substantial premium over the then current market price for their shares.

Intense competition could reduce our market share and harm our financial performance.

An increasing number of financial news and information sources compete for consumers' and advertisers' attention and spending. We expect this competition to continue to increase. We compete for advertisers, readers, staff and outside contributors with many types of companies. We have experienced increased competition in the financial convention space. We have found that in many cases our clients are being offered free and/or no charge presentation spots at investment banking conferences where the host investment bank derives revenue not from charging the exhibiting companies to present but rather from the investment banking fees derived from engaging the invited company and generating revenue from investment banking services, consulting and advisory fees. There can be no assurance that we will be able to continue to attract clients for our expos, and that if we are able to attract clients that it will be at prices that will enable us to meet the costs of running the expos.

Our ability to compete depends on many factors, including the originality, timeliness, comprehensiveness and trustworthiness of our content and that of our competitors, the ease of use of services developed either by us or our competitors and the effectiveness of our sales and marketing efforts.

Many of our existing competitors, as well as a number of potential new competitors, have longer operating histories, greater name recognition, larger customer bases and significantly greater financial, technical and marketing resources than we do. This may allow them to devote greater resources than we can to the development and promotion of their services and to offer clients incentives such as free entry to their expos. These competitors may also engage in more extensive research and development, undertake more far-reaching marketing campaigns, adopt more aggressive pricing policies (including offering their financial news for free) and make more attractive offers to existing and potential employees, outside contributors, strategic partners and advertisers. Our competitors may develop content that is equal or superior to ours or that achieves greater market acceptance than ours. It is also possible that new competitors may emerge and rapidly acquire significant market share. We may not be able to compete successfully for advertisers, readers, staff or outside contributors, which could materially adversely affect our business, results of operations and financial condition. Increased competition could result in advertising price reductions, reduced margins or loss of market share, any of which could materially adversely affect our business, results of operations and financial condition.

We also compete with other web sites, television, radio and print media for a share of advertisers' total advertising budgets. If advertisers perceive the Internet or our web site to be a limited or an ineffective advertising medium, they may be reluctant to devote a portion of their advertising budget to Internet advertising or to advertising on our web site.

Our online operations are subject to security risks and systems failures.

Security risks.

Online security breaches could materially adversely affect our collective businesses, financial condition or results of operations. Any well-publicized compromise of security could deter use of the Internet in general or use of the Internet to conduct transactions that involve transmitting confidential information or downloading sensitive materials in particular. In offering online payment services, we may increasingly rely on technology licensed from third parties to provide the security and authentication necessary to effect secure transmission of confidential information, such as consumer credit card numbers. Advances in computer capabilities, new discoveries in the field of cryptography or other developments could compromise or breach the algorithms that we use to protect our consumers' transaction data. In addition, experienced programmers or "hackers" may attempt to misappropriate proprietary information or cause interruptions in our services which could require us to expend significant capital and resources to protect against these problems.

Other system failures.

The uninterrupted performance of our computer systems is critical to the operations of our Internet sites. We may have to restrict access to our Internet sites to solve problems caused by computer viruses or other system failures. Our customers may become dissatisfied by any systems disruption or failure that interrupts our ability to provide our content. Repeated system failures could substantially reduce the attractiveness of our Internet site and/or interfere with commercial transactions, negatively affecting our ability to generate revenues. Our Internet sites must accommodate a high volume of traffic and deliver regularly updated content. Our sites have, on occasion, experienced slower response times and network failures. These types of occurrences in the future could cause users to perceive our web sites as not functioning properly and therefore induce them to frequent Internet sites other than ours. In addition, our customers depend on their own Internet service providers for access to our sites. Our revenues could be negatively affected by outages or other difficulties customers experience in accessing our Internet sites due to Internet service providers' system disruptions or similar failures unrelated to our systems.

If we are unable to generate revenues from advertising and sponsorships, or if we were to lose our large advertisers or sponsors, our business would be harmed.

If companies perceive ValueRich Magazine, iValueRich.com or our conference events to be a limited or ineffective advertising medium, they may be reluctant to advertise in our products or be a sponsor of our company. Our ability to generate significant advertising and sponsorship revenues depends upon several factors, including, among others, the following:

- our ability to maintain a large, demographically attractive reader base for ValueRich Magazine or subscriber base for iValueRich.com;
- our ability to maintain attractive advertising rates;
- our ability to attract and retain advertisers and sponsors; and
- our ability to provide effective advertising delivery and measurement systems.

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Our advertising revenues are also dependent on the level of spending by advertisers, which is impacted by a number of factors beyond our control, including general economic conditions, changes in consumer purchasing and viewing habits and changes in the retail sales environment. Our existing competitors, as well as potential new competitors, may have significantly greater financial, technical and marketing resources than we do. These companies may be able to undertake more extensive marketing campaigns, adopt aggressive advertising pricing policies and devote substantially more resources to attracting advertising customers. In an effort to decrease cost, we have changed publication to digital. There can be no assurance that such a change will not negatively impact our magazine revenue.

If we are unable to generate revenues from subscription and site membership fees to iValueRich.com or fees for specific research or other services utilized by members of iValueRich.com our business would be harmed.

To date, we have not obtained any revenues from the interactive flow of commerce and financing queries through subscription and site membership fees for access to iValueRich.com, “a la carte” fees for specific valuable research and other services or from selling Internet advertising to reach the demographic this business community offers. While we continue to hope that we will be successful in these endeavors, no assurance can be given that we will, in fact, generate this revenue.

The Company must be able to adapt to rapidly changing market trends and technologies in order to continue offering its clients a viable business service.

The Company’s success will depend largely upon its ability to monitor rapidly changing technologies and market trends and to adapt its publications and services to meet the evolving information needs of existing and emerging target clients. The process of internally researching and developing, launching, gaining acceptance and establishing profitability for a new publication, new expo structure or new service, or assimilating and marketing an acquired publication or service, is inherently risky and costly. We are currently in the process of modifying our expo line of business in order to more effectively compete in our industry and have chosen to change our magazine publication to digital. New publications typically require several years and significant investment to achieve profitability. There can be no assurance that the Company’s efforts to modify its existing lines of business or introduce new or assimilate acquired publications or services will be successful or profitable. In addition, the Company has invested in certain Internet services that are not yet revenue optimized. The Internet is still in the relatively early stages of development as a commercial medium, and there can be no assurance that these services will be successful or profitable. Costs related to the development of new publications and services are expensed as incurred and, accordingly, the Company’s profitability from year to year may be adversely affected by the number and timing of new product launches.

Some of the Company’s business services compete in a highly competitive market.

Certain of the business lines in which the Company is engaged are highly competitive and certain of the Company’s competitors are larger and have greater financial resources than the Company. There can be no assurance that the Company will be able to continue to compete successfully or that such competition will not have a material adverse effect on the Company’s business or financial results.

If we are unable to attract or retain qualified editorial staff and outside contributors, our business could be adversely affected.

The success of our magazine depends substantially upon our ability to produce original, timely, comprehensive and trustworthy content. We may not be able to retain or attract highly qualified writers, and in fact, as a cost-cutting measure we recently substantially reduced our editorial staff in an effort to reduce expenses. If we are unable to retain our current writers with appropriate qualifications, our business, results of operations and financial condition could be materially adversely affected.

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We may be exposed to liability over privacy concerns.

Despite the display of our privacy policy on our website, any penetration of our network security or misappropriation of our customers' personal or credit card information could subject us to liability. We may be liable for claims based on unauthorized purchases with credit card information, impersonation or other similar fraud claims. Claims could also be based on other misuses of personal information, such as for unauthorized marketing purposes. These claims could result in litigation, which could divert management's attention from the operation of our business and result in the imposition of significant damages. In addition, the Federal Trade Commission and several states have investigated the use by Internet companies of personal information. In 1998, the U.S. Congress enacted the Children's Online Privacy Protection Act of 1998. The Federal Trade Commission recently promulgated final regulations interpreting this act. We depend upon collecting personal information from our customers and we believe that the regulations under this act will make it more difficult for us to collect personal information from some of our customers. Any failure to comply with this act may make us liable for substantial fines and other penalties. We could also incur expenses if new regulations regarding the use of personal information are introduced or if our privacy practices are investigated.

The profitability and success of our trade shows and conferences could be adversely affected if we are unable to obtain desirable dates and locations or are unable to increase the frequency of our events.

The competition for desirable dates and venues for our expos is also increasing. As this competition intensifies, we may be unable to schedule important engagements. If we are unable to obtain desirable dates and venues for events, the profitability and future success of these events could be adversely affected. In addition, we may desire to increase the frequency of our trade shows and conferences to take advantage of increasing demand in the future. If we are unable to secure additional venues with suitable exhibit space to accommodate this demand, the growth of our trade shows and conferences business could be adversely affected.

Our business is directly effected by the success of the financial service industry.

Our business depends in large part upon the spending patterns of members of the financial services industry. The financial services industry has recently been extremely volatile and experienced significant economic downturns. Our expo participation and advertising revenue depends in part of the spending patterns of these businesses which may be reduced in such volatile markets.

We may not be able to protect our intellectual property, and we may be liable for infringing the intellectual property of others.

Third parties may infringe or misappropriate our intellectual property, which could have a material adverse effect on our business, results of operations or financial condition. While we enter into confidentiality agreements with our material employees, guides, consultants and strategic partners, and generally control access to and distribution of our proprietary information, the steps we have taken to protect our intellectual property may not prevent misappropriation. In addition, we do not know whether we will be able to defend our proprietary rights since the validity, enforceability and scope of protection of proprietary rights in Internet-related industries is still evolving.

Third parties may assert infringement claims against us. From time to time in the ordinary course of business we expect to be subject to claims of alleged infringement of the trademarks and other intellectual property rights of third parties. These claims and any resultant litigation, should it occur, could subject us and our subsidiaries to significant liability for damages. In addition, even if we and our subsidiaries prevail, litigation could be time-consuming and expensive to defend and could result in the diversion of our time and attention. Any claims from third parties may also result in limitations on our and our subsidiaries' ability to use the intellectual property subject to these claims unless we are able to enter into agreements with the third parties making these claims.

ITEM 1B. Unresolved Staff Comments

None

Item 2. Properties

We currently lease an office in West Palm Beach, Florida of approximately 1,750 square feet on a month to month basis from Joseph Visconti, our Chairman, President and CEO at a rate of $32,400 per year.

In January 2009, the Company purchased and closed on a building to be used as a studio pursuant to its ValueRich TV business. The building is part of a development named Flagler Pointe located at 1804 North Dixie Highway, West Palm Beach, Florida. The building is in the same commercial complex as ValueRich's current corporate headquarters, which should make for more efficient use of the company's staff and resources. The building will serve as ValueRich's dedicated production and television studio for its newly formed ValueRich TV division. The building is one large open space, with 20-foot ceilings and a small mezzanine that could serve as a production booth for the filming and editing of ValueRich's new proposed business talk show. The building is less than 10 years old and has been maintained in good condition.

Item 3. Legal Proceedings

We are, from time to time, parties to various legal proceedings arising out of our business. We believe, however, that there are no proceedings pending or threatened against us, which, if determined adversely, would have a material adverse effect upon our business financial conditions, results of operations or liquidity.

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

None

PART II

Item 5. Market for the Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Our common shares were quoted for trading on the Amex on August 8, 2007 under the symbol "IVA". On October 1, 2008, our common shares were transferred to the NYSE Alternext US under the symbol "IVA." On March 18, 2009, NYSE Alternext US was re-branded as NYSE Amex Equities.

The high and low bid prices of our common stock for the periods indicated below, as reported on Yahoo Finance, are as follows:

	Yahoo Finance			
Quarter Ended	High		Low	
December 31, 2008	$	0.30	$	0.06
September 30, 2008	$	0.35	$	0.08
June 30, 2008	$	0.48	$	0.16
March 31, 2008	$	0.80	$	0.11
December 31, 2007	$	1.50	$	0.20
September 30, 2007	$	3.00	$	0.92
June 30, 2007	$	N/A	$	N/A
March 31, 2007	$	N/A	$	N/A

Our common shares are issued in registered form. Interwest Transfer Company, 1981 Murray Holladay Road, Suite 100, Salt Lake City, UT 84117 (Telephone: 801-272-9294; Facsimile: 801-277-3147) is the registrar and transfer agent for our common shares. On March 23, 2009, the shareholders' list of our common shares showed 287 registered shareholders and 8,669,571 shares outstanding.

Recent Sales of Unregistered Securities

We have not sold any of our securities which were not registered under the Securities Act during the year ended December 31, 2008 which were not previously disclosed in our Quarterly Reports on Form 10-Q or Current Reports on Form 8-K.

Dividend Policy

We have never paid or declared any cash dividends on our common stock. We currently anticipate that we will retain all of our future earnings for use in developing our business and do not expect to pay any dividend in the foreseeable future.

Equity Compensation Plan Information

In April 2006, we adopted the ValueRich, Inc. Incentive Stock Option Plan (the "Plan") to promote our long-term growth and profitability by (i) providing our key directors, officers and employees with incentives to improve stockholder value and contribute to our growth and financial success and (ii) enable us to attract, retain and reward the best available persons for positions of substantial responsibility.

The following discussion represents only a summary of certain of the plan terms and is qualified in its entirety by reference to the complete plan, a copy of which has been filed as an exhibit to the registration statement of which this prospectus forms a part.

Shares Available; Maximum Awards; Participants. A total of 5,000,000 shares of the Company's Common Stock have been reserved for issuance upon exercise of options granted pursuant to the Plan. The Plan allows the Company to grant options to employees, officers and directors of the Company and its subsidiaries; provided that only employees of the Company and its subsidiaries may receive incentive stock options under the Plan. The Company has reserved a total of 1,500,000 options as of December 31, 2008. As of December 31, 2008, no options have been issued under the Plan.

Stock Option Features. Under the Plan, options to purchase the Company's Common Stock may take the form of incentive stock options ("ISOs") under Section 422 of the Internal Revenue Code of 1986, as amended (the "Code") or nonqualified stock options ("NQSOs"). As required by Section 422 of the Code, the aggregate fair market value (as defined in the Plan) of shares of Common Stock (determined as of the date of grant of the ISO) with respect to which ISOs granted to an employee are exercisable for the first time in any calendar year may not exceed $100,000. The foregoing limitation does not apply to NQSOs.

Initially, each option will be exercisable over a period, determined by the Board of Directors of the Company, in its discretion, of up to ten years from the date of grant. Options may be exercisable during the option period at such time, in such amounts, and in accordance with such terms and conditions and subject to such restrictions as are determined by the Board and set forth in option agreements evidencing the grant of such options; provided that no option may be exercisable less than six months from its date of grant.

The exercise price of options granted pursuant to the Plan is determined by the Board, in its discretion; provided that the exercise price of an ISO may not be less than 100% of the fair market value (as defined in the Plan) of the shares of the Company Common Stock on the date of grant. The exercise price of options granted pursuant to the Plan is subject to adjustment as provided in the Plan to reflect stock dividends, splits, other recapitalizations or reclassifications or changes in the market value of the Company Common Stock. In addition, the Plan provides that, in the event of a proposed change in control of the Company (as defined in the Plan), the Board of Directors is to take such actions as it deems appropriate to effectuate the purposes of the Plan and to protect the grantees of options, which action may include (i) acceleration or change of the exercise dates of any option; (ii) arrangements with grantees for the payment of appropriate consideration to them for the cancellation and surrender of any option; and (iii) in any case where equity securities other than Common Stock are proposed to be delivered in exchange for or with respect to Common Stock, arrangements providing that any option shall become one or more options with respect to such other equity securities. Further, in the event the Company dissolves and liquidates (other than pursuant to a plan of merger or reorganization), then notwithstanding any restrictions on exercise set forth in the Plan or any grant agreement pursuant thereto (i) each grantee shall have the right to exercise his option at any time up to ten days prior to the effective date of such liquidation and dissolution; and (ii) the Board of Directors may make arrangements with the grantees for the payment of appropriate consideration to them for the cancellation and surrender of any option that is so canceled or surrendered at any time up to ten days prior to the effective date of such liquidation and dissolution. The Board of Directors also may establish a different period (and different conditions) for such exercise, cancellation, or surrender to avoid subjecting the grantee to liability under Section 16(b) of the Exchange Act.

The shares purchased upon the exercise of an option are to be paid for by the optionee in cash or cash equivalents acceptable to the Board. In addition, the Plan provides for broker-assisted cashless exercises in the discretion of the Board of Directors.

Except as permitted pursuant to Rule 16b-3 under the Exchange Act, and in any event in the case of an ISO, an option is not transferable except by will or the laws of descent and distribution. In no case may the options be exercised later than the expiration date specified in the option agreement.

Plan Administration. The Plan is administered by the Board of Directors, or a committee of the board if so approved by the board, in accordance with the provisions of Rule 16b-3.

The Board of Directors will decide when and to whom to make grants, the number of shares to be covered by the grants, the vesting schedule, the type of awards and the terms and provisions relating to the exercise of the awards. The Board may interpret the Plan and may at any time adopt such rules and regulations for the Plan as it deems advisable. The Board of Directors may at any time amend or terminate the Plan and change its terms and conditions, except that, without stockholder approval, no such amendment may (i) materially increase the maximum number of shares as to which awards may be granted under the Plan; (ii) materially increase the benefits accruing to Plan participants; or (iii) materially change the requirements as to eligibility for participation in the Plan.

Accounting Effects. Under current accounting rules, neither the grant of options at an exercise price not less than the current fair market value of the underlying Common Stock, nor the exercise of options under the Plan, is expected to result in any charge to the earnings of the Company.

Certain Federal Income Tax Consequences. The following is a brief summary of certain Federal income tax aspects of awards under the Plan based upon the Federal income tax laws in effect on the date hereof. This summary is not intended to be exhaustive and does not describe state or local tax consequences.

Incentive Stock Options. An optionee will not realize taxable income upon the grant of an ISO. In addition, an optionee will not realize taxable income upon the exercise of an ISO, provided that such exercise occurs no later than three months after the optionee’s termination of employment with the Company (one year in the event of a termination on account of disability). However, an optionee’s alternative minimum taxable income will be increased by the amount that the fair market value of the shares acquired upon exercise of an ISO, generally determined as of the date of exercise, exceeds the exercise price of the option. If an optionee sells the shares of Common Stock acquired upon exercise of an ISO, the tax consequences of the disposition depend upon whether the disposition is qualifying or disqualifying. The disposition of the shares is qualifying if made more than two years after the date the ISO was granted and more than one year after the date the ISO was exercised. If the disposition of the shares is qualifying, any excess of the sale price of the shares over the exercise price of the ISO would be treated as long-term capital gain taxable to the option holder at the time of the sale. If the disposition is not qualifying, i.e., a disqualifying disposition, the excess of the fair market value of the shares on the date the ISO was exercised over the exercise price would be compensation income taxable to the optionee at the time of the disposition, and any excess of the sale price of the shares over the fair market value of the shares on the date the ISO was exercised would be capital gain.

Unless an optionee engages in a disqualifying disposition, the Company will not be entitled to a deduction with respect to an ISO. However, if an optionee engages in a disqualifying disposition, the Company generally will be entitled to a deduction equal to the amount of compensation income taxable to the optionee.

Nonqualified Stock Options. An optionee will not realize taxable income upon the grant of an NQSO. However, when the optionee exercises the NQSO, the difference between the exercise price of the NQSO and the fair market value of the shares acquired upon exercise of the NQSO on the date of exercise is compensation income taxable to the optionee. The Company generally will be entitled to a deduction equal to the amount of compensation income taxable to the optionee.

