BLUE DOLPHIN ENERGY CO
Form 10-K
March 31, 2011

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K

(Mark One)

þ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2010

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 No. 0-15905

BLUE DOLPHIN ENERGY COMPANY

(Exact name of registrant as specified in its charter)

Delaware	**73-1268729**
State or other jurisdiction of incorporation or organization	(I.R.S. Employer Identification No.)
801 Travis Street, Suite 2100 Houston, Texas	**77002**
(Address of principal executive offices)	(Zip Code)

(713) 568-4725

Registrant s telephone number, including area code

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, par value $0.01 per share	NASDAQ Capital Market

Securities registered pursuant to Section 12(g) of the Act:

(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 þ

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 þ

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 þ No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes o No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) 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 definition of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Act.

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes o No þ
Aggregate market value of voting stock held by non-affiliates of the registrant as of June 30, 2010 was approximately $2.7 million based on the reverse stock split-adjusted closing price of $2.47 per share on the NASDAQ Capital Market.

Number of shares of Common Stock outstanding as of March 31, 2011	2,078,514

DOCUMENTS INCORPORATED BY REFERENCE

Certain sections of the registrant s definitive proxy statement for its 2011 Annual Meeting of Stockholders, which is to be filed with the Securities and Exchange Commission pursuant to Regulation 14A, under the Securities and Exchange Act of 1934 within 120 days of the registrant s fiscal year ended December 31, 2010, are incorporated by reference in Part III of this report.

BLUE DOLPHIN ENERGY COMPANY
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PART I

<u>Forward Looking Statements</u>. Certain of the statements included in this annual report on Form 10-K, including those regarding future financial performance or results or that are not historical facts, are forward-looking statements as that term is defined in Section 21E of the Securities Exchange Act of 1934, as amended, and Section 27A of the Securities Act of 1933, as amended. The words expect, plan, believe, anticipate, project, estimate, and similar expressions are intended to identify forward-looking statements. Blue Dolphin Energy Company (referred to herein, with its predecessors and subsidiaries, as Blue Dolphin, we, us and our) cautions readers that these statements are not guarantees of future performance or results and such statements involve risks and uncertainties that may cause actual results and outcomes to differ materially from those indicated in forward-looking statements. Some of the important factors, risks and uncertainties that could cause actual results to vary from forward-looking statements include:

- *ability to continue as a going concern;*
- *collectability of a $2.0 million loan receivable, net of credited and recovered amounts;*
- *ability to complete a combination with one or more target businesses;*
- *ability to secure additional working capital to fund operations;*
- *ability to monetize our pipeline assets;*
- *ability to improve pipeline utilization levels;*
- *performance of third party operators for properties where we have an interest;*
- *production from oil and gas properties that we have interests in;*
- *volatility of oil and gas prices;*
- *uncertainties in the estimation of proved reserves, in the projection of future rates of production, the timing of development expenditures and the amount and timing of property abandonment;*
- *costly changes in environmental and other government regulations for which we are subject;*
- *adverse changes in the global financial markets; and*
- *potential delisting of our Common Stock by NASDAQ due to non-compliance with NASDAQ listing requirements.*

Additional factors that could cause actual results to differ materially from those indicated in the forward-looking statements are discussed in Item 1A Risk Factors. Readers are cautioned not to place undue reliance on these forward-looking statements which speak only as of the date hereof. We undertake no duty to update these forward-looking statements. Readers are urged to carefully review and consider the various disclosures made by us which attempt to advise interested parties of the additional factors which may affect our business, including the disclosures made under the caption Management s Discussion and Analysis of Financial Condition and Results of Operations in this report.

ITEM 1. BUSINESS

The Company

Blue Dolphin, a Delaware corporation, was formed in 1986 as a holding company and conducts substantially all of its operations through its subsidiaries. We are engaged in two lines of business: (i) pipeline transportation services to producers/shippers, and (ii) oil and gas exploration and production. Substantially all of our assets consist of equity interests in our subsidiaries. Our operating subsidiaries are:

- Blue Dolphin Pipe Line Company, a Delaware corporation;
- Blue Dolphin Petroleum Company, a Delaware corporation;
- Blue Dolphin Exploration Company, a Delaware corporation;
- Blue Dolphin Services Co., a Texas corporation; and
- Petroport, Inc., a Delaware corporation.

