Flexion Therapeutics Inc
Form SC 13G
January 30, 2018

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

SCHEDULE 13G

Under the Securities Exchange Act of 1934
(Amendment No.)

FLEXION THERAPEUTICS INC

(Name of Issuer)

Common Stocks

(Title of Class of Securities)

33938J106

(CUSIP Number)

December 31, 2017

(Date of Event Which Requires Filing of this Statement)

Check the appropriate box to designate the rule pursuant to which this Schedule is filed:

[X] Rule 13d-1(b)

[] Rule 13d-1(c)

[] Rule 13d-1(d)

The remainder of this cover page shall be filled out for a reporting person's initial filing on this form with respect to the subject class of securities, and for any subsequent amendment containing information which would alter the disclosures provided in a prior cover page.

The information required in the remainder of this cover page shall not be deemed to be 'filed' for the purpose of Section 18 of the Securities Exchange Act of 1934 ('Act') or otherwise subject to the liabilities of that section of the Act but shall be subject to all other provisions of the Act (however, see the Notes).

CUSIP No. 33938J106

Person 1

1.	(a) Names of Reporting Persons. Wells Fargo & Company (b) Tax ID 41-0449260	
2.	Check the Appropriate Box if a Member of a Group (See Instructions) (a) [] (b) []	
3.	SEC Use Only	
4.	Citizenship or Place of Organization Delaware	
Number of Shares Beneficially Owned by Each Reporting Person With		5. Sole Voting Power 476,649
		6. Shared Voting Power 586,314
		7. Sole Dispositive Power 476,649
		8. Shared Dispositive Power 1,718,492
9.	Aggregate Amount Beneficially Owned by Each Reporting Person 2,195,141	
10.	Check if the Aggregate Amount in Row (9) Excludes Certain Shares (See Instructions)	
11.	Percent of Class Represented by Amount in Row (9) 5.78 %	

12.	Type of Reporting Person (See Instructions)

HC

Item 1.

(a) Name of Issuer
FLEXION THERAPEUTICS INC

(b) Address of Issuer's Principal Executive Offices

10 MALL ROAD, SUITE 301, BURLINGTON, MA 01803

Item 2.

(a) Name of Person Filing
Wells Fargo & Company

(b) Address of Principal Business Office or, if none, Residence
420 Montgomery Street, San Francisco, CA 94163

(c) Citizenship
Delaware

(d) Title of Class of Securities
Common Stocks

(e) CUSIP Number
33938J106

Item 3. **If this statement is filed pursuant to 240.13d-1(b) or 240.13d-2(b) or (c), check whether the person filing ip;** **SIGNATURES**

NORFOLK SOUTHERN CORPORATION

(Registrant)

/s/ Dezora M. Martin

Name: Dezora M. Martin
Title: Corporate Secretary

Date: October 24, 2007

EXHIBIT INDEX

Exhibit Number	Description
99	Press Release dated October 24, 2007.

erson has: (i)Sole power to vote or to direct the vote 476,649 (ii)Shared power to vote or to direct the vote 586,314 (iii)Sole power to dispose or to direct the disposition of 476,649 (iv)Shared power to dispose or to direct the disposition of 1,718,492

Item 5. **Ownership of Five Percent or Less of a Class**

If this statement is being filed to report the fact that as of the date hereof the reporting person has ceased to be the beneficial owner of more than five percent of the class of securities, check the following.[ ].

Item 6. **Ownership of More than Five Percent on Behalf of Another Person.**

Not applicable

Item 7. **Identification and Classification of the Subsidiary Which Acquired the Security Being Reported on By the Parent Holding Company or Control Person.**

See Exhibit B

Item 8. **Identification and Classification of Members of the Group**

Not applicable.

Item 9. **Notice of Dissolution of Group**

Not applicable.

Item 10. **Certification**

By signing below I certify that, to the best of my knowledge and belief, the securities referred to above were acquired and are held in the ordinary course of business and were not acquired and are not held for the purpose of or with the effect of changing or influencing the control of the issuer of the securities and were not acquired and are not held in connection with or as a participant in any transaction having that purpose or effect.

SIGNATURE

After reasonable inquiry and to the best of my knowledge and belief, I certify that the information set forth in this statement is true, complete and correct.

January 26, 2018
Date
/s/ Lori A. Ward
Signature
Lori A. Ward, Designated Signer
Name/Title

Exhibit A

EXPLANATORY NOTE

This Schedule 13G is filed by Wells Fargo & Company on its own behalf and on behalf of any subsidiaries listed in Exhibit B. Aggregate beneficial ownership reported by Wells Fargo & Company under Item 9 on page 2 is on a consolidated basis and includes any beneficial ownership separately reported herein by a subsidiary.

