

PRIMEENERGY CORP
Form 10-Q/A
March 25, 2009

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

FORM 10-Q/A

Quarterly Report under Section 13 or 15(d) of the Securities Exchange Act of 1934
For the Quarterly Period Ended March 31, 2008

Or

Transition Report Under Section 13 or 15(d) of the Securities Exchange Act of 1934
For the Transition Period From _____ to _____

Commission File Number 0-7406

PrimeEnergy Corporation
(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of incorporation or
organization)

84-0637348
(IRS employer identification number)

One Landmark Square, Stamford, Connecticut 06901
(Address of principal executive offices)

(203) 358-5700
(Registrant's telephone number, including area code)

(Former name, former address and former fiscal year, if changed since last report)

Indicated 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 filings required for the past 90 days.

Yes No

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer" and "smaller reporting company" in Rule 12-B of the Exchange Act.

Large Accelerated Filer
Non-Accelerated Filer
(Do not check if smaller reporting company)

Accelerated Filer
Smaller Reporting Company

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Indicated by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

The number of shares outstanding of each class of the Registrant's Common Stock as of May 12, 2008 was: Common Stock, \$0.10 par value, 3,058,979 shares.

PrimeEnergy Corporation
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 March 31, 2008

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EXPLANATORY NOTE

This Amendment No. 1 on Form 10-Q/A (the "Form 10-Q/A") amends the Quarterly Report on Form 10-Q for the quarter ended March 31, 2008 filed by PrimeEnergy Corporation (the "Company"), originally filed with the Securities and Exchange Commission on May 15, 2008. The Form 10-Q/A includes amended and restated consolidated financial statements and related financial information for the year ended December 31, 2007 and the quarters ended March 31, 2008 and 2007. This information is disclosed in Note 2 to the consolidated financial statements.

The restatement provides detail of the change in accounting method from proportionate consolidation of partnerships that the Company controls to the full consolidation method and the change in the basis of a partnership in which the Company acquired a twenty percent non-controlling interest in 2005.

The following items are included in this amendment:

- PART I -
- ITEM 1. Financial Statements
- ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

All other information contained in the original Form 10-Q remains unchanged. However, the entire report with all Items is included in this Form 10-Q/A-1 for the convenience of the reader. This Amendment No.1 on Form 10-Q/A does not reflect events occurring after the filing of our Report on Form 10-Q on May 15, 2008 or include, or otherwise modify or update, the disclosure contained therein in any way except as expressly indicated above.

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PrimeEnergy Corporation
Consolidated Balance Sheets
March 31, 2008 and December 31, 2007

	March 31, 2008 (Unaudited and Restated)	December 31 2007 (Audited and Restated)
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 22,424,000	\$ 25,373,000
Restricted cash and cash equivalents	3,678,000	3,633,000
Accounts receivable (net)	21,755,000	21,311,000
Due from related parties	131,000	32,000
Prepaid expenses	956,000	1,391,000
Derivative contracts	--	1,332,000
Inventory at cost	3,682,000	3,705,000
Deferred income tax	5,048,000	1,582,000
Total current assets	57,674,000	58,359,000
Property and equipment, at cost		
Oil and gas properties (successful efforts method), net	227,902,000	237,852,000
Field service equipment and other, net	9,327,000	8,209,000
Net property and equipment	237,229,000	246,061,000
Other assets		
	519,000	1,245,000
Total assets	\$ 295,422,000	\$ 305,665,000

See accompanying notes to the consolidated financial statements.

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PrimeEnergy Corporation
Consolidated Balance Sheets
March 31, 2008 and December 31, 2007

	March 31, 2008 (Unaudited and Restated)	December 31, 2007 (Audited and Restated)
LIABILITIES and STOCKHOLDERS' EQUITY		
Current liabilities:		
Current bank debt	\$ 26,350,000	\$ 34,950,000
Accounts payable	24,828,000	26,780,000
Current portion of asset retirement and other long term obligation	527,000	1,065,000
Derivative liability short term	12,635,000	4,340,000
Accrued liabilities	10,418,000	10,032,000
Due to related parties	446,000	520,000
Total current liabilities	75,204,000	77,687,000
Long-term bank debt	119,300,000	120,050,000
Asset retirement obligation	17,132,000	16,936,000
Derivative liability long term	7,358,000	3,369,000
Deferred income taxes	23,834,000	26,022,000
Total liabilities	242,828,000	244,064,000
Minority interest	13,962,000	12,929,000
Stockholders' equity:		
Preferred stock, \$.10 par value, authorized 5,000,000 shares, none issued	--	--
Common stock, \$.10 par value, authorized 10,000,000 shares; issued 7,694,970 in 2008 and 2007	769,000	769,000
Paid in capital	11,024,000	11,024,000
Retained earnings	75,616,000	72,885,000
Accumulated other comprehensive income(loss), net	(12,795,000)	(3,618,000)
	74,614,000	81,060,000
Treasury stock, at cost, 4,630,251 common shares at 2008 and 4,558,544 common shares at 2007	(35,982,000)	(32,388,000)
Total stockholders' equity	38,632,000	48,672,000
Total liabilities and stockholders, equity	\$ 295,422,000	\$ 305,665,000

See accompanying notes to the consolidated financial statements.

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PrimeEnergy Corporation
Consolidated Statements of Operations
Three Months Ended March 31, 2008 and 2007
(Unaudited)

	2008 Restated	2007 Restated
Revenue:		
Oil and gas sales	\$ 34,101,000	\$ 22,266,000
Field service income	6,255,000	5,896,000
Administrative overhead fees	2,199,000	2,330,000
Other income	202,000	1,000
Total revenue	42,757,000	30,493,000
Costs and expenses:		
Lease operating expense	9,706,000	7,539,000
Field service expense	4,779,000	4,551,000
Depreciation, depletion and amortization	16,920,000	7,694,000
General and administrative expense	3,225,000	3,198,000
Exploration costs	57,000	361,000
Total costs and expenses	34,687,000	23,343,000
Add gain/(loss) on sale and exchange of assets	(15,000)	263,000
Income from operations	8,055,000	7,413,000
Other income and expenses:		
Less: Interest expense	2,447,000	1,683,000
Add interest income	157,000	227,000
Less: Minority interest	1,646,000	775,000
Income before provision for income taxes	4,119,000	5,182,000
Provision for income taxes	1,388,000	1,865,000
Net income	\$ 2,731,000	\$ 3,317,000
Basic income per common share	\$ 0.88	\$ 1.03
Diluted income per common share	\$ 0.71	\$ 0.84

See accompanying notes to the consolidated financial statements.

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PrimeEnergy Corporation
 Consolidated Statement of Stockholders' Equity
 Three Months Ended March 31, 2008 (Restated)
 (Unaudited)

Balance at December 31, 2007	7,694,970	\$ 769,000	\$ 11,024,000	\$ 72,885,000	\$ (3,618,000)	\$ (32,388,000)	\$ 48,672,000
Purchased 71,707 shares of common Stock						(3,594,000)	(3,594,000)
Net income				2,731,000			2,731,000
Other comprehensive Income (Loss), net of taxes					(9,177,000)		(9,177,000)
Balance at March 31, 2008	7,694,970	\$ 769,000	\$ 11,024,000	\$ 75,616,000	\$ (12,795,000)	\$ (35,982,000)	\$ 38,632,000

See accompanying notes to the consolidated financial statements.

