

PRIMEENERGY CORP
Form 10-Q/A
September 03, 2009

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q/A

Amendment No. 1

Quarterly Report under Section 13 or 15(d) of the Securities Exchange Act of 1934
For the Quarterly Period Ended March 31, 2009

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)

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Delaware
(State or other jurisdiction of

84-0637348
(IRS employer

incorporation or organization)

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 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 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

Accelerated Filer

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

Smaller Reporting Company

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 11, 2009 was: Common Stock, \$0.10 par value, 3,040,872 shares.

EXPLANATORY NOTE

We are filing this Amendment No. 1 to our Quarterly Report on Form 10-Q, or Form 10-Q/A, to amend Item 1 in our Quarterly Report on Form 10-Q for the quarter ended March 31, 2009, or the Quarterly report, which was originally filed with the Securities and Exchange Commission, or the SEC, on May 20, 2009. The diluted income (loss) per common share was incorrect on the face of the income statement as well as in Note 12 of The Notes to Consolidated Financial Statements. The error does not affect any other amounts reported on the corresponding financial statements for the periods reported. In addition, we are filing or furnishing, as indicated in this Form 10-Q/A, as exhibits, the required currently dated certifications.

The Form 10-Q/A is limited in scope to such items and does not amend, update, or change any other items or disclosures contained in the Quarterly Report. Accordingly, other items that remain unaffected are omitted in this filing. Except as described in this paragraph, we do not purport by this Form 10-Q/A to update any of the information contained in the Quarterly Report.

References in this Form 10-Q/A to we , us , the Company and PEC refer to PrimeEnergy Corporation and its wholly- owned subsidiaries, unless otherwise indicated or as otherwise required by the context.

PART I FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS

PrimeEnergy Corporation

Consolidated Balance Sheet

March 31, 2009 and December 31, 2008

| | March 31, 2009 (Unaudited) | December 31, 2008 (Audited) |
|---|----------------------------------|-----------------------------------|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 11,593,000 | \$ 11,808,000 |
| Restricted cash and cash equivalents | 8,182,000 | 8,027,000 |
| Accounts receivable (net) | 11,376,000 | 18,257,000 |
| Due from related parties | 239,000 | 678,000 |
| Prepaid expenses | 820,000 | 1,302,000 |
| Derivative contracts | 1,476,000 | 1,755,000 |
| Inventory at cost | 4,506,000 | 4,532,000 |
| Deferred income tax | 67,000 | 30,000 |
| Total current assets | 38,259,000 | 46,389,000 |
| Property and equipment, at cost | | |
| Oil and gas properties (successful efforts method), net | 205,078,000 | 212,149,000 |
| Field service equipment and other, net | 7,889,000 | 8,316,000 |
| Net property and equipment | 212,967,000 | 220,465,000 |
| Other assets | 731,000 | 976,000 |
| Total assets | \$ 251,957,000 | \$ 267,830,000 |

See accompanying notes to the consolidated financial statements.