Exhibit B

The Schedule 13G to which this attachment is appended is filed by Wells Fargo & Company on behalf of the following subsidiaries:

Wells Fargo Funds Management, LLC (1)
Wells Fargo Bank, National Association (2)
Wells Fargo Advisors Financial Network, LLC (3)
Wells Fargo Clearing Services, LLC (3)
Wells Capital Management Incorporated (1)
Wells Fargo Securities, LLC (3)

(1) Classified as a registered investment advisor in accordance with Regulation 13d-1(b)(1)(ii)(E). (2) Classified as a bank in accordance with Regulation 13d-1(b)(1)(ii)(B). (3) Classified as a broker dealer in accordance with Regulation 13d-1(b)(1)(ii)(A).

Attention: Intentional misstatements or omissions of fact constitute Federal criminal violations (See 18 U.S.C. 1001)

sed compensation expense of approximately $1.2 million for the year ended December 31, 2004. This resulted in an increase in net income from continuing operations, net income before tax, net income and cash flow from operations of $1.2 million for 2004 and an increase of $0.03 earnings per share for the period. The Company recognized $998,000, $247,000, and $112,000 in stock-based compensation expense for 2006, 2005 and 2004, respectively as a result of the adoption of this standard. 3. Discontinued Operations On February 28, 2005, Abraxas substantially divested its investment in Grey Wolf. The operations of Grey Wolf, previously reported as a business segment, are reported as discontinued operations for all periods presented in the accompanying financial statements and the operating results are reflected separately from the results of continuing operations. Interest attributable to discontinued operations represents interest on debt attributable to the Canadian subsidiary. Summarized discontinued operating results for the years ended December 31, 2005 and 2004 were: Years Ended ----------------------------------- 2005 2004 -------------- --------------- Total revenue...................................... $ 3,129 $ 15,082 ================ ================ Income from operations before income tax .... 18,906 (1) 3,323 Income tax expense (benefit)......................... 6,060 - --------------- --------------- Income from discontinued operations .... $ 12,846 $ 3,323 ================ ================ (1) Includes gain on sale of foreign subsidiary of $17.3 million in 2005. 4. Long-Term Debt The following is a description of the Company's debt as of December 31, 2006 and 2005, respectively: December 31 ------------------------------- 2006 2005 ------------------------------- (in thousands) Floating rate senior secured notes due 2009................ $ 125,000 $ 125,000 Senior secured revolving credit facility................... 2,614 4,527 ------------------------------- 127,614 129,527 Less current maturities .... - - ------------------------------- $ 127,614 $ 129,527 ================================= Floating Rate Senior Secured Notes due 2009. In connection with the October 2004 financial restructuring, Abraxas issued $125 million in principal aggregate amount of Floating Rate Senior Secured Notes due 2009. The notes will mature on December 1, 2009 and began accruing interest from the date of issuance, October 28, 2004 at a per annum floating rate of six-month LIBOR plus 7.50%. The current interest rate is 12.85% per annum. The interest rate is reset semi-annually on each June 1 and December 1. Interest is payable semi-annually in arrears on June 1 and December 1 of each year. The notes rank equally among themselves and with all of our unsubordinated and unsecured indebtedness, including our credit facility and senior in right of payment to our existing and future subordinated indebtedness. Each of our subsidiaries, Eastside Coal Company, Inc., Sandia Oil & Gas Corporation, Sandia Operating Corp., Wamsutter Holdings, Inc. and Western Associated Energy Corporation (collectively, the "Subsidiary Guarantors"), has unconditionally guaranteed, jointly and severally, the payment of the principal, premium and interest on the notes on a senior secured basis. In addition, any other subsidiary or affiliate of ours, that in the future guarantees any other indebtedness with us, or our restricted subsidiaries, will also be required to guarantee the notes. F-16 The notes and the Subsidiary Guarantors' guarantees thereof, together with our revolving credit facility and the Subsidiary Guarantors' guarantees thereof, are secured by shared first priority perfected security interests, subject to certain permitted encumbrances, in all of our and each of our restricted subsidiaries' material property and assets, including substantially all of our and their natural gas and crude oil properties and all of the capital stock (or in the case of an unrestricted subsidiary that is a controlled foreign corporation, up to 65% of the outstanding capital stock) of any entity, owned by us and our restricted subsidiaries (collectively, the "Collateral"). The notes may be redeemed, at our election, as a whole or from time to time in part, at any time after April 28, 2007, upon not less than 30 nor more than 60 days notice to each holder of notes to be redeemed, subject to the conditions and at the redemption prices (expressed as percentages of principal amount) set forth below, together with accrued and unpaid interest and Liquidating Damages (as defined in the indenture) if any, to the applicable redemption date. Year Percentage --- From April 29, 2007 to April 28, 2008 104.00% From April 29, 2008 to April 28, 2009 102.00% After April 28, 2009 100.00% Prior to April 28, 2007, we may redeem up to 35% of the aggregate original principal amount of the notes using the net proceeds of one or more equity offerings, in each case at the redemption price equal to the product of (i) the principal amount of the notes being so redeemed and (ii) a redemption price factor of 1.00 plus the per annum interest rate on the notes (expressed as a decimal) on the applicable redemption date plus accrued and unpaid interest to the applicable redemption date, provided certain conditions are also met. If we experience specific kinds of change of control events, each holder of notes may require us to repurchase all or any portion of such holder's notes at a purchase price equal to 101% of the principal amount of the notes, plus accrued and unpaid interest to the date of repurchase. The indenture governing the notes contains covenants that, among other things, limit our ability to: o incur or guarantee additional indebtedness and issue certain types of preferred stock or redeemable stock; o transfer or sell assets; o create liens on assets; o pay dividends or make other distributions on capital stock or make other restricted payments, including repurchasing, redeeming or retiring capital stock or subordinated debt or making certain investments or acquisitions; o engage in transactions with affiliates; o guarantee other indebtedness; o permit restrictions on the ability of our subsidiaries to distribute or lend money to us; o cause a restricted subsidiary to issue or sell its' capital stock; and o consolidate, merge or transfer all or substantially all of the consolidated assets of our and our restricted subsidiaries. The indenture also contains customary events of default, including nonpayment of principal or interest, violations of covenants, cross default and cross acceleration to certain other indebtedness, including our revolving credit facility, bankruptcy, and material judgments and liabilities. Senior Secured Revolving Credit Facility. On October 28, 2004, we entered into an agreement for a revolving credit facility having a maximum commitment of $15 million, which includes a $2.5 million subfacility for letters of credit. F-17 Availability under the revolving credit facility is subject to a borrowing base consistent with normal and customary natural gas and crude oil lending transactions. Outstanding amounts under the revolving credit facility bear interest at the prime rate announced by Wells Fargo Bank, National Association plus 1.00%. The current interest rate is 9.25% per annum. Subject to earlier termination rights and events of default, the stated maturity date under the revolving credit facility is October 28, 2008. We are permitted to terminate the revolving credit facility, and under certain circumstances, may be required, from time to time, to permanently reduce the lenders' aggregate commitment under the revolving credit facility. Such termination and each such reduction is subject to a premium equal to the percentage listed below multiplied by the lenders' aggregate commitment under the revolving credit facility, or, in the case of partial reduction, the amount of such reduction. Year % Premium ------------- ------------------- 1 1.5 2 1.0 3 0.5 4 0.0 Each of our current subsidiaries has guaranteed, and each of our future restricted subsidiaries will guarantee, our obligations under the revolving credit facility on a senior secured basis. In addition, any other subsidiary or affiliate of ours, that in the future guarantees any of our other indebtedness or of our restricted subsidiaries will be required to guarantee our obligations under the revolving credit facility.