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PrimeEnergy Corporation
Consolidated Statements of Cash Flows
Three Months Ended March 31, 2008 and 2007
(Unaudited)

	2008 Restated	2007 Restated
Cash flows from operating activities:		
Net income	\$ 2,731,000	\$ 3,317,000
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, depletion, amortization and accretion on discounted liabilities	16,920,000	7,694,000
Dry hole and abandonment expense	--	305,000
Gain on sale of properties	15,000	(263,000)
Provision for deferred taxes	(493,000)	1,694,000
Minority interest in earnings of partnerships	1,646,000	775,000
Changes in assets and liabilities:		
(Increase) decrease in accounts receivable	16,000	3,044,000
(Increase) decrease in due from related parties	814,000	381,000
(Increase) decrease in inventories	(8,000)	(3,000)
(Increase) decrease in prepaid expenses and other assets	(14,000)	12,000
Increase (decrease) in accounts payable	601,000	(5,480,000)
Increase (decrease) in accrued liabilities	2,882,000	1,754,000
Increase (decrease) in due to related parties	(594,000)	82,000
Net cash provided by operating activities:	24,516,000	13,312,000
Cash flows from investing activities:		
Capital expenditures, including exploration expense	(13,853,000)	(41,913,000)
Proceeds from sale of property and equipment	(15,000)	263,000
Net cash (used in) investing activities:	(13,868,000)	(41,650,000)
Cash flows from financing activities:		
Purchase of treasury stock	(3,594,000)	(1,223,000)
Proceeds from long-term bank debt	29,075,000	40,160,000
Repayment of long-term bank debt	(38,510,000)	(20,220,000)
Distribution to minority interest	(568,000)	(738,000)
Net cash provided by (used in) financing activities	(13,597,000)	17,979,000
Net increase (decrease) in cash and cash equivalents	(2,949,000)	(10,359,000)
Cash and cash equivalents at the beginning of the period	25,373,000	29,056,000
Cash and cash equivalents at the end of the period	\$ 22,424,000	\$ 18,697,000

See accompanying notes to the consolidated financial statements.

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PrimeEnergy Corporation
Notes to Consolidated Financial Statements

March 31, 2008

(1) Interim Financial Statements:

The accompanying consolidated financial statements of PrimeEnergy Corporation, with the exception of the consolidated balance sheet at December 31, 2007, have not been audited by independent public accountants. In the opinion of management, the accompanying financial statements reflect all adjustments necessary to present fairly our financial position at March 31, 2008 and our income and cash flows for the three months ended March 31, 2008 and 2007. All such adjustments are of a normal recurring nature. Certain amounts presented in prior period financial statements have been reclassified for consistency with current period presentation. The results for interim periods are not necessarily indicative of annual results.

Effective January 1, 2008, the Company adopted those provisions of Statement of Financial Accounting Standards (SFAS) No. 157, "Fair Value Measurements," that were required to be adopted. There was no financial statement impact upon adoption on January 1, 2008. For further information regarding the adoption of SFAS No. 157, please refer to Note 11 of the Notes to the Consolidated Financial Statements.

SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities, including an amendment of FASB Statement No. 115," became effective on January 1, 2008 and permits companies to choose, at specified dates, to measure certain eligible financial instruments at fair value. The provisions of SFAS No. 159 apply only to entities that elect to use the fair value option and to all entities with available-for-sale and trading securities. At the effective date, companies may elect the fair value option for eligible items that exist at that date, and the effect of the first remeasurement to fair value must be reported as a cumulative-effect adjustment to the opening balance of retained earnings. Since the Company has not elected to adopt the fair value option for eligible items, SFAS No. 159 has not had an impact on its financial position or results of operations.

Recently Issued Accounting Standards:

In March 2008, the FASB issued SFAS No. 161, "Disclosure about Derivative Instruments and Hedging Activities, an amendment of FASB Statement No. 133." SFAS No. 161 amends and expands the disclosure requirements of SFAS No. 133 with the intent to provide users of financial statements with an enhanced understanding of: (i) how and why an entity uses derivative instruments; (ii) how derivative instruments and related hedged items are accounted for under SFAS No. 133 and its related interpretations; and (iii) how derivative instruments and related hedged items affect an entity's financial position, financial performance and cash flows. This statement is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, with early application encouraged. We are in the process of evaluating the impact of SFAS No. 161 on our consolidated financial statements.

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In December 2007, the FASB issued SFAS No. 160, "Noncontrolling Interest in Consolidated Financial Statements, an amendment of Accounting Research Bulletin (ARB) No. 51." SFAS No. 160 clarifies that a noncontrolling interest (previously commonly referred to as a minority interest) in a subsidiary is an ownership interest in the consolidated entity and should be reported as equity in the consolidated financial statements. The presentation of the consolidated income statement has been changed by SFAS No. 160, and consolidated net income attributable to both the parent and the noncontrolling interest is now required to be reported separately. Previously, net income attributable to the noncontrolling interest was typically reported as an expense or other deduction in arriving at consolidated net income and was often combined with other financial statement amounts. In addition, the ownership interests in subsidiaries held by parties other than the parent must be clearly identified, labeled, and presented in the equity in the consolidated financial statements separately from the parent's equity. Subsequent changes in a parent's ownership interest while the parent retains its controlling financial interest in its subsidiary should be accounted for consistently, and when a subsidiary is deconsolidated, any retained noncontrolling equity interest in the former subsidiary must be initially measured at fair value. Expanded disclosures, including a reconciliation of equity balances of the parent and noncontrolling interest are also required. SFAS No. 160 is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008 and earlier adoption is prohibited. Prospective application is required. We are in the process of evaluating the impact of SFAS No. 160 on our consolidated financial statements.

In December 2007, the FASB issued SFAS No. 141(R), "Business Combinations." SFAS No. 141(R) was issued in an effort to continue the movement toward the greater use of fair values in financial reporting and increased transparency through expanded disclosures. It changes how business acquisitions are accounted for and will impact financial statements at the acquisition date and in subsequent periods. Certain of these changes will introduce more volatility into earnings. The acquirer must now record all assets and liabilities of the acquired business at fair value, and related transaction and restructuring costs will be expensed rather than the previous method of being capitalized as part of the acquisition. SFAS No. 141(R) also impacts the annual goodwill impairment test associated with acquisitions, including those that close before the effective date of SFAS No. 141(R). The definitions of a "business" and a "business combination" have been expanded, resulting in more transactions qualifying as business combinations. SFAS No. 141(R) is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 31, 2008 and earlier adoption is prohibited. We cannot predict the impact that the adoption of SFAS No. 141(R) will have on our financial position, results of operations or cash flows with respect to any acquisitions completed after December 31, 2008.

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PrimeEnergy Corporation
Notes to Consolidated Financial Statements
March 31, 2008

(2) Financial Restatement:

The restatements reflect the change in accounting method from proportionate consolidation of partnerships that the Company controls to the full consolidation method. The Company had historically accounted for its interests in twenty limited partnerships and trusts, which own interests in oil and gas properties using the proportionate consolidation under the guidance of EITF 00-1 as related to the extractive industries. Under the guidance of EITF 04-05 the interests in limited partnerships and trusts that we control should have been fully consolidated when EITF 04-05 became effective.

The restatements also reflect the correction of gain recognition in 2005 related to the sale of assets to a partnership in which the company acquired a twenty percent non-controlling interest. The Company recorded 100% of the gain however under the guidance of EITF 01-2 the Company, since it acquired a 20% interest in the partnership, should have recorded 80% of the gain. This correction in 2005 resulted in a reduction of the Company's basis related to the partnership interest and a decrease in the current year depreciation and depletion of that asset.