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PrimeEnergy Corporation

Consolidated Balance Sheet

March 31, 2009 and December 31, 2008

| | March 31, 2009 (Unaudited) | December 31, 2008 (Audited) |
|--|----------------------------------|-----------------------------------|
| LIABILITIES and STOCKHOLDERS EQUITY | | |
| Current liabilities: | | |
| Current bank debt | \$ 14,370,000 | \$ 16,970,000 |
| Accounts payable | 23,820,000 | 26,715,000 |
| Current portion of asset retirement and other long term obligation | 1,506,000 | 1,461,000 |
| Derivative liability short term | 494,000 | 387,000 |
| Accrued liabilities | 5,734,000 | 10,477,000 |
| Due to related parties | 402,000 | 233,000 |
| Total current liabilities | 46,326,000 | 56,243,000 |
| Long-term bank debt | 88,220,000 | 87,170,000 |
| Indebtedness to related parties | 20,000,000 | 20,000,000 |
| Asset retirement obligation | 18,130,000 | 18,650,000 |
| Derivative liability long term | 7,000 | 146,000 |
| Deferred income taxes | 23,914,000 | 25,688,000 |
| Total liabilities | 196,597,000 | 207,897,000 |
| 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 2009 and 2008 | 769,000 | 769,000 |
| Paid in capital | 11,024,000 | 11,024,000 |
| Retained earnings | 69,928,000 | 73,426,000 |
| Accumulated other comprehensive income, net | 775,000 | 1,009,000 |
| | 82,496,000 | 86,228,000 |
| Treasury stock, at cost, 4,653,152 common shares at 2009 and 4,647,316 common shares at 2008 | (37,165,000) | (36,940,000) |
| Total stockholders equity | 45,331,000 | 49,288,000 |
| Non-controlling interest | 10,029,000 | 10,645,000 |
| Total equity | 55,360,000 | 59,933,000 |
| Total liabilities and equity | \$ 251,957,000 | \$ 267,830,000 |

See accompanying notes to the consolidated financial statements.

PrimeEnergy Corporation

Consolidated Statement of Operations

Three Months Ended March 31, 2009 and 2008

(Unaudited)

| | 2009 | 2008 |
|--|-----------------------|---------------------|
| Revenue: | | |
| Oil and gas sales | \$ 16,038,000 | \$ 34,101,000 |
| Field service income | 4,958,000 | 6,255,000 |
| Administrative overhead fees | 2,269,000 | 2,199,000 |
| Other income | 12,000 | 202,000 |
| Total revenue | 23,277,000 | 42,757,000 |
| Costs and expenses: | | |
| Lease operating expense | 8,227,000 | 9,706,000 |
| Field service expense | 4,065,000 | 4,779,000 |
| Depreciation, depletion and amortization | 11,768,000 | 16,920,000 |
| General and administrative expense | 2,857,000 | 3,225,000 |
| Exploration costs | 6,000 | 57,000 |
| Total costs and expenses | 26,923,000 | 34,687,000 |
| Gain/(loss) on sale and exchange of assets | 96,000 | (15,000) |
| Income/(loss) from operations | (3,550,000) | 8,055,000 |
| Other income and expenses: | | |
| Less: interest expense | 1,566,000 | 2,447,000 |
| Add interest income | 10,000 | 157,000 |
| Income/(loss) before provision/(benefit) for income taxes | (5,106,000) | 5,765,000 |
| Provision/(benefit) for income taxes | (1,623,000) | 1,388,000 |
| Net income/(loss) | (3,483,000) | 4,377,000 |
| Income/(loss) attributable to the non-controlling interest | (15,000) | (1,646,000) |
| Net income/(loss) attributable to PrimeEnergy | \$ (3,498,000) | \$ 2,731,000 |
| Basic income/(loss) per common share | \$ (1.15) | \$ 0.88 |
| Diluted income/(loss) per common share | \$ (1.15) | \$ 0.71 |

See accompanying notes to the consolidated financial statements.

PrimeEnergy Corporation

Consolidated Statement of Stockholders' Equity

Three Months Ended March 31, 2009

(Unaudited)

| | Common Stock | | Paid in Capital | Retained Earnings | Accumulated Other Comprehensive Income/Loss | Treasury Stock | Total Stockholders Equity | Non-Controlling Interest | Total Equity |
|---|--------------|------------|-----------------|-------------------|---|-----------------|---------------------------|--------------------------|---------------|
| | Shares | Amount | | | | | | | |
| Balance at December 31, 2008 | 7,694,970 | \$ 769,000 | \$ 11,024,000 | \$ 73,426,000 | \$ 1,009,000 | \$ (36,940,000) | \$ 49,288,000 | \$ 10,645,000 | \$ 59,933,000 |
| Purchased 5,836 shares of common stock | | | | | | (225,000) | (225,000) | | (225,000) |
| Net loss | | | | (3,498,000) | | | (3,498,000) | 15,000 | (3,483,000) |
| Other comprehensive income/(loss), net of taxes | | | | | (234,000) | | (234,000) | | (234,000) |
| Distributions to non-controlling interests | | | | | | | | (631,000) | (631,000) |
| Balance at March 31, 2009 | 7,694,970 | \$ 769,000 | \$ 11,024,000 | \$ 69,928,000 | \$ 775,000 | \$ (37,165,000) | \$ 45,331,000 | \$ 10,029,000 | \$ 55,360,000 |