Obligations under the revolving credit facility are secured, together with the notes, by a shared first priority perfected security interest, subject to certain permitted encumbrances, in all of our and each of our restricted subsidiaries' material property and assets, including substantially all of our and their natural gas and crude oil properties and all of the capital stock (or in the case of an unrestricted subsidiary that is a controlled foreign corporation, up to 65% of the outstanding capital stock) in any entity, owned by us and our restricted subsidiaries. Under the revolving credit facility, we are subject to customary covenants, including certain financial covenants and reporting requirements. The revolving credit facility requires us to maintain a minimum net cash interest coverage and also requires us to enter into hedging agreements on not less than 25% or more than 75% of our projected natural gas and crude oil production. In addition to the foregoing and other customary covenants, the revolving credit facility contains a number of covenants that, among other things, restrict Abraxas' ability to: o incur or guarantee additional indebtedness and issue certain types of preferred stock or redeemable stock; o transfer or sell assets; o create liens on assets; o pay dividends or make other distributions on capital stock or make other restricted payments, including repurchasing, redeeming or retiring capital stock or subordinated debt or making certain investments or acquisitions; o engage in transactions with affiliates; o guarantee other indebtedness; o make any change in the principal nature of our business; o prepay, redeem, purchase or otherwise acquire any of our or our restricted subsidiaries' indebtedness; o permit a change of control; o directly or indirectly make or acquire any investment; o cause a restricted subsidiary to issue or sell our capital stock; and o consolidate, merge or transfer all or substantially all of the consolidated assets of Abraxas and our restricted subsidiaries. F-18 The revolving credit facility also contains customary events of default, including nonpayment of principal or interest, violations of covenants, cross default and cross acceleration to certain other indebtedness, bankruptcy and material judgments and liabilities, and is subject to an Intercreditor, Security and Collateral Agency Agreement, which specifies the rights of the parties thereto to the proceeds from the Collateral. Intercreditor Agreement. The holders of the notes, together with the lenders under our credit facility, are subject to an Intercreditor, Security and Collateral Agency Agreement, which specifies the rights of the parties thereto to the proceeds from the Collateral. The Intercreditor Agreement, among other things, (i) creates security interests in the Collateral in favor of a collateral agent for the benefit of the holders of the notes and the credit facility lenders and (ii) governs the priority of payments among such parties upon notice of an event of default under the Indenture or the credit facility. So long as no such event of default exists, the collateral agent will not collect payments under the new credit facility documents or the indenture governing the notes and other note documents (collectively, the "Secured Documents"), and all payments will be made directly to the respective creditor under the applicable Secured Document. Upon notice of an event of default and for so long as an event of default exists, payments to each credit facility lender and holder of the notes from us and our current subsidiaries and proceeds from any disposition of any collateral, will, subject to limited exceptions, be collected by the collateral agent for deposit into a collateral account and then distributed as provided in the following paragraph. Upon notice of any such event of default and so long as an event of default exists, funds in the collateral account will be distributed by the collateral agent generally in the following order of priority: first, to reimburse the collateral agent for expenses incurred in protecting and realizing upon the value of the Collateral; second, to reimburse the credit facility administrative agent and the trustee, on a pro rata basis, for expenses incurred in protecting and realizing upon the value of the Collateral while any of these parties was acting on behalf of the Control Party (as defined below); third, to reimburse the credit facility administrative agent and the trustee, on a pro rata basis, for expenses incurred in protecting and realizing upon the value of the Collateral while any of these parties was not acting on behalf of the Control Party; fourth, to pay all accrued and unpaid interest (and then any unpaid commitment fees) under the credit facility; fifth, if, the collateral coverage value of three times the outstanding obligations under the credit facility would be met after giving effect to any payment under this clause "fifth," to pay all accrued and unpaid interest on the notes; sixth, to pay all outstanding principal of (and then any other unpaid amounts, including, without limitation, any fees, expenses, premiums and reimbursement obligations) the credit facility; seventh, to pay all accrued and unpaid interest on the notes (if not paid under clause "fifth"); eighth, to pay all outstanding principal of (and then any other unpaid amounts, including, without limitation, any premium with respect to) the notes; and ninth, to pay each credit facility lender, holder of the notes, and other secured party, on a pro rata basis, all other amounts outstanding under the credit facility and the notes. To the extent there exists any excess monies or property in the collateral account after all of ours and our subsidiaries' obligations under the credit facility, the indenture and the notes are paid in full, the collateral agent will be required to return such excess to us. The collateral agent will act in accordance with the Intercreditor Agreement and as directed by the