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Our principal executive office is located at 801 Travis Street, Suite 2100, Houston, Texas, 77002, and our telephone number is (713) 568-4725. We have five (5) full-time employees and regularly use the services of two (2) consultants. Our common stock, par value $0.01 per share (Common Stock) is publicly traded on the NASDAQ Capital Market under the ticker symbol BDCO. Our website address is http://www.blue-dolphin.com.

Certain terms that are commonly used in the oil and gas industry, including terms that define our rights and obligations with respect to our interests in properties, are defined in the Glossary of Certain Oil and Gas Terms of this report.

Recent Developments

NASDAQ Listing. On March 16, 2010, we were notified by NASDAQ that our Common Stock was subject to delisting for failure to comply with the minimum bid price listing requirement. On April 15, 2010, we submitted a compliance plan, which outlined a reverse stock split, to a NASDAQ Listing Qualifications Panel (the Panel) for meeting the minimum bid requirement. As permitted under NASDAQ s listing rules, on May 14, 2010, the Panel granted us an extension for continued listing until compliance with the minimum bid requirement was fully demonstrated. On August 4, 2010, following the effectiveness of our reverse stock split, we received confirmation from NASDAQ that we had cured our minimum bid price deficiency.

On May 20, 2010, we were notified by NASDAQ that our stockholders equity had fallen below the minimum listing requirement. On May 27, 2010, we submitted a compliance plan to the Panel to cure the stockholders equity deficiency. The compliance plan provided a pro forma calculation of the impact of our working interest in the North Sumatra Basin-Langsa Field, as well as outlined our efforts to collect on an outstanding loan receivable. As permitted under NASDAQ Listing Rules, on June 23, 2010, the Panel granted us an extension for continued listing until compliance with the stockholders equity requirement was fully demonstrated. On November 24, 2010, we received confirmation from NASDAQ that we had cured our stockholders equity deficiency. The Panel will monitor our continued compliance with the stockholders equity rule for a period of one year. In the event we fall out of compliance during the monitoring period, the Panel may, at its discretion, delist our Common Stock.

Reverse Stock Split. On March 16, 2010, our Board of Directors (the Board) approved and authorized, subject to stockholder approval, implementation of a reverse stock split of our Common Stock at a ratio within a range from 1 for 5 (1:5) to 1 for 10 (1:10), at the discretion of the Board, at any time prior to September 1, 2010. The reverse stock split was approved by our stockholders on June 9, 2010. The Board set the reverse stock split ratio at 1 for 7 (1:7) on June 30, 2010. The effective date for the reverse stock split was July 16, 2010. No fractional shares were issued in connection with the reverse stock split. Each holder of Common Stock who would otherwise be entitled to receive a fractional share of Common Stock was, in lieu of such fractional share, was paid in cash at fair market value. The Board elected not to alter the number of authorized shares or change the par value of the Common Stock, such number of authorized shares remaining at 100,000,000 shares and such par value remaining a $0.01 per share. Earnings per share, common stock outstanding and weighted average common stock outstanding as referred to in these condensed consolidated financial statements have been restated, where applicable, to give retroactive effect of the reverse stock split.

Outstanding Loan Receivable. In the second quarter of 2010, we began foreclosure proceedings on the collateral and guaranty securing a $2.0 million loan, net of credited and recovered amounts (the Loan), made to Lazarus Louisiana Refinery II, LLC (LLRII or the Borrower). The Loan, made on July 31, 2009 and due on January 31, 2010, is secured by (i) a first lien on property owned by Lazarus Environmental, LLC (LEN), (ii) a second lien on property owned by LLRII (collectively the Collateral) and (iii) a guaranty from Lazarus Energy Holdings, LLC (LEH) (the Guaranty). Although we agreed to forbear repayment of the loan receivable until June 11, 2010, the Borrower failed to satisfy certain conditions set forth in the forbearance agreement. When the Loan became due and payable under the original terms, the Borrower defaulted.