Employment Agreements

We do not have any employment agreements with any of our employees at this time.

Purchases of Equity Securities by the Issuer and Affiliated Purchasers

None.

Item 6. Selected Financial Data

Not required.

Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operation

Certain statements in this annual report on Form 10-K that are not historical in fact constitute “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995 (PSLRA). The PSLRA provides certain “safe harbor” provisions for forward-looking statements. All forward-looking statements made in this annual report on Form 10-K are made pursuant to the PSLRA. Words such as, but not limited to, “believe,” “expect,” “anticipate,” “estimate,” “intend,” “plan,” and similar expressions are intended to identify forward-looking statements. Such forward-looking statements involve known and unknown risks, uncertainties and other factors based on the Company’s estimates and expectations concerning future events that may cause the actual results of the Company to be materially different from historical results or from any results expressed or implied by such forward-looking statements. These risks and uncertainties, as well as the Company’s critical accounting policies, are discussed in more detail under “Management’s Discussion and Analysis—Critical Accounting Policies” and in periodic filings with the Securities and Exchange Commission. The Company undertakes no obligation to publicly update any forward-looking statements, whether as a result of new information, future events or otherwise.

You should read the following discussion of our financial condition and results of operations together with the audited financial statements and the notes to the audited financial statements included in this annual report. This discussion contains forward-looking statements that reflect our plans, estimates and beliefs. Our actual results may differ materially from those anticipated in these forward-looking statements.

Our Corporate History

ValueRich, Inc., (the Company), was incorporated under the laws of the state of Florida on July 11, 2003 and reincorporated in Delaware on March 3, 2006. The Company owns various online and offline media-based properties for corporate and financial professionals. Its properties include 1) iValueRich.com, 2) ValueRich magazine and 3) the ValueRich Small-cap Financial Expo. iValueRich.com is an online community providing a range of business solutions for public companies and the many industry related businesses and professionals that seek to do business with each other. The small-cap financial expo is a unique expo-style financial conference format for small-cap public companies to showcase their products and services and have continuous access to investment bankers and buy-side professionals.

We have a limited operating history. We launched iValuerich.com in June 2006, we hosted our first financial expo in March 2005, and we published our first edition of ValueRich magazine in the spring of 2004. During our limited operating history, we have not been profitable. For the year ended December 31, 2008, we incurred a net loss of $1,010,595.

Our corporate mission is to create an active community of Wall Street professionals and small-cap public company executives. To accomplish this we will use our online and offline properties, including our global Internet community, print publishing and financial events to connect the corporate and financial professionals that make up the securities industry. We seek to accomplish this through our integrated portfolio of products and services that we now provide for the small public capitalization market place.

Results of Operations

Our results of operations for the year ended December 31, 2008 have been significantly impacted by our decision to revise our financial expo line of business to be a co-branded or partnered expo in response to increased competition we have experienced in the financial convention space. Since we were unable until the mid-second quarter 2008 to find a suitable partner to co-brand or partner our expos, we did not have any expo events during the first three quarters of 2008 as we had planned, and therefore we did not derive any revenue from expos during such quarters.

Throughout 2008, we have focused on the transition of our old line financial media products including the ValueRich financial Expos and the ValueRich Magazine to web-based products such as www.WallStreetHDTV.com, the second generation of www.iValueRich.com and the soon to be launched www.ValueRichTV.com. The new ValueRich products have mostly been in design, development and implementation stages throughout the 2008 calendar year.

By the end of 2008, we had nearly completed, but not yet launched, the second generation of the ValueRich platform, which added a full spectrum of financial and web-based tools for small-cap companies seeking to go public and raise capital via a web-based Direct Offering (“DO”) format. Companies that want to raise capital could file their own registration statement through the DO process and pay us for the use of our technology platform and access to their our of financial related professionals to assist in funding the issuing company’s deal. For the first time, users of the ValueRich technology platform who have verified their qualified investor’s status will be able to discover and participate in Direct Offerings featured on the ValueRich platform. While we are not a registered broker-dealer or investment advisor, soon we will be able to provide companies with technology and marketing tools they need to communicate directly with qualified investors. We anticipate announcing the official launch of the www.iValueRich.com platform in early 2009.

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In January 2009, we announced plans to create a business talk show called ValueRich TV, which will be produced at a dedicated studio next door to our headquarters. Its purpose is to create a successful Wall Street based talk show that can be streamed over the internet for worldwide distribution. In January 2009, we purchased and closed on the building to be used as the studio.

Other accomplishments in 2008 include entering into a consulting agreement with Xi'an Qinba Pharmaceutical Co., Ltd. (“Qinba”). ValueRich received an approximately 4% equity ownership position in Qinba. We are pleased to report that Qinba has filed its registration statement with the SEC and, if Qinba successfully completes the registration process, Qinba could become a publicly traded company. At the time Qinba goes public, it is our belief that ValueRich will have an asset that will add value to our balance sheet.

In August 2008, we implemented a stock repurchase program for up to $400,000 shares of our common stock on the open market. As you know, our stock has become somewhat illiquid due to very light volume. To date, the $400,000 buy back program has resulted in only approximately $30,000 of stock being repurchased in the open market.

For the year ended December 31, 2008 vs. year ended December 31, 2007

During the year ended December 31, 2008, we generated $76,583 in revenue that arose from consulting services we provided. During the year ended December 31, 2007, we had revenues of $1,227,694. Our total cost of revenue for the year ended December 31, 2008 was $7,331 as compared to $1,040,992 for the year ended December 31, 2007. Total operating expenses decreased significantly from $1,981,043 for the year ended December 31, 2007 to $1,244,892 for the year ended December 31, 2007. The decrease in total operating expenses was primarily attributable to a decrease in salaries as a result in downsizing due to a change in our focus. Net loss for the year ended December 31, 2008 as compared to the year ended December 31, 2007 decreased from $1,747,987 to $1,010,595 primarily as a result of the decrease in revenues and consequently a decrease in staffing costs.

Liquidity and Capital Resources

For the year ended December 31, 2008 we had a decrease in total cash resources of $2,647,627. The decrease in cash was due in most part to lack of sales to offset costs and professional and consulting expenses, as well as purchases of $1,670,927 in marketable securities. Noncash stock issuances was $141,732 for the year ended December 31, 2008.

We have spent, and expect to continue to spend, substantial amounts in connection with the implementation of our business strategy, including our revisions to our current lines of business and our future endeavors. Based on our current plans, we believe that our cash will be sufficient to enable us to meet our planned operating needs at least for the next 12 months. Because of current economic and market conditions and due to the unknown future of our nations’ economic health, we have taken prudent measures to manage our cash position and not force the growth of our core business.

Off-Balance Sheet Arrangements

We do not maintain any off-balance sheet arrangements, transactions, obligations or other relationships with unconsolidated entities that would be expected to have a material current or future effect upon our financial condition or results of operations.

Critical Accounting Policies

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles (GAAP) requires management to make estimates and assumptions that affect the amounts reported in the financial statements. We base our estimates on historical experience, management expectations for future performance, and other assumptions as appropriate. Key areas affected by estimates include the assessment of the recoverability of long-lived assets, which is based on such factors as estimated future cash flows. We re-evaluate our estimates on an ongoing basis; actual results may vary from those estimates.

Concentration of Credit Risk

Financial instruments, which potentially subject us to concentrations of credit risk, consist of cash and cash equivalents and accounts receivables. We place our cash with high quality financial institutions and at times may exceed the FDIC insurance limit. We extend credit based on an evaluation of the customer’s financial condition, generally without collateral. Exposure to losses on receivables is principally dependent on each customer’s financial condition. We monitor our exposure for credit losses and maintain allowances for anticipated losses, as required. Accounts are “written-off” when deemed uncollectible.

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand and cash in time deposits, certificates of deposit and all highly liquid debt instruments with original maturities of three months or less.

Marketable Securities

The Company has designated its investments in marketable securities as trading and available-for-sale. Marketable securities that are bought and held principally for the purpose of selling them in the near term are classified as trading securities and are reported at fair value, with unrealized gains and losses recognized in earnings. Marketable equity securities not classified as trading are classified as available for sale, and are carried at fair market value, with the unrealized gains and losses, net of tax, included in the determination of comprehensive income and reported in shareholders’ equity. Investment income is recognized on an accrual basis.

The fair value of substantially all securities is determined by quoted market prices. The estimated fair value of securities for which there are no quoted market prices is based on similar types of securities that are traded in the market.

Fair Value of Financial Instruments

On January 1, 2008, we adopted SFAS No. 157, Fair Value Measurements. SFAS No. 157 defines fair value, establishes a three-level valuation hierarchy for disclosures of fair value measurement and enhances disclosures requirements for fair value measures. The carrying amounts reported in the balance sheets for receivables and current liabilities each qualify as financial instruments and are a reasonable estimate of fair value because of the short period of time between the origination of such instruments and their expected realization and their current market rate of interest. The three levels are defined as follow:

- Level 1 inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.

- Level 2 inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.

- Level 3 inputs to the valuation methodology are unobservable and significant to the fair value measurement.

Our investments in marketable securities are carried at fair value totaling $1,957,993 and $0 at December 31, 2008 and 2007, respectively. We used Level 1 inputs for our valuation methodology as the securities' quoted prices are publicly available. As of December 31, 2007, we did not identify any assets and liabilities that are required to be presented on the balance sheet at fair value.

	Fair Value As of December 31, 2008	Fair Value Measurements at December 31, 2008 Using Fair Value Hierarchy		
Assets		Level 1	Level 2	Level 3
Investments in marketable securities	$1,957,993	$1,957,993	-	-

For the years ended December 31, 2008 and 2007, the Company recognized unrealized gains on its trading securities in its statements of operations and comprehensive loss in the amounts of $119,066 and $0, respectively. For the years ended December 31, 2008 and 2007, the Company recognized unrealized gains on its trading securities in its statements of stockholders' equity in the amounts of $108,000 and $0, respectively, for the changes in the valuation of the aforementioned assets.

We did not identify any other assets or liabilities that are required to be presented on the balance sheets at fair value in accordance with SFAS No. 157.

Revenue Recognition

Revenues are recognized in the period that services are provided. For revenue from product sales, we recognize revenue in accordance with Staff Accounting Bulletin No. 104, "Revenue Recognition" ("SAB104"), which superseded Staff Accounting Bulletin No. 101, "Revenue Recognition in Financial Statements" ("SAB101"). SAB 101 requires that four basic criteria must be met before revenue can be recognized: (1) persuasive evidence of an arrangement exists; (2) delivery has occurred; (3) the selling price is fixed and determinable; and (4) collectability is reasonably assured. Determination of criteria (3) and (4) are based on management's judgments regarding the fixed nature of the selling prices of the products delivered and the collectability of those amounts. Provisions for discounts and rebates to customers, estimated returns and allowances, and other adjustments are provided for in the same period the related sales are recorded. We defer any revenue for which the product has not been delivered or is subject to refund until such time that we and the customer jointly determine that the product has been delivered or no refund will be required. Payments received in advance are deferred until the product is delivered or service is rendered. SAB 104 incorporates Emerging Issues Task Force 00-21 ("EITF 00-21"), "Multiple-Deliverable Revenue Arrangements." EITF 00-21 addresses accounting for arrangements that may involve the delivery or performance of multiple products, services and/or rights to use assets. The effect of implementing EITF 00-21 on our financial position and results of operations was not significant.

For the year ended December 31, 2007, we earned revenue primarily from our expos and magazine advertising business. We recognized revenue for its financial expos when the revenues were earned, which took place at the time of the expos, provided the selling price was fixed and determinable, and collectability was reasonably assured. In 2008, we have focused on the transition from our old line of financial media products including the ValueRich financial Expos and the ValueRich Magazine to web-based products such as www.WallStreetHDTV.com, the second generation of www.iValueRich.com and www.ValueRichTV.com (expected to launch in the second quarter of 2009). The new ValueRich products have mostly been in the design, development and implementation stages throughout the 2008 calendar year. Accordingly, we have not earned any revenue from our old line of financial media products during the year ended 2008. During 2008, we entered into two consulting agreements to assist the foreign-based companies manage their financial statement reporting, regulatory and compliance issues in the United States. We do not recognize revenue on its consulting business until persuasive evidence of an arrangement exists, delivery has occurred (we have performed according to the terms of the consulting agreement), the selling price is fixed and determinable, and collectability is reasonably assured.

Basic and Diluted Losses Per Share

Earnings per share is calculated in accordance with the Statement of financial accounting standards No. 128 (SFAS No. 128), "Earnings Per Share". SFAS No. 128 superseded Accounting Principles Board Opinion No.15 (APB 15). Net earnings per share for all periods presented have been restated to reflect the adoption of SFAS No. 128. Basic earnings per share is based upon the weighted average number of common shares outstanding. Diluted earnings per share is based on the assumption that all dilutive convertible shares and stock options were converted or exercised. Dilution is computed by applying the treasury stock method. Under this method, options and warrants are assumed to be exercised at the beginning of the period (or at the time of issuance, if later), and as if funds obtained thereby were used to purchase common stock at the average market price during the period. All dilutive securities were excluded from the diluted loss per share due to the anti-dilutive effect.

The computation of earnings per share of common stock is based on the weighted average number of shares outstanding at the date of the financial statements.

	Income (Loss) (Numerator)	Shares (Denominator)	Per-Share Amount
For the Year Ended December 31, 2008:			
Basic and diluted EPS			
Income (loss) to common stockholders	$ (1,010,595)	8,488,504	$ (0.12)
For the Year Ended December 31, 2007:			
Basic and diluted EPS			
Income (loss) to common stockholders	$ (1,747,987)	7,215,794	$ (0.24)

As of December 31, 2008 and 2007, the following potential dilutive shares were excluded from diluted loss per share for all periods presented because of their anti-dilutive effect.

	December 31, 2008	December 31, 2007
Options	100,000	100,000
Warrants	1,185,715	2,376,494
Convertible notes	67,000	134,000
Total	1,352,715	2,610,494

Stock-Based Compensation

We account for its stock-based compensation in accordance with SFAS No. 123R, "Share-Based Payment, an Amendment of FASB Statement No. 123." We recognize in the statement of operations the grant-date fair value of stock options and other equity-based compensation issued to employees and non-employees, estimated using the Black-Scholes option pricing model. During the three months ended September 30, 2008 we issued no shares of our common stock nor did it grant any new options or warrants and no options or warrants were cancelled or exercised during the three months ended September 30, 2008. As of December 31, 2008 and 2007, there were 1,185,715 warrants and 100,000 options and 2,376,494 warrants and 100,000 options outstanding, respectively.

Recent Pronouncements

In December 2007, the FASB issued SFAS No. 141 (Revised 2007), "Business Combinations." SFAS No. 141 (Revised 2007) changes how a reporting enterprise accounts for the acquisition of a business. SFAS No. 141 (Revised 2007) requires an acquiring entity to recognize all the assets acquired and liabilities assumed in a transaction at the acquisition-date fair value, with limited exceptions, and applies to a wider range of transactions or events. SFAS

No. 141 (Revised 2007) is effective for fiscal years beginning on or after December 15, 2008 and early adoption and retrospective application is prohibited. We believe adopting SFAS No. 141R will significantly impact our financial statements for any business combination completed after December 31, 2008.

In December 2007, the FASB issued SFAS No. 160, “Noncontrolling Interests in Consolidated Financial Statements”, which is an amendment of Accounting Research Bulletin (“ARB”) No. 51. This statement clarifies that a noncontrolling interest in a subsidiary is an ownership interest in the consolidated entity that should be reported as equity in the consolidated financial statements. This statement changes the way the consolidated income statement is presented, thus requiring consolidated net income to be reported at amounts that include the amounts attributable to both parent and the noncontrolling interest. This statement is effective for the fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008. Based on current conditions, we do not expect the adoption of SFAS 160 to have a significant impact on our results of operations or financial position.

In February 2007, the FASB issued SFAS No. 159, “The Fair Value Option for Financial Assets and Financial Liabilities”. This Statement permits entities to choose to measure many financial assets and financial liabilities at fair value. Unrealized gains and losses on items for which the fair value option has been elected are reported in earnings. SFAS No. 159 is effective as of the beginning of an entity’s first fiscal year that begins after November 15, 2007. We adopted SFAS No. 159 on January 1, 2008. We chose not to elect the option to measure the fair value of eligible financial assets and liabilities.

In June 2007, the FASB issued FASB Staff Position No. EITF 07-3, “Accounting for Nonrefundable Advance Payments for Goods or Services Received for use in Future Research and Development Activities” (“FSP EITF 07-3”), which addresses whether nonrefundable advance payments for goods or services that used or rendered for research and development activities should be expensed when the advance payment is made or when the research and development activity has been performed. Management is currently evaluating the effect of this pronouncement on financial statements.

In June 2008, the FASB issued Emerging Issues Task Force Issue 07-5 “Determining whether an Instrument (or Embedded Feature) is indexed to an Entity’s Own Stock” (“EITF No. 07-5”). This Issue is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years. Early application is not permitted. Paragraph 11(a) of Statement of Financial Accounting Standard No 133 “Accounting for Derivatives and Hedging Activities” (“SFAS 133”) specifies that a contract that would otherwise meet the definition of a derivative but is both (a) indexed to the Company’s own stock and (b) classified in stockholders’ equity in the statement of financial position would not be considered a derivative financial instrument. EITF No.07-5 provides a new two-step model to be applied in determining whether a financial instrument or an embedded feature is indexed to an issuer’s own stock and thus able to qualify for the SFAS 133 paragraph 11(a) scope exception. We believe adopting this statement will have a material impact on the financial statements because among other things, any option or warrant previously issued and all new issuances denominated in US dollars will be required to be carried as a liability and marked to market each reporting period.

In April 2008, the FASB issued 142-3 “Determination of the useful life of Intangible Assets”, which amends the factors a company should consider when developing renewal assumptions used to determine the useful life of an intangible asset under SFAS142. This Issue is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years. SFAS 142 requires companies to consider whether renewal can be completed without substantial cost or material modification of the existing terms and conditions associated with the asset. FSP 142-3 replaces the previous useful life criteria with a new requirement—that an entity consider its own historical experience in renewing similar arrangements. If historical experience does not exist then the Company would consider market participant assumptions regarding renewal including 1) highest and best use of the asset by a market participant, and 2) adjustments for other entity-specific factors included in SFAS 142. We are currently evaluating the impact that adopting SFAS No.142-3 will have on its financial statements

In May 2008, the FASB issued SFAS 162, “The Hierarchy of Generally Accepted Accounting Principles.” This Statement identifies the sources of accounting principles and the framework for selecting the principles to be used in the preparation of financial statements of nongovernmental entities that are presented in conformity with generally accepted accounting principles (GAAP) in the United States (the GAAP hierarchy). We are currently evaluating the impact that adopting SFAS No. 162 will have on its financial statements.

In May 2008, the FASB issued SFAS 163, “Accounting for Financial Guarantee Insurance Contracts, an interpretation of FASB Statement No. 60.” The scope of this Statement is limited to financial guarantee insurance (and reinsurance) contracts, as described in this Statement, issued by enterprises included within the scope of Statement 60. Accordingly, this Statement does not apply to financial guarantee contracts issued by enterprises excluded from the scope of Statement 60 or to some insurance contracts that seem similar to financial guarantee insurance contracts issued by insurance enterprises (such as mortgage guaranty insurance or credit insurance on trade receivables). This Statement also does not apply to financial guarantee insurance contracts that are derivative instruments included within the scope of FASB Statement No. 133, “Accounting for Derivative Instruments and Hedging Activities.” This Statement will not have and impact on our financial statements.