See accompanying notes to the consolidated financial statements.

PrimeEnergy Corporation

Consolidated Statement of Comprehensive Income

| | Quarter Ended March 31, 2009 | Quarter Ended March 31, 2008 |
|--|------------------------------------|------------------------------------|
| Net Income/(loss) | \$ (3,498,000) | \$ 2,731,000 |
| Other Comprehensive Income/(Loss), net of taxes: | | |
| Reclassification Adjustment for Settled Contracts, net of taxes of \$403,000 and \$208,000, respectively | (716,000) | 368,000 |
| Changes in Fair Value of Hedge Positions, net of taxes of \$271,000 and \$5,369,000, respectively | 482,000 | (9,545,000) |
| Total Other Comprehensive Income/(Loss) | (234,000) | (9,177,000) |
| Comprehensive Income/(loss) | (3,732,000) | (6,446,000) |
| Comprehensive loss attributable to non-controlling interest | (15,000) | (1,646,000) |
| Comprehensive income/(loss) attributable to common stockholders | \$ (3,717,000) | \$ (4,800,000) |

See accompanying notes to the consolidated financial statements.

PrimeEnergy Corporation

Consolidated Statements of Cash Flows

Three Months Ended March 31, 2009 and 2008

(Unaudited)

| | 2009 | 2008 |
|---|----------------|---------------|
| Cash flows from operating activities: | | |
| Net income/(loss) | \$ (3,498,000) | \$ 2,731,000 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation, depletion, amortization and accretion on discounted liabilities | 11,768,000 | 16,920,000 |
| Dry hole and abandonment expense | | |
| Gain/(loss) on sale of properties | (96,000) | 15,000 |
| Provision for deferred taxes | (1,781,000) | (493,000) |
| Non-controlling interest in earnings of partnerships | (15,000) | 1,646,000 |
| Changes in assets and liabilities: | | |
| (Increase) decrease in accounts receivable | 6,880,000 | 16,000 |
| (Increase) decrease in due from related parties | 439,000 | 814,000 |
| (Increase) decrease in inventories | 26,000 | (8,000) |
| (Increase) decrease in prepaid expenses and other assets | 142,000 | (14,000) |
| Increase (decrease) in accounts payable | (2,864,000) | 601,000 |
| Increase (decrease) in accrued liabilities | (212,000) | 2,882,000 |
| Increase (decrease) in due to related parties | 170,000 | (594,000) |
| Net cash provided by operating activities: | 10,959,000 | 24,516,000 |
| Cash flows from investing activities: | | |
| Capital expenditures, including exploration expense | (8,611,000) | (13,853,000) |
| Proceeds from sale of property and equipment | 96,000 | (15,000) |
| Net cash (used in) investing activities | (8,515,000) | (13,868,000) |
| Cash flows from financing activities: | | |
| Purchase of treasury stock | (225,000) | (3,594,000) |
| Proceeds from long-term bank debt | 20,520,000 | 29,075,000 |
| Repayment of long-term bank debt | (22,323,000) | (38,510,000) |
| Distribution to non-controlling interest | (631,000) | (568,000) |
| Net cash (used in) financing activities | (2,659,000) | (13,597,000) |
| Net (decrease) in cash and cash equivalents | (215,000) | (2,949,000) |
| Cash and cash equivalents at the beginning of the period | 11,808,000 | 25,373,000 |
| Cash and cash equivalents at the end of the period | \$ 11,593,000 | \$ 22,424,000 |

See accompanying notes to the consolidated financial statements.