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Blue Dolphin v. LLRII (State of Louisiana). The Collateral went up for auction under a Writ of Seizure and Sale issued by the 31st Judicial District Court, Parish of Jefferson Davis, State of Louisiana on July 28, 2010. There were no bidders on the property owned by LLRII. As a credit bid against the Loan, we bid the minimum amount of $134,000 for the property owned by LEN, which consisted primarily of an inactive salt water disposal well. As there were no third-party bidders on the property owned by LEN, we acquired the property at the fair market value of $201,000.

Blue Dolphin v. LEH (State of Texas). On May 26, 2010, we filed a petition in the 129th Judicial District, in the District Court of Harris County, State of Texas (the Court) alleging breach of contract and asserting our right to the unpaid principal balance and all accrued interest due and payable under the Loan. Although LEH filed a counter-claim alleging usurious interest based on a $500,000 consulting agreement made between the parties, in September 2010 we exercised our right to cure the alleged usury without having to admit guilt based on a statutory provision. In so doing, the Borrower was credited $500,000 against the outstanding principal balance, and the matter proceeded without undue delay. In response, LEH filed an amended counter-claim further alleging breach of contract under the confidentiality agreement between the parties. By order dated February 7, 2011, the Court granted a partial summary judgment on liability under the promissory note and Guaranty in favor of Blue Dolphin and against LEH and LLRII. The Court, however, deferred a ruling on the damages and attorney s fees to be awarded. Although the parties reached an agreement regarding the amount of attorneys fees to be awarded, and the defendants do not dispute the calculation of damages sought by Blue Dolphin, the defendants continue to contest Blue Dolphin s entitlement to summary judgment. On February 25, 2011, we filed a motion for entry of the partial summary judgment. On March 28, 2010, our motion for entry of the partial summary judgment was heard before the Court. The Court entered the partial summary judgment in the amount of $1.7 million in favor of Blue Dolphin and against LEH and LLRII on the promissory note and Guaranty. The only claim that remains pending is the counter-claim alleging breach of contract under the confidentiality agreement.

Blue Sky Langsa Purchase. In June 2010, we signed a commitment letter with Blue Sky Langsa, Ltd. (Blue Sky) to acquire a 70% working interest in a Technical Assistance Contract for the Langsa area, offshore Indonesia (the North Sumatra Basin-Langsa Field). During the third quarter of 2010, the parties amended the terms of the commitment letter in order to carry out the transaction in two phases. Under the first phase, we acquired a 7% working interest in the North Sumatra Basin-Langsa Field under a definitive sale and purchase agreement dated July 21, 2010. The consideration paid by Blue Dolphin was 342,857 shares of Common Stock on a post reverse stock split adjusted basis. We had the option to acquire the remaining 63% working interest in the North Sumatra Basin-Langsa Field for an additional 3,085,714 shares of Common Stock on a post reverse stock split adjusted basis. We elected not to exercise the option, which expired on September 30, 2010.

Growth Strategy

Historically focused on exploration and production, we sold substantially all of our producing and gas properties in 2002 to satisfy working capital needs and to finance future asset acquisitions, primarily related to our pipeline transportation business. Due to changes in the current economic environment, over the past year and a half we began shifting our strategy from pipeline operations and activities back to focusing more on exploration and production opportunities in an effort to find a more favorable business mix, increase our reserves and improve operational income. Our strategy shift includes expansion into new geographic areas, both on and offshore, while pursuing a balanced growth strategy employing varying elements of exploration, development and acquisition activities.

Current throughput on our active pipelines is significantly below capacity. As future utilization is dependent upon the success of drilling programs around our pipelines and the attraction of new and retention of existing producers/shippers operating in the area, we are evaluating options to monetize our pipeline assets. Options may include the sale of a portion or all of our ownership interest in our pipeline assets or a joint venture to jointly develop terminal projects based on a capital expenditure and revenue sharing formula.