The effects of the restatement on reported amounts for the periods ended March 31, 2008, December 31, 2007, and March 31, 2007 are presented below in the following tables:

RESTATED CONSOLIDATED BALANCE SHEETS

	As Reported March 2008	Cumulative Effective of Prior Year Adjustments	Current Year Adjustments	Notes	As Restated March 2008
ASSETS:					
Current assets:					
Cash and cash equivalents	\$ 17,136,000	\$ 4,060,000	\$ 1,228,000	b	\$ 22,424,000
Restricted cash and cash equivalents	3,678,000	--	--		3,678,000
Accounts receivable, net	21,579,000	963,000	(787,000)	b	21,755,000
Due from related parties	25,000	(180,000)	286,000	b	131,000
Prepaid expenses	956,000	--	--		956,000
Inventory at cost	3,690,000	(6,000)	(2,000)	b	3,682,000
Deferred income tax	5,048,000	--	--		5,048,000
Total current assets	52,112,000	4,837,000	725,000		57,674,000
Property and equipment, at cost:					
Oil and gas properties (successful efforts method), net	223,086,000	4,681,000	135,000	a,b	227,902,000
Field service equipment	9,327,000	--	--		9,327,000
Total net property and equipment	232,413,000	4,681,000	135,000		237,229,000
Other assets	454,000	65,000	--	b	519,000
Total assets	\$ 284,979,000	\$ 9,583,000	\$ 860,000		\$ 295,422,000

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PrimeEnergy Corporation
Notes to Consolidated Financial Statements
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RESTATED CONSOLIDATED BALANCE SHEETS

	As Reported March 2008	Cumulative Effective of Prior Year Adjustment	Current Year Adjustment	Notes	As Restated March 2008
LIABILITIES and STOCKHOLDERS' EQUITY:					
Current liabilities:					
Current bank debt	\$ 26,350,000	\$ --	\$ --		\$ 26,350,000
Accounts payable	25,698,000	54,000	(924,000)	b	24,828,000
Current portion of asset retirement and other long-term obligations	527,000	--	--		527,000
Derivative liability short term	12,635,000	--	--		12,635,000
Accrued liabilities	10,294,000	79,000	45,000	b	10,418,000
Due to related parties	968,000	(1,043,000)	521,000	b	446,000
Total current liabilities	76,472,000	(910,000)	(358,000)		75,205,000
Long-term bank debt	119,300,000	--	--		119,300,000
Asset retirement obligations	15,721,000	1,398,000	13,000	b	17,132,000
Derivative liability long term	7,358,000	--	--		7,358,000
Deferred income taxes	24,680,000	(908,000)	62,000	a	23,834,000
Total liabilities	243,531,000	(420,000)	(283,000)		242,829,000
Minority interest	1,313,000	11,616,000	1,033,000	b	13,962,000
Stockholders' equity:					
Preferred stock, \$.10 par value, authorized 5,000,000 shares; none issued					
Common stock, \$.10 par value, authorized 10,000,000 shares; issued 7,694,970 in 2008 and 2007					
	769,000	--	--		769,000
Paid in capital	11,024,000	--	--		11,024,000
Retained earnings	77,119,000	(1,613,000)	110,000	a	75,616,000
Accumulated other comprehensive income (loss), net	(12,795,000)	--	--		(12,795,000)
	76,117,000	(1,613,000)	110,000		74,614,000
Treasury stock, at cost 4,630,251 common shares in 2008 and 4,558,544 in 2007					
	(35,982,000)	--	--		(35,982,000)
Total stockholders' equity	40,135,000	(1,613,000)	110,000		38,632,000
	\$ 284,979,000	\$ 9,583,000	\$ 860,000		\$ 295,422,000

Total liabilities and stockholders'
equity

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PrimeEnergy Corporation
Notes to Consolidated Financial Statements
March 31, 2008

RESTATED CONSOLIDATED STATEMENT of STOCKHOLDERS' EQUITY

As Reported:

	Common Stock		Paid In Capital	Retained Earnings	Accumulated Other Comprehensive Income/Loss	Treasury Stock	Total
	Shares	Amount					
Balance at December 31, 2007	7,694,970	\$ 769,000	\$ 11,024,000	\$ 74,498,000	\$ (3,618,000)	\$(32,388,000)	\$ 50,285,000
Purchased 71,707 shares of common Stock						(3,594,000)	(3,594,000)
Net income				2,621,000			2,621,000
Other comprehensive Income, net of taxes					(9,177,000)		(9,177,000)
Balance at March 31, 2008	7,694,970	\$ 769,000	\$ 11,024,000	\$ 77,119,000	\$ (12,795,000)	\$(35,982,000)	\$ 40,135,000

As Restated:

	Common Stock		Paid In Capital	Retained Earnings	Accumulated Other Comprehensive Income/Loss	Treasury Stock	Total
	Shares	Amount					
Balance at December 31, 2007	7,694,970	\$ 769,000	\$ 11,024,000	\$ 72,885,000	\$ (3,618,000)	\$(32,388,000)	\$ 48,672,000
Purchased 71,707 shares of common Stock						(3,594,000)	(3,594,000)
Net income				2,731,000			2,731,000
Other comprehensive Income, net of taxes					(9,177,000)		(9,177,000)
Balance at March 31, 2008	7,694,970	\$ 769,000	\$ 11,024,000	\$ 75,616,000	\$ (12,795,000)	\$(35,982,000)	\$ 38,632,000

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PrimeEnergy Corporation
Notes to Consolidated Financial Statements
March 31, 2008

CONSOLIDATED STATEMENTS OF OPERATIONS

	As Reported March 2008	Current year adjustments	Notes	As Restated March 2008
Revenue:				
Oil and gas sales	\$ 31,152,000	\$ 2,949,000	b	\$ 34,101,000
Field service income	6,244,000	11,000	b	6,255,000
Administrative overhead fees	2,199,000	--		2,199,000
Other income	202,000	--		202,000
	39,797,000	2,960,000		42,757,000
Costs and expenses:				
Lease operating expense	8,593,000	1,113,000	b	9,706,000
Field service expense	4,762,000	17,000	b	4,779,000
Depreciation, depletion and amortization	16,966,000	(46,000)	a,b	16,920,000
General and administrative expense	3,128,000	97,000	b	3,225,000
Exploration costs	57,000	--		57,000
	33,506,000	1,181,000		34,687,000
Add gain on sale and exchange of assets	(15,000)	--		(15,000)
Income from operations	6,276,000	1,779,000		8,055,000
Other income and expense:				
Less: Interest expense	2,447,000	--		2,447,000
Add interest income	119,000	38,000	b	157,000
Less: Minority interest	--	1,646,000	b	1,646,000
Income before provision for income taxes	3,948,000	171,000		4,119,000
Provision for income taxes	1,327,000	61,000	a	1,388,000
Net income	\$ 2,621,000	\$ 110,000		\$ 2,731,000
Basic net income per common share	\$ 0.85	\$ 0.03		\$ 0.88
Diluted net income per common share	\$ 0.68	\$ 0.03		\$ 0.71

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PrimeEnergy Corporation
Notes to Consolidated Financial Statements
March 31, 2008

CONSOLIDATED STATEMENTS of CASH FLOWS

	As Reported March 2008	Current Year Adjustments	Notes	As Restated March 2008
Cash flows from operating activities:				
Net income	\$ 2,621,000	\$ 110,000	a	\$ 2,731,000
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation, depletion, amortization and accretion on discounted liabilities	16,966,000	(46,000)	a,b	16,920,000
Gain on sale of properties	15,000	--		15,000
Provision for deferred income taxes	(554,000)	61,000	a	(493,000)
Minority interest in earnings of partnerships	--	1,646,000	b	1,646,000
Changes in assets and liabilities:				
(Increase) decrease in accounts receivable	(1,231,000)	1,247,000	b	16,000
(Increase) decrease in due from related parties	187,000	627,000	b	814,000
(Increase) decrease in inventories	--	(8,000)	b	(8,000)
(Increase) decrease in prepaid expenses and other assets	(79,000)	65,000	b	(14,000)
Increase (decrease) in accounts payable	802,000	(201,000)	b	601,000
Increase (decrease) in accrued liabilities	3,006,000	(124,000)	b	2,882,000
Increase (decrease) in due to related parties	(594,000)	--		(594,000)
Net cash provided by operating activities	21,139,000	3,377,000		24,516,000
Cash flows from investing activities				
Capital expenditures, including exploration expense	(12,272,000)	(1,581,000)	b	(13,853,000)
Proceeds from sale of properties and equipment	(15,000)	--		(15,000)
Net cash used in investing activities	(12,287,000)	(1,581,000)		(13,868,000)
Cash flows from financing activities				
Purchase of stock for treasury	(3,594,000)	--		(3,594,000)
Increase in long-term bank debt and other long-term obligations	29,075,000	--		29,075,000
Repayment of long-term bank debt and other long-term obligations	(38,510,000)	--		(38,510,000)
Distribution to minority interest	--	(568,000)	b	(568,000)
Net cash provided by (used in) financing activities	(13,029,000)	(568,000)		(13,597,000)
Net increase(decrease) in cash and cash equivalents	(4,177,000)	1,228,000		(2,949,000)
Cash and cash equivalents at the beginning of the period	21,313,000	4,060,000	b	25,373,000
Cash and cash equivalents at the end of the period	\$ 17,136,000	\$ 5,288,000		\$ 22,424,000