PrimeEnergy Corporation

Notes to Consolidated Financial Statements

March 31, 2009

(1) Interim Financial Statements:

The accompanying consolidated financial statements of PrimeEnergy Corporation (PEC), with the exception of the consolidated balance sheet at December 31, 2008, 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, 2009 and our income and cash flows for the three months ended March 31, 2009 and 2008. 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.

Recently Adopted Accounting Standards

On January 1, 2009, the Company adopted Statement of Financial Accounting Standards (SFAS) No. 160, Noncontrolling Interests in Consolidated Financial Statements An Amendment of ARB No. 51 (SFAS 160). SFAS 160 establishes accounting and reporting standards for (1) ownership interests in subsidiaries held by others, (2) the amount of consolidated net income attributable to the controlling and noncontrolling interests, (3) changes in the controlling ownership interest, (4) the valuation of retained noncontrolling equity investments when a subsidiary is deconsolidated and (5) disclosures that clearly identify and distinguish the interests of the controlling and noncontrolling owners. The adoption of SFAS 160 resulted in changes to our presentation for noncontrolling interests but did not have a material impact on the Company's results of operations and financial condition. Certain prior period balances have been restated to reflect the changes required by SFAS 160.

Recently Issued Accounting Pronouncements

In April 2009, the FASB issued FSP FAS No. 115-2 and No. 124-2, Recognition and Presentation of Other-Than-Temporary Impairments. FSP SFAS No. 115-2 and SFAS No. 124-2 provide additional guidance designed to create greater clarity and consistency in accounting for and presenting impairment losses on securities. FSP SFAS No. 115-2 and SFAS No. 124-2 are effective for interim and annual reporting periods beginning after June 15, 2009 and are effective for us at June 30, 2009. We have not yet determined the impact, if any, that these pronouncements will have on our results of operations or financial position.

In April 2009, the FASB issued FSP No. 157-4, Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly. FSP No. 157-4 provides additional authoritative guidance to assist in determining whether a market is active or inactive, and whether a transaction is distressed. FSP No. 157-4 is effective for interim and annual reporting periods beginning after June 15, 2009 and is effective for us at June 30, 2009. We have not yet determined the impact, if any, that the FSP will have on our results of operations or financial position.

Management believes the impact of other recently issued accounting standards, which are not yet effective, will not have a material impact on our consolidated financial statements upon adoption.

On December 29, 2008, the Securities and Exchange Commission adopted rule changes to modernize its oil and gas reporting disclosures. The changes are intended to provide investors with a more meaningful and comprehensive understanding of oil and gas reserves. The updated disclosure requirements are designed to align with current practices and changes in technology that have taken place in the oil and gas industry since the adoption of the original reporting requirements more than 25 years ago.

New disclosure requirements include:

Permitting the use of new technologies to determine proved reserves if those technologies have been demonstrated empirically to lead to reliable conclusions about reserve volumes.

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Enabling companies to additionally disclose their probably and possible reserves to investors. Currently, the rules limit disclosure to only proved reserves.

Allowing previously excluded resources, such as oil sands, to be classified as oil and gas reserves.

Requiring companies to report on the independence and qualifications of a preparer or auditor and requiring companies to file reports when a third party is relied upon to prepare reserve estimates or conduct a reserves audit.

Requiring companies to report oil and gas reserves using an average price based upon the prior 12-month period rather than the year-end price to maximize the comparability to reserve estimates among companies and mitigate the distortion of the estimates that arises when using a single pricing date.

(2) 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 and Trusts. The Company did not purchase any interests in the Partnerships or Trusts for the three months ended March 31, 2009. The amount purchased for the year ended December 31, 2008 was \$481,000.