See Note (8), Business Segment Information, in the Notes to Consolidated Financial Statements for additional information on revenue, operating income (loss), assets and depreciation, depletion and amortization on our business segments.

Pipeline Operations

We market our gathering and transportation services to producers/shippers operating in the vicinity of our pipelines, which are located offshore and onshore in the Texas Gulf Coast area. The fees we charge are based on the producer s/shipper s anticipated oil and gas throughput volumes, as well as their intended usage of our onshore facilities. All of our pipeline assets are held in and the operations conducted by Blue Dolphin Pipe Line Company. Unless otherwise stated herein, all gas liquid volumes transported are attributable to production from third party producers/shippers.

Pipeline Assets. The following provides a pipeline segment summary:

Pipeline Segment	Market	Ownership	Miles of Pipeline	Capacity (MMcf/d)	Storage (Bbls)	Average Throughput (MMcf/d)		
						2010	2009	2008
BDPS[1]	Gulf of Mexico	83.3%	38	180	85,000	13.7	15.5	22.6
GA 350	Gulf of Mexico	83.3%	13	65		17.4	19.0	23.8
Omega[2]	Gulf of Mexico	83.3%	18	110				

(1) The BDPS includes the Blue Dolphin Pipeline, an offshore platform, the Buccaneer Pipeline, onshore facilities for oil and gas separation and dehydration, 85,000 Bbls of above-ground tankage for storage of crude oil and condensate, a barge loading terminal on the Intracoastal Waterway and 360 acres of land in Brazoria County, Texas where the Blue Dolphin Pipeline comes ashore and where the BDPS onshore facilities, pipeline easements and rights-of-way are located. The BDPS gathers and transports oil and gas from various offshore fields in the Galveston Area of the U.S. Gulf of Mexico to our onshore facilities located in Freeport, Texas. After processing, the gas is transported to an end user and a major intrastate pipeline system with further downstream tie-ins to other intrastate and interstate pipeline systems and end users. The Blue Dolphin Pipeline, which is a component of the BDPS, consists of two segments, an offshore segment and an onshore segment. The offshore segment transports both oil and gas and is comprised of approximately 34 miles of 20-inch pipeline originating at an offshore platform in Galveston Area Block 288 and running to shore. The offshore segment also includes the platform in Galveston Area Block 288 and 5 field gathering lines totaling approximately 27 miles connected to the main 20-inch line. An additional 2 miles of 20-inch pipeline onshore connects the offshore segment to the onshore facility at Freeport, Texas. The onshore segment also includes approximately 2 miles of 16-inch pipeline for transportation of gas from the onshore facility to a sales point at a chemical plant complex and intrastate pipeline system tie-in in Freeport, Texas. The Buccaneer Pipeline, an approximate 2 mile, 8-inch liquids pipeline, transports crude oil and condensate from the onshore facility storage tanks to our barge-loading terminal on the Intracoastal Waterway near Freeport, Texas for sale to third parties.

(2) Inactive.

Blue Dolphin Pipeline System (BDPS) The BDPS spans approximately 38 miles from Galveston Area Block 288 offshore to our onshore facilities and the Dow Chemical Plant Complex in Freeport, Texas. We own an 83% undivided interest in the BDPS. The BDPS has an aggregate capacity of approximately 180 MMcf of gas and 7,000 Bbls of crude oil and condensate per day. The BDPS is currently transporting an aggregate of approximately

9 Mcf of gas per day from 7 shippers, which represents 5% of throughput capacity.

<u>Galveston Area Block 350 Pipeline</u> *(the GA 350 Pipeline)* The GA 350 Pipeline is an 8-inch, 13 mile offshore pipeline extending from Galveston Area Block 350 to an interconnect with a transmission pipeline in Galveston Area Block 391 located approximately 14 miles south of the Blue Dolphin Pipeline. Current system capacity on the GA 350 Pipeline is 65 MMcf of gas per day. We own an 83% undivided interest in the GA 350 Pipeline. The GA 350 Pipeline is currently transporting an aggregate of approximately 14 MMcf of gas per day from 5 shippers, which represents 22% of throughput capacity.