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RESTATED CONSOLIDATED BALANCE SHEETS

	As Reported December 2007	Cumulative effect of Adjustments	Current Year Adjustments	Notes	As Restated December 2007
ASSETS:					
Current assets:					
Cash and cash equivalents	\$ 21,313,000	\$ 4,403,000	\$ (343,000)	b	\$ 25,373,000
Restricted cash and cash equivalents	3,633,000	--	--		3,633,000
Accounts receivable, net	20,348,000	694,000	269,000	b	21,311,000
Due from related parties	212,000	(226,000)	46,000	b	32,000
Prepaid expenses	1,391,000	--	--		1,391,000
Derivative contracts	1,332,000	--	--		1,332,000
Inventory at cost	3,711,000	(3,000)	(3,000)	b	3,705,000
Deferred income tax	1,582,000	--	--		1,582,000
Total current assets	53,522,000	4,868,000	(31,000)		58,359,000
Property and equipment, at cost:					
Oil and gas properties (successful efforts method), net	233,171,000	3,581,000	1,100,000	a,b	237,852,000
Field service equipment	8,209,000	--	--		8,209,000
Total net property and equipment	241,380,000	3,581,000	1,100,000		246,061,000
Other assets	1,180,000	67,000	(2,000)	b	1,245,000
Total assets	\$ 296,082,000	\$ 8,516,000	\$ 1,067,000		\$ 305,665,000

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RESTATED CONSOLIDATED BALANCE SHEETS

	As Reported December 2007	Cumulative Effective of Prior Year Adjustment	Current Year Adjustment	Notes	As Restated December 2007
LIABILITIES and STOCKHOLDERS' EQUITY:					
Current liabilities:					
Current bank debt	\$ 34,950,000	\$ --	\$ --		\$ 34,950,000
Accounts payable	26,726,000	(31,000)	85,000	b	26,780,000
Current portion of asset retirement and other long-term obligations	1,065,000	31,000	(31,000)	b	1,065,000
Derivative liability short term	4,340,000	--	--		4,340,000
Accrued liabilities	9,953,000	68,000	11,000	b	10,032,000
Due to related parties	1,563,000	(312,000)	(731,000)	b	520,000
Total current liabilities	78,597,000	(244,000)	(666,000)		77,687,000
Long-term bank debt	120,050,000	--	--		120,050,000
Asset retirement obligations	15,538,000	576,000	822,000	b	16,936,000
Derivative liability long term	3,369,000	--	--		3,369,000
Deferred income taxes	26,930,000	(1,093,000)	185,000	a,b	26,022,000
Total liabilities	244,484,000	(761,000)	341,000		244,064,000
Minority interest	1,313,000	11,220,000	396,000	b	12,929,000
Stockholders' equity:					
Preferred stock, \$.10 par value, authorized 5,000,000 shares; none issued					
Common stock, \$.10 par value, authorized 10,000,000 shares; issued 7,694,970 in 2007 and 2006					
	769,000	--	--		769,000
Paid in capital	11,024,000	--	--		11,024,000
Retained earnings	74,498,000	(1,943,000)	330,000	a	72,885,000
Accumulated other comprehensive income (loss), net	(3,618,000)	-	--		(3,618,000)
	82,673,000	(1,943,000)	330,000		81,060,000
Treasury stock, at cost 4,558,544 common shares in 2007 and 4,478,145 in 2006					
	(32,388,000)	-	--		(32,388,000)
Total stockholders' equity	50,285,000	(1,943,000)	330,000		48,672,000
	\$ 296,082,000	\$ 8,516,000	\$ 1,067,000		\$ 305,665,000

Total liabilities and stockholders'
equity

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CONSOLIDATED STATEMENTS OF OPERATIONS

	As Reported March 2007	Current year Adjustments	Notes	As Restated March 2007
Revenue:				
Oil and gas sales	\$ 20,329,000	\$ 1,937,000	b	\$ 22,266,000
Field service income	5,887,000	9,000	b	5,896,000
Administrative overhead fees	2,330,000	--		2,330,000
Other income	1,000	--		1,000
	28,547,000	1,946,000		30,493,000
Costs and expenses:				
Lease operating expense	6,553,000	986,000	b	7,539,000
Field service expense	4,551,000	--		4,551,000
Depreciation, depletion and amortization	7,690,000	4,000	a,b	7,694,000
General and administrative expense	3,110,000	88,000	b	3,198,000
Exploration costs	361,000	--		361,000
	22,265,000	1,078,000		23,343,000
Add gain on sale and exchange of assets	263,000	--		263,000
Income from operations	6,545,000	868,000		7,413,000
Other income and expense:				
Less: Interest expense	1,683,000	--		1,683,000
Add interest income	191,000	36,000	b	227,000
Less: Minority interest	--	775,000	b	775,000
Income before provision for income taxes	5,053,000	129,000		5,182,000
Provision for income taxes	1,819,000	46,000	a	1,865,000
Net income	\$ 3,234,000	\$ 83,000		\$ 3,317,000
Basic net income per common share	\$ 1.01	\$ 0.02		\$ 1.03
Diluted net income per common share	\$ 0.82	\$ 0.02		\$ 0.84

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CONSOLIDATED STATEMENTS of CASH FLOWS

	As Reported March 2007	Current Year Adjustments	Notes	As Restated March 2007
Cash flows from operating activities:				
Net income	\$ 3,234,000	\$ 83,000	a	\$ 3,317,000
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation, depletion, amortization and accretion on discounted liabilities	7,690,000	4,000	a,b	7,694,000
Dry hole and abandonment costs	305,000	--		305,000
Gain on sale of properties	(263,000)	--		(263,000)
Provision for deferred income taxes	1,648,000	46,000	a	1,694,000
Minority interest in earnings of partnerships	--	775,000	b	775,000
Changes in assets and liabilities:				
(Increase) decrease in accounts receivable	2,190,000	854,000	b	3,044,000
(Increase) decrease in due from related parties	205,000	176,000	b	381,000
(Increase) decrease in inventories	--	(3,000)	b	(3,000)
(Increase) decrease in prepaid expenses and other assets	(55,000)	67,000	b	12,000
Increase (decrease) in accounts payable	(5,233,000)	(247,000)	b	(5,480,000)
Increase (decrease) in accrued liabilities	1,861,000	(107,000)	b	1,754,000
Increase (decrease) in due to related parties	82,000	--		82,000
Net cash provided by operating activities	11,664,000	1,648,000		13,312,000
Cash flows from investing activities				
Capital expenditures, including exploration expense	(40,958,000)	(955,000)	b	(41,913,000)
Proceeds from sale of properties and equipment	263,000	--		263,000
Net cash used in investing activities	(40,695,000)	(955,000)		(41,650,000)
Cash flows from financing activities				
Purchase of stock for treasury	(1,223,000)	--		(1,223,000)
Increase in long-term bank debt and other long-term obligations	40,160,000	--		40,160,000
Repayment of long-term bank debt and other long-term obligations	(20,220,000)	--		(20,220,000)
Distribution to minority interest	--	(738,000)	b	(738,000)
Net cash provided by (used in) financing activities	18,717,000	(738,000)		17,979,000
Net increase(decrease) in cash and cash equivalents	(10,314,000)	(45,000)		(10,359,000)
Cash and cash equivalents at the beginning of the period	24,653,000	4,403,000	b	29,056,000
Cash and cash equivalents at the end of the period	\$ 14,339,000	\$ 4,358,000		\$ 18,697,000

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Explanatory Notes to Restated Consolidated Statements of Operations, Balance Sheets and Statements of Cash Flows

a) The correction of the recorded gain on sale of assets to a partnership in which the Company acquired a twenty percent non-controlling interest in the year ended December 31, 2005 resulted in a decrease of \$3.7 million in the basis of the acquired interest in 2005. This change in the basis of oil and gas properties resulted in a reduction of depletion and depreciation expense of \$171,000 and \$129,000 for the three months ended March 2008 and March 2007 respectively, and corresponding reductions in accumulated depletion and depreciation. The change in depletion and depreciation expense resulted in the noted change in deferred taxes.

b) The restatement of these items, net of amounts described in note a, results from the change from the proportionate consolidation method to the full consolidation method of accounting for the limited partnerships and trust we control.