In June 2008, FASB issued EITF 08-4, “Transition Guidance for Conforming Changes to Issue No. 98-5”. The objective of EITF 08-4 is to provide transition guidance for conforming changes made to EITF 98-5, “Accounting for Convertible Securities with Beneficial Conversion Features or Contingently Adjustable Conversion Ratios”, that result from EITF 00-27 “Application of Issue No. 98-5 to Certain Convertible Instruments”, and SFAS 150, “Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity”. This Issue is effective for financial statements issued for fiscal years ending after December 15, 2008. Early application is permitted. We arecurrently evaluating the impact that adopting EITF 08-4 will have on our financial statements.

On October 10, 2008, the FASB issued FSP 157-3, “Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active,” which clarifies the application of SFAS 157 in a market that is not active and provides an example to illustrate key considerations in determining the fair value of a financial asset when the market for that financial asset is not active. FSP 157-3 became effective on October 10, 2008, and its adoption did not have a material impact on our financial position or results for the year ended December 31, 2008.

In January 2009, the FASB issued FSP EITF 99-20-1, “Amendments to the Impairment Guidance of EITF Issue No. 99-20, and EITF Issue No. 99-20, Recognition of Interest Income and Impairment on Purchased and Retained Beneficial Interests in Securitized Financial Assets” (“FSP EITF 99-20-1”). FSP EITF 99-20-1 changes the impairment model included within EITF 99-20 to be more consistent with the impairment model of SFAS No. 115. FSP EITF 99-20-1 achieves this by amending the impairment model in EITF 99-20 to remove its exclusive reliance on “market participant” estimates of future cash flows used in determining fair value. Changing the cash flows used to analyze other-than-temporary impairment from the “market participant” view to a holder’s estimate of whether there has been a “probable” adverse change in estimated cash flows allows companies to apply reasonable judgment in assessing whether an other-than-temporary impairment has occurred. The adoption of FSP EITF 99-20-1 did not have a material impact on our consolidated financial statements.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

Not required.

Item 8. Financial Statements and Supplementary Data

ValueRich, Inc.
Financial Statements
Years Ended December 31, 2008 and 2007

ValueRich, Inc.

Notes to Financial Statements

For the Years Ended December 31, 2008 and 2007

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors
ValueRich, Inc.
West Palm Beach, Florida

We have audited the accompanying balance sheets of ValueRich, Inc. at December 31, 2008 and 2007 and the related statements of operations, stockholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal controls over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of ValueRich, Inc. at December 31, 2008 and 2007 and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Chisholm, Bierwolf, Nilson & Morrill, LLC
Bountiful, Utah
March 30, 2009

ValueRich, Inc.

BALANCE SHEETS

As of December 31, 2008 and 2007

		2008	2007				
ASSETS							
CURRENT ASSETS							
Cash and cash equivalents		$ 920,908	$ 3,568,535	Natural gas equivalent price Mcfe[1]	4.49	3.99	9.17
Average cost per Mcfe:							
Production:							
	Lease operating	$	0.26		$0.43	$0.47	
	Workover and other		0.07		0.02	0.05	
Taxes other than income			0.04		0.31	0.42	
Gathering, transportation and other:							
	Oil and natural gas		0.34		0.38	0.39	
	Midstream		0.06		0.06		

(1) *Oil and natural gas liquids are converted to equivalent gas production using a 6:1 equivalent ratio. This ratio does not assume price equivalency and given price differentials, the price for a barrel of oil equivalent for natural gas may differ significantly from the price for a barrel of oil.*

(2) *Amounts exclude the impact of cash paid or received on settled commodities derivative contracts as we did not elect to apply hedge accounting.*

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The 2010, 2009, and 2008 average oil, natural gas, and natural gas liquids sales prices above do not reflect the impact of cash paid on, or cash received from, settled derivative contracts as these amounts are reflected as "*Net gain on derivative contracts*" in the consolidated statements of operations, consistent with our decision not to elect hedge accounting. Including this impact 2010, 2009, and 2008 average crude oil sales prices were $76.90, $58.86, and $74.82 per Bbl and average natural gas sales prices were $5.22, $5.83, and $8.13 per Mcf. During 2010 we began hedging a portion of our natural gas liquids production for the first time. Including the impact of these hedges, our average natural gas liquids sales price was $37.10 per Bbl.

Competitive Conditions in the Business

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

Other Business Matters

Markets and Major Customers

In 2010, none of the individual purchasers of our production each accounted for in excess of 10% of our total sales. Three individual purchasers of our production each accounted for approximately 9% of our total sales, collectively representing approximately 27% of our total sales. In 2009, two individual purchasers of our production each accounted for in excess of 10% of our total sales, collectively representing 25% of our total sales. In 2008, two individual purchasers of our production each accounted for in excess of 10% of our total sales, collectively representing 30% of our total sales. We do not believe the loss of any one of our purchasers would materially affect our ability to sell the oil and natural gas we produce. We believe other purchasers are available in our areas of operations.

Seasonality of Business

Weather conditions affect the demand for, and prices of, natural gas and can also delay drilling activities, disrupting our overall business plans. Demand for natural gas is typically higher during the winter, resulting in higher natural gas prices for our natural gas production during our first and fourth fiscal quarters. Due to these seasonal fluctuations, our results of operations for individual quarterly periods may not be indicative of the results that we may realize on an annual basis.

Operational Risks

Oil and natural gas exploration and development involves a high degree of risk, which even a combination of experience, knowledge and careful evaluation may not be able to overcome. There is no assurance that we will discover or acquire additional oil and natural gas in commercial quantities. Oil and natural gas operations also involve the risk that well fires, blowouts, equipment failure, human error and other events may cause accidental leakage of toxic or hazardous materials, such as petroleum liquids or drilling fluids into the environment, or cause significant injury to persons or property. In such event, substantial liabilities to third parties or governmental entities may be incurred, the satisfaction of which could substantially reduce available cash and possibly result in loss of oil and natural gas properties. Such hazards may also cause damage to or destruction of wells, producing formations, production facilities and pipeline or other processing facilities.

As is common in the oil and natural gas industry, we will not insure fully against all risks associated with our business either because such insurance is not available or because we believe the premium costs are prohibitive. A loss not fully covered by insurance could have a materially adverse effect on our operating results, financial position or cash flows. For further discussion on risks see Item 1A. *Risk Factors* in our Annual Report on Form 10-K filed on February 22, 2011.

Regulations

All of the jurisdictions in which we own or operate producing oil and natural gas properties have statutory provisions regulating the exploration for and production of oil and natural gas, including provisions related to permits for the drilling of wells, bonding requirements to drill or operate wells, the location of wells, the method of drilling and casing wells, the surface use and restoration of properties upon which wells are drilled, sourcing and disposal of water used in the drilling and completion process, and the plugging and abandonment of wells. Our operations are also subject to various conservation laws and regulations. These include the regulation of the size of drilling and spacing units or proration units, the number of wells which may be drilled in an area, and the unitization or pooling of oil and natural gas properties, as well as regulations that generally prohibit the venting or flaring of natural gas, and impose certain requirements regarding the establishment of maximum allowable rates of production from fields and individual wells. The effect of these regulations is to limit the amount of oil and natural gas that we can produce from our wells and to limit the number of wells or the locations at which we can drill, although we can apply for exceptions to such regulations or to have reductions in well spacing. Failure to comply with applicable laws and regulations can result in substantial penalties. The regulatory burden on the industry increases the cost of doing business and affects profitability. Moreover, each state generally imposes a production or severance tax with respect to the production and sale of oil, natural gas and natural gas liquids within its jurisdiction.

Environmental Regulations

Our operations are subject to stringent federal, state and local laws regulating the discharge of materials into the environment or otherwise relating to health and safety or the protection of the environment. Numerous governmental agencies, such as the United States Environmental Protection Agency, commonly referred to as the EPA, issue regulations to implement and enforce these laws, which often require difficult and costly compliance measures. Failure to comply with these laws and regulations may result in the assessment of substantial administrative, civil and criminal penalties, as well as the issuance of injunctions limiting or prohibiting our activities. In addition, some laws and regulations relating to protection of the environment may, in certain circumstances, impose strict liability for environmental contamination, which could result in liability for environmental damages and cleanup costs without regard to negligence or fault on our part.

Environmental regulatory programs typically regulate the permitting, construction and operations of a facility. Many factors, including public perception, can materially impact the ability to secure an environmental construction or operation permit. Once operational, enforcement measures can include significant civil penalties for regulatory violations regardless of intent. Under appropriate circumstances, an administrative agency can issue a cease and desist order to terminate operations. New programs and changes in existing programs are anticipated, some of which include natural occurring radioactive materials, oil and natural gas exploration and production, waste management, and underground injection of waste material. Environmental laws and regulations have been subject to frequent changes over the years, and the imposition of more stringent requirements could have a material adverse effect on our financial condition and results of operations.

Comprehensive Environmental Response, Compensation and Liability Act and Hazardous Substances

The federal Comprehensive Environmental Response, Compensation and Liability Act, referred to as CERCLA or the Superfund law, and comparable state laws impose liability, without regard to fault, on certain classes of persons that are considered to be responsible for the release of a hazardous substance into the environment. These persons include the current or former owner or operator of the disposal site or sites where the release occurred and companies that disposed or arranged for the disposal of hazardous substances that have been released at the site. Under CERCLA, these persons may be subject to joint and several liability for the costs of investigating and cleaning up hazardous substances that have been released into the environment, for damages to natural resources and for the costs of some health studies. In addition, companies that incur liability frequently confront additional claims because it is not uncommon for neighboring landowners and other third parties to file claims for personal injury and property damage allegedly caused by hazardous substances or other pollutants released into the environment.

The Solid Waste Disposal Act and Waste Management

The federal Solid Waste Disposal Act, as amended by the Resource Conservation and Recovery Act of 1976, referred to as RCRA, generally does not regulate most wastes generated by the exploration and production of oil and natural gas because that act specifically excludes drilling fluids, produced waters and other wastes associated with the exploration, development or production of oil and natural gas from regulation as hazardous wastes. However, these wastes may be regulated by the EPA or state agencies as non-hazardous wastes as long as these wastes are not commingled with regulated hazardous wastes. Moreover, in the ordinary course of our operations, wastes generated in connection with our exploration and production activities may be regulated as hazardous waste under RCRA or hazardous substances under CERCLA. From time to time, releases of materials or wastes have occurred at locations we own or at which we have operations. These properties and the materials or wastes released thereon may be subject to CERCLA, RCRA and analogous state laws. Under these laws, we have been and may be required to remove or remediate these materials or wastes. At this time, with respect to any properties where materials or wastes may have been released, but of which we have not been made aware, it is not possible to estimate the potential costs that may arise from unknown, latent liability risks.

The Clean Water Act, wastewater and storm water discharges

Our operations are also subject to the federal Clean Water Act and analogous state laws. Under the Clean Water Act, the EPA has adopted regulations concerning discharges of storm water runoff. This program requires covered facilities to obtain individual permits, or seek coverage under a general permit. Some of our properties may require permits for discharges of storm water runoff and, as part of our overall evaluation of our current operations, we will apply for storm water discharge permit coverage and updating storm water discharge management practices at some of our facilities. We believe that we will be able to obtain, or be included under, these permits, where necessary, and make minor modifications to existing facilities and operations that would not have a material effect on us. The Clean Water Act and similar state acts regulate other discharges of wastewater, oil, and other pollutants to surface water bodies, such as lakes, rivers, wetlands, and streams. Failure to obtain permits for such discharges could result in civil and criminal penalties, orders to cease such discharges, and costs to remediate and pay natural resources damages. These laws also require the preparation and implementation of Spill Prevention, Control, and Countermeasure Plans in connection with on-site storage of significant quantities of oil.

The Safe Drinking Water Act, groundwater protection, and the Underground Injection Control Program

The federal Safe Drinking Water Act (SWDA) and the Underground Injection Control (UIC) program promulgated under the SWDA and state programs regulate the drilling and operation of salt water disposal wells. EPA directly administers the UIC program in some states and in others it is delegated to the state for administering. Permits must be obtained before drilling salt water disposal permits, and casing integrity monitoring must be conducted periodically to ensure the casing is not leaking saltwater to groundwater. Contamination of groundwater by oil and natural gas drilling, production, and related operations may result in fines, penalties, and remediation costs, among other sanctions and liabilities under the SWDA and state laws. In addition, third party claims may be filed by landowners and other parties claiming damages for alternative water supplies, property damages, and bodily injury. We engage third parties to provide hydraulic fracturing or other well stimulation services to us in connection with many of the wells for which we are the operator. Certain states have adopted and are considering laws that require the disclosure of the chemical constituents in hydraulic fracturing fluids. In addition, in 2010, the EPA announced that it would be conducting a study on the environmental effects of hydraulic fracturing. The study is expected to be completed in 2012. Additional disclosure requirements could result in increased regulation, operational delays, and increased operating costs that could make it more difficult to perform hydraulic fracturing.

The Clean Air Act

The federal Clean Air Act and comparable state laws regulate emissions of various air pollutants through air emissions permitting programs and the imposition of other requirements. In addition, the EPA has developed and continues to develop stringent regulations governing emissions of toxic air pollutants at specified sources. Federal and state regulatory agencies can impose administrative, civil and criminal penalties for non-compliance with air permits or other requirements of the federal Clean Air Act and associated state laws and regulations. Our operations, or the operations of service companies engaged by us, may in certain circumstances and locations be subject to permits and restrictions under these statutes for emissions of air pollutants. In addition, the EPA has indicated that in 2011 it may revise its national emissions standards for hazardous air pollutants for crude oil and natural gas production and gas transmission and storage, as well as its new source performance standards for oil and gas production.

Climate change legislation and greenhouse gas regulation

Studies over recent years have indicated that emissions of certain gases may be contributing to warming of the Earth's atmosphere. In response to these studies, many nations have agreed to limit emissions of "greenhouse gases" or "GHGs" pursuant to the United Nations Framework Convention on Climate Change, and the "Kyoto Protocol." Methane, a primary component of natural gas, and carbon dioxide, a byproduct of the burning of oil, natural gas, and refined petroleum products, are considered "greenhouse gases" regulated by the Kyoto Protocol. Although the United States is not participating in the Kyoto Protocol, several states have adopted legislation and regulations to reduce emissions of greenhouse gases. Restrictions on emissions of methane or carbon dioxide that may be imposed in various states could adversely affect our operations and demand for our products. Additionally, the United States Supreme Court has ruled, in *Massachusetts, et al. v. EPA*, that the EPA abused its discretion under the Clean Air Act by refusing to regulate carbon dioxide emissions from mobile sources. As a result of the Supreme Court decision and the change in presidential administrations, on December 7, 2009, the EPA issued a finding that serves as the foundation under the Clean Air Act to issue other rules that would result in federal greenhouse gas regulations and emissions limits under the Clean Air Act, even without Congressional action. As part of this array of new regulations, on September 22, 2009, the EPA also issued a GHG monitoring and reporting rule that requires certain parties, including participants in the oil and natural gas industry, to monitor and report their GHG emissions, including methane and carbon dioxide, to the EPA. The emissions will be published on a register to be made available on the Internet. These regulations may apply to our operations. The EPA has issued two other rules that would regulate GHGs, one of which regulates GHGs from stationary sources, and one which requires sources in the oil and natural gas exploration and production industry and the pipeline industry to report GHG emissions. The EPA's finding, the greenhouse gas reporting rules, and the rules to regulate the emissions of greenhouse gases may affect the outcome of other climate change lawsuits pending in United States federal courts in a manner unfavorable to our industry.

Two recent court decisions, one before the United States Second Circuit Court of Appeals and one before the United States Fifth Circuit Court of Appeals (The Fifth Circuit) have allowed cases to proceed. In the first case, *Connecticut v. American Electric Power*, the Second Circuit ruled that several states and other plaintiffs could continue a suit to impose GHG reductions on several utility defendants, concluding that a political question and standing objections of the defendants did not prohibit the suit from going forward. In December 2010, the United States Supreme Court granted American Electric Power's petition for certiorari, and the case will be heard in 2011.The Fifth Circuit, in *Comer v. Murphy Oil*, ruled that plaintiffs could similarly pursue a damage suit and the political question did not prohibit the suit. This case involves claims by plaintiffs who suffered damages from Hurricane Katrina that are seeking to recover damages from certain GHG emitters asserting their emissions contributed to their increased damages. Even if no new federal greenhouse gas regulations are enacted, more than one-third of the states have begun taking action on their own to control and/or reduce emissions of greenhouse gases. Several multi-state programs have been developed or are in the process of being developed: the Regional Greenhouse Gas Initiative involving 10 Northeastern states, the Western Climate Initiative involving seven western states, and the Midwestern Greenhouse Gas Reduction Accord involving seven states. The latter two programs have several other states acting as observers and they may join one of the programs at a later date. Any of the climate change regulatory and legislative initiatives described above could have a material adverse effect on our business, financial condition, and results of operations.

The National Environmental Policy Act

Oil and natural gas exploration and production activities on federal lands are subject to the National Environmental Policy Act, or NEPA. NEPA requires federal agencies, including the Department of the Interior, to evaluate major agency actions that have the potential to significantly impact the environment. In the course of such evaluations, an agency will prepare an Environmental Assessment that assesses the potential direct, indirect and cumulative impacts of a proposed project and, if necessary, will prepare a more detailed Environmental Impact Statement that may be made available for public review and comment. All of our current exploration and production activities, as well as proposed exploration and development plans, on federal lands require governmental permits that are subject to the requirements of NEPA. This process has the potential to delay the development of oil and natural gas projects.

Threatened and endangered species, migratory birds, and natural resources

Various state and federal statutes prohibit certain actions that adversely affect endangered or threatened species and their habitat, migratory birds, wetlands, and natural resources. These statutes include the Endangered Species Act, the Migratory Bird Treaty Act, the Clean Water Act and CERCLA. The United States Fish and Wildlife Service may designate critical habitat and suitable habitat areas that it believes are necessary for survival of threatened or endangered species. A critical habitat or suitable habitat designation could result in further material restrictions to federal land use and private land use and could delay or prohibit land access or development. Where takings of or harm to species or damages to wetlands, habitat, or natural resources occur or may occur, government entities or at times private parties may act to prevent oil and gas exploration activities or seek damages for harm to species, habitat, or natural resources resulting from drilling or construction or releases of oil, wastes, hazardous substances or other regulated materials, and may seek natural resources damages and in some cases, criminal penalties.

Hazard communications and community right to know

We are subject to federal and state hazard communications and community right to know statutes and regulations. These regulations govern record keeping and reporting of the use and release of hazardous substances, including, but not limited to, the federal Emergency Planning and Community Right-to- Know Act.

Occupational Safety and Health Act

We are subject to the requirements of the federal Occupational Safety and Health Act, commonly referred to as OSHA, and comparable state statutes that regulate the protection of the health and safety of workers. In addition, the OSHA hazard communication standard requires that information be maintained about hazardous materials used or produced in operations and that this information be provided to employees, state and local government authorities and the public.

Employees

As of December 31, 2010, we had 598 full-time employees. We hire independent contractors on an as needed basis. We have no collective bargaining agreements with our employees. We believe that our employee relationships are satisfactory.