<u>Omega Pipeline</u> The Omega Pipeline originates in the High Island Area, East Addition Block A-173 and extends to West Cameron Block 342, where it was previously connected to the High Island Offshore System. We own an 83% undivided interest in the Omega Pipeline. The Omega Pipeline is

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currently inactive. Reactivation of the Omega Pipeline is dependent upon future drilling activity in the vicinity and successfully attracting producer/shippers to the system.

Exploration and Production

Our oil and gas exploration and production activities include leasehold interests in properties located in the U.S. Gulf of Mexico and the North Sumatra Basin in offshore Indonesia. Our leasehold interests, which are held in and the operations conducted by Blue Dolphin Petroleum Company, are subject to royalty and overriding royalty interests. We evaluate and manage oil and gas properties giving consideration to geography, reserve life and hydrocarbon mix based on seismic and other data.

Exploration and Production Assets. The following provides an oil and gas property summary:

Field	Operator	Approximate Working / Royalty Interest
U.S. Gulf of Mexico:		
Galveston Area Block 321	Maritech Resources, Inc.	0.5%
High Island Block 115	Rooster Petroleum, LLC	2.5%
High Island Block 37	Hilcorp Energy Company	2.8%
Indonesia:		
North Sumatra Basin-Langsa Field	Blue Sky Langsa, Ltd.	7.0%

Galveston Area Block 321 Galveston Area Block 321 is located approximately 32 miles southeast of Galveston in an average water depth of approximately 66 feet. The block contains one active well, the A-4 Well. We own a 0.5% overriding royalty interest in the well. The lease is operated by Maritech Resources. The A-4 Well is currently producing approximately 1.2 MMcf of gas per day and 110 barrels of oil per day.

High Island Block 115 High Island Block 115 is located approximately 30 miles southeast of Bolivar Peninsula in an average water depth of approximately 38 feet. The block contains one active well, the B-1 ST2 Well. We own a 2.5% working interest in a single production zone in the well. The lease is operated by Rooster Petroleum, LLC. The B-1 ST2 Well is currently producing approximately 4.2 MMcf of gas per day.

High Island Block 37 High Island Block 37 is located approximately 15 miles south of Sabine Pass in an average water depth of approximately 36 feet. The block contains one active well, the A-2 Well, and one inactive well, the B-1 Well. We own an approximate 2.8% working interest in this lease that covers 5,760 acres. The lease is operated by Hilcorp Energy Company. The A-2 Well is currently producing approximately 0.8 MMcf of gas per day.

North Sumatra Basin-Langsa Field Located in offshore Indonesia, the North Sumatra Basin-Langsa Field covers approximately 77 square kilometers and contains two oil fields in waters less than 325 feet deep. Four wells have been completed in the Malacca Formation one active, the H-4 Well, and three inactive. Production is gathered via a floating production storage and offloading (FPSO) vessel operated by Mitsui Ocean Development & Engineering Co., Ltd. We own a 7.0% working interest in the oil field. The H-4 Well is currently producing approximately 430 barrels of oil per day.

As of December 31, 2010, there were no drilling oriented activities of material importance associated with our exploration and production assets.

Productive Wells and Acreage. The following table sets forth our ownership interest at December 31, 2010, in productive oil and natural wells in the areas indicated. Wells are classified as oil or natural gas according to their predominant production stream. Gross wells reflect the total number of producing wells in which we have an interest, and net wells are determined by multiplying gross wells by our average working or royalty interest. Productive wells consist of producing wells and wells capable of production.