"Control Party" which for purposes of the Intercreditor Agreement is the holders of the notes and the credit facility lenders, acting as a single class, by vote of the holders of a majority of the aggregate principal amount of outstanding obligations under the notes and the credit facility. F-19 The Intercreditor Agreement provides that the lien on the assets constituting part of the Collateral that is sold or otherwise disposed of in accordance with the terms of each Secured Document may be released if (i) no default or event of default exists under any of the Secured Documents, (ii) we have delivered an officers' certificate to each of the collateral agent, the trustee, the credit facility administrative agent certifying that the proposed sale or other disposition of assets is either permitted or required by, and is in accordance with the provisions of, the applicable Secured Documents and (iii) the collateral agent has acknowledged such certificate. The Intercreditor Agreement provides for the termination of security interests on the date that all obligations under the Secured Documents are paid in full. 5. Property and Equipment The major components of property and equipment, at cost, are as follows: December 31 Estimated --------------------------------- Useful Life 2006 2005 ---------------- --------------- ---------------- Years (In thousands) Crude oil and natural gas properties .... - $ 347,245 $ 333,373 Equipment and other .... 3-39 3,519 3,289 ---------------- ---------------- $ 350,764 $ 336,662 ================ ================= 6. Stock Option Plans and Warrants Stock Options The Company grants options to its officers, directors, and other employees under various stock option and incentive plans. The Company's 1994 Long-Term Incentive Plan has authorized the grant of options to management, employees and directors for up to approximately 6.1 million shares of the Company's common stock. All options granted generally have a ten year term and vest and become fully exercisable over three to four years of continued service at 25% to 33% on each anniversary date or as specified by the Compensation Committee of the Board of Directors. At December 31, 2006 approximately 1.2 million options remain available for grant. The Company's 2005 Employee Long-Term Equity Incentive Plan has authorized the grant of 1.2 million options to management and employees. Options have a term not to exceed 10 years. Options issued under this plan vest according to a vesting schedule as determined by the compensation committee. Vesting may occur upon (1) the attainment of one or more performance goals or targets established by the committee (2) the optionee's continued employment or service for a specified period of time, (3) the occurrence of any event or the satisfaction of any other condition specified by the committee; or (4) a combination of any of the foregoing A summary of the Company's stock option activity for the three years ended December 31, follows: Options Weighted-Average Weighted Aggregate (000s) Exercise Price Average Intrinsic Remaining Life value (000s) -- Options outstanding December 31, 2003 3,364 $ 0.90 Granted .... - - Exercised .... (414) 0.69 Forfeited/Expired .... (57) 0.77 ------------- Options outstanding December 31, 2004 2,893 0.93 Granted .... 716 4.33 Exercised .... (461) 0.93 Forfeited/Expired .... (132) 0.67 ------------- Options outstanding December 31, 2005 3,016 0.88 F-20 Granted .... 190 5.29 Exercised .... (747) 0.87 Forfeited/Expired .... (2) 4.39 ------------- Options outstanding December 31, 2006 2,457 $ 2.29 5.35 $ 3,385 ============= ================================ Exercisable at end of year .... 1,884 $ 1.55 4.33 $ 1,730 ============= ================================ Other information pertaining to option activity was as follows during the twelve months ended December 31: 2006 2005 2004 ----------- ----------- ----------- Weighted average grant-date fair value of stock options granted (per share)...................... $ 2.98 $ 3.40 $ - Total fair value of options vested (000's)........ $ 890 $ 166 $ 138 Total intrinsic value of options exercised (000's) $ 409 $ 245 $ 153 As of December 31, 2006 the total compensation cost related to nonvested awards not yet recognized is approximately $1.6 million, which will be recognized in 2007 through 2010. The following table represents the range of option prices and the weighted average remaining life of outstanding options as of December 31, 2006: Options outstanding Exercisable --- -- Weighted Weighted Weighted average average average Number outstanding remaining exercise Number remaining Weighted average Exercise price life price exercisable life exercise price ------------------- ------------------- ---------------- ------------ ---------------- --------------- ------------------- $ 0.50 - 0.97 1,138,258 3.66 $ 0.71 1,122,008 3.66 $ 0.71 $ 1.01 - 1.41 240,000 4.93 1.20 240,000 4.93 1.20 $ 2.06 - 2.75 244,857 3.09 2.32 244,857 3.09 2.32 $ 3.09 - 4.83 737,001 8.37 4.59 277,501 8.37 4.59 $ 6.05 97,000 9.16 6.05 - - - ------------------ ---------------- 2,457,116 1,884,366 ================== ================ For the year ended December 31, 2006, 97,000 shares exercisable in connection with outstanding options were excluded from dilutive shares for purposes of calculating diluted earnings per share. These options were excluded because their exercise price was greater than the average price of the