(3) Significant Acquisitions, Dispositions and Property Activity

The Company makes an annual offer to repurchase the interests of the partners and trust unit holders in certain of the Partnerships. The Company purchased such interests in an amount totaling \$44,000 for the three months ending March 31, 2008 and \$371,000 for the year ending December 31, 2007.

(4) Restricted Cash and Cash Equivalents:

Restricted cash and cash equivalents include \$3,678,000 and \$3,633,000 at March 31, 2008 and December 31, 2007, respectively, of cash primarily pertaining to undistributed revenue payments. There were corresponding accounts payable recorded at March 31, 2008 and December 31, 2007 for these liabilities.

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(5) Additional Balance Sheet Information (restated)

Certain balance sheet amounts are comprised of the following:

	March 31, 2008	December 31, 2007
Accounts Receivable:		
Joint interest billing	\$ 3,076,000	\$ 3,192,000
Trade receivables	2,706,000	2,352,000
Oil and gas sales	15,474,000	14,785,000
Income tax receivable	763,000	795,000
Other	15,000	415,000
	\$ 22,034,000	\$ 21,539,000
Less, allowance for doubtful accounts	(279,000)	(228,000)
	\$ 21,755,000	\$ 21,311,000
Accounts Payable:		
Trade	\$ 9,525,000	\$ 12,364,000
Royalty and other owners	12,371,000	11,209,000
Other	2,932,000	3,207,000
Total	\$ 24,828,000	\$ 26,780,000
Accrued Liabilities:		
Compensation and related expenses	\$ 2,829,000	\$ 1,687,000
Property cost	2,428,000	4,551,000
Income tax	1,878,000	--
Other	3,283,000	3,794,000
Total	\$ 10,418,000	\$ 10,032,000

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(6) Property and Equipment (restated):

Property and equipment at March 31, 2008 and December 31, 2007 consisted of the following:

	March 31, 2008	December 31, 2007
Proved oil and gas properties, at cost	\$ 385,046,000	\$ 378,908,000
Unproved oil and gas properties, at cost	4,470,000	4,458,000
Less, accumulated depletion and depreciation	(161,614,000)	(145,514,000)
	\$ 227,902,000	\$ 237,852,000
Field service equipment and other	19,459,000	18,029,000
Less, accumulated depreciation	(10,132,000)	(9,820,000)
	\$ 9,327,000	\$ 8,209,000
Total net property and equipment	\$ 237,229,000	\$ 246,061,000

Total interest costs incurred during 2007 was \$12,984,000. Of this amount, the Company capitalized \$1,922,000. Capitalized interest is included as part of the cost of oil and gas properties. The capitalized rates are based upon the Company's weighted-average cost of borrowings used to finance the expenditures. There was no interest capitalized during the first quarter of 2008.

(7) Long-Term Bank Debt:

The Company currently has credit facilities totaling \$360 million, consisting of a \$200 million credit facility through Guaranty Bank (the offshore facility) and a \$160 million credit facility through a syndicate of banks led by Guaranty Bank (the onshore facility). The credit facilities mature in 2009. Availability under the credit facilities is based on the loan value assigned to Prime's oil and gas properties. At March 31, 2008, the borrowing bases and outstanding balances were \$96 million and \$88.25 million, respectively, under the onshore credit facility at a weighted average interest rate of 6.85%, and \$57.4 million under the offshore credit facility at a weighted average interest rate of 6.80%.

The determination of the Borrowing Base is made by the lenders taking into consideration the estimated value of Prime's oil and gas properties in accordance with the lenders' customary practices for oil and gas loans. This process involves reviewing Prime's estimated proved reserves and their valuation. The Borrowing Base is redetermined semi-annually, and the available borrowing amount could be increased or decreased as a result of such redeterminations. In addition, Prime and the lenders each have discretion at any time to have the Borrowing Base redetermined. A revision to Prime's reserves may prompt such a request on the part of the lenders, which could possibly result in a reduction in the Borrowing Base and availability under the credit facilities. If outstanding borrowings under either of the credit facilities exceed the applicable portion of the Borrowing Base, Prime would be required to repay the excess amount within a prescribed period. If we are unable to pay the excess amount, it would cause an event of default.

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The credit facilities include terms and covenants that require the Company to maintain, as defined, a minimum current ratio, tangible net worth, debt coverage ratio and interest coverage ratio, and restrictions are placed on the payment of dividends and the amount of treasury stock the Company may purchase.

The credit facilities are collateralized by substantially all of the Company's assets. The Company is required to mortgage, and grant a security interest in, consolidated proved oil and gas properties. Prime also pledged the stock of several subsidiaries to the lenders to secure the credit facilities.

The combined average interest rates paid on outstanding bank borrowings subject to interest at the bank's base rate and on outstanding bank borrowings bearing interest based upon the LIBO rate were 6.83% during the first three months of 2008 as compared to 8.79% during the same period of 2007. Currently, the borrowing base and outstanding balance under the onshore credit facility is \$96 million and 81.6 million respectively and the borrowing base and outstanding balance under the offshore credit facility is \$30.9 million.

In April 2008, the Company entered into an amended and restated credit agreement related to the offshore credit facility allowing for a subordinated credit facility with a private lender and the release of certain collateral which was then pledged to the new lender under a separate credit agreement.

Pursuant to these agreements the offshore credit facility with the bank is \$32.4 million which matures in 2009 and the new loan is \$20 million due January 2010. The new loan was provided by a related party and bears interest at the rate of 10% per annum.

In April 2008, the Company entered into an interest swap agreement for a period of two years related to \$60 million of Company debt resulting in a fixed rate of 4.375%.

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(8) Other Long-Term Obligations and Commitments:

Operating Leases:

The Company has several non-cancelable operating leases, primarily for rental of office space, that have a term of more than one year.

	Operating Leases
2008	445,000
2009	350,000
2010	71,000
2011	5,000
Thereafter	--
Total minimum payments	\$ 871,000

Asset Retirement Obligation:

A reconciliation of our liability for plugging and abandonment costs for the Three Months Ended March 31, 2008 and the year ended December 31, 2007 is as follows:

	March 31, 2008 Restated	December 31, 2007 Restated
Asset retirement obligation – beginning of period	\$ 17,361,000	\$ 7,047,000
Liabilities incurred	--	468,000
Liabilities settled	(85,000)	(367,000)
Accretion expense	282,000	461,000
Revisions in estimated liabilities	--	9,752,000
Asset retirement obligation – end of period	\$ 17,558,000	\$ 17,361,000

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The Company's liability is determined using significant assumptions, including current estimates of plugging and abandonment costs, annual inflation of these costs, the productive life of wells and our risk-adjusted interest rate. Changes in any of these assumptions can result in significant revisions to the estimated asset retirement obligation. Revisions to the asset retirement obligation are recorded with an offsetting change to producing properties, resulting in prospective changes to depreciation, depletion and amortization expense and accretion of discount. Because of the subjectivity of assumptions and the relatively long life of most of our wells, the costs to ultimately retire our wells may vary significantly from previous estimates.

(9) Contingent Liabilities:

The Company, as managing general partner of the affiliated Partnerships, is responsible for all Partnership activities, including the drilling of development wells and the production and sale of oil and gas from productive wells. The Company also provides the administration, accounting and tax preparation work for the Partnerships, and is liable for all debts and liabilities of the affiliated Partnerships, to the extent that the assets of a given limited Partnership are not sufficient to satisfy its obligations. As of March 31, 2008, the affiliated Partnerships have established cash reserves in excess of their debts and liabilities and the Company believes these reserves will be sufficient to satisfy Partnership obligations.

