

ReoStar Energy CORP
Form 10-Q
November 18, 2008

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

FORM 10-Q

Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended September 30, 2008

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 **000-52316**

REOSTAR ENERGY CORPORATION

(Exact name of registrant as specified in its charter)

Nevada

(State or other jurisdiction of
incorporation or organization)

20-8428738

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

3880 Hulen Street, Suite 500, Fort Worth, Texas 76107

(Address of principal executive offices)

(817) 989-7367

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant 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.

Large accelerated filer

Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company)

Smaller reporting company

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

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

_____ Class _____

Outstanding as November 5, 2008

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Common Stock, par value \$0.001 per share

80,181,310

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PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS.

ReoStar Energy Corporation
Consolidated Balance Sheets

	September 30, 2008 (unaudited)	March 31, 2008
ASSETS		
Current Assets:		
Cash	\$ 284,932	\$ 592,665
Accounts Receivable:		
Oil & Gas - Related Party	1,212,377	868,406
Other - Related Party	1,149,370	-
Inventory	8,731	4,748
Hedging Account	6,316	13,062
Total Current Assets	2,661,726	1,478,881
Note Receivable	1,348,617	1,355,228
Oil and Gas Properties - successful efforts method	22,713,212	17,832,931
Less Accumulated Depletion and Depreciation	(4,827,430)	(4,139,337)
Oil & Gas Properties (net)	17,885,782	13,693,594
Other Depreciable Assets:	2,007,742	1,641,806
Less Accumulated Depreciation	(215,656)	(121,113)
Other Depreciable Assets (net)	1,792,086	1,520,693
Other Related Party Receivable	80,395	80,395
Leasehold Held for Sale	1,680,813	1,680,813
Investment in Equity Method Investment	-	142,395
Total Assets	\$ 25,449,419	\$ 19,951,999
LIABILITIES		
Current Liabilities:		
Accounts Payable	\$ 312,464	\$ 103,479
Notes Payable to Related Party	500,000	324,330
Payable to Related Parties	3,717,266	1,547,136
Royalties Payable	86,947	57,485
Accrued Expenses	1,250,333	857,887
Accrued Expenses - Related Party	168,762	171,788
Short Term Notes Payable	525,000	-
Current Portion of Long-Term Debt	16,320	14,960
Total Current Liabilities	6,577,092	3,077,065

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Notes Payable	1,521,940	1,647,769
Notes Payable - Related Parties	3,769,674	3,194,594
Other Related Party Payables	240,090	490,840
Less Current Portion of Notes Payable	(16,320)	(14,960)
Total Long-Term Debt	5,515,384	5,318,243
Deferred Tax Liability	2,796,083	2,163,183
Total Liabilities	14,888,559	10,558,491
Commitments & Contingencies:		
Contingent Stock Based Compensation	268,856	214,976
Stockholders' Equity		
Common Stock, \$.001 par, 200,000,000 shares authorized and 80,181,310 shares outstanding on September 30, 2008 and March 31, 2008	80,181	80,181
Additional Paid-In-Capital	9,590,313	9,553,346
Retained Deficit	621,510	(454,995)
Total Stockholders' Equity	10,292,004	9,178,532
Total Liabilities & Stockholders' Equity	\$ 25,449,419	\$ 19,951,999

See Accompanying Notes to Consolidated Financial Statements

ReoStar Energy Corporation
Consolidated Statements of Operations

	Three Months Ended		Six Months Ended	
	September 30, 2008 (unaudited)	September 30, 2007 (unaudited)	September 30, 2008 (unaudited)	September 30, 2007 (unaudited)
Revenues				
Oil & Gas Sales	\$ 2,282,048	\$ 1,019,222	\$ 5,034,795	\$ 1,833,146
Sale of Leases	18,005	307,028	18,005	307,028
Other Income	109,568	79,367	208,983	79,432
	2,409,621	1,405,617	5,261,783	2,219,606
Costs and Expenses				
Oil & Gas Lease Operating Expenses	789,234	491,703	1,385,267	825,224
Workover Expenses	87,982	-	160,407	-
Severance & Ad Valorem Taxes	132,125	59,947	286,237	108,883
Delay Rentals	-	8,571	-	52,186
Depletion & Depreciation	381,660	332,245	782,636	618,376
General & Administrative:				
Salaries & Benefits	135,068	249,533	321,613	483,012
Legal & Professional	193,129	121,953	313,639	279,802
Other General & Administrative	40,295	101,751	211,784	161,166
Interest, net of capitalized interest of \$151,343 and \$126,676 for the three months ended 9/30/08 and 9/30/07, respectively and \$312,919 and \$267,688 for the six months ended 9/30/08 and 9/30/07, respectively	2,900	-	2,900	-
	1,762,393	1,365,703	3,464,483	2,528,649
Interest Income	40	70,930	61,246	94,262
Loss on Equity Method Investments	(142,395)	-	(142,395)	-
Hedging Loss	(93)	-	(6,746)	-
Income (Loss) from continuing operations before income taxes and discontinued operations	504,780	110,844	1,709,405	(214,781)
Income Tax Provision	(211,323)	(38,796)	(632,941)	75,173
Income from discontinued operations, net of income taxes:				
Pipeline Income	-	-	-	22,930
Gain on Sale of Pipeline	-	(5,169)	-	1,453,658
Income from discontinued operations	-	(5,169)	-	1,476,588
Net Income (Loss)	\$ 293,457	\$ 66,879	\$ 1,076,464	\$ 1,336,980
Basic & Diluted Loss per Common Share	\$ 0.00	\$ 0.00	\$ 0.01	\$ 0.02

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Weighted Average Common Shares Outstanding	80,181,310	79,711,310	80,181,310	77,907,148
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See Accompanying Notes to Consolidated Financial Statements

ReoStar Energy Corporation
Consolidated Statements of Cash Flows

	Six Months Ended	
	September 30, 2008 (unaudited)	September 30, 2007 (unaudited)
Operating Activities:		
Net Income	\$ 1,076,464	\$ 1,336,980
Adjustments to reconcile net income to cash from operating activities:		
Income Tax Expense	632,941	719,913
Depletion, Depreciation, & Amortization	782,636	618,376
Loss on Equity Method Investment	142,395	-
Stock based compensation	53,880	309,451
Joint Venture Partner Expense	-	3,080,400
Gain on Sale of Pipeline	-	(5,272,701)
Changes in Operating Assets and Liabilities		
Changes in Accrued Liabilities	86,086	124,366
Change in Inventory	(3,983)	-
Change in Related Party Receivables/Payables	(1,149,370)	(392,168)
Changes in Other Receivables	-	(674,524)
Changes in Hedging Account	6,746	-
Changes in Royalties Payable	29,462	13,834
Change in Revenue Receivables	(343,971)	