Company's Common stock for the year then ended. Stock Awards In addition to stock options granted under the plan described above, the 1994 Long-Term Incentive Plan also provides for the right to receive compensation in cash, awards of common stock, or a combination thereof. There were no awards in 2006 or 2005. In 2004, 37,719 shares were awarded related to incentive bonus plans. The Company also has adopted the Restricted Share Plan for Directors which provides for awards of common stock to non-employee directors of the Company who did not, within the year immediately preceding the determination of the director's eligibility, receive any award under any other plan of the Company. On June 1, 2005, the stockholders approved the 2005 Non-Employee Directors Long-Term Equity Incentive Plan (the "2005 Directors Plan"). The following is a summary of the 2005 Directors Plan. Purpose. The purpose of the 2005 Directors Plan is to attract and retain members of the Board of Directors and to promote the growth and success of Abraxas by aligning the long-term interests of the Board of Directors with those of Abraxas' stockholders by providing an opportunity to acquire an interest in Abraxas and by providing both rewards for performance and long term incentives for future contributions to the success of Abraxas. F-21 Administration and Eligibility. The 2005 Directors Plan will be administered by the Compensation Committee (the "Committee") of the Board of Directors and authorizes the Board to grant non-qualified stock options or issue restricted stock to those persons who are non-employee directors of Abraxas, including advisory directors of Abraxas, which currently amounts to a total of nine people. Shares Reserved and Awards. The 2005 Directors Plan reserves 900,000 shares of Abraxas common stock, subject to adjustment following certain events, as discussed below. The 2005 Directors Plan provides that each year, at the first regular meeting of the Board of Directors immediately following Abraxas' annual stockholder's meeting, each non-employee director shall be granted or issued awards of 10,000 shares of Abraxas common stock, for participation in Board and Committee meetings during the previous calendar year. The maximum annual award for any one person is 10,000 shares of Abraxas common stock or options for common stock. If options, as opposed to shares, are awarded, the exercise share price shall be no less than 100% of the fair market value on the date of the award while the option terms and vesting schedules are at the discretion of the Committee. In addition to the 10,000 shares or options, directors are compensated $12,000 per year, paid quarterly by issuance of common stock. During 2006, there were 5,782 shares issued related to this compensation. The number of shares issued is determined based on the stock price on the date of issuance. At December 31, 2006, the Company has approximately 3.7 million shares reserved for future issuance for conversion of its stock options, warrants, and incentive plans for the Company's directors, employees and consultants. 7. Income Taxes Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Company's deferred tax liabilities and assets are as follows: December 31 ------------------------- 2006 2005 ------------- ------------ (In thousands) Deferred tax liabilities: Marketable securities.......................... $ 261 $ 509 U.S. full cost pool .... 10,806 11,621 ------------- ------------ Total deferred tax liabilities .... 11,067 12,130 Deferred tax assets: Capital loss carryforward...................... 4,234 5,325 Depletion carryforward........................ 4,311 3,542 Net operating losses ("NOL") carryforward..... 67,429 66,596 Canadian loss (Grey Wolf)...................... - 572 Other .... 1,965 3,023 ------------- ------------ Total deferred tax assets .... 77,939 79,058 Valuation allowance for deferred tax assets ..... (66,872) (66,928) ------------- ------------ Net deferred tax assets .... 11,067 12,130 ------------- ------------ Net deferred tax .... $ - $ - ============= ============ Significant components of the provision (benefit) for income taxes are as follows: 2006 2005 2004 -- (in thousands) Current: Federal.................................... $ - $ - $ - Foreign .... - - - ------------- ------------ ------------ $ - $ - $ - ============= ============ ============ Deferred: Federal .... $ - $ (6,060) $ 6,060 Foreign .... - - - ------------- ------------ ------------ $ - (6,060) 6,060 Attributable to discontinued operations..... - (6,060) - ------------- ------------ ------------ Attributable to continuing operations....... $ - $ - $ 6,060 ============= ============ ============= F-22 At December 31, 2006 the Company had, subject to the limitation discussed below, $192.7 million of net operating loss carryforwards for U.S. tax purposes. These loss carryforwards will expire from 2014 through 2026 if not utilized. In addition to any Section 382 limitations, uncertainties exist as to the future utilization of the operating loss carryforwards under the criteria set forth under FASB Statement No. 109. Therefore, the Company has established a valuation allowance of $66.9 million for deferred tax assets at December 31, 2006 and 2005. The reconciliation of income tax computed at the U.S. federal statutory tax rates to income tax expense is: December 31 --- 2006 2005 2004 ------------------ -------------------- -------------------