The Company is subject to environmental laws and regulations. Management believes that future expenses, before recoveries from third parties, if any, will not have a material effect on the Company's financial condition. This opinion is based on expenses incurred to date for remediation and compliance with laws and regulations which have not been material to the Company's results of operations.

(10) Stock Options and Other Compensation:

In May 1989, non-statutory stock options were granted by the Company to four key executive officers for the purchase of shares of common stock. At March 31, 2008 and 2007, options on 767,500 were outstanding and exercisable at prices ranging from \$1.00 to \$1.25.

(11) Related Party Transactions:

The Company, as managing general partner or managing trustee, makes an annual offer to repurchase the interest of the partners and trust unit holders in certain of the Partnerships or Trusts. The Company purchased such interests in an amount totaling \$44,000 in the first quarter 2008 and \$371,000 during 2007.

Treasury stock purchases in 2008 and 2007 included shares acquired from related parties. Purchases from related parties included 70,000 shares purchased for a total consideration of \$3,500,000 during the first quarter of 2008 and a total of 31,700 shares purchased for a total consideration of \$1,743,500 in 2007.

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Receivables from related parties consist of reimbursable general and administrative costs, lease operating expenses and reimbursement for property development and related costs. These receivables are due from joint venture partners, which may include members of the Company's Board of Directors.

Payables owed to related parties primarily represents receipts collected by the Company as agent, for the joint venture partners, which may include members of the Company's Board of Directors, for oil and gas sales net of expenses.

(12) Financial Instruments

Adoption of SFAS No. 157

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements," which establishes a formal framework for measuring fair values of assets and liabilities in financial statements that are already required by United States generally accepted accounting principles to be measured at fair value. SFAS No. 157 clarifies guidance in FASB Concepts Statement (CON) No. 7 which discusses present value techniques in measuring fair value. Additional disclosures are also required for transactions measured at fair value. SFAS No. 157 is effective for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. In February 2008, the FASB issued FASB Staff Position (FSP) No. FAS 157-2, "Effective Date of FASB Statement No. 157," which granted a one year deferral (to fiscal years beginning after November 15, 2008, and interim periods within those fiscal years) for certain non-financial assets and liabilities to comply with SFAS No. 157. The Company will adopt the provisions of FAS No. 157 covered under FSP No. 157-2 on January 1, 2009. Additionally, in February 2008, the FASB issued FSP No. FAS 157-1, "Application of FASB Statement No. 157 to FASB Statement No. 13 and Other Accounting Pronouncements That Address Fair Value Measurements for Purposes of Lease Classification or Measurement under Statement 13," which amends SFAS No. 157 to exclude SFAS No. 13 and related pronouncements that address fair value measurements for purposes of lease classification and measurement. FSP No. FAS 157-1 is effective upon the initial adoption of SFAS No. 157. The Company has adopted SFAS No. 157 and the related FSPs discussed above which did not have an impact on its financial position or results of operations for the quarter ended March 31, 2008.

As defined in SFAS No. 157, fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (exit price). The transaction is based on a hypothetical transaction in the principal or most advantageous market considered from the perspective of the market participant that holds the asset or owes the liability.

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The valuation techniques that can be used under SFAS No. 157 are the market approach, income approach or cost approach. The market approach uses prices and other information for market transactions involving identical or comparable assets or liabilities, such as matrix pricing. The income approach uses valuation techniques to convert future amounts to a single discounted present amount based on current market conditions about those future amounts, such as present value techniques, option pricing models (i.e. Black-Scholes model) and binomial models (i.e. Monte-Carlo model). The cost approach is based on current replacement cost to replace an asset.

The Company utilizes market data or assumptions that market participants who are independent, knowledgeable and willing and able to transact would use in pricing the asset or liability, including assumptions about risk and the risks inherent in the inputs to the valuation technique. These inputs can be readily observable, market corroborated or generally unobservable. The Company attempts to utilize valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. The Company is able to classify fair value balances based on the observability of those inputs. SFAS No. 157 establishes a formal fair value hierarchy based on the inputs used to measure fair value. The hierarchy gives the highest priority level 1 measurements and the lowest priority to level 3 measurements, and accordingly, level 1 measurements should be used whenever possible.

The three levels of the fair value hierarchy as defined by SFAS No. 157 are as follows:

- Level 1: Valuations utilizing quoted, unadjusted prices for identical assets or liabilities in active markets that the Company has the ability to access. This is the most reliable evidence of fair value and does not require a significant degree of judgment. Examples include exchange-traded derivatives and listed equities that are actively traded.
- Level 2: Valuations utilizing quoted prices in markets that are not considered to be active or financial instruments for which all significant inputs are observable, either directly or indirectly for substantially the full term of the asset or liability. Financial instruments that are valued using models or other valuation methodologies are included. Models used should primarily be industry-standard models that consider various assumptions and economic measures, such as interest rates, yield curves, time value, volatilities, contract terms, current market prices, credit risk or other market-corroborated inputs. Examples include most over-the-counter derivatives (non-exchange traded), physical commodities, most structured notes and municipal and corporate bonds.

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- Level 3: Valuations utilizing significant, unobservable inputs. This provides the least objective evidence of fair value and requires a significant degree of judgment. Inputs may be used with internally developed methodologies and should reflect an entity's assumptions using the best information available about the assumptions that market participants would use in pricing an asset or liability. Examples include certain corporate loans, real-estate and private equity investments and long-dated or complex over-the-counter derivatives.

Depending on the particular asset or liability, input availability can vary depending on factors such as product type, longevity of a product in the market and other particular transaction conditions. In some cases, certain inputs used to measure fair value may be categorized into different levels of the fair value hierarchy. For disclosure purposes under SFAS No. 157, the lowest level that contains significant inputs used in valuation should be chosen. Per SFAS No. 157, the Company has classified its assets and liabilities into these levels depending upon the data relied on to determine the fair values. The fair values of the Company's natural gas and crude oil price collars and swaps are valued based upon quotes obtained from counterparties to the agreements and are designated as Level 3.

The following fair value hierarchy table presents information about the Company's liabilities measured at fair value on a recurring basis as of March 31, 2008:

	Quoted Prices in Active Markets For Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance as of March 31, 2008
Liabilities				
Derivative Contracts	--	--	\$ (19,993,000)	\$ (19,993,000)

The derivative contracts were measured based on quotes from the Company's counterparties. Such quotes have been derived using a model that considers various inputs including current market and contractual prices for the underlying instruments, quoted forward prices for natural gas and crude oil, volatility factors and interest rates, such as a LIBOR curve for a similar length of time as the derivative contract term. Although the Company utilizes multiple quotes to assess the reasonableness of its values, the Company has not attempted to obtain sufficient corroborating market evidence to support classifying these derivative contracts as Level 2.

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Derivative Instruments and Hedging Activity:

The Company periodically enters into derivative commodity instruments to hedge its exposure to price fluctuations on natural gas and crude oil production. At March 31, 2008, the Company had twelve cash flow hedges open: two natural gas price swap arrangements and ten crude oil collar arrangements. At March 31, 2008, \$19.99 million (\$12.80 million net of tax) unrealized loss was recorded in Accumulated Other Comprehensive Income, along with receivable and a \$12.63 million and \$7.36 million short-term and long-term derivative payable. The change in the fair value of derivatives designated as hedges that is effective is initially recorded to Accumulated Other Comprehensive Income. The ineffective portion, if any, of the change in the fair value of derivatives designated as hedges, and the change in fair value of all other derivatives, is recorded currently in earnings as a component of oil and gas sales.

As of March 31, 2008, natural gas price swaps cover 3,990 Mmcf of production at a weighted average price of \$8.01 for 2008 and \$9.75 for 2009. The oil price collar covers 818 Mbbl of production at a floor price ranging from \$60.00 to \$65.00, a ceiling price ranging from \$77.40 to \$86.50 and a third-tier call of \$100 on one collar arrangement.