Access to Company Reports

We file periodic reports, proxy statements and other information with the SEC in accordance with the requirements of the Securities Exchange Act of 1934, as amended. We make our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and Forms 3, 4 and 5 filed on behalf of directors and officers, and any amendments to such reports available free of charge through our corporate website at *www.petrohawk.com* as soon as reasonably practicable after such reports are filed with, or furnished to, the SEC. In addition, our corporate governance guidelines, code of conduct, code of ethics for our chief executive officer (CEO) and senior financial officers, audit committee charter, compensation committee charter and nominating and corporate governance committee charter are available on our website under the heading "Company Profile Corporate Governance". Within the time period required by the SEC and the New York Stock Exchange (NYSE), as applicable, we will post on our website any modifications to the code of conduct and the code of ethics for our Chief Executive Officer and senior financial officers and any waivers applicable to senior officers as defined in the applicable code, as required by the Sarbanes-Oxley Act of 2002. You may also read and copy any document we file with the SEC at the SEC's Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549. You may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. In addition, our reports, proxy and information statements, and our other filings are also available to the public over the internet at the SEC's website at *www.sec.gov*. Unless specifically incorporated by reference in this Amendment No. 1 to the Annual Report on Form 10-K, information that you may find on our website is not part of this report.

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Executive Officers

The following table sets forth the names and ages of all of our corporate officers, the positions and offices with us held by such persons, the terms of their office and the length of their continuous service as a corporate officer as of February 22, 2011:

Name	Corporate Officer Since	Age	Position
Floyd C. Wilson	May 2004	63	Chairman of the Board and Chief Executive Officer
Richard K. Stoneburner	May 2004	57	President and Chief Operating Officer
Mark J. Mize	July 2005	39	Executive Vice President Chief Financial Officer and Treasurer
Larry L. Helm	July 2004	63	Executive Vice President Finance and Administration
Stephen W. Herod	May 2004	51	Executive Vice President Corporate Development and Assistant Secretary
David S. Elkouri	August 2007	57	Executive Vice President General Counsel and Secretary
H. Weldon Holcombe	March 2007	58	Executive Vice President Mid-Continent Region
Charles W. Latch	November 2007	66	Senior Vice President Western Region
Tina S. Obut	March 2007	45	Senior Vice President Corporate Reserves
Ellen R. DeSanctis	September 2010	54	Senior Vice President Corporate Communications
C. Byron Charboneau	March 2008	34	Vice President Chief Accounting Officer and Controller
Joan W. Dunlap	July 2007	36	Vice President Investor Relations
Charles E. Cusack III	May 2008	52	Vice President Exploration

Our executive officers are appointed to serve until the meeting of the board of directors following the next annual meeting of stockholders and until their successors have been elected and qualified.

Floyd C. Wilson has served as our Chairman of the Board and Chief Executive Officer since May 25, 2004. Mr. Wilson also served as our President from May 25, 2004 until September 8, 2009. Prior to May 25, 2004, he was President and Chief Executive Officer of PHAWK, LLC which he founded in June 2003. Mr. Wilson was the Chairman and Chief Executive Officer of 3TEC Energy Corporation from August 1999 until its merger with Plains Exploration & Production Company in June 2003. Mr. Wilson founded W/E Energy Company L.L.C., formerly known as 3TEC Energy Company L.L.C. in 1998 and served as its President until August 1999. Mr. Wilson began his career in the energy business in Houston, Texas in 1970 as a completion engineer. He moved to Wichita, Kansas in 1976 to start an oil and gas operating company, one of several private energy ventures which preceded the formation of Hugoton Energy Corporation in 1987, where he served as Chairman, President and Chief Executive Officer. In 1994, Hugoton completed an initial public offering and was merged into Chesapeake Energy Corporation in 1998.

Richard K. Stoneburner has served as our President and Chief Operating Officer since September 8, 2009. Mr. Stoneburner served as Executive Vice President Chief Operating Officer from September 13, 2007 until September 8, 2009 and had previously has served as Executive Vice President Exploration from August 1, 2005, until September 13, 2007. Mr. Stoneburner served as Vice President Exploration from May 25, 2004 until August 1, 2005. Prior to joining us, he was employed by PHAWK, LLC from its formation in June 2003 until May 2004. He joined 3TEC in August 1999 and was its Vice President Exploration from December 1999 until its merger with Plains Exploration & Production Company in June 2003. Mr. Stoneburner was employed by W/ E Energy

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Company as District Geologist from 1998 to 1999. Prior to joining 3TEC, Mr. Stoneburner worked as a geologist for Texas Oil & Gas, The Reach Group, Weber Energy Corporation, Hugoton and, independently through his own company, Stoneburner Exploration, Inc. Mr. Stoneburner has over 31 years of experience in the energy business.

Mark J. Mize has served as Executive Vice President Chief Financial Officer and Treasurer since August 10, 2007. Mr. Mize was also appointed and has served as our Chief Ethics Officer and Insider Trading Compliance Officer through June 17, 2009. He served as Vice President, Chief Accounting Officer and Controller from July 2005 until August 10, 2007. Mr. Mize joined us on November 29, 2004 as Controller. Prior to joining us, he was the Manager of Financial Reporting of Cabot Oil & Gas Corporation, a public oil and gas exploration company, from January 2003 to November 2004. Prior to his employment at Cabot Oil & Gas Corporation, he was an Audit Manager with PricewaterhouseCoopers LLP from 1996 to 2002. Mr. Mize is a Certified Public Accountant.

Larry L. Helm has served as Executive Vice President Finance and Administration since August 10, 2007. Mr. Helm served as Vice President Chief Administrative Officer from July 15, 2004 until August 1, 2005, and as Executive Vice President Chief Administrative Officer from August 1, 2005 until August 9, 2007. Prior to serving as an executive officer, Mr. Helm served on our board of directors for approximately two months. Mr. Helm was employed with Bank One Corporation from December 1989 through December 2003. Most recently Mr. Helm served as Executive Vice President of Middle Market Banking from October 2001 to December 2003. From April 1998 to August 1999, he served as Executive Vice President of the Energy and Utilities Banking Group. Prior to joining Bank One, he worked for 16 years in the banking industry primarily serving the oil and gas sector. He served as director of 3TEC Energy Corporation from 2000 to June 2003.

Stephen W. Herod has served as Executive Vice President Corporate Development and Assistant Secretary since August 1, 2005. Mr. Herod served as Vice President Corporate Development from May 25, 2004 until August 1, 2005. Prior to joining us, he was employed by PHAWK, LLC from its formation in June 2003 until May 2004. He served as Executive Vice President Corporate Development for 3TEC Energy Corporation from December 1999 until its merger with Plains Exploration & Production Company in June 2003 and as Assistant Secretary from May 2001 until June 2003. Mr. Herod served as a director of 3TEC from July 1997 until January 2002. Mr. Herod served as the Treasurer of 3TEC from 1999 until 2001. From July 1997 to December 1999, Mr. Herod was Vice President Corporate Development of 3TEC. Mr. Herod served as President and a director of Shore Oil Company from April 1992 until the merger of Shore with 3TEC's predecessor in June 1997. He joined Shore's predecessor as Controller in February 1991. Mr. Herod was employed by Conquest Exploration Company from 1984 until 1991 in various financial management positions, including Operations Accounting Manager. From 1981 to 1984, Superior Oil Company employed Mr. Herod as a financial analyst.

David S. Elkouri has served as Executive Vice President General Counsel and Secretary of the Company since August 1, 2007. Mr. Elkouri has also served as Chief Ethics Officer and Insider Trading Compliance Officer since June 18, 2009. Mr. Elkouri has served as lead outside counsel for Petrohawk since 2004 and has been actively involved with the Company's growth since that time. Prior to that time he served as lead outside counsel for 3TEC Energy Corporation from its inception in 1999 until it was acquired in 2003 and for Hugoton Energy Corporation from its inception in 1994 until it was acquired in 1998. Mr. Elkouri's practice has focused on tax, corporate and securities law with an emphasis on the oil and gas industry. Mr. Elkouri is a graduate of the University of Kansas School of Law where he served as a Research Editor of the Kansas Law Review.

H. Weldon Holcombe joined the Company on July 12, 2006, effective upon the merger of KCS Energy, Inc. (KCS) with and into the Company and served as Senior Vice President Mid-Continent Region from March 1, 2007 until October 1, 2007 when he became Executive Vice President Mid-Continent Region. After the merger of KCS and Petrohawk, Mr. Holcombe became responsible for all of the merged company's operations in the Mid-Continent Region including our interests in the Elm Grove and Terryville fields among others throughout the Mid-Continent Region. With the Company's acquisition of Fayetteville Shale acreage in Arkansas and Haynesville Shale acreage in North Louisiana and East Texas, Mr. Holcombe became responsible for the growth and development of these key assets. Prior to the merger of KCS and Petrohawk, Mr. Holcombe served as Senior Vice President of KCS responsible for operations and engineering. Prior to joining KCS in 1996, he spent many years with Exxon in project and management positions associated with sour gas treatment, drilling, completions and reservoir management. Mr. Holcombe holds a degree in engineering from Auburn University.

Charles W. Latch has served as the Company's Senior Vice President Western Region since November 2007. From July 2006 through October 2007, Mr. Latch served as the Company's Vice President of Operations. From 2004 until joining the Company in July 2006, Mr. Latch was employed by KCS Resources, serving as Vice President of Operations since November 2004. Mr. Latch was Senior Vice President of Technical Services with El Paso Production Company from November 2002 until joining KCS Resources.

Tina S. Obut has served as Senior Vice President Corporate Reserves since May 15, 2008. Ms. Obut served as Vice President Corporate Reserves from March 2007 to May 15, 2008. Ms. Obut initially joined the Company in April 2006 as Manager of Corporate Reserves. Prior to joining us, Ms. Obut was employed by El Paso Production Company as Manager of Reservoir Engineering Evaluations from July 2004 until April 2006. From 2001 to 2004, Ms. Obut was Planning and Asset Manager at Mission Resources. From 1992 to 2001, Ms. Obut was a Vice President with Ryder Scott Company, and from 1989 to 1992, she worked as a reservoir engineer with Chevron. Ms. Obut is a Registered Petroleum Engineer.

Ellen R. DeSanctis has served as the Company's Senior Vice President Corporate Communications since September 2010. Prior to joining Petrohawk, Ellen was employed as Executive Vice President, Strategy and Development for Rosetta Resources since 2008. From 2006 to 2008, Ms. DeSanctis ran E. R. DeSanctis Consulting Services, which specialized in strategy development, and investor relations for exploration and production companies. From 2000 to 2006, she served as Vice President-Corporate Communications and Strategic Planning for Burlington Resources. She spent several years with Vastar Resources in various capacities and spent eight years in the Atlantic Richfield organization. She began her career at Shell Oil Company. She holds a bachelor's degree in geological & geophysical sciences from Princeton University and an M.B.A. from the University of California, Los Angeles.

C. Byron Charboneau has served as the Company's Vice President Chief Accounting Officer and Controller since March 2008. From August 2007 through February 2008, Mr. Charboneau served as the Financial Controller and from January 2005 through July 2007, Mr. Charboneau served as the Company's Director of Compliance and Accounting Research. From 1999 until joining the Company in January 2005, Mr. Charboneau was employed in the audit practice of PricewaterhouseCoopers, most recently as an audit manager with the Energy, Utilities and Mining Industry group. Mr. Charboneau is a Certified Public Accountant in New York.

Joan W. Dunlap has served as Vice President Investor Relations since July 2007. From August 2004 until 2006, Ms. Dunlap served as the Company's Assistant Treasurer. Prior to joining Petrohawk, she was employed as an investment banking associate with JPMorgan Chase, accredited with Series 7 and Series 63, and as a financial analyst and research assistant for the Federal Reserve Bank. Ms. Dunlap holds a bachelor's degree in economics from Tulane University and an M.B.A. from Rice University.

Charles E. Cusack III has served as Vice President Exploration since May 2008. Mr. Cusack is responsible for the exploration and land leasing efforts of the company. He was most recently Exploration Manager for the Gulf Coast Division prior to its sale in 2007. Mr. Cusack has 29 years of industry experience having held various positions with 3TEC Energy, Cockrell Oil, Amerada Hess, Chevron, Tenneco Oil, and Gulf Oil. He holds an engineering geology degree from Texas A&M University.

PART II.

ITEM 6. SELECTED FINANCIAL DATA

The following table presents selected historical financial data derived from our consolidated financial statements. The following data is only a summary and should be read with our historical consolidated financial statements and related notes contained in this document.

	Years Ended December 31,				
	2010 Revised(6)	**2009**	**2008**	**2007**	**2006**
	(In thousands, except per share data)				
Income Statement Data:					
Total operating revenues	$ 1,600,647	$ 1,070,676	$ 1,090,864	$ 883,405	$ 587,762
Income (loss) from operations(1)(2)	266,025	(1,806,164)	(536,087)	250,663	154,540
Income (loss) from continuing operations, net of income taxes	135,905	(1,022,329)	(386,867)	52,906	116,563
Net income (loss)	89,921	(1,025,451)	(388,052)	52,897	116,563
Net income (loss) available to common stockholders	89,921	(1,025,451)	(388,052)	52,897	116,346
Net income (loss) from continuing operations per share of common stock:(3)					
Basic	$ 0.45	$ (3.65)	$ (1.77)	$ 0.31	$ 0.95
Diluted	$ 0.45	$ (3.65)	$ (1.77)	$ 0.31	$ 0.92

	As of December 31,				
	2010 Revised(6)	**2009**	**2008**	**2007**	**2006**
	(In thousands)				
Balance sheet data:					
Working capital deficit	$ (223,654)	$ (313,182)	$ (77,880)	$ (171,304)	$ (85,307)
Total assets	7,899,753	6,662,071	6,907,329	4,672,439	4,279,656
Total long-term debt(4)(5)	2,612,852	2,592,544	2,283,874	1,595,127	1,326,239
Stockholders' equity	3,445,539	3,323,672	3,404,910	2,008,897	1,928,344

(1) *2009 includes an approximate $1.8 billion before taxes full cost ceiling test impairment charge.*

(2) *2008 includes an approximate $1.0 billion before taxes full cost ceiling test impairment charge.*

(3) *No cash dividends were declared or paid for any periods presented.*

(4) *Amount excludes the current portion of deferred premiums on derivatives for all periods presented.*

(5) *For 2010, amount excludes $0.2 million of 9.875% senior notes due 2011 which have been classified as current at December 31, 2010.*

(6) *Previously issued consolidated financial statements as of and for the year ended December 31, 2010 have been restated, see Item 8. Consolidated Financial Statements and Supplementary Data* Note 16 *"Restatement of Consolidated Financial Statements."*

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion is intended to assist in understanding our results of operations and our current financial condition. Our consolidated financial statements and the accompanying notes included elsewhere in this Amendment No. 1 to the Annual Report on Form 10-K contain additional information that should be referred to when reviewing this material.

Statements in this discussion may be forward-looking. These forward-looking statements involve risks and uncertainties, including those discussed below, which could cause actual results to differ from those expressed. Management's discussion and analysis has been revised for the effects of the restatement. For further discussion of the restatement, see Item 8. *Consolidated Financial Statements and Supplementary Data* Note 16 *"Restatement of Consolidated Financial Statements."*

Overview

We are an independent oil and natural gas company engaged in the exploration, development and production of predominately natural gas properties located in the United States. Our business is comprised of an oil and natural gas production segment and a midstream operations segment. Our oil and natural gas properties are concentrated in three premier domestic shale plays that we believe have decades of future development potential. We organize our oil and natural gas production operations into two principal regions: the Mid-Continent, which includes our Louisiana and East Texas properties; and the Western, which includes our South Texas properties. Our midstream operations segment consists of our gathering subsidiary, Hawk Field Services LLC (Hawk Field Services) which was formed to integrate our active drilling program with activities of third parties to develop additional gathering and treating capacity. Hawk Field Services currently serves the Haynesville Shale and Lower Bossier Shale in North Louisiana through our investment in KinderHawk Field Services (KinderHawk) and the Eagle Ford Shale in South Texas.

Historically, we have grown through acquisitions of proved oil and natural gas reserves and undeveloped acreage, with a focus on properties within our core operating areas that we believe have significant development and exploration opportunities. In the past few years, we significantly expanded our leasehold position in resource plays, particularly in the Haynesville Shale play in Northern Louisiana and East Texas and the Eagle Ford Shale play in South Texas, where we believe we can apply our technical experience and economies of scale to increase production and proved reserves while lowering unit lease operating costs. The vast majority of our acreage in these plays is currently undeveloped. Typically, the leases we own require that production in paying quantities be established on units under the lease within the primary lease term (generally three to five years) or the lease will expire. Lease expirations are expected to be an important factor in determining our capital expenditures focus over the next nine to twelve months.

At December 31, 2010, our estimated total proved oil and natural gas reserves, as prepared by our independent reserve engineering firm, Netherland, Sewell, were approximately 3,392 Bcfe, consisting of 3,110 Bcf of natural gas, 20 MMBbls of oil and 27 MMBbls of natural gas liquids. Approximately 35% of our proved reserves were classified as proved developed. We maintain operational control of approximately 82% of our proved reserves. Production for the fourth quarter of 2010 averaged 761 million Mmcfe/d. Full year 2010 production averaged 675 Mmcfe/d compared to 502 Mmcfe/d in 2009. Our total operating revenues for 2010 were approximately $1.6 billion.

Our financial results depend upon many factors, but are largely driven by the volume of our oil and natural gas production and the price that we receive for that production. Our production volumes will decline as reserves are depleted unless we expend capital in successful development and exploration activities or acquire properties with existing production. The amount we realize for our production depends predominantly upon commodity prices and our related commodity price hedging activities, which are affected by changes in market demand and supply, as impacted by overall economic activity, weather, pipeline capacity constraints, inventory storage levels, basis differentials and other factors. Accordingly, finding and developing oil and natural gas reserves at economical costs is critical to our long-term success.

Our 2010 budget was focused on the development of non-proved reserve locations in our Haynesville, Lower Bossier, Eagle Ford and Fayetteville Shale plays so that we could hold our acreage in these areas. In addition, we believed these projects offered us the potential for high internal rates of return and reserve growth which is evidenced by our actual 2010 operating results. In 2010, we were also determined to maintain our liquidity position despite the large amount of capital that was required to execute our aggressive 2010 operational plan. We were able to accomplish this task by completing a number of asset dispositions that also enabled us to highgrade our asset portfolio and continue to lower our per unit operating costs. In 2010, we sold approximately $1.2 billion in producing properties, including $155 million for the sale of our WEHLU Field in Oklahoma County, Oklahoma, $320 million for the sale of our Terryville Field in Lincoln and Claiborne Parishes, Louisiana, approximately $123 million for certain Mid-Continent properties in Texas, Oklahoma and Arkansas, approximately $575 million for the sale of our Fayetteville Shale area in Arkansas, and approximately $38 million for other various non-core properties. We also formed a joint venture, on May 21, 2010, discussed in greater detail below, in which we received approximately $917 million (including approximately $42 million in closing adjustments) for a 50% interest in our Haynesville Shale gathering and treating business in North Louisiana.