(in thousands) Tax (expense) benefit at U.S. statutory rates (35%) .... $ (436) $ (6,691) $ (1,875) Decrease in deferred tax asset valuation allowance .... 56 6,068 8,123 Higher effective rate of foreign - - (140) operations........................... Permanent differences.................. (6) - - Deferred tax expense - Disc. Ops. ..... - (6,060) - Other .... 386 623 (48) ------------------ -------------------- ------------------- $ - $ (6,060) $ 6,060 Attributable to discontinued operations - (6,060) - ------------------ -------------------- ------------------- Attributable to continuing operations.. $ - $ - $ 6,060 ================== ==================== ==================== 8. Commitments and Contingencies Operating Leases During the years ended December 31, 2006, 2005 and 2004 the Company incurred rent expense related to leasing office facilities of approximately $252,146, $248,684 and $256,355 respectively. Future minimum rental payments are as follows at December 31, 2006. 2007.. $ 259,092 2008.. 254,702 2009.. 21,152 2010.. - Thereafter... - ---------------- $ 534,946 ================== Litigation and Contingencies From time to time, the Company is involved in litigation relating to claims arising out of its operations in the normal course of business. At December 31, 2006 the Company was not engaged in any legal proceedings that are expected, individually or in the aggregate, to have a material adverse effect on the Company. 9. Earnings per Share Basic earnings per share excludes any dilutive effects of options, warrants and convertible securities and is computed by dividing income available to common stockholders by the weighted average number of common shares outstanding for the period. Diluted earnings per share are computed similar to basic, however diluted earnings per share reflects the assumed conversion of all potentially dilutive securities. The following table sets forth the computation of basic and diluted earnings per share: F-23 2006 2005 2004 --- Numerator: Net income before effect of discontinued operations .... $ 1,246,000 $ 6,271,000 $ 9,037,000 Discontinued operations........................... - 12,846,000 3,323,000 ----------------- ----------------- -------------------- $ 1,246,000 $ 19,117,000 $ 12,360,000 ================= ================== ==================== Denominator: Denominator for basic earnings per share - weighted-average shares .... 42,578,584 39,366,561 36,221,887 Effect of dilutive securities: Stock options and warrants.................... 1,283,797 1,796,942 2,672,778 ---------------- ----------------- ------------------- Dilutive potential common shares Denominator for diluted earnings per share - adjusted weighted-average shares and assumed exercise of options and warrants................ 43,862,381 41,163,503 38,894,665 ================= ================== ================== Basic earnings per share: Net income before effect of discontinued operations .... $ 0.03 $ 0.16 $ 0.25 Discontinued operations - 0.33 0.09 ---------------- ------------------ ----------------- Net income per common share....................... $ 0.03 $ 0.49 $ 0.34 ================= ================== ================== Diluted earnings per share: Net income before effect of discontinued operations....................................... $ 0.03 $ 0.15 $ 0.23 Discontinued operations.......................... - 0.31 0.09 ---------------- ------------------ ------------------ Net income per common share - diluted........ $ 0.03 $ 0.46 $ 0.32 ================= ================== ================== 10. Quarterly Results of Operations (Unaudited) Selected results of operations for each of the fiscal quarters during the years ended December 31, 2005 and 2006 are as follows, 2005 includes results of discontinued operations: 1st 2nd 3rd 4th Quarter Quarter Quarter Quarter --------------- --------------- -------------- ------------------- (In thousands, except per share data) Year Ended December 31, 2005 Net revenue .... $ 7,822 $ 9,627 $ 14,164 $ 17,012 Operating income .... $ 2,657 $ 4,008 $ 7,905 $ 7,534 Net income (loss).................... $ 11,985 $ (64) $ 3,783 $ 3,413 Net income per common share - basic... $ 0.33 $ 0.00 $ 0.09 $ 0.08 Net income per common share - diluted. $ 0.33 $ 0.00 $ 0.09 $ 0.08 Year Ended December 31, 2006 Net revenue.......................... $ 13,305 $ 13,304 $ 13,216 $ 11,898 Operating income..................... $ 5,587 $ 5,496 $ 5,426 $ 3,066 Net income (loss).................... $ 1,220 $ 983 $ 589 $ (1,546) (1) Net income (loss) per common share - basic.............................. $ 0.03 $ 0.02 $ 0.01 $ (0.04) Net income (loss) per common share - diluted............................ $ 0.03 $ 0.02 $ 0.01 $ (0.04) (1) The loss during the fourth quarter was due to lower commodity prices realized, accrual of bonuses and an increase in non-cash compensation expense related to director stock options. F-24 11. Benefit Plans The Company has a defined contribution plan (401(k)) covering all eligible employees of the Company. The Company matched employee contributions in 2004 and matched 50% of employee contributions in 2005 and 2006. Company contributions to the plan were $128,523, $116,136 and $101,499 in 2006, 2005 and 2004 respectively. The employee contribution limitations are determined by formulas, which limit the upper one-third of the plan members from contributing amounts that would cause the plan to be top-heavy. The employee contribution is limited to the lesser of 20% of the employee's annual compensation or $15,000, $14,000 and $13,000 in 2006, 2005 and 2004, respectively. The contribution limit for 2006, 2005 and 2004 was $20,000, $18,000 and $16,000 for employees 50 years of age or older, respectively. 