Assuming no change in commodity prices, after March 31, 2008, the Company would expect to reclassify to the Statement of Operations, over the next 12 months, \$8.56 million in after-tax loss associated with commodity hedges. This reclassification represents the net short-term payables associated with open positions currently not reflected in earnings at March 31, 2008 related to anticipated 2008 and 2009 production.

From time to time, we enter into natural gas and crude oil swap agreements with counterparties to hedge price risk associated with a portion of our production. These cash flow hedges are not held for trading purposes. Under the swap agreements, if the index price rises above the swap price, we pay the counterparty. If the index falls below the swap price, the counterparty pays us.

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Contract Period	Volume In Mbbl	Crude Oil Price Collar Weighted Average Price Floor/Ceiling/Third Tier (per Bbl)	Net Unrealized (Loss)/Gain (In thousands)
Second Quarter 2008	21	65/ \$79.25/ \$100.00	
Second Quarter 2008	51	\$ 60.00/ \$81.25	
Second Quarter 2008	15	\$ 60.00/ \$78.00	
Third Quarter 2008	20	\$ 65/ \$79.25/ \$100.00	
Third Quarter 2008	51	\$ 60.00/ \$81.25	
Third Quarter 2008	15	\$ 60.00/ \$78.00	
Fourth Quarter 2008	18	\$ 65/ \$79.25/ \$100.00	
Fourth Quarter 2008	51	\$ 60.00/ \$81.25	
Fourth Quarter 2008	15	\$ 60.00/ \$78.00	
Full Year 2008	257		\$ (3,090)
First Quarter 2009	51	\$ 60/ \$79.70	
First Quarter 2009	6	\$ 60/ \$77.75	
First Quarter 2009	12	\$ 65/ \$86.50	
Second Quarter 2009	17	\$ 60/ \$79.70	
Second Quarter 2009	38	\$ 60/ \$77.40	
Second Quarter 2009	2	\$ 60/ \$77.75	
Second Quarter 2009	12	\$ 65/ \$86.50	
Third Quarter 2009	57	\$ 60/ \$77.40	
Third Quarter 2009	12	\$ 65/ \$86.50	
Fourth Quarter 2009	57	\$ 60/ \$77.40	
Fourth Quarter 2009	12	\$ 65/ \$86.50	
Full Year 2009	276		\$ (2,520)
First Quarter 2010	51	\$ 65/ \$80.90	
First Quarter 2010	9	\$ 65/ \$84.14	
Second Quarter 2010	51	\$ 65/ \$80.90	
Second Quarter 2010	9	\$ 65/ \$84.14	
Third Quarter 2010	51	\$ 65/ \$80.90	
Third Quarter 2010	9	\$ 65/ \$84.14	
Fourth Quarter 2010	51	\$ 65/ \$80.90	
Fourth Quarter 2010	9	\$ 65/ \$84.14	
Full Year 2010	240		\$ (1,911)
First Quarter 2011	45	\$ 65/ \$84.14	
Full Year 2011	45		\$ (281)

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PrimeEnergy Corporation
Notes to Consolidated Financial Statements

March 31, 2008

At March 31, 2008, we had two natural gas price swap contracts covering our 2008 and 2009 production as follows:

Natural Gas Price Swaps			
Contract Period	Volume in Mmcf	Weighted Average Price (per Mcf)	Net Unrealized Gain (In thousands)
Second Quarter 2008	1,005	8.07	(1,198)
Third Quarter 2008	1,005	8.07	(1,397)
Fourth Quarter 2008	1,005	8.07	(1,612)
Full Year 2008	3,015	\$ 8.01	\$ (4,207)
First Quarter 2009	975	\$ 9.75	\$ (790)
Full Year 2009	975	\$ 9.75	\$ (790)

We are exposed to market risk on these open contracts, to the extent of changes in market prices of natural gas and crude oil. However, the market risk exposure on these hedged contracts is generally offset by the gain or loss recognized upon the ultimate sale of the commodity that is hedged.

The preceding paragraphs contain forward-looking information concerning future production and projected gains and losses, which may be impacted both by production and by changes in future market prices of energy commodities. See "Forward-Looking Information" for further details.

In April 2008, the Company entered into an interest rate swap agreement for a period of two years related to \$60 million of Company debt resulting in a fixed rate of 4.375%.

(13) Income Per Share:

Basic earnings per share are computed by dividing earnings available to common stockholders by the weighted average number of common shares outstanding during the period. Diluted earnings per share reflect per share amounts that would have resulted if dilutive potential common stock had been converted to common stock. The following reconciles amounts reported in the financial statements:

	Three Months Ended March 31, 2008			Three Months Ended March 31, 2007		
	Net Income	Number of Shares	Per Share Amount	Net Income	Number of Shares	Per Share Amount
Net income per common share	\$ 2,731,000	3,090,276	\$ 0.88	\$ 3,317,000	3,210,526	\$ 1.03
Effect of dilutive securities:						
Options		752,651			752,904	
Diluted net income per common share	\$ 2,731,000	3,842,927	\$ 0.71	\$ 3,317,000	3,963,430	\$ 0.84

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PrimeEnergy Corporation

March 31, 2008

Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This discussion should be read in conjunction with the financial statements of the Company and notes thereto. The Company's subsidiaries are defined in Note 1 of the financial statements.

LIQUIDITY AND CAPITAL RESOURCES

Cash flow provided by operations for the three month period ended March 31, 2008 was \$24,516,000. Excluding the effects of significant unforeseen expenses or other income, our cash flow from operations fluctuates primarily because of variations in oil and gas production and prices or changes in working capital accounts. Our oil and gas production will vary based on actual well performance but may be curtailed due to factors beyond our control. Hurricanes in the Gulf of Mexico may shut down our production for the duration of the storm's presence in the Gulf or damage production facilities so that we cannot produce from a particular property for an extended amount of time. In addition, downstream activities on major pipelines in the Gulf of Mexico can also cause us to shut-in production for various lengths of time.

Our realized oil and gas prices vary due to world political events, supply and demand of products, product storage levels, and weather patterns. We sell the vast majority of our production at spot market prices. Accordingly, product price volatility will affect our cash flow from operations. To mitigate price volatility we sometimes lock in prices for some portion of our production through the use of financial instruments.

The Company's activities include development and exploratory drilling. The Company's strategy is to develop a balanced portfolio of drilling prospects that includes lower risk wells with a high probability of success and higher risk wells with greater economic potential.

For 2008 we have budgeted \$60 million for exploration and development in our core operating areas. As of May, 2008, the Company has committed approximately \$18 million on wells in these areas that have been spudded since January 1, 2008. We expect to continue to make significant capital expenditures over the next several years as part of our long-term growth strategy.

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PrimeEnergy Corporation

March 31, 2008

Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

If our exploratory drilling results in significant new discoveries, we will have to expend additional capital in order to finance the completion, development, and potential additional opportunities generated by our success. We believe that, because of the additional reserves resulting from the successful wells and our record of reserve growth in recent years, we will be able to access sufficient additional capital through additional bank financing.

The Company has in place both a stock repurchase program and a limited partnership interest repurchase program. Spending under these programs in 2007 was \$4.8 million. The Company expects to expend a similar amount in 2008.

The Company currently maintains two credit facilities totaling \$360 million, with a combined current borrowing base of \$126.90 million. The bank reviews the borrowing base semi-annually and, at their discretion, may decrease or propose an increase to the borrowing base relative to a redetermined estimate of proved oil and gas reserves. Our oil and gas properties are pledged as collateral for the line of credit and we are subject to certain financial covenants defined in the agreement. We are currently in compliance with these financial covenants. If we do not comply with these covenants on a continuing basis, the lenders have the right to refuse to advance additional funds under the facility and/or declare all principal and interest immediately due and payable.

In April 2008, the Company entered into an amended and restated credit agreement related to the offshore credit facility allowing for a subordinated credit facility with a private lender and the release of certain collateral which was then pledged to the new lender under a separate credit agreement.

Pursuant to these agreements the offshore credit facility with the bank is \$32.4 million which matures in 2009 and the new loan is \$20 million due January 2010. The new loan was provided by a related party and bears interest at the rate of 10% per annum.