(3) Restricted Cash and Cash Equivalents:

Restricted cash and cash equivalents include \$8,182,000 and \$8,027,000 at March 31, 2009 and December 31, 2008, respectively, of cash primarily pertaining to undistributed revenue payments. There were corresponding accounts payable recorded at March 31, 2009 and December 31, 2008 for these liabilities.

(4) Additional Balance Sheet Information

Certain balance sheet amounts are comprised of the following:

| | March 31, 2009 | December 31, 2008 |
|------------------------------------|----------------------|----------------------|
| <u>Accounts Receivable:</u> | | |
| Joint interest billing | \$ 2,981,000 | \$ 2,244,000 |
| Trade receivables | 1,488,000 | 7,270,000 |
| Oil and gas sales | 6,331,000 | 8,426,000 |
| Other | 1,133,000 | 608,000 |
| | 11,933,000 | 18,548,000 |
| Allowance for doubtful accounts | (557,000) | (291,000) |
| | \$ 11,376,000 | \$ 18,257,000 |
| <u>Accounts Payable:</u> | | |
| Trade | \$ 10,441,000 | \$ 9,753,000 |
| Royalty and other owners | 10,067,000 | 13,215,000 |
| Other | 3,312,000 | 3,747,000 |
| Total | \$ 23,820,000 | \$ 26,715,000 |
| <u>Accrued Liabilities:</u> | | |
| Compensation and related expenses | \$ 2,543,000 | \$ 2,185,000 |
| Property cost | 663,000 | 5,582,000 |
| Income tax | 504,000 | 504,000 |
| Other | 2,024,000 | 2,206,000 |
| Total | \$ 5,734,000 | \$ 10,477,000 |

(5) Property and Equipment:

Property and equipment at March 31, 2009 and December 31, 2008 consisted of the following:

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| | March 31, 2009 | December 31, 2008 |
|--|---------------------------|------------------------------|
| Proved oil and gas properties, at cost | \$ 431,017,000 | \$ 427,174,000 |
| Unproved oil and gas properties, at cost | 2,413,000 | 2,409,000 |
| Accumulated depletion and depreciation | (228,352,000) | (217,434,000) |
| | \$ 205,078,000 | \$ 212,149,000 |
| Field service equipment and other | 19,193,000 | 19,513,000 |
| Accumulated depreciation | (11,304,000) | (11,197,000) |
| | \$ 7,889,000 | \$ 8,316,000 |
| Total net property and equipment | \$ 212,967,000 | \$ 220,465,000 |

(6) 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 offshore facility's maturity date is 2009 and onshore credit facility matures in 2011.

Availability under the credit facilities is based on the loan value assigned to PEC's oil and gas properties. The determination of the Borrowing Base is made by the lenders taking into consideration the estimated value of PEC's oil and gas properties in accordance with the lenders' customary practices for oil and gas loans. This process involves reviewing PEC's estimated proved reserves and their valuation. The Borrowing Base is re-determined semi-annually, and the available borrowing amount could be increased or decreased as a result of such redeterminations. In addition, PEC and the lenders each have discretion at any time to have the Borrowing Base re-determined. A revision to PEC'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, PEC would be required to repay the excess amount within a prescribed period. If the Company is unable to pay the excess amount, it would cause an event of default.

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. PEC also pledged the stock of several subsidiaries to the lenders to secure the credit facilities.

During the second quarter 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.

At March 31, 2009, the borrowing bases and outstanding balances of the Company's bank debt were \$112 million and \$88.22 million, respectively, under the onshore credit facility at a weighted average interest rate of 4.55%, and \$14.37 million under the offshore credit facility at a weighted average interest rate of 3.83%. Total outstanding bank debt was \$102.59 million at March 31, 2009. 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 4.43% during 2009 as compared to 5.64% during 2008. Beginning June 1, 2009 the onshore credit facility will be subject to a monthly borrowing base reduction of 1.2 million.