12. Hedging Program and Derivatives The Company elected out of hedge accounting as prescribed by SFAS 133. Accordingly, instruments are recorded on the balance sheet at their fair value with adjustments to the carrying value of the instruments being recognized in oil and gas income in the current period. We enter into hedging arrangements from time to time to reduce our exposure to fluctuations in natural gas and crude oil prices and to achieve more predictable cash flow. In 2005, we incurred a hedging loss of $592,000, resulting from the price floors we established. For the year ended December 31, 2004 and 2006, we recognized a gain from hedging activities of approximately $118,000 and $646,000 respectively. Currently, we believe our hedging arrangements, which are in the form of price floors, do not expose us to significant financial risk. Under the terms of the Company's revolving credit facility, the Company is required to maintain hedging agreements with respect to not less than 25% nor more than 75% of it crude oil and natural gas production for a rolling six month period. We currently have hedging positions as follows: Time Period Notional Quantities Price --------------------------------- --- --------------------- April 2007 10,000 MMbtu of production per day Floor of $ 4.50 May 2007 10,000 MMbtu of production per day Floor of $ 5.00 June 2007 10,000 MMbtu of production per day Floor of $ 5.00 July 2007 10,000 MMbtu of production per day Floor of $ 4.25 August 2007 10,000 MMbtu of production per day Floor of $ 5.00 September 2007 10,000 MMbtu of production per day Floor of $ 5.50 All hedge transactions are subject to the Company's risk management policy, approved by the Board of Directors. 13. Supplemental Oil and Gas Disclosures (Unaudited) The accompanying table presents information concerning the Company's crude oil and natural gas producing activities as required by Statement of Financial Accounting Standards No. 69, "Disclosures about Oil and Gas Producing Activities." Capitalized costs relating to oil and gas producing activities from continuing operations are as follows: Years Ended December 31 ---------------------------------- 2006 2005 --------------- -------------- (In thousands) Proved crude oil and natural gas properties ... $ 347,245 $ 333,373 Unproved properties .... - - --------------- -------------- Total..................... 347,245 333,373 Accumulated depreciation, depletion, and amortization, and impairment .... (242,807) (228,544) --------------- -------------- Net capitalized costs .. $ 104,438 $ 104,829 =============== ============== F-25 Cost incurred in oil and gas property acquisitions and development activities related to continuing operations are as follows: Years Ended December 31 -- 2006 2005 2004 ------------- ------------- -------------- (In thousands) -- Property development and exploration costs .... $ 26,117 $ 34,991 $ 9,088 ============= ============= ============== The results of operations for oil and gas producing activities from continuing operations for the three years ending December 31, 2006, 2005 and 2004, respectively are as follows: Years Ended December 31 -- 2006 2005 2004 ------------- ------------- -------------- (In thousands) Revenues .... $ 50,094 $ 47,314 $ 33,073 Production costs .... (11,776) (11,094) (8,567) Depreciation, depletion, and amortization .... (14,263) (8,818) (7,117) General and administrative . (1,040) (1,378) (1,281) ------------- ------------- -------------- Results of operations from oil and gas producing activities (excluding corporate overhead and interest costs) .... $ 23,015 $ 26,024 $ 16,108 ============= ============= ============== Depletion rate per barrel of oil equivalent .... $ 11.09 $ 8.77 $ 7.39 ============= ============= ============== Estimated Quantities of Proved Oil and Gas Reserves The following table presents the Company's estimate of its net proved crude oil and natural gas reserves as of December 31, 2006, 2005, and 2004 related to continuing operations. The Company's management emphasizes that reserve estimates are inherently imprecise and that estimates of new discoveries are more imprecise than those of producing oil and gas properties. Accordingly, the estimates are expected to change as future information becomes available. The estimates have been prepared by independent petroleum reserve engineers. Liquid Natural Hydrocarbons Gas ---------------- ------------- (Barrels) (Mcf) (In thousands) ---------------- ------------- Proved developed and undeveloped reserves: Balance at December 31, 2003...................... 3,319 80,202 Revisions of previous estimates .... (59) (754) Extensions and discoveries .... 70 73 Production .... (229) (4,403) ---------------- ------------- Balance at December 31, 2004...................... 3,101 75,118 Revisions of previous estimates .... 9 (232) Extensions and discoveries .... 168 16,259 Production .... (194) (4,942) ---------------- ------------- Balance at December 31, 2005 3,084 86,203 Revisions of previous estimates .... (75) 3,514 Extensions and discoveries .... 11 440 Sales of minerals in place...................... - (1,810) Production .... (200) (6,515) ---------------- -------------