Productive Wells

	Oil		Natural Gas		Total	
	Gross	Net	Gross	Net	Gross	Net
U.S. Gulf of Mexico						
Working Interest			2.0	0.1	2.0	0.1
Royalty Interest			1.0	0.1	1.0	0.1
Indonesia						
Working Interest	1.0	0.1			1.0	0.1
	1.0	0.1	3.0	0.2	4.0	0.3

The following table sets forth the approximate developed and undeveloped acreage that we held as leasehold interest at December 31, 2010. Undeveloped acreage includes leased acres on which wells have not been drilled or completed to a point that would permit the production of commercial quantities of oil and natural gas, regardless of whether or not such acreage contains proved reserves.

Acreage

	Developed		Undeveloped		Total	
	Gross	Net	Gross	Net	Gross	Net
U.S. Gulf of Mexico	17,280	264			17,280	264
Indonesia	3,108	218	15,919	1,114	19,027	1,332
	20,388	482	15,919	1,114	36,307	1,596

Estimated Proved Reserves and Future Net Cash Flows. Our proved reserve estimates for oil and natural gas were prepared by William J. Driscoll, an independent geologist, in accordance with the generally accepted petroleum engineering and evaluation principles and most recent definitions and guidelines established by the SEC. A copy of Mr. Driscoll s summary reserve report is filed as an exhibit to this report. All reserve definitions contained herein are in accordance with the SEC s Rule 4-10(a)(1)-(32) of Regulation S-X.

The quantities of proved oil and gas reserves presented below include only those amounts which we reasonably expect to recover in the future from known oil and gas reservoirs under existing economic and operating conditions. Therefore, proved reserves are limited to those quantities that are believed to be recoverable at prices and costs, and under regulatory practices and technology, existing at the time of the estimate. Accordingly, changes in oil and gas prices, operation and development costs, regulations, technology, future production and other factors, many of which are beyond our control, could significantly affect the estimates of proved reserves and the discounted present value of future net revenue attributable thereto.

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Estimates of production and future net revenue cannot be expected to represent accurately the actual production or revenue that may be recognized with respect to oil and gas properties or the actual present market value of such properties. See Note (9), Supplemental Oil and Gas Information, in the Notes to Consolidated Financial Statements for further information concerning our proved reserves, changes in proved reserves, estimated future net revenue and costs incurred in our oil and gas activities and the discounted present value of estimated future net revenue from our proved reserves.

Proved Undeveloped Reserves. We had total estimated proved undeveloped reserves of 104 Mbbls and 0 Mbbls as of December 31, 2010 and 2009, respectively. This increase was due to our 2010 acquisition of the North Sumatra Basin-Langsa Field. During 2010, we did not convert any proved undeveloped reserves to proved developed reserves. At December 31, 2010, no material amounts of proved undeveloped reserves remain undeveloped for five years or more after they were initially disclosed as proved undeveloped reserves.

The following table presents the estimates of proved reserves (as hereinafter defined) and the discounted present value of future net revenue or expenses from proved reserves after income taxes to our net interest in oil and gas properties as of December 31, 2010. The discounted present value of future net revenue or expenses is calculated using the SEC Method (defined below) and is not intended to represent the current market value of the oil and gas reserves we own.

Proved Natural Gas and Oil Reserves
as of December 31, 2010

	Net Oil Reserves (Mbbls)	Net Gas Reserves (MMcf)	Discounted Present Value of Future Net Cash Inflows (Outflows)[1] (in thousands)
Proved Developed			
Galveston Area Block 321	0.2	9	$ 47
High Island Block 115		131	297
High Island Block 37		15	(48)
North Sumatra Basin-Langsa Field	29.9		276
Total Proved Reserves	30.1	155	$ 572
Proved Undeveloped			
Galveston Area Block 321			$
High Island Block 115			
High Island Block 37			
North Sumatra Basin-Langsa Field	104.0		3,913
Total Proved Developed	104.0		$ 3,913

(1) The estimated present value of future net cash outflows from our proved reserves has been determined by using domestic prices of $79.61 per barrel of oil and $4.33 per Mcf of gas and an international price of $80.35 per

barrel of oil, representing the 12-month average price for oil and natural gas, respectively, calculated as the unweighted arithmetic average of the first-day-of-the-month price for each month within the 12-month prior period to the end of the reporting period and discounted at a 10% annual rate in accordance with requirements for reporting oil and gas reserves pursuant to regulations promulgated by the Securities and Exchange Commission (the SEC Method).