We expect to spend approximately $2.3 billion of capital during 2011, of which $1.9 billion is expected to be allocated for drilling and completions, $200 million is expected to be allocated for midstream operations and $200 million will be allocated for potential leasehold acquisitions. Of the $1.9 billion budget for drilling and completions, $900 million is planned for the Haynesville and Lower Bossier Shales, which will enable us to fulfill our held-by-production goals, $900 million is budgeted for the Eagle Ford Shale, and approximately $100 million is budgeted for various other projects. Our 2011 drilling and completion budget contemplates an increase in drilling activity in the Eagle Ford Shale throughout the year and a significant decrease in the Haynesville Shale operated rig count in the second half of the year as our lease-holding activities are fulfilled. Our 2011 program will emphasize the development of our extensive condensate-rich properties, largely in the Eagle Ford Shale, and a shift away from dry gas development in our core areas. The $1.9 billion drilling and completion budget for 2011 is based on our current view of market conditions, our ability to accelerate certain areas of our Eagle Ford Shale position, and the desire to reduce capital allocated to pure natural gas drilling once the Haynesville Shale lease capture period is effectively completed.

We expect to fund our 2011 capital budget with cash flows from operations, proceeds from potential asset dispositions, a portion of the proceeds from our recent senior note offering and borrowings under our Senior Credit Agreement. We strive to maintain financial flexibility and may access capital markets as necessary to maintain substantial borrowing capacity under our Senior Credit Agreement, facilitate drilling on our large undeveloped acreage position and selectively expand our acreage position and infrastructure projects. In the event our cash flows or proceeds from potential asset dispositions are materially less than anticipated and other sources of capital we historically have utilized are not available on acceptable terms, we may curtail our capital spending.

Hawk Field Services, LLC Joint Venture

On May 21, 2010, our wholly owned subsidiary, Hawk Field Services, and KM Gathering LLC (Kinder Morgan), an affiliate of Kinder Morgan Energy Partners, L.P., a publicly traded master limited partnership, formed a joint venture pursuant to a Formation and Contribution Agreement (Contribution Agreement). The joint venture entity, KinderHawk Field Services LLC (KinderHawk), engages in the natural gas midstream business in Northwest Louisiana, focused on the Haynesville and

Lower Bossier Shales. Pursuant to the Contribution Agreement, Hawk Field Services contributed to KinderHawk its Haynesville Shale gathering and treating business in Northwest Louisiana, and Kinder Morgan contributed approximately $917 million in cash ($875 million for a 50% membership interest in KinderHawk and $42 million for certain closing adjustments including 2010 capital expenditures through the closing date) to KinderHawk. We, along with Kinder Morgan, own a 50% membership interest in KinderHawk. KinderHawk distributed the approximate $917 million to us. The joint venture had an economic effective date of January 1, 2010, and Hawk Field Services continued to operate the business until September 30, 2010, at which date Hawk Field Services and Kinder Morgan terminated the transition services agreement and KinderHawk assumed operations of the joint venture. In connection with the joint venture transaction we entered into a gathering agreement with KinderHawk which requires us to deliver natural gas to KinderHawk from dedicated lease acreage for the life of the dedicated lease acreage, or approximately 30 years, and includes a minimum delivery commitment over a five-year period.

We are obligated to deliver to KinderHawk agreed upon minimum annual quantities of natural gas from our operated wells producing from the Haynesville and Lower Bossier Shales, within specified acreage in Northwest Louisiana through May 2015, or in the alternative, pay an annual true-up fee to KinderHawk if such minimum annual quantities are not delivered. We pay KinderHawk negotiated gathering and treating fees, subject to an annual inflation adjustment factor. The gathering fee is equal to $0.34 per Mcf of natural gas delivered at KinderHawk's receipt points. The treating fee is charged for gas delivered containing more than 2% by volume of carbon dioxide. For gas delivered containing between 2% and 5.5% carbon dioxide, the treating fee is between $0.030 and $0.345 per Mcf, and for gas containing over 5.5% carbon dioxide, the treating fee starts at $0.365 per Mcf and increases on a scale of $0.09 per Mcf for each additional 1% of carbon dioxide content.

The KinderHawk joint venture is accounted for as a failed sale of in substance real estate under the provisions of the Financial Accounting Standards Board's (FASB) Accounting Standards Codification (ASC) Subtopic 360-20, *Property, Plant and Equipment Real Estate Sales* (ASC 360-20). ASC 360-20 establishes standards for recognition of profit on all real estate sales transactions other than retail land sales, without regard to the nature of the seller's business. In making the determination of whether a transaction qualifies, in substance, as a sale of real estate, the nature of the entire real estate being sold is considered, including the land plus the property improvements and the integral equipment. The Haynesville Shale gathering and treating system, consists of right of ways, pipelines and processing facilities. Due to the gathering agreement which constitutes extended continuing involvement under ASC 360-20, it has been determined that the contribution of our Haynesville Shale gathering and treating system to form KinderHawk should be accounted for as a failed sale of in substance real estate.

As a result of the failed sale we account for the continued operations of the gas gathering system and reflect a financing obligation, representing the proceeds received, under the financing method of real estate accounting. Under the financing method, the historical cost of the Haynesville Shale gas gathering system contributed to KinderHawk is carried at the full historical basis of the assets on the consolidated balance sheets in *"Gas gathering systems and equipment"* and depreciated over the remaining useful life of the assets. The financing obligation is recorded on the consolidated balance sheets in *"Payable on financing arrangement,"* in the amount of approximately $917 million. Reductions to the obligation and the non cash interest on the obligation are tied to the gathering and treating services, as we deliver natural gas through the Haynesville Shale gathering and treating system. Interest and principal are determined based upon the allocable income to Kinder Morgan, and interest is limited up to an amount that is calculated based upon our weighted average cost of debt as of the date of the transaction. Allocable income in excess of the calculated value is reflected as reductions of principal. Interest is recorded in *"Interest expense and other"* on the consolidated statements of operations. Any obligation remaining once the gathering agreement expires will be reversed, resulting in the recognition of a gain. Additionally we record KinderHawk's revenues, net of eliminations for intercompany amounts associated with gathering and treating services provided to us, and expenses on the consolidated statements of operations in *"Midstream revenues," "Taxes other than income," "Gathering, transportation and other," "General and administrative," "Interest expense and other"* and *"Depletion, depreciation and amortization."*

Capital Resources and Liquidity

Our primary sources of capital and liquidity are internally generated cash flows from operations, availability under our Senior Credit Agreement, asset dispositions, and access to capital markets, to the extent available. Volatility in the capital markets could adversely impact our access to capital, which could reduce our ability to execute our development and acquisition plans, our ability to replace our reserves and our production levels. We continuously monitor our liquidity and the capital markets and evaluate our development plans in light of a variety of factors, including, but not limited to, our cash flows, capital resources and drilling success.

Our future capital resources and liquidity depend, in part, on our success in developing our leasehold interests. Cash is required to fund capital expenditures necessary to offset inherent declines in our production and proven reserves, which is typical in the capital-intensive oil and natural gas industry. Future success in growing reserves and production will be highly dependent on our capital resources and our success in finding additional reserves. During 2008 and 2009, we raised $1.3 billion of debt (net of discounts and expenses) and $2.7 billion of equity (net of discounts and expenses). In 2010, we redeemed our $775 million 2013 Notes in August with the issuance of $825 million of Senior Notes due in 2018 (2018 Notes). In early 2011, we will redeem our $275 million 2012 Notes, which have been called for redemption, with a portion of the proceeds from the issuance of $400 million of additional 2018 Notes, which is discussed further below.

Our Senior Credit Agreement provides for a $2.0 billion credit facility. As of December 31, 2010, the borrowing base was approximately $1.65 billion, $1.55 billion of which relates to our oil and natural gas properties and $100 million of which relates to our midstream assets (currently limited as described below). The portion of the borrowing base which relates to our oil and natural gas properties is redetermined on a semi-annual basis (with us and the lenders each having the right to one annual interim unscheduled redetermination) and adjusted based on our oil and natural gas properties, reserves, other indebtedness and other relevant factors. The component of the borrowing base related to our midstream assets is limited to the lesser of $100 million or 3.5 times midstream EBITDA and is calculated quarterly. As of December 31, 2010, the midstream component of the borrowing base was limited to approximately $38 million based on the midstream EBITDA limitation. Our ability to utilize the full amount of our borrowing capacity is influenced by a variety of factors, including redeterminations of our borrowing base, and covenants under our Senior Credit Agreement and our senior unsecured debt indentures. Our Senior Credit Agreement contains customary financial and other covenants, including minimum working capital levels (the ratio of current assets plus the unused commitment under the Senior Credit Agreement to current liabilities) of not less than 1.0 to 1.0 and minimum coverage of interest expenses (as defined in the Senior Credit Agreement) of not less than 2.5 to 1.0. We are subject to additional covenants limiting dividends and other restricted payments, transactions with affiliates, incurrence of debt, changes of control, asset sales, and liens on properties. Additionally, the indentures governing our senior unsecured debt contain covenants limiting our ability to incur additional indebtedness, including borrowings under our Senior Credit Agreement, unless we meet one of two alternative tests. The first test applies to all indebtedness and requires that after giving effect to the incurrence of additional debt the ratio of our adjusted consolidated EBITDA (as defined in our indentures) to our adjusted consolidated interest expense over the trailing four fiscal quarters will be at least 2.5 to 1.0. The second test applies only to borrowings under our Senior Credit Agreement that do not meet the first test and it limits these borrowings to the greater of a fixed sum (the most restrictive indenture limit being $100 million, increasing to $1 billion upon redemption of the 2012 Notes) and a percentage (the most restrictive indenture limit currently being 20%, but increasing to 30% upon redemption of the 2012 Notes) of our adjusted consolidated net tangible assets (as defined in all of our indentures), which is determined using discounted future net revenues from proved oil and natural gas reserves as of the end of each year. As of December 31, 2010, we had $146 million of debt outstanding under the Senior Credit Agreement and $1.4 billion of additional borrowing capacity available.

Our borrowing base, EBITDA and consolidated net tangible assets are significantly influenced by, among other things, oil and natural gas prices. We strive to maintain financial flexibility while continuing our aggressive drilling plans and may access the capital markets to, among other things, maintain substantial borrowing capacity under our Senior Credit Agreement, facilitate drilling on our large undeveloped acreage position and permit us to selectively expand our acreage position and infrastructure projects. Our ability to complete future debt and equity offerings is subject to market conditions.

During the third quarter of 2010, we issued $825 million aggregate principal amount of our 7.25% senior notes due 2018 (the 2018 Notes). The proceeds from the 2018 Notes were utilized to redeem our $775 million outstanding 9.125% senior notes due 2013 (the 2013 Notes), which allowed us to reduce our future interest expense as a result of the lower interest rate and to extend the maturity of these bonds. Due to the early repurchase of the 2013 Notes, we incurred charges of approximately $47 million in the third quarter of 2010. These charges are recorded in *"Interest expense and other"* on the consolidated statements of operations and include the cash premium paid to noteholders for the early repurchase of the 2013 Notes, as well as non-cash charges related to the write-off of debt issuance costs, discounts and premiums associated with the 2013 Notes.

On January 31, 2011, we completed the issuance of an additional $400 million aggregate principal amount of our 2018 Notes. A portion of the proceeds from this issuance will be utilized to redeem our $275 million 7.125% senior notes due 2012, which have been called for redemption. For further discussion of this transaction, see Item 8. *Consolidated Financial Statements and Supplementary Data* Note 15 *"Subsequent Event."*

In conjunction with the KinderHawk joint venture, we are obligated to commit up to an additional $78.2 million, as of December 31, 2010, in capital contributions to KinderHawk during 2011, if KinderHawk requires capital to fund its capital expenditures. Additional contributions above this amount can be made at our discretion. Capital contributions to KinderHawk could impact our development plans by reducing the amount of capital available to fund our drilling program. Capital contributions to be made to KinderHawk will be factored into our overall analysis of capital resources and liquidity on an ongoing basis.

Our long-term cash flows are subject to a number of variables including our level of oil and natural gas production and commodity prices, as well as various economic conditions that have historically affected the oil and natural gas industry. If natural gas prices remain at their current levels for a prolonged period of time or if oil and natural gas prices decline, our ability to fund our capital expenditures, reduce debt, meet our financial obligations and become profitable may be materially impacted.

Cash Flow

Our primary sources of cash in 2010, 2009 and 2008 were from operating and financing activities. In 2009 and 2008, proceeds from the sale of common stock, the issuance of new senior debt and cash received from operations were offset by repayments of borrowings under our Senior Credit Agreement and cash used in investing activities to fund our drilling program and acquisition activities, net of any divestiture activities. Operating cash flow fluctuations were substantially driven by changes in commodity prices and changes in our production volumes. Working capital was substantially influenced by these variables. Fluctuation in commodity prices and our overall cash flow may result in an increase or decrease in our future capital expenditures. Prices for oil and natural gas have historically been subject to seasonal fluctuations characterized by peak demand and higher prices in the winter heating season; however, the impact of other risks and uncertainties have influenced prices throughout recent years. See *Results of Operations* below for a review of the impact of prices and volumes on sales.

	Years Ended December 31,		
	2010	**2009**	**2008**
		(In thousands)	
Cash flows provided by operating activities	$ 505,627	$ 679,127	$ 608,955
Cash flows used in investing activities	(1,314,003)	(1,866,638)	(3,030,450)
Cash flows provided by financing activities	808,456	1,182,139	2,426,566
Net increase (decrease) in cash	$ 80	$ (5,372)	$ 5,071

Operating Activities. Net cash flows provided by operating activities were $505.6 million, $679.1 million and $609.0 million for the years ended December 31, 2010, 2009, and 2008, respectively. Key drivers of net operating cash flows are commodity prices, production volumes and operating costs.

Net cash provided by operating activities decreased $173.5 million in 2010 primarily due to the decrease in cash received on settled derivative contracts from $375.1 million in 2009 to $243.0 million in 2010. This decrease was partially offset by a 34% increase in our average daily production volumes due to our continued drilling success primarily in the Haynesville, Fayetteville and Eagle Ford Shales. Production for 2010 averaged 675 Mmcfe/d compared to 502 Mmcfe/d during 2009. Also contributing to the increase was the increase in our natural gas equivalent price of $0.50 per Mcfe to $4.49 per Mcfe from $3.99 per Mcfe in the prior year. As a result of our drilling program, we expect to continue to increase our production volumes throughout 2011. However, we are unable to predict future production levels or future commodity prices with certainty, and, therefore, we cannot provide assurance about future levels of net cash provided by operating activities.

Net cash flows provided by operating activities increased in 2009 primarily due to our 65% increase in our average daily production volumes due to our drilling success in the Haynesville, Fayetteville and Eagle Ford Shales, which was partially offset by a 56% decrease in our average realized natural gas equivalent price compared to the same period in 2008.

Net cash flows provided by operating activities increased in 2008 primarily due to our 21% increase in average realized natural gas equivalent price, partially offset by a 4% decrease in production volumes due to the sale of our Gulf Coast properties during the fourth quarter of 2007.

Investing Activities. The primary driver of cash used in investing activities is capital spending, inclusive of acquisitions and net of divestitures. Net cash used in investing activities was $1.3 billion, $1.9 billion and $3.0 billion for the years ended December 31, 2010, 2009 and 2008, respectively.

In 2010, we spent $2.4 billion on oil and natural gas capital expenditures. We participated in the drilling of 906 gross wells (218.3 net wells). We spent an additional $282.4 million on other operating property and equipment capital expenditures, primarily to fund the development of our gathering systems in the Haynesville Shale in Northwest Louisiana and the Eagle Ford Shale in South Texas.

In 2010, we purchased and redeemed $1.1 billion of marketable securities. These marketable securities were classified and accounted for as trading securities.

In 2010, we had a net decrease in restricted cash of $213.7 million. Restricted cash was used to fund a portion of our 2010 oil and natural gas acquisitions.

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On December 22, 2010, we completed the sale of our interest in natural gas properties and other operating assets in the Fayetteville Shale for approximately $575 million in cash, before customary closing adjustments. Proceeds from the sale of the interest in natural gas properties were recorded as a reduction to the carrying value of our full cost pool with no gain or loss recorded. The transaction had an effective date of October 1, 2010.

On September 29, 2010, we completed the sale of our interest in certain Mid-Continent properties in Texas, Oklahoma and Arkansas for approximately $123 million before customary closing adjustments. Proceeds from the sale were recorded as a reduction to the carrying value of our full cost pool with no gain or loss recorded. The transaction had an effective date of July 1, 2010.

On May 12, 2010, we completed the sale of our interest in Terryville Field, located in Lincoln and Claiborne Parishes, Louisiana for $320 million before customary closing adjustments. Proceeds from the sale were recorded as a reduction to the carrying value of our full cost pool with no gain or loss recorded. The transaction had an effective date of January 1, 2010. In conjunction with the closing, we deposited $75 million with a qualified intermediary to facilitate like-kind exchange transactions all of which has been spent as of December 31, 2010.

On April 30, 2010, we completed the sale of our interest in the WEHLU Field in Oklahoma County, Oklahoma for $155 million before customary closing adjustments. Proceeds from the sale were recorded as a reduction to the carrying value of our full cost pool with no gain or loss recorded. The transaction had an effective date of April 1, 2010.

In 2010, we sold our interests in various non-core properties for aggregate proceeds of approximately $38 million. Proceeds from the sales were recorded as a reduction to the carrying value of our full cost pool with no gain or loss recorded.

In 2009, we spent $1.7 billion on acquisitions of oil and natural gas properties and capital expenditures. We participated in the drilling of 626 gross wells (162.1 net wells). We spent an additional $309.5 million on other operating property and equipment expenditures, primarily to fund the completion of gathering systems in the Fayetteville Shale in Arkansas and the development of our gathering systems in the Haynesville Shale in Louisiana and the Eagle Ford Shale in Texas.

In 2009, we redeemed a net $123.0 million of marketable securities. These marketable securities were classified and accounted for as trading securities and were used primarily to fund a portion of our 2009 capital program. No amounts remained outstanding as of December 31, 2009.

On July 31, 2009, we purchased all outstanding membership interests in Kaiser Trading, LLC (Kaiser) for approximately $105 million. Kaiser's only assets were transportation-related contracts including a firm transportation contract, interruptible gas transportation service agreement, parking and lending services agreement, and a pooling services agreement. The initial firm transportation contract runs through 2013 and at no additional cost, we have the contractual right to extend firm supply through 2019. The purchase price was allocated to the transportation related contracts at fair market value and is amortized on a straight line basis over the life of the extended agreement.

On October 30, 2009, we sold our Permian Basin properties for $376 million in cash, before customary closing adjustments. Proceeds from the sale were recorded as a reduction to the carrying value of our full cost pool. In conjunction with the closing of this sale, we deposited the remaining net proceeds of $331 million with a qualified intermediary to facilitate potential like-kind exchange transactions ($37.6 million was previously received as a deposit). As of December 31, 2009, $213.7 million remained with the intermediary.

In 2008, we spent $3.1 billion on acquisitions of oil and natural gas properties and capital expenditures. Our acquisitions were partially funded by the remaining restricted cash that we had deposited with a qualified intermediary to facilitate like-kind exchange transactions following the sale of our Gulf Coast properties in November 2007. We participated in the drilling of 739 gross wells (267.4 net wells) in 2008. We spent an additional $164.8 million on other operating property and equipment during 2008 as well, primarily to fund the development of gathering systems primarily in the Fayetteville Shale in Arkansas and the beginning stages of the development of our gathering system in the Haynesville Shale in Louisiana.

In 2008, we used a portion of the funds from our debt and equity offerings to purchase a net $123.0 million of marketable securities. These marketable securities were classified and accounted for as trading securities and were used primarily to fund our leasing and acquisition activities in the Haynesville Shale.