Balance at December 31, 2006...................... 2,820 81,832 ================= ============== F-26 Liquid Natural Hydrocarbons Gas ---------------- ------------- (Barrels) (Mcf) Proved developed reserves: December 31, 2004................................ 1,878 36,241 ================= ============== December 31, 2005................................ 1,942 38,794 ================= ============== December 31, 2006................................ 1,708 37,333 ================= ============== Due to continuing development activities, the Company added additonal reserves of approximately 16.3 Mmcf during 2005 in South and West Texas. During 2006, due to the level of production in the Edwards field in South Texas, reserves previously estimated for the area were revised upwardly. Standardized Measure of Discounted Future Net Cash Flows Relating to Proved Oil and Gas Reserves The following disclosures concerning the standardized measure of future cash flows from proved crude oil and natural gas are presented in accordance with SFAS No. 69. The standardized measure does not purport to represent the fair market value of the Company's proved crude oil and natural gas reserves. An estimate of fair market value would also take into account, among other factors, the recovery of reserves not classified as proved, anticipated future changes in prices and costs, and a discount factor more representative of the time value of money and the risks inherent in reserve estimates. Under the standardized measure, future cash inflows were estimated by applying period-end prices at December 31, 2006 adjusted for fixed and determinable escalations, to the estimated future production of year-end proved reserves. Future cash inflows were reduced by estimated future production and development costs based on year-end costs to determine pre-tax cash inflows. Future income taxes were computed by applying the statutory tax rate to the excess of pre-tax cash inflows over the tax basis of the properties. Operating loss carryforwards, tax credits, and permanent differences to the extent estimated to be available in the future were also considered in the future income tax calculations, thereby reducing the expected tax expense. Future net cash inflows after income taxes were discounted using a 10% annual discount rate to arrive at the Standardized Measure. Set forth below is the Standardized Measure relating to proved oil and gas reserves relating to continuing operations for the three years ending December 31, 2006, 2005 and 2004. Years Ended December 31 --- 2006 2005 2004 --- (in thousands) Future cash inflows ... $ 635,766 $ 937,638 $ 498,165 Future production costs (182,409) (21,109) (149,227) Future development costs .... (83,106) (84,214) (44,960) Future income tax expense .... - - - --- Future net cash flows . 370,341 642,315 303,978 Discount .... (209,455) (330,407) (154,943) --- Standardized Measure of discounted future net cash relating to proved reserves ..... $ 160,886 $ 311,908 $ 149,035 === F-27 Changes in Standardized Measure of Discounted Future Net Cash Flows Relating to Proved Oil and Gas Reserves The following is an analysis of the changes in the Standardized Measure related to continuing operations: Year Ended December 31 -- 2006 2005 2004 ------------------ ------------------ ------------------ (In thousands) Standardized Measure, beginning of year .... $ 311,908 $ 149,035 $ 161,584 Sales and transfers of oil and gas produced, net of production costs .... (38,318) (36,220) (24,506) Net changes in prices and development and production costs from prior year .... (105,427) 142,116 (2,814) Extensions, discoveries, and improved recovery, less related costs .... 824 51,438 810 Sales of minerals in place................. (2,949) - - Revision of previous quantity estimates ... 4,992 51 (1,818) Changes in timing and other .... (41,335) (9,415) (380) Accretion of discount .... 31,191 14,903 16,159 ------------------ ------------------ ----------------- Standardized Measure, end of year .... $ 160,886 $ 311,908 $ 149,035 ================== ================== ================== F-28