Internal Controls over Reserve Estimates. Our policies regarding internal controls over reserve estimates require reserves to be in compliance with the SEC definitions and guidance and for reserves to be prepared by an independent geologist under the supervision of our Chief Executive Officer. We provided the geologist with estimate preparation material such as property interests, production, current operation costs, current production prices and other information. This information is reviewed by our Chief Executive Officer and Principal Financial and Accounting Officer to ensure accuracy and completeness of the data prior to submission to our third party geologist. A letter which identifies the professional qualifications of the individual who was responsible for overseeing the preparation of our reserve estimates as of December 31, 2010 has been filed as Exhibit 99.1 to this report.

Capital Expenditures for Proved Reserves. The following table presents information regarding the costs we expect to incur in activities associated with our proved reserves. These expenditures represent costs associated with the plugging and abandonment of wells. The information regarding proved reserves summarized in the preceding table assumes the following estimated undiscounted capital expenditures in the years indicated (amounts in thousands).

Estimated Undiscounted Capital Expenditures
Associated with Plugging and Abandonment of Wells

	Years Ending December 31,				
	2011	2012	2013	2014	2015
Galveston Area Block 321					
High Island Block A-7	$ 192				
High Island Block 115				$ 38	
High Island Block 37			$ 68		
North Sumatra Basin-Langsa Field					

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Production, Price and Cost Data. The following table presents information regarding production volumes and revenue, average sales prices and costs (after deduction of royalties and interests of others) with respect to crude oil, condensate, and natural gas attributable to our interest for each of the periods indicated.

Net Production, Price and Cost Data

	Years Ended December 31,					
	2010		2009		2008	
	U.S. Gulf of Mexico	Indonesia	U.S. Gulf of Mexico	Indonesia	U.S. Gulf of Mexico	Indonesia
Crude Oil and Condensate:						
Production (Bbls)	250	8,154	250		117	
Revenue	$ 20,377	$ 720,348	$ 17,401	$	$ 14,057	$
Average production per day (Bbls) (*)	0.7	22.3	0.7		0.3	
Average sales price per Bbl	$ 81.51	$ 88.34	$ 69.60	$	$ 120.25	$
Natural Gas:						
Production (Mcf)	31,654		33,630		44,700	
Revenue	$ 121,960	$	$ 108,576	$	$ 526,522	$
Average production per day (Mcf) (*)	86.7		92.1		122.5	
Average sales price per Mcf	$ 3.85	$	$ 3.23	$	$ 11.78	$
NGLs:						
Production (gallons)						
Revenue	$	$	$	$	$	$
Average production per day (gallons) (*)						
Average sales price per gallon	$	$	$	$	$	$
Production Costs (**):						
Per Mcfe:	$ 2.19	$ 12.29	$ 2.71	$	$ 5.36	$

(*) Average production is based on a 365 day year.

(**) Production costs, exclusive of work-over costs, are costs incurred to operate and maintain wells and equipment and to pay production taxes.

Drilling, Exploration and Development Activity. During 2010, there were no wells drilled or any other exploratory or development activities conducted.

	Wells Drilled, Net Exploratory[1]		
	2010	2009	2008
U.S. Gulf of Mexico			
Productive			
Dry			1
Indonesia			
Productive			
Dry			
			1

(1) Gross interest reflects the total wells we participated in, regardless of our ownership interest.

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Customers

Revenue from customers exceeding 10% of our total revenue for 2010 and 2009 was as follows:

	Natural Gas and Oil Sales	Pipeline Operations	Customer Total	% of Total Revenue
Year Ended December 31, 2010:				
Blue Sky	$ 720,348	$	$ 720,348	26%
W&T Offshore	$	$ 557,419	$ 557,419	20%
Maritech Resources	$ 48,194	$ 296,921	$ 345,115	12%