On November 30, 2007, we closed the sale of our Gulf Coast properties for $825 million, before customary closing adjustments, consisting of $700 million in cash and a $125 million note from the purchaser (the Note). The Note matured five years and ninety-one days from the closing date and bore interest at 12% per annum payable in kind at the purchaser's option. The economic effective date for the sale was July 1, 2007. Proceeds from the sale were recorded as a decrease to our full cost pool. In conjunction with the closing of this sale, we deposited $650 million with a qualified intermediary to facilitate potential like-kind exchange transactions. At December 31, 2007, we had $269.8 million remaining for use in future acquisitions, all of which was utilized for property acquisitions. On April 28, 2008, the purchaser redeemed the Note for $100 million.

Financing Activities. Net cash flows provided by financing activities were $808.5 million, $1.2 billion and $2.4 billion for the years ended December 31, 2010, 2009 and 2008, respectively. The primary driver of cash provided by financing activities in 2010 is from our contribution of our Haynesville Shale gathering and treating business in Northwest Louisiana to KinderHawk in exchange for approximately $917 million in cash. This cash inflow was offset by net repayments on our Senior Credit Agreement and the net impact of our debt issuance and refinancing activities in 2010 of approximately $87.4 million.

On August 17, 2010, we completed a private placement offering to eligible purchasers of an aggregate principal amount of $825 million 7.25% senior notes due August 15, 2018. The net proceeds from the sale of the 2018 Notes were approximately $809.5 million, after deducting offering expenses. We capitalized $16.7 million of debt issuance costs in conjunction with the issuance of the 2018 Notes.

On August 16, 2010, tenders and consents had been received from holders of $652.7 million in aggregate principal amount of the 2013 Notes, representing approximately 85% of the outstanding 2013 Notes. On August 17, 2010, we accepted the 2013 Notes that had been so tendered and utilized approximately $689.5 million in net proceeds from the sale of the 2018 Notes to repurchase such 2013 Notes. The remaining approximately $116.0 million in aggregate principal amount of 2013 Notes were redeemed on September 20, 2010.

On May 21, 2010, our wholly owned subsidiary, Hawk Field Services, and Kinder Morgan entered into a joint venture arrangement to create a new entity, KinderHawk, which engages in the natural gas midstream business in Northwest Louisiana, focused on the Haynesville and Lower Bossier Shales. Hawk Field Services contributed to KinderHawk our Haynesville Shale gathering and treating business in Northwest Louisiana, and Kinder Morgan contributed approximately $917 million in cash ($875 million for a 50% membership interest in KinderHawk and $42 million for certain closing adjustments including 2010 capital expenditures through the closing date) to KinderHawk. We, along with Kinder Morgan, own a 50% membership interest in KinderHawk. KinderHawk distributed the approximate $917 million to us.

On August 11, 2009, we sold an aggregate of 25.0 million shares of our common stock in an underwritten public offering. The net proceeds from the sale were approximately $550 million, after deducting underwriting discounts and commissions and expenses.

On March 4, 2009, we sold an aggregate of 22.0 million shares of our common stock in an underwritten public offering. The net proceeds from this offering were approximately $376 million, after deducting underwriting discounts and commissions and expenses.

On January 27, 2009, we completed a private placement to eligible purchasers of an aggregate principal amount of $600 million 10.5% senior notes due August 1, 2014 (2014 Notes). The net proceeds from the sale of the 2014 Notes were approximately $535.4 million, after deducting the initial purchasers' discounts and offering expenses and commissions.

On August 15, 2008, we sold an aggregate of 28.8 million shares of our common stock in an underwritten public offering. The net proceeds from the sale were approximately $734 million, after deducting underwriting discounts and commissions and expenses.

On June 19, 2008, we issued $300 million aggregate principal amount of 7.875% senior notes due 2015 (2015 Notes) in a private placement to eligible purchasers. The net proceeds from the sale of the 2015 Notes were approximately $294 million, after deducting the initial purchaser's discount and offering expenses.

On May 13, 2008, we issued $500 million aggregate principal amount of the 2015 Notes in a private placement to eligible purchasers. The net proceeds from the sale of the 2015 Notes were approximately $490 million, after deducting the initial purchaser's discounts and offering expenses, including commissions.

On May 13, 2008, we sold an aggregate of 25.0 million shares of our common stock in an underwritten public offering. Pursuant to the underwriting agreement, we granted the underwriters a 30-day option to purchase up to an additional 3.75 million shares of common stock at the public offering price less underwriting discounts and commissions. The underwriters exercised in full their option to purchase additional shares of common stock which closed on May 23, 2008. The net proceeds from these sales were approximately $727 million, after deducting underwriting discounts and commissions and expenses.

On February 1, 2008, we sold an aggregate of 20.7 million shares of our common stock in an underwritten public offering. The net proceeds from the sale were approximately $297 million, after deducting underwriting discounts and commissions and expenses.

Capital financing and excess cash flow are used to repay debt to the extent available. In 2010, we had net repayments of borrowings under our Senior Credit Agreement of $87.4 million primarily due to the proceeds received from asset sales offset by the cash requirements of our drilling activities. As of December 31, 2010, our Senior Credit Agreement had a $1.65 billion borrowing base and we had $146 million outstanding.

Cash flows provided by financing activities include net borrowings of $282.0 million and $677.7 million for the years ended December 31, 2009 and 2008, respectively, primarily due to our acquisition activities and our ongoing drilling activities.

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Contractual Obligations

We believe we have a significant degree of flexibility to adjust the level of our future capital expenditures as circumstances warrant. Our level of capital expenditures will vary in future periods depending on the success we experience in our acquisition, developmental and exploration activities, oil and natural gas price conditions and other related economic factors. Currently no sources of liquidity or financing are provided by off-balance sheet arrangements or transactions with unconsolidated, limited-purpose entities. The following table summarizes our contractual obligations and commitments by payment periods as of December 31, 2010.

	Payments Due by Period				
Contractual Obligations	**Total**	**2011**	**2012-2013**	**2014-2015**	**2016 and Beyond**
			(In thousands)		
Senior revolving credit facility	$ 146,000	$	$	$ 146,000	$
7.25% $825 million senior notes[(1)]	825,000				825,000
10.5% $600 million senior notes[(2)]	600,000			600,000	
7.875% $800 million senior notes	800,000			800,000	
7.125% $275 million senior notes[(3)]	272,375		272,375		
9.875% senior notes	224	224			
Interest expense on long-term debt[(4)]	1,023,151	216,316	398,657	251,170	157,008
Deferred premiums on derivatives[(5)]	25,381	14,566	10,815		
Rig commitments	297,031	183,990	110,751	2,290	
Gathering and transportation contracts	1,946,576	127,844	371,551	360,726	1,086,455
Pipeline and well equipment	127,279	127,279			
Other commitments[(6)]	59,902	45,269	14,633		
Operating leases	29,205	6,901	14,000	7,276	1,028
Total contractual obligations	$ 6,152,124	$ 722,389	$ 1,192,782	$ 2,167,462	$ 2,069,491

(1)
The 7.25% $825 million senior notes due 2018 were issued in the third quarter of 2010 to fund the repurchase of the 9.125% $775 million senior notes, which were due in 2013. On January 31, 2011, we issued an additional $400 million of these notes which are not reflected in the table. See "7.25% Senior Notes", below for further details.

(2)
Excludes $37.9 million unamortized discount recorded in conjunction with the issuance of the notes. See "10.5% Senior Notes" below for more details.

(3)
Excludes a net $3.5 million unamortized discount recorded in conjunction with our merger with KCS. See "7.125% Senior Notes" below for more details.

(4)
Future interest expense was calculated based on interest rates and amounts outstanding at December 31, 2010 less required annual repayments.

(5)
Approximately $14.6 million of this amount has been classified as current at December 31, 2010.

(6)
Other commitments pertains to exploration, development and production activities including, among other things, commitments for obtaining and processing seismic data and fracture stimulation services.

The contractual obligations table does not include obligations to taxing authorities due to the uncertainty surrounding the ultimate settlement of amounts and timing of these obligations. In addition, amounts related to our asset retirement obligations are not included in the table above given the uncertainty regarding the actual timing of such expenditures. The total amount of asset retirement obligations at December 31, 2010 is $31.7 million.

On May 21, 2010, we created a joint venture with Kinder Morgan, KinderHawk, which engages in the natural gas midstream business in Northwest Louisiana, focused on the Haynesville and Lower

Bossier Shales. As part of this transaction, we are committed to contribute up to an additional $78.2 million, as of December 31, 2010, in capital during 2011 in the event KinderHawk requires capital to finance its planned capital expenditures. In addition, we are obligated to deliver to KinderHawk agreed upon minimum annual quantities of natural gas from our operated wells producing from the Haynesville and Lower Bossier Shales in North Louisiana through May 2015, or in the alternative, pay an annual true-up fee to KinderHawk if such minimum annual quantities are not delivered. These obligations are not reflected in the amounts shown in the table above. We pay to KinderHawk negotiated gathering and treating fees, subject to an annual inflation adjustment factor.

We account for the KinderHawk joint venture as a failed sale of in substance real estate under the provisions of ASC 360-20. Due to the gathering agreement entered into with the formation of KinderHawk, which constitutes extended continuing involvement under ASC 360-20, it has been determined that the contribution of our Haynesville Shale gathering and treating system to form KinderHawk is accounted for as a failed sale of in substance real estate. As a result of the failed sale, we recorded a financing obligation, representing the proceeds received, under the financing method of real estate accounting. The financing obligation is recorded on the consolidated balance sheets in "*Payable on financing arrangement,"* in the amount of approximately $917 million. Reductions to the obligation and the non cash interest on the obligation are tied to the gathering and treating services, as we deliver natural gas through the Haynesville Shale gathering and treating system. Interest and principal are determined based upon the allocable income to Kinder Morgan, and interest is limited up to an amount that is calculated based upon our weighted average cost of debt as of the date of the transaction. Allocable income in excess of the calculated value is reflected as reductions of principal. Interest is recorded in *"Interest expense and other"* on the consolidated statements of operations. The balance of our financing obligation as of December 31, 2010, was approximately $940.9 million, of which approximately $7.1 million was classified as current. This obligation is not reflected in the amounts shown in the table above.

Senior Revolving Credit Facility

Effective August 2, 2010, we amended and restated our existing credit facility dated October 14, 2009 by entering into the Fifth Amended and Restated Senior Revolving Credit Agreement (the Senior Credit Agreement), among us, each of the lenders from time to time party thereto (the Lenders), BNP Paribas, as administrative agent for the Lenders, Bank of America, N.A. and Bank of Montreal as co-syndication agents for the Lenders, and JPMorgan Chase Bank, N.A. and Wells Fargo Bank, N.A., as co-documentation agents for the Lenders. The Senior Credit Agreement provides for a $2.0 billion facility. As of December 31, 2010, the borrowing base was approximately $1.65 billion, $1.55 billion of which related to our oil and natural gas properties and up to $100 million (currently limited as described below) related to our midstream assets. The portion of the borrowing base relating to our oil and natural gas properties is redetermined on a semi-annual basis (with us and the Lenders each having the right to one annual interim unscheduled redetermination) and adjusted based on our oil and natural gas properties, reserves, other indebtedness and other relevant factors. The component of the borrowing base relating to our midstream assets is limited to the lesser of $100 million or 3.5 times midstream EBITDA, and is calculated quarterly. As of December 31, 2010, the midstream component of the borrowing base was limited to approximately $38 million based on midstream EBITDA. Our borrowing base is subject to a reduction equal to the product of $0.25 multiplied by the stated principal amount (without regard to any initial issue discount) of any unsecured senior or senior subordinated notes that we may issue. In January 2011, we issued an additional $400 million aggregate principal amount of our 7.25% senior notes due 2018, as discussed below, and accordingly, our borrowing base was reduced to approximately $1.6 billion.

Amounts outstanding under the Senior Credit Agreement bear interest at specified margins over LIBOR of 2.00% to 3.00% for Eurodollar loans or at specified margins over ABR of 1.00% to 2.00% for ABR loans. Such margins will fluctuate based on the percentage utilization of the facility.

Borrowings under the Senior Credit Agreement are secured by first priority liens on substantially all of our assets, including pursuant to the terms of the Fifth Amended and Restated Guarantee and Collateral Agreement, all of the assets of, and equity interests in, our subsidiaries. Amounts drawn down on the facility will mature on July 1, 2014.

The Senior Credit Agreement contains customary financial and other covenants, including minimum working capital levels (the ratio of current assets plus the unused commitment under the Senior Credit Agreement to current liabilities) of not less than 1.0 to 1.0 and minimum coverage of interest expenses (as defined in the Senior Credit Agreement) of not less than 2.5 to 1.0. In addition, we are subject to covenants limiting dividends and other restricted payments, transactions with affiliates, incurrence of debt, changes of control, asset sales, and liens on properties. At December 31, 2010, we were in compliance with our financial debt covenants under the Senior Credit Agreement.

7.25% Senior Notes

On August 17, 2010, we completed a private placement offering to eligible purchasers of an aggregate principal amount of $825 million 7.25% senior notes due 2018 (the 2018 Notes) at a purchase price of 100% of the principal amount of the 2018 Notes.

In connection with the sale of the 2018 Notes, we entered into a Registration Rights Agreement, dated August 17, 2010, among us and the initial purchasers (the Registration Rights Agreement). Pursuant to the Registration Rights Agreement, we agreed to conduct a registered exchange offer for the 2018 Notes or cause to become effective a shelf registration statement providing for the resale of the 2018 Notes. The registration statement for the exchange offer became effective on September 29, 2010.

The 2018 Notes bear interest at a rate of 7.25% per annum, payable semi-annually on February 15 and August 15 of each year, commencing on February 15, 2011. The 2018 Notes will mature on August 15, 2018. The 2018 Notes are senior unsecured obligations of ours and rank equally with all of our current and future senior indebtedness. The 2018 Notes are jointly and severally, fully and unconditionally guaranteed on a senior unsecured basis by our subsidiaries. Petrohawk Energy Corporation, the issuer of the 2018 Notes, has no material independent assets or operations apart from the assets and operations of its subsidiaries.

On January 31, 2011, we completed the issuance of an additional $400 million aggregate principal amount of our 2018 Notes. We will utilize a portion of the proceeds from this issuance to redeem our 7.125% $275 million senior notes due 2012, which have been called for redemption. For further discussion of this transaction, see *Item 8 Consolidated Financial Statements and Supplementary Data* Note 15, *"Subsequent Event."*

10.5% Senior Notes

On January 27, 2009, we issued $600 million principal amount of our 10.5% senior notes due 2014 (the 2014 Notes). The 2014 Notes were issued under and are governed by an indenture dated January 27, 2009, between us, U.S. Bank National Association, as trustee, and our subsidiaries named therein as guarantors. The 2014 Notes bear interest at 10.5% per annum, payable semi-annually on February 1 and August 1 of each year, commencing on August 1, 2009. The 2014 Notes will mature on August 1, 2014. The 2014 Notes were priced at 91.279% of the face value to yield 12.7% to maturity. The 2014 Notes are senior unsecured obligations and rank equally with all of our current and future senior indebtedness.

In conjunction with the issuance of the $600 million 2014 Notes, we recorded a discount of $52.3 million to be amortized over the remaining life of the notes utilizing the effective interest rate method. The remaining unamortized discount was $37.9 million at December 31, 2010.

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7.875% Senior Notes

On May 13, 2008 and June 19, 2008, we issued $500 million principal amount and $300 million principal amount, respectively, of our 7.875% senior notes due 2015 (the 2015 Notes). The 2015 Notes were issued under and are governed by an indenture dated May 13, 2008, between us, U.S. Bank Trust National Association, as trustee, and our subsidiaries named therein as guarantors. The 2015 Notes bear interest at a rate of 7.875% per annum, payable semi-annually on June 1 and December 1 of each year, commencing December 1, 2008. The 2015 notes will mature on June 1, 2015. The 2015 Notes are senior unsecured obligations and rank equally with all of our current and future senior indebtedness. The 2015 Notes were issued at par value, with no discount or premium recorded.

9.125% Senior Notes

On July 12 and 27, 2006, we issued a total of $775 million principal amount of 9.125% senior notes, also referred to as the 2013 Notes, pursuant to an Indenture dated as of July 12, 2006 (2013 Indenture) and the First Supplemental Indenture to the 2013 Notes (the 2013 First Supplemental Indenture), among us, our subsidiaries named therein as guarantors, and U.S. Bank National Association, as trustee. We issued the 2013 Notes in two tranches, $650 million on July 12, 2006 and $125 million on July 27, 2006. The additional $125 million in 2013 Notes were issued pursuant to the same Indenture at 101.125% of the face amount. We applied the net proceeds from the sale of the additional 2013 Notes to repay indebtedness outstanding under our revolving credit facility. The $650 million tranche of 2013 Notes were issued at 98.735% of the face amount for gross proceeds of approximately $642.0 million, before estimated offering expenses and the initial purchasers' discount. We applied a portion of the net proceeds from the sale of the 2013 Notes to fund the cash paid by us to the KCS stockholders in connection with our merger with KCS and our repurchase of the 9.875% notes due 2011 (2011 Notes) pursuant to a tender offer we concluded in July 2006.

In conjunction with the issuance of the $650 million 2013 Notes, we recorded a discount of $8.2 million to be amortized over the remaining life of the notes utilizing the effective interest rate method. The remaining unamortized discount was zero at December 31, 2010. In conjunction with the issuance of the $125 million 2013 Notes, we recorded a premium of $1.4 million to be amortized over the remaining life of the notes utilizing the effective interest rate method. The remaining unamortized premium was zero at December 31, 2010.

Upon issuance of the 2018 Notes, as discussed above, on August 3, 2010, we commenced a cash tender offer for any and all of the outstanding of the 2013 Notes and a solicitation of consents to amend the indenture governing the 2013 Notes (the 2013 Notes Indenture). On August 17, 2010, we announced that it had received the requisite consents to amend the 2013 Notes Indenture, and we entered into the Sixth Supplemental Indenture, dated August 17, 2010, with U.S. Bank National Association, as Trustee for the 2013 Notes. The Sixth Supplemental Indenture eliminated or made less restrictive the most restrictive covenants contained in the 2013 Notes Indenture, including those with respect to Securities Exchange Commission (SEC) reporting, incurrence of indebtedness, distributions to stockholders, creation of liens, assets sales, transactions with affiliates, business activities, change of control, payment of taxes and business combinations. The amendments contained in the Sixth Supplemental Indenture became effective when we accepted and repurchased the tendered 2013 Notes.

On August 16, 2010, tenders and consents had been received from holders of $652.7 million in aggregate principal amount of the 2013 Notes, representing approximately 85% of the outstanding 2013 Notes. On August 17, 2010, we accepted the 2013 Notes that had been tendered and utilized approximately $689.5 million in net proceeds from the sale of the 2018 Notes to repurchase the tendered 2013 Notes. Approximately $116.0 million in aggregate principal amount of 2013 Notes were not tendered.

On August 19, 2010, we elected to exercise our right under the 2013 Indenture to redeem effective on September 20, 2010 (the Redemption Date) the remaining $116.0 million aggregate principal amount of the outstanding 2013 Notes at a redemption price of 104.563% of the principal amount thereof (the Redemption Price), plus accrued and unpaid interest on the 2013 Notes redeemed to the Redemption Date. Holders of the 2013 Notes were paid the Redemption Price upon presentation and surrender of their 2013 Notes for redemption to the Trustee.