The Company entered into interest rate hedge agreements to help manage interest rate exposure. These contracts include interest rate swaps. Interest rate swap transactions generally involve the exchange of fixed and floating rate interest payment obligations without the exchange of the underlying principal amounts. The Company entered into interest swap agreements for a period of two years, beginning in April 2008, related to \$60 million of Company bank debt resulting in a fixed rate of 4.375%. The underlying debt contracts above are re-priced quarterly based upon the three-month LIBO rates.

Indebtedness to related parties - non-current:

During the second quarter 2008, the Company's offshore subsidiary entered into a subordinated credit facility with a private lender with an availability of \$50 million. The private lender has specific collateral pledged under a separate credit agreement. The private lender is a member of the Company's Board of Directors. At March 31, 2009, advances under this credit facility were \$20 million, bear interest at a rate of 10% per annum and mature in January 2010.

Subsequent to March 31, 2009, the private lender has agreed to release the pledged collateral under this credit facility in favor of the offshore credit facility in exchange for a second lien position on all of the assets of the offshore subsidiary and a pledge from PEC to not take on any additional debt on its existing asset base. This amended facility will mature in January 2012, which will be accelerated if there is a change in control, and bears interest at a rate of 10% per annum. PEC's Board of Directors has approved these amendments and the Company expects to close this transaction in June 2009.

(7) 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.

| | <i>Operating Leases</i> |
|------------------------|-------------------------|
| 2009 | 486,000 |
| 2010 | 430,000 |
| 2011 | 374,000 |
| 2012 | 121,000 |
| Thereafter | |
| Total minimum payments | \$ 1,411,000 |

Asset Retirement Obligation:

A reconciliation of the liability for plugging and abandonment costs for the Three Months Ended March 31, 2009 and the year ended December 31, 2008 is as follows:

| | March 31, 2009 | December 31, 2008 |
|---|-------------------|----------------------|
| Asset retirement obligation beginning of period | \$ 19,541,000 | \$ 17,361,000 |
| Liabilities incurred | | 627,000 |
| Liabilities settled | (282,000) | (1,292,000) |
| Accretion expense | 376,000 | 1,395,000 |
| Revisions in estimated liabilities | | 1,450,000 |
| Asset retirement obligation end of period | \$ 19,635,000 | \$ 19,541,000 |

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 the 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 the wells, the costs to ultimately retire the wells may vary significantly from previous estimates.

(8) Contingent Liabilities:

PrimeEnergy Management Corporation, a wholly-owned subsidiary, acts as the managing general partner for 18 limited partnerships and 2 trusts (collectively, the Partnerships). 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, 2009, 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.

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(9) 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, 2009 and 2008, options on 767,500 were outstanding and exercisable at prices ranging from \$1.00 to \$1.25.

(10) Related Party Transactions:

The Company makes an annual offer to repurchase the interests of the partners and trust unit holders in certain of the Partnerships and Trusts. The Company did not purchase any interests in the Partnerships or Trusts for the three months ending March 31, 2009. The amount purchased for the year ending December 31, 2008 was \$481,000.

Treasury stock purchases in any reported period may include shares acquired from a related party. There were no related party treasury stock purchases during the first quarter of 2009. Purchases from related parties in 2008 included 70,000 shares purchased for a total consideration of \$3,500,000.

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 represent 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. Also included in due to related parties is the amount of accrued interest owed to the related party, a member of the Company's Board of Directors, with whom the Company's offshore subsidiary entered into a credit agreement. The agreement provides for a loan of \$20 million at a rate of 10% annum and is secured by certain oil and gas properties and the Company's interest in a limited partnership which owns a shopping center in Alabama. Included at March 31, 2009 was \$170,000 of accrued interest on the related party loan.

(11) 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. 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 year ended March 31, 2009.

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.

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.