It is the goal of the Company to increase its oil and gas reserves and production through the acquisition and development of oil and gas properties. The Company also continues to explore and consider opportunities to further expand its oilfield servicing revenues through additional investment in field service equipment. However, the majority of the Company's capital spending is discretionary, and the ultimate level of expenditures will be dependent on the Company's assessment of the oil and gas business environment, the number and quality of oil and gas prospects available, the market for oilfield services, and oil and gas business opportunities in general.

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PrimeEnergy Corporation

March 31, 2008

Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

RESULTS OF OPERATIONS

Revenues and net income during the three month period ended March 31, 2008, as compared to the same periods in 2007 reflect the increased oil and gas sales, presented below, offset by exploration costs and depreciation and depletion of oil and gas properties. The table summarizes production volumes and average sales prices realized (including realized gains and losses from derivatives).

	Three Months Ended March 31, Restated		
	2008	2007	Increase / (Decrease)
Barrels of Oil Produced	156,000	105,000	51,000
Average Price Received	\$ 78.45	\$ 55.88	\$ 22.57
Oil Revenue	\$ 12,238,000	\$ 5,867,000	\$ 6,371,000
Mcf of Gas Produced	2,382,000	2,022,000	360,000
Average Price Received	\$ 9.18	\$ 8.11	\$ 1.07
Gas Revenue	\$ 21,863,000	\$ 16,399,000	\$ 5,464,000
Total Oil & Gas Revenue	\$ 34,101,000	\$ 22,266,000	\$ 11,835,000

Oil and gas prices received excluding the impact of derivatives were;

	Three Months Ended March 31, Restated		
	2008	2007	Increase / (Decrease)
Oil Price	\$ 88.20	\$ 53.84	\$ 34.36
Gas Price	\$ 8.77	\$ 6.52	\$ 2.25

Changes in production are due to production from properties added during 2007 and early 2008 offset by the natural decline of existing properties. The increase in oil production is related to our onshore drilling program while the increase in gas production reflects the continued production from our offshore drilling program.

Lease operating expense for the three months of 2008 increased by \$2,167,000 compared to 2007 due to the addition of lease operating expenses of new properties, and overall price increases in oil field services.

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PrimeEnergy Corporation

March 31, 2008

Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

General and administrative expenses remained flat in the first three months of 2008 as compared to 2007.

Field Service income and expense for the three months of 2008 increased \$359,000 and \$228,000, respectively, compared to 2007. These increases reflect higher utilization of equipment combined with an upward trend in rates and costs during 2008.

Depreciation, depletion and amortization expense increased to \$16,920,000 in 2008 from \$7,694,000 in 2007. This increase is primarily related to the offshore facilities placed in service during the first quarter of 2008.

This Report contains forward-looking statements that are based on management's current expectations, estimates and projections. Words such as "expects," "anticipates," "intends," "plans," "believes," "projects" and "estimates," and variations of such words and similar expressions are intended to identify such forward-looking statements. These statements constitute "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, and are subject to the safe harbors created thereby. These statements are not guarantees of future performance and involve risks and uncertainties and are based on a number of assumptions that could ultimately prove inaccurate and, therefore, there can be no assurance that they will prove to be accurate. Actual results and outcomes may vary materially from what is expressed or forecast in such statements due to various risks and uncertainties. These risks and uncertainties include, among other things, the possibility of drilling cost overruns and technical difficulties, volatility of oil and gas prices, competition, risks inherent in the Company's oil and gas operations, the inexact nature of interpretation of seismic and other geological and geophysical data, imprecision of reserve estimates, and the Company's ability to replace and expand oil and gas reserves. Accordingly, stockholders and potential investors are cautioned that certain events or circumstances could cause actual results to differ materially from those projected.

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Interest rate and swap activity.

The Company is exposed to interest rate risk on its line of credit, which has variable rates based upon the lenders base rate, as defined, and the London Inter-Bank Offered rate. Based on the weighted average balances outstanding during the first quarter of 2008, a hypothetical 2.5% increase in the applicable interest rates would have increased interest expense for the Three Months Ended March 31, 2008 by approximately \$711,000.

In April 2008, the Company entered into an interest rate swap agreement for a period of two years related to \$60 million of Company debt resulting in a fixed rate of 4.37%.

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PrimeEnergy Corporation

March 31, 2008

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK (Continued)

Derivative Instruments and Hedging Activity.

Our hedging strategy is designed to reduce the risk of price volatility for our production in the natural gas and crude oil markets. Our hedging arrangements apply to only a portion of our production and provide only partial price protection. These hedging arrangements limit the benefit to us of increases in prices, but offer protection in the event of price declines. Further, if our counterparties defaulted, this protection might be limited as we might not receive the benefits of the hedges. Please read the discussion below and Note 11 of the Notes to Consolidated Financial Statements for a more detailed discussion of our hedging arrangements.

Hedges on Production – Collars.

From time to time, we enter into natural gas and crude oil collar agreements with counterparties to hedge price risk associated with a portion of our production. These cash flow hedges are not held for trading purposes. Under the collar arrangements, if the index price rises above the ceiling price, we pay the counterparty. If the index price falls below the floor price, the counterparty pays us. In the case of a three-way collar if the index price rises above the third tier price, the counterparty pays us.

Hedges on Production – Swaps.

From time to time, we enter into natural gas and crude oil swap agreements with counterparties to hedge price risk associated with a portion of our production. These cash flow hedges are not held for trading purposes. Under the swap agreements, if the index price rises above the swap price, we pay the counterparty. If the index falls below the swap price, the counterparty pays us.

Item 4. CONTROLS AND PROCEDURES

As of the end of the current reported period covered by this report, the Company carried out an evaluation, under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures pursuant to Rules 13a-15 and 15d-15 of the Securities Exchange Act of 1934 (the "Exchange Act"). Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures are effective, in all material respects, with respect to the recording, processing, summarizing and reporting, within the time periods specified in the Commission's rules and forms, of information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act.

There were no significant changes in the Company's internal control over financial reporting that occurred during the first quarter of 2008 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

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PrimeEnergy Corporation

March 31, 2008

PART II - OTHER INFORMATION

Item 1. LEGAL PROCEEDINGS

From time to time, the Company is party to certain legal actions and claims arising in the ordinary course of business. While the outcome of these events cannot be predicted with certainty, management does not expect these matters to have a materially adverse effect on the financial position or results of operations of the Company.

Item 2. CHANGES IN SECURITIES AND USE OF PROCEEDS

During the Three Months Ended March 31, 2008, the Company purchased the following shares of common stock as treasury shares.

2008 Month	Number of Shares	Average Price Paid per share	Maximum Number of Shares that May Yet Be Purchased Under The Plan (1)
January	60,684	\$ 50.06	224,871
February	558	\$ 54.68	224,313
March	10,465	\$ 50.25	213,848
Total/Average	71,707	\$ 50.12	

(1) In December 1993, we announced that our board of directors authorized a stock repurchase program whereby we may purchase outstanding shares of our common stock from time-to-time, in open market transactions or negotiated sales. A total of 2,700,000 shares have been authorized, to date, under this program. Through March 31, 2008 we repurchased a total of 2,486,152 shares under this program for \$32,702,965 at an average price of \$13.15 per share. Additional purchases may occur as market conditions warrant. We expect future purchases will be funded with internally generated cash flow or from working capital.

Item 3. DEFAULTS UPON SENIOR SECURITIES

None

Item 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None

Item 5. OTHER INFORMATION

None

Item 6. EXHIBITS AND REPORTS ON FORM 8K

No reports on form 8K were filed by the Company during the Three Months Ended March 31, 2008.

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SIGNATURES

Pursuant to the requirements of the Securities and Exchange Act of 1934, Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

PrimeEnergy Corporation
(Registrant)

March 25, 2009
(Date)

/s/ Charles E. Drimal, Jr.

Charles E. Drimal, Jr.
President
Principal Executive Officer

March 25, 2009
(Date)

/s/ Beverly A. Cummings

Beverly A. Cummings
Executive Vice President
Principal Financial and Accounting Officer