7.125% Senior Notes

In our merger with KCS, we assumed (pursuant to the Second Supplemental Indenture relating to the 7.125% senior notes, also referred to as the 2012 Notes), all the obligations (approximately $275 million) of KCS under the 2012 Notes and the Indenture dated April 1, 2004 (the 2012 Indenture) among KCS, U.S. Bank National Association, as trustee, and the subsidiary guarantors named therein, which governs the terms of the 7.125% senior notes due 2012. The 2012 Notes are guaranteed on an unsubordinated, unsecured basis by all of our current subsidiaries. Interest on the 2012 Notes is payable semi-annually, on each April 1 and October 1.

In conjunction with the assumption of the 7.125% Notes from KCS, we recorded a discount of $13.6 million to be amortized over the remaining life of the notes utilizing the effective interest rate method. The remaining unamortized discount was $3.5 million at December 31, 2010.

See Item 8. *Consolidated Financial Statements and Supplementary Data* Note 15, "*Subsequent Event",* for discussion of the anticipated redemption of the 2012 Notes.

9.875% Senior Notes

On April 8, 2004, Mission Resources Corporation (Mission) issued $130.0 million of its 9.875% senior notes due 2011 (the 2011 Notes). We assumed these notes upon the closing of our merger with Mission. In conjunction with our merger with KCS, we extinguished substantially all of the 2011 Notes.

Off-Balance Sheet Arrangements

At December 31, 2010, we did not have any material off-balance sheet arrangements.

Critical Accounting Policies and Estimates

The discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of our consolidated financial statements requires us to make estimates and assumptions that affect our reported results of operations and the amount of reported assets, liabilities and proved oil and natural gas reserves. Some accounting policies involve judgments and uncertainties to such an extent that there is reasonable likelihood that materially different amounts could have been reported under different conditions, or if different assumptions had been used. Actual results may differ from the estimates and assumptions used in the preparation of our consolidated financial statements. Described below are the most significant policies we apply in preparing our consolidated financial statements, some of which are subject to alternative treatments under accounting principles generally accepted in the United States. We also describe the most significant estimates and assumptions we make in applying these policies. We discussed the development, selection and disclosure of each of these with our audit committee. See Results of Operations above and Item 8. *Consolidated Financial Statements and Supplementary Data* Note 1, "*Summary of Significant Events and Accounting Policies,"* for a discussion of additional accounting policies and estimates made by management.

Oil and Natural Gas Activities

Accounting for oil and natural gas activities is subject to unique rules. Two generally accepted methods of accounting for oil and natural gas activities are available successful efforts and full cost. The most significant differences between these two methods are the treatment of unsuccessful exploration costs and the manner in which the carrying value of oil and natural gas properties are amortized and evaluated for impairment. The successful efforts method requires unsuccessful exploration costs to be expensed as they are incurred upon a determination that the well is uneconomical while the full cost method provides for the capitalization of these costs. Both methods generally provide for the periodic amortization of capitalized costs based on proved reserve quantities. Impairment of oil and natural gas properties under the successful efforts method is based on an evaluation of the carrying value of individual oil and natural gas properties against their estimated fair value, while impairment under the full cost method requires an evaluation of the carrying value of oil and natural gas properties included in a cost center against the net present value of future cash flows from the related proved reserves, using the unweighted arithmetic average of the first day of the month for each of the 12-month prices for oil and natural gas within the period, holding prices and costs constant and applying a 10% discount rate.

Full Cost Method

We use the full cost method of accounting for our oil and natural gas activities. Under this method, all costs incurred in the acquisition, exploration and development of oil and natural gas properties are capitalized into a cost center (the amortization base). Such amounts include the cost of drilling and equipping productive wells, dry hole costs, lease acquisition costs and delay rentals. All general and administrative costs unrelated to drilling activities are expensed as incurred. The capitalized costs of our oil and natural gas properties, plus an estimate of our future development and abandonment costs are amortized on a unit-of-production method based on our estimate of total proved reserves. Our financial position and results of operations could have been significantly different had we used the successful efforts method of accounting for our oil and natural gas activities.

Proved Oil and Natural Gas Reserves

Estimates of our proved reserves included in this report are prepared in accordance with accounting principles generally accepted in the United States and SEC guidelines. Our engineering estimates of proved oil and natural gas reserves directly impact financial accounting estimates, including depreciation, depletion and amortization expense and the full cost ceiling test limitation. Proved oil and natural gas reserves are the estimated quantities of oil and natural gas reserves that geological and engineering data demonstrate with reasonable certainty to be recoverable in future years from known reservoirs under defined economic and operating conditions. The process of estimating quantities of proved reserves is very complex, requiring significant subjective decisions in the evaluation of all geological, engineering and economic data for each reservoir. The accuracy of a reserve estimate is a function of: (i) the quality and quantity of available data; (ii) the interpretation of that data; (iii) the accuracy of various mandated economic assumptions and (iv) the judgment of the persons preparing the estimate. The data for a given reservoir may change substantially over time as a result of numerous factors, including additional development activity, evolving production history and continual reassessment of the viability of production under varying economic conditions. Changes in oil and natural gas prices, operating costs and expected performance from a given reservoir also will result in revisions to the amount of our estimated proved reserves.

Our estimated proved reserves for the years ended December 31, 2010, 2009 and 2008 were prepared by Netherland, Sewell, an independent oil and natural gas reservoir engineering consulting firm. For more information regarding reserve estimation, including historical reserve revisions, refer to Item 8. *Consolidated Financial Statements and Supplementary Data* "*Supplemental Oil and Gas Information (Unaudited).*"

Depreciation, Depletion and Amortization

Our rate of recording depreciation, depletion and amortization expense (DD&A) is primarily dependent upon our estimate of proved reserves, which is utilized in our unit-of-production method calculation. If the estimates of proved reserves were to be reduced, the rate at which we record DD&A expense would increase, reducing net income. Such a reduction in reserves may result from calculated lower market prices, which may make it non-economic to drill for and produce higher cost reserves. A five percent positive or negative revision to proved reserves would decrease or increase the DD&A rate by approximately $0.10 per Mcfe.

Full Cost Ceiling Test Limitation

Under the full cost method, we are subject to quarterly calculations of a ceiling or limitation on the amount of our oil and natural gas properties that can be capitalized on our balance sheet. If the net capitalized costs of our oil and natural gas properties exceed the cost center ceiling, we are subject to a ceiling test write down to the extent of such excess. If required, it would reduce earnings and impact stockholders' equity in the period of occurrence and result in lower amortization expense in future periods. The discounted present value of our proved reserves is a major component of the ceiling calculation and represents the component that requires the most subjective judgments. However, the associated prices of oil and natural gas reserves that are included in the discounted present value of the reserves do not require judgment. The ceiling calculation dictates that we use the unweighted arithmetic average price of oil and natural gas as of the first day of each month for the 12-month period ending at the balance sheet date. If average oil and natural gas prices decline, or if we have downward revisions to our estimated proved reserves, it is possible that write downs of our oil and natural gas properties could occur in the future.

If the unweighted arithmetic average price of oil and natural gas as of the first day of each month for the 12-month period ended December 31, 2010 had been 10% lower while all other factors remained constant, our ceiling amount related to our net book value of oil and natural gas properties would have been reduced approximately $802 million. This reduction would not have resulted in a full costing ceiling impairment.

Future Development Costs

Future development costs include costs incurred to obtain access to proved reserves such as drilling costs and the installation of production equipment. Future abandonment costs include costs to dismantle and relocate or dispose of our production facilities, gathering systems and related structures and restoration costs. We develop estimates of these costs for each of our properties based upon their geographic location, type of production structure, well depth, currently available procedures and ongoing consultations with construction and engineering consultants. Because these costs typically extend many years into the future, estimating these future costs is difficult and requires management to make judgments that are subject to future revisions based upon numerous factors, including changing technology and the political and regulatory environment. We review our assumptions and estimates of future development and future abandonment costs on an annual basis. A five percent decrease or increase in future development and abandonment costs would decrease or increase the DD&A rate by approximately $0.06 per Mcfe.

Asset Retirement Obligations

We have significant obligations to remove tangible equipment and facilities associated with our oil and natural gas wells and our gathering systems, and to restore land at the end of oil and natural gas production operations. Our removal and restoration obligations are associated with plugging and abandoning wells and our gathering systems. Estimating the future restoration and removal costs is difficult and requires us to make estimates and judgments because most of the removal obligations are many years in the future and contracts and regulations often have vague descriptions of what constitutes removal. Asset removal technologies and costs are constantly changing, as are regulatory, political, environmental, safety and public relations considerations. Inherent in the present value calculations are numerous assumptions and judgments including the ultimate settlement amounts, inflation factors, credit adjusted discount rates, timing of settlements and changes in the legal, regulatory, environmental and political environments.

Accounting for Derivative Instruments and Hedging Activities

We account for our derivative activities under the provisions of ASC 815, *Derivatives and Hedging*, (ASC 815). ASC 815 establishes accounting and reporting that every derivative instrument be recorded on the balance sheet as either an asset or liability measured at fair value. From time to time, we may hedge a portion of our forecasted oil, natural gas, and natural gas liquids production. Derivative contracts entered into by us have consisted of transactions in which we hedge the variability of cash flow related to a forecasted transaction. We elected to not designate any of our positions for hedge accounting. Accordingly, we record the net change in the mark-to-market valuation of these positions, as well as payments and receipts on settled contracts, in *"Net gain on derivative contracts"* on the consolidated statements of operations.

Goodwill

We account for goodwill in accordance with ASC 350, *Intangibles Goodwill and Other* (ASC 350). Goodwill represents the excess of the purchase price over the estimated fair value of the assets acquired net of the fair value of liabilities assumed in an acquisition. ASC 350 requires that intangible assets with indefinite lives, including goodwill, be evaluated on an annual basis for impairment or more frequently if an event occurs or circumstances change that could potentially result in impairment. The goodwill impairment test requires the allocation of goodwill and all other assets and liabilities to reporting units. We have determined that we have two reporting units: oil and natural gas production and midstream operations. All of our goodwill has been allocated to our oil and natural gas production segment as all of our historical goodwill relates to our acquisitions of oil and natural gas companies.

We perform our goodwill test annually during the third quarter or more often if circumstances require. Our goodwill impairment reviews consists of a two-step process. The first step is to determine the fair value of our reporting units and compare it to the carrying value of the related net assets. Fair value is determined based on our estimates of market values. If this fair value exceeds the carrying value no further analysis or goodwill write-down is required. The second step is required if the fair value of the reporting units is less than the carrying value of the net assets. In this step the implied fair value of the reporting units is allocated to all the underlying assets and liabilities, including both recognized and unrecognized tangible and intangible assets, based on their fair values. If necessary, goodwill is then written-down to its implied fair value. If the fair value of the reporting units is less than the book value (including goodwill), then goodwill is reduced to its implied fair value and the amount of the write down is charged against earnings. The assumptions we used in calculating our reporting unit fair values at the time of the test include our market capitalization and discounted future cash flows based on estimated reserves and production, future costs and future oil and natural gas prices. Material adverse changes to any of these factors could lead to an impairment of all or a portion of our goodwill in future periods.

Income Taxes

Our provision for taxes includes both state and federal taxes. We account for income taxes using the asset and liability method wherein deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which temporary differences are expected to be recovered or settled. Deferred tax assets are reduced by a valuation allowance if, based on the weight of available evidence, it is more likely than not that some portion or all of the deferred tax assets will not be realized.

We follow ASC 740, *Income Taxes*, (ASC 740). ASC 740 creates a single model to address accounting for the uncertainty in income tax positions and prescribes a minimum recognition threshold a tax position must meet before recognition in the financial statements. We apply significant judgment in evaluating our tax positions and estimating our provision for income taxes. During the ordinary course of business, there are many transactions and calculations for which the ultimate tax determination is uncertain. The actual outcome of these future tax consequences could differ significantly from these estimates, which could impact our financial position, results of operations and cash flows. The evaluation of a tax position in accordance with ASC 740 is a two-step process. The first step is a recognition process to determine whether it is more likely than not that a tax position will be sustained upon examination, including resolution of any related appeals or litigation processes, based on the technical merits of the position. In evaluating whether a tax position has met the more likely than not recognition threshold, it is presumed that the position will be examined by the appropriate taxing authority with full knowledge of all relevant information. The second step is a measurement process whereby a tax position that meets the more likely than not recognition threshold is calculated to determine the amount of benefit/expense to recognize in the financial statements. The tax position is measured at the largest amount of benefit/expense that is more likely than not of being realized upon ultimate settlement.

Accounting for KinderHawk Joint Venture

The KinderHawk joint venture is accounted for as a failed sale of in substance real estate under the provisions of ASC 360-20. ASC 360-20 establishes standards for recognition of profit on all real estate sales transactions other than retail land sales, without regard to the nature of the seller's business. In making the determination of whether a transaction qualifies, in substance, as a sale of real estate, the nature of the entire real estate being sold is considered, including the land plus the property improvements and the integral equipment. The Haynesville Shale gathering and treating system, consists of right of ways, pipelines and processing facilities. Due to the gathering agreement, entered into with the formation of KinderHawk, which constitutes extended continuing involvement under ASC 360-20, it has been determined that the contribution of our Haynesville Shale gathering and treating system to KinderHawk should be accounted for as a failed sale of in substance real estate. As a result of the failed sale we account for the continued operations of the gas gathering system and reflect a financing obligation, representing the proceeds received, under the financing method of real estate accounting. Under the financing method, the historical cost of the Haynesville Shale gas gathering system contributed to KinderHawk is carried at the full historical basis of the assets on the consolidated balance sheets in *"Gas gathering systems and equipment"* and depreciated over the remaining useful life of the assets. The financing obligation is recorded on the consolidated balance sheets in *"Payable on financing arrangement,"* in the amount of approximately $917 million. Reductions to the obligation and the non cash interest on the obligation are tied to the gathering and treating services, as we deliver natural gas through the Haynesville Shale gathering and treating system. Interest and principal are determined based upon the allocable income to Kinder Morgan, and interest is limited up to an amount that is calculated based upon our weighted average cost of debt as of the date of the transaction. Allocable income in excess of the calculated value will be reflected as reductions of principal. Interest is recorded in *"Interest expense and other"* on the consolidated statements of operations. Any obligation remaining once the gathering agreement expires will be reversed, resulting in the recognition of a gain. Additionally we record KinderHawk's revenues, net of eliminations for intercompany amounts associated with gathering and treating services provided to us, and expenses on the consolidated statements of operations in *"Midstream revenues," "Taxes other than income," "Gathering, transportation and other," "General and administrative," "Interest expense and other"* and *"Depletion, depreciation and amortization."*

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Comparison of Results of Operations

Year Ended December 31, 2010 Compared to Year Ended December 31, 2009

We reported income from continuing operations, net of income taxes, of $135.9 million for the year ended December 31, 2010 compared to a loss from continuing operations, net of income taxes, of $1.0 billion for the comparable period in 2009. The following table summarizes key items of comparison and their related change for the periods indicated.

	Years Ended December 31,		
In thousands (except per unit and per Mcfe amounts)	**2010**	**2009**	**Change**
Income (loss) from continuing operations, net of income taxes	$ 135,905	$ (1,022,329)	$ 1,158,234
Operating revenues:			
Oil and natural gas	1,107,401	732,137	375,264
Marketing	475,030	320,121	154,909
Midstream	18,216	18,418	(202)
Operating expenses:			
Marketing	521,378	316,987	204,391
Production:			
Lease operating	64,744	78,700	(13,956)
Workover and other	18,119	2,749	15,370
Taxes other than income	9,543	57,360	(47,817)
Gathering, transportation and other:			
Oil and natural gas	84,082	69,287	14,795
Midstream	15,293	10,695	4,598
General and administrative:			
General and administrative	132,264	96,551	35,713
Stock-based compensation	23,229	14,458	8,771
Depletion, depreciation and amortization:			
Depletion Full cost	445,094	380,003	65,091
Depreciation Midstream	13,843	7,398	6,445
Depreciation Other	5,054	2,761	2,293
Accretion expense	1,979	1,447	532
Full cost ceiling impairment		1,838,444	(1,838,444)
Other income (expenses):			
Net gain on derivative contracts	301,121	260,248	40,873
Interest expense and other	(336,307)	(229,419)	(106,888)
Income (loss) from continuing operations before income taxes			
Oil and natural gas	234,799	(1,793,070)	2,027,869
Midstream	(3,960)	17,735	(21,695)
Income tax (provision) benefit	(94,934)	753,006	(847,940)
Production:			
Natural gas Mmcf	234,538	172,296	62,242
Crude oil MBbl	1,268	1,520	(252)
Natural gas liquids MBbl	681	290	391
Natural gas equivalent Mmcfe[1]	246,232	183,156	63,076
Average daily production Mmcfe[1]	675	502	173
Average price per unit[2]:			
Natural gas price Mcf	$ 4.18	$ 3.69	$ 0.49
Crude oil price Bbl	76.98	56.15	20.83
Natural gas liquids price Bbl	38.03	28.20	9.83
Natural gas equivalent price Mcfe[1]	4.49	3.99	0.50
Average cost per Mcfe:			
Production:			
Lease operating	0.26	0.43	(0.17)
Workover and other	0.07	0.02	0.05
Taxes other than income	0.04	0.31	(0.27)
Gathering, transportation and other:			
Oil and natural gas	0.34	0.38	(0.04)
Midstream	0.06	0.06	
General and administrative:			
General and administrative	0.54	0.53	0.01
Stock-based compensation	0.09	0.08	0.01
Depletion	1.81	2.07	(0.26)

(1)
Oil and natural gas liquids are converted to equivalent gas production using a 6:1 equivalent ratio. This ratio does not assume price equivalency and given price differentials, the price for a barrel of oil equivalent for natural gas may differ significantly from the price for a barrel of oil.

(2)
Amounts exclude the impact of cash paid/received on settled contracts as we did not elect to apply hedge accounting.

For the year ended December 31, 2010, oil and natural gas revenues increased $375.3 million from the same period in 2009, to $1.1 billion. The increase was primarily due to the increase in our production of 63,076 Mmcfe, or 34% over 2009, primarily due to our drilling successes in resource plays in Louisiana, Arkansas and Texas. Increased production contributed to approximately $252 million in revenues for the year ended December 31, 2010. Also contributing to this increase was an increase of $0.50 per Mcfe in our realized average price to $4.49 per Mcfe from $3.99 per Mcfe in the prior year period. The increase per Mcfe led to an increase in oil and natural gas revenues of $123 million.

We had marketing revenues of $475.0 million and marketing expenses of $521.4 million in 2010, resulting in a loss before taxes of $46.4 million as compared to income before taxes of $3.1 million for the same period in 2009. Our marketing subsidiary purchases and sells our own and third party natural gas produced from wells which we and third parties operate. We report the revenues and expenses related to these marketing activities on a gross basis as part of our operating revenues and operating expenses. Marketing revenues are recorded at the time natural gas is physically delivered to third parties at a fixed or index price. Marketing expenses attributable to gas purchases are recorded as we take physical title to the natural gas and transport the purchased volumes to the point of sale. Our loss before taxes for the year ended December 31, 2010 is primarily attributable to decreased margins and the inclusion of a full year of amortization of our acquired transportation contracts during the third quarter of 2009.