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 assets and liabilities measured at fair value on a recurring basis as of March 31, 2009:

| | 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, 2009 |
|------------------------------------|--|--|---|------------------------------------|
| Assets | | | | |
| Commodity Derivative Contracts | | | \$ 1,714,000 | \$ 1,714,000 |
| Total Assets | | | \$ 1,714,000 | \$ 1,714,000 |
| Liabilities | | | | |
| Interest Rate Derivative Contracts | | | \$ (501,000) | \$ (501,000) |
| Total Liability | | | \$ (501,000) | \$ (501,000) |

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.

The following table sets forth a reconciliation of changes in the fair value of financial assets and liabilities classified as level 3 in the fair value hierarchy.

| | |
|--|------------------|
| Net assets as of January 1, 2009 | \$ 1,578,000 |
| Total realized and unrealized losses: | |
| Included in earnings (a) | 716,000 |
| Included in other comprehensive income | (1,081,000) |
| Purchases, sales, issuances and settlements, net | |
| Net assets as of March 31, 2009 | \$ 1,213,000 |

- (a) Amounts reported in net income are classified as oil and gas sales for commodity derivative instruments and as a reduction to interest expense for interest rate swap instruments.

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, 2009 the Company has seven crude oil collar arrangements open. At March 31, 2009, \$1.213 million (\$775 thousand net of tax) unrealized gain was recorded in Accumulated Other Comprehensive Income, along with a \$1.476 million and \$238 thousand short-term and long-term derivative receivable and \$494 thousand and \$7 thousand in short-term and long-term derivative payables. 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, 2009, the oil price collars cover 492 Mbbbl of production at a floor price ranging from \$60.00 to \$65.00, and a ceiling price ranging from \$77.40 to \$86.50.

Assuming no change in commodity prices, after March 31, 2009, the Company would expect to reclassify to the Statement of Operations, over the next 12 months, \$944 thousand in after-tax income associated with commodity hedges. This reclassification represents the net short-term receivable associated with open positions currently not reflected in earnings at March 31, 2009 related to anticipated 2009 production.

(12) Earnings 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, 2009 | | | Three Months Ended March 31, 2008 | | |
|--|-----------------------------------|------------------------|---------------------|-----------------------------------|------------------------|---------------------|
| | Net Income/(loss) | Number of Shares | Per Share Amount | Net Income | Number of Shares | Per Share Amount |
| Net income/(loss) per common share | \$ (3,498,000) | 3,044,745 | \$ (1.15) | \$ 2,731,000 | 3,090,276 | \$ 0.88 |
| Effect of dilutive securities: | | | | | | |
| Options (a) | | | | | 752,651 | |
| Diluted net income/(loss) per common share | \$ (3,498,000) | 3,044,745 | \$ (1.15) | \$ 2,731,000 | 3,842,927 | \$ 0.71 |

- (a) The dilutive effect of 767,500 outstanding stock purchase options is not considered for the three months ended March 31, 2009, due to the loss incurred for such period.

Item 6. EXHIBITS

The following exhibits are filed as a part of this report:

Exhibit No.

- 31.1 Certification of Chief Executive Officer pursuant to Rule 13(a)-14(a)/15d-14(a) of the Securities Exchange Act of 1934, as amended (filed herewith).
- 31.2 Certification of Chief Financial Officer pursuant to Rule 13(a)-14(a)/15d-14(a) of the Securities Exchange Act of 1934, as amended (filed herewith)
- 32.1 Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (filed herewith).
- 32.2 Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (filed herewith).

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)

September 3, 2009
(Date)

/s/ Charles E. Drimal, Jr.
Charles E. Drimal, Jr.
President
Principal Executive Officer

September 3, 2009
(Date)

/s/ Beverly A. Cummings
Beverly A. Cummings
Executive Vice President
Principal Financial Officer

September 3, 2009
(Date)

/s/ Lynne Pizor
Lynne Pizor
Controller, Principal Accounting Officer