We had gross revenues from our midstream segment of $82.2 million for year ended December 31, 2010 compared to the same period in 2009 of $63.3 million, an increase of $18.9 million. The increase was primarily attributed to the expansion of our gas gathering and treating systems in the Haynesville and Eagle Ford Shales. In addition, on May 21, 2010, we contributed our Haynesville Shale gas gathering and treating systems to a new joint venture entity, KinderHawk, in exchange for a 50% membership interest. We record KinderHawk's revenues, net of eliminations for intercompany amounts, in accordance with the financing method for a failed sale of in substance real estate. For the year ended December 31, 2010, approximately $2.8 million of KinderHawk's revenues, after intercompany eliminations, were reported in midstream revenues on the consolidated statements of operations. Gross revenues of $82.2 million also included $64.0 million of inter-segment revenues that were eliminated in consolidation. On a net basis, we had revenues of $18.2 million for the year ended December 31, 2010, or a decrease of $0.2 million from the prior year.

Lease operating expenses decreased $14.0 million for the year ended December 31, 2010 as compared to the same period in 2009. The decrease was primarily due to our continued cost control efforts as well as the sale of our higher cost properties in 2009 and 2010. On a per unit basis, lease operating expenses decreased $0.17 per Mcfe to $0.26 per Mcfe in 2010 from $0.43 per Mcfe in 2009. The decrease on a per unit basis is primarily due to the increase in production during 2010 from our resource plays which historically have a lower per unit operating cost. Additionally, the sale of our Permian Basin properties in the fourth quarter of 2009, as well as the sale of our Terryville and WEHLU properties in the second quarter of 2010, contributed to a decrease in costs for the year ended December 31, 2010 over the same period in 2009 as these properties historically operated with higher operating costs per unit.

Workover expenses increased $15.4 million for the year ended December 31, 2010 compared to the same period in 2009. The increase was primarily due to an increase in activity in the Haynesville Shale related to the replacement of corroded conventional tubing with chrome tubing in a number of our wells.

Taxes other than income decreased $47.8 million for the year ended December 31, 2010 as compared to the same period in 2009. The largest components of taxes other than income are production and severance taxes which are generally assessed as either a fixed rate based on production or as a percentage of gross oil and natural gas sales. The decrease is primarily due to severance tax refunds related to drilling incentives for horizontal wells in the Haynesville Shale in Louisiana and, to a lesser extent, in Texas and Oklahoma. For the year ended December 31, 2010, we recorded severance tax refunds totaling $47.7 million compared to $3.6 million in refunds for the year ended December 31, 2009. On a per unit basis, excluding the severance tax refunds, taxes other than income decreased $0.10 per Mcfe to $0.23 per Mcfe compared to $0.33 per Mcfe in 2009. This adjusted decrease from prior year is due to severance tax exemptions related to the drilling incentives as well as a reduction in the Louisiana statutory severance tax rate.

Gathering, transportation and other expense attributable to our oil and natural gas production segment increased $14.8 million for the year ended December 31, 2010 as compared to the same period in 2009. The increase is primarily the result of our increased production from our drilling successes in resource plays in Louisiana, Arkansas and Texas. This increase was partially offset by the closing of our KinderHawk joint venture with Kinder Morgan on May 21, 2010, as gathering and treating fees paid to KinderHawk are recorded as a reduction in the financing obligation and interest expense on the financing obligation. The financing obligation was recorded in accordance with the financing method for a failed sale of in substance real estate. On a per unit basis, gathering, transportation and other expenses decreased $0.04 per Mcfe to $0.34 per Mcfe in 2010 compared to $0.38 per Mcfe in 2009.

Gathering, transportation and other expenses attributable to our midstream segment increased $4.6 million for the year ended December 31, 2010 compared to the same period in 2009. Our midstream segment currently serves the Eagle Ford Shale and the Haynesville Shale through our investment KinderHawk. The increase was primarily due to the expansion of our gas gathering and treating systems in the Haynesville and Eagle Ford Shales. We record KinderHawk's expenses in accordance with the financing method for a failed sale of in substance real estate. For the year ended December 31, 2010, approximately $4.0 million of KinderHawk's expenses were reported in "*Gathering, transportation and other*" on the consolidated statements of operations.

General and administrative expense for the year ended December 31, 2010 increased $35.7 million as compared to the same period in 2009. In 2010, we had a $7.9 million increase in professional fees, including $4.3 million for the implementation of new software systems, as well as increases in legal fees and settlements. The closing of our joint venture with Kinder Morgan also contributed to the increase. In conjunction with the formation of KinderHawk, we paid $7.5 million for services to our advisors on the transaction. The remaining increase of $20.3 million was primarily due to an increase in payroll and employee costs, including salaries, benefits and incentives associated with the building of our work force as a result of the continued growth in our Company.

Stock-based compensation increased $8.8 million for the year ended December 31, 2010 as compared to the same period in the prior year. This increase was primarily due to the increase in our overall employee headcount as we have gone from 469 full time employees as of December 31, 2009 to 598 employees as of December 31, 2010. In addition, the weighted average value per option granted in 2009 was $7.30, which increased to $10.20 in 2010.

Depletion for oil and natural gas properties is calculated using the unit of production method, which depletes the capitalized costs associated with evaluated properties plus future development costs based on the ratio of production volumes for the current period to total remaining reserve volumes for the evaluated properties. Depletion expense increased $65.1 million for the year ended December 31, 2010 from the same period in 2009, to $445.1 million. On a per unit basis, depletion expense decreased $0.26 per Mcfe to $1.81 per Mcfe. This decrease on a per unit basis is primarily due to the ceiling test impairment write down of $1.8 billion before taxes for the year ended December 31, 2009.

Depreciation expense associated with our gas gathering systems increased $6.4 million to $13.8 million for the year ended December 31, 2010. The increase was primarily due to the growth in our midstream operations segment from capital spending over the course of the year inclusive of capital spending associated with our KinderHawk joint venture. The KinderHawk joint venture is accounted for in accordance with the financing method for a failed sale of in substance real estate. Under the financing method, the historical basis of the Haynesville Shale gas gathering assets contributed to KinderHawk is carried on the consolidated balance sheets and depreciated over the remaining useful life of the assets. We depreciate our gas gathering systems over a 30 year useful life commencing on the estimated placed in service date.

We utilize the full cost method of accounting to account for our oil and natural gas exploration and development activities. Under this method of accounting, we are required on a quarterly basis to determine whether the book value of our oil and natural gas properties (excluding unevaluated properties) is less than or equal to the "ceiling", based upon the expected after tax present value (discounted at 10%) of the future net cash flows from our proved reserves. Any excess of the net book value of our oil and natural gas properties over the ceiling must be recognized as a non-cash impairment expense. We recorded a full cost ceiling test impairment of approximately $1.8 billion for the year ended December 31, 2009. For the first three quarters of 2009, we calculated the ceiling using prevailing oil and natural gas prices on the last day of the period, or a subsequent higher price under certain circumstances. At March 31, 2009, our ceiling was calculated using prices of $49.66 per barrel of oil and $3.63 per Mmbtu. Accordingly, at March 31, 2009, our costs exceeded our ceiling limitation by approximately $1.7 billion, resulting in an approximate $1.7 billion write down of our oil and natural gas properties. At December 31, 2009, our net book value of oil and gas properties exceeded the ceiling amount based on the unweighted arithmetic average of the first day of each month for the 12-month period end December 31, 2009 WTI posted price of $57.65 per barrel and Henry Hub price of $3.87 per Mmbtu. As a result, we recorded a full cost ceiling test impairment before income taxes of approximately $106 million and $65 million after taxes.

We enter into derivative commodity instruments to economically hedge our exposure to price fluctuations on our anticipated oil, natural gas, and natural gas liquids production. Historically, we have also entered into interest rate swaps to mitigate exposure to market rate fluctuations by converting variable interest rates (such as those on our Senior Credit Agreement) to fixed interest rates. Consistent with the prior year, we have elected not to designate any positions as cash flow hedges for accounting purposes, and accordingly, we recorded the net change in the mark-to-market value of these derivative contracts in the consolidated statements of operations. At December 31, 2010, we had a $258.7 million derivative asset, $217.0 million of which was classified as current, and a $19.4 million derivative liability, $5.8 million of which was classified as current. We recorded a net derivative gain of $301.1 million ($58.1 million net unrealized gain and $243.0 million net gain for cash received on settled contracts) for the year ended December 31, 2010 compared to a net derivative gain of $260.2 million ($120.4 million net unrealized loss and a $380.6 million gain for cash received on settled contracts) in the same period in 2009.

Interest expense and other increased $106.9 million for year ended December 31, 2010. Approximately $40.5 million of the increase is the result of our accounting for the KinderHawk joint venture under the financing method for a failed sale of in substance real estate. This increase includes interest expense on the financing obligation recorded as a result of the transaction, as well as the recording of KinderHawk's interest expense. In addition, $47 million of the increase was due to the early repurchase of the 2013 Notes, which occurred in the third quarter of 2010. Also contributing to the increase was interest expense associated with the utilization of our Senior Credit Agreement.

We had an income tax provision of $94.9 million for the year ended December 31, 2010 due to our income from continuing operations before income taxes of $230.8 million compared to an income tax benefit of $753.0 million due to our loss from continuing operations before income taxes of $1.8 billion in the prior year. The effective tax rate for the year ended December 31, 2010 was 41.1% compared to 42.4% for the year ended December 31, 2009. The change in the effective tax rate is primarily due to changes in estimates of tax benefits associated with amended tax filings in 2009 and a reduction in the state tax rate.

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Year Ended December 31, 2009 Compared to Year Ended December 31, 2008

We reported a loss from continuing operations, net of income taxes, of $1.0 billion for the year ended December 31, 2009 compared to a loss from continuing operations, net of income taxes, of $386.9 million for the comparable period in 2008. The following table summarizes key items of comparison and their related change for the periods indicated.

	Years Ended December 31,		
In thousands (except per unit and per Mcfe amounts)	**2009**	**2008**	**Change**
Loss from continuing operations, net of income taxes	$ (1,022,329)	$ (386,867)	$ (635,462)
Operating revenues:			
Oil and natural gas	732,137	1,025,995	(293,858)
Marketing	320,121	63,553	256,568
Midstream	18,418	1,316	17,102
Operating expenses:			
Marketing	316,987	58,581	258,406
Production:			
Lease operating	78,700	52,462	26,238
Workover and other	2,749	5,624	(2,875)
Taxes other than income	57,360	47,104	10,256
Gathering, transportation and other:			
Oil and natural gas	69,287	43,012	26,275
Midstream	10,695	140	10,555
General and administrative:			
General and administrative	96,551	61,703	34,848
Stock-based compensation	14,458	12,310	2,148
Depletion, depreciation and amortization:			
Depletion Full cost	380,003	391,042	(11,039)
Depreciation Midstream	7,398	586	6,812
Depreciation Other	2,761	2,342	419
Accretion expense	1,447	1,246	201
Full cost ceiling impairment	1,838,444	950,799	887,645
Other income (expenses):			
Net gain on derivative contracts	260,248	156,870	103,378
Interest expense and other	(229,419)	(151,825)	(77,594)
(Loss) income from continuing operations before income taxes:			
Oil and natural gas	(1,793,070)	(527,856)	(1,265,214)
Midstream	17,735	(3,186)	20,921
Income tax benefit	753,006	144,175	608,831
Production:			
Natural gas Mmcf	172,296	100,143	72,153
Crude oil MBbl	1,520	1,554	(34)
Natural gas liquids MBbl	290	355	(65)
Natural gas equivalent Mmcfe[(1)]	183,156	111,597	71,559
Daily production Mmcfe[(1)]	502	305	197
Average price per unit[(2)]:			
Natural gas price Mcf	$ 3.69	$ 8.54	$ (4.85)
Crude oil price Bbl	56.15	95.16	(39.01)
Natural gas liquids price Bbl	28.20	56.63	(28.43)
Equivalent Mcfe[(1)]	3.99	9.17	(5.18)
Average cost per Mcfe:			
Production:			
Lease operating	0.43	0.47	(0.04)
Workover and other	0.02	0.05	(0.03)
Taxes other than income	0.31	0.42	(0.11)
Gathering, transportation and other:			
Oil and natural gas	0.38	0.39	(0.01)
Midstream	0.06		0.06
General and administrative:			
General and administrative	0.53	0.55	(0.02)
Stock-based compensation	0.08	0.11	(0.03)
Depletion	2.07	3.50	(1.43)

(1)

Oil and natural gas liquids are converted to equivalent gas production using a 6:1 equivalent ratio. This ratio does not assume price equivalency and given price differentials, the price for a barrel of oil equivalent for natural gas may differ significantly from the price for a barrel of oil.

(2)
Amounts exclude the impact of cash paid/received on settled contracts as we did not elect to apply hedge accounting.

For the year ended December 31, 2009, oil and natural gas revenues decreased $293.9 million from the same period in 2008, to $732.1 million. The decrease was primarily due to the decrease of $5.18 per Mcfe in our realized average price to $3.99 per Mcfe from $9.17 per Mcfe in the prior year. This decrease per Mcfe led to a decrease in oil and natural gas revenues of $949 million. The effect of lower prices was partially offset by an increase in production of 71,559 Mmcfe or 64% over 2008 due to our continued drilling successes in resource plays in Louisiana, Arkansas and Texas. Increased production contributed approximately $655 million in revenues for the year ended December 31, 2009.

We had marketing revenues of $320.1 million and marketing expenses of $317.0 million in 2009, resulting in income before taxes of $3.1 million. During the fourth quarter of 2008, a subsidiary of ours began purchasing and selling our own and third party natural gas produced from wells we and third parties operate. We report the revenues and expenses related to these marketing activities on a gross basis as part of our operating revenues and operating expenses. Marketing revenues are recorded at the time natural gas is physically delivered to third parties at a fixed or index price. Marketing expenses attributable to gas purchases are recorded as we take physical title to the natural gas and transport the purchased volumes to the point of sale.

We had gross revenues from our midstream segment of $63.3 million for the year ended December 31, 2009 compared to the same period in 2008 of $1.9 million, an increase of $61.4 million of which $44.3 million represents inter-segment revenues that are eliminated in consolidation. The remaining $17.1 million increase represents gathering and treating revenues from third party owners in our operated wells and revenues associated with third party producers. On a net basis we had revenues of $18.4 million for the year ended December 31, 2009, an increase of $17.1 million from the prior year. The increase in revenues was primarily related to the increase in throughput on our Haynesville gathering system and treating facilities. Gathering throughput increased 105.3 Bcf to 108.6 Bcf for the year ended December 31, 2009 compared to 3.3 Bcf for the year ended December 31, 2008. The throughput increase resulted from the constructing of 149 miles of gathering pipeline in the Haynesville Shale.

Lease operating expenses increased $26.2 million for the year ended December 31, 2009 as compared to the same period in 2008. This increase was primarily due to our increased production in the current year. On a per unit basis, lease operating expenses decreased $0.04 per Mcfe to $0.43 per Mcfe in 2009 from $0.47 per Mcfe in 2008. This decrease on a per unit basis is primarily due to the increase in production during 2009 from our resource plays which historically have a lower per unit operating cost.

Taxes other than income increased $10.3 million for the year ended December 31, 2009 as compared to the same period in 2008. The increase was primarily due to increased severance taxes resulting from increased production in the current year. Severance taxes are generally assessed as either a fixed rate based on production or as a percentage of gross oil and natural gas sales. On a per unit basis, taxes other than income decreased $0.11 per Mcfe to $0.31 per Mcfe compared to $0.42 per Mcfe in 2008. This decrease on a per unit basis is primarily attributable to the decrease in our realized oil and natural gas prices.

Gathering, transportation and other expense attributable to our oil and natural gas production segment increased $26.3 million for the year ended December 31, 2009 as compared to the same period in 2008. This increase was primarily due to the increase in production discussed above. On a per unit basis, gathering, transportation and other expense decreased $0.01 per Mcfe primarily due to increases in production in our Haynesville Shale play, which generally has lower costs.

Gathering, transportation and other expenses attributable to our midstream segment increased $10.6 million for the year ended December 31, 2009 compared to the same period in 2008. This increase was primarily due to the increase in throughput associated with the continued development of our gathering system and treating facilities in the Haynesville Shale.

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General and administrative expense for the year ended December 31, 2009 increased $34.9 million to $96.6 million compared to $61.7 million in the same period 2008. This increase is primarily attributable to our recent growth. Payroll and benefits increased $10.4 million. Office expense, other professional services, and other increased $1.3 million, $1.9 million, and $3.0 million respectively. Our legal expense increased $17.8 million to accrue for settlements and an additional $2.2 million in legal fees associated with the settlements.

Depletion for oil and natural gas properties is calculated using the unit of production method, which depletes the capitalized costs associated with evaluated properties plus future development costs based on the ratio of production volumes for the current period to total remaining reserve volumes for the evaluated properties. Depletion expense decreased $11.0 million for the year ended December 31, 2009 from the same period in 2008, to $380.0 million. On a per unit basis, depletion expense decreased $1.43 per Mcfe to $2.07 per Mcfe. This decrease on a per unit basis is primarily due to the ceiling test impairment write down of $1.7 billion at March 31, 2009 and $950.8 million at December 31, 2008.

Depreciation expense associated with our gas gathering systems increased $6.8 million to $7.4 million for the year ended December 31, 2009. This increase was primarily due to the construction of our gas gathering systems and treating facilities of which we spent $247 million in the Haynesville and Eagle Ford Shales. We depreciate our gas gathering systems over a 30 year useful life and begin depreciating on the estimated placed in service date.

We recorded a full cost ceiling test impairment of approximately $1.8 billion for the year ended December 31, 2009. We utilize the full cost method of accounting to account for our oil and natural gas exploration and development activities. Under this method of accounting, we are required on a quarterly basis to determine whether the book value of our oil and natural gas properties (excluding unevaluated properties) is less than or equal to the "ceiling", based upon the expected after tax present value (discounted at 10%) of the future net cash flows from our proved reserves. Any excess of the net book value of our oil and natural gas properties over the ceiling must be recognized as a non-cash impairment expense. For the first three quarters of 2009, we calculated the ceiling using prevailing oil and natural gas prices on the last day of the period, or a subsequent higher price under certain circumstances. At March 31, 2009, our ceiling was calculated using prices of $49.66 per barrel of oil and $3.63 per Mmbtu. Accordingly, at March 31, 2009, our costs exceeded our ceiling limitation by approximately $1.7 billion, resulting in an approximate $1.7 billion write down of our oil and natural gas properties. At December 31, 2009, our net book value of oil and gas properties exceeded the ceiling amount based on the unweighted arithmetic average of the first day of each month for the 12-month period end December 31, 2009 WTI posted price of $57.65 per barrel and Henry Hub price of $3.87 per Mmbtu. As a result, we recorded a full cost ceiling test impairment before income taxes of approximately $106 million and $65 million after taxes.

We enter into derivative commodity instruments to economically hedge our exposure to price fluctuations on our anticipated oil and natural gas production. Consistent with the prior year, we have elected not to designate any positions as cash flow hedges for accounting purposes, and accordingly, we recorded the net change in the mark-to-market value of these derivative contracts in the consolidated statement of operations. At December 31, 2009, we had a $162.9 million derivative asset, $112.4 million of which was classified as current and we had a $1.8 million derivative liability, all of which was classified as current. We recorded a net derivative gain of $260.2 million ($120.4 million net unrealized loss and $380.6 million net gain for cash received on settled contracts) for the year ended December 31, 2009 compared to a net derivative gain of $156.9 million ($230.6 million net unrealized gain and $73.7