Splinex Technology Inc.
Form 10KSB
July 14, 2006

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-KSB

(Mark One)

xANNUAL REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended March 31, 2006

oTRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE EXCHANGE ACT

For the transition period from ____________
to_________________

Commission file number 000-51108

Splinex Technology Inc.

(Name of small business issuer in its charter)

Delaware	**20-0715816**
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification Number)

500 W. Cypress Creek Road Suite 100
Fort Lauderdale, FL 33309
(Address of principal executive offices)

(954) 556-4020
(Issuer's telephone number)

Securities registered under Section 12(b) of the Exchange Act: None

Securities registered under Section 12(g) of the Exchange Act:

Common Stock, par value $0.001 per share

(Title of class)

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No o

Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-B contained in this form, and no disclosure will be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendment to this Form 10-KSB. x

State issuer's revenues for its most recent fiscal year. $1,971.

State the aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was sold, or the average bid and asked price of such common equity, as of a specified date within the past 60 days. (See definition of affiliate in Rule 12b-2 of the Exchange Act.) The aggregate market value of the voting common equity held by non-affiliates was $94,000 based upon the last traded price of $0.04 per share on July 5, 2006

At July 14, 2006, the number of shares outstanding of the issuer's common stock was 100,507,770 shares.

DOCUMENTS INCORPORATED BY REFERENCE
None.

Transitional Small Business Disclosure Format (Check one): Yes o No x

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SPLINEX TECHNOLOGY INC.
Form 10-KSB
For the Year Ended March 31, 2006
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PART I

Item 1. Description of Business

Overview

Splinex Technology Inc. (“Splinex”) develops, licenses and services software that enables the generation, manipulation, viewing and image-based searching of complex, multi-dimensional mathematical objects and information. We believe end-users of our software products, such as mathematicians, scientists, graphic designers or digital artists working on complex, graphical three-dimensional problems, will experience greater productivity through improved interaction with, enhanced visual representation and faster manipulation of, and greater technical and artistic precision in representing, multi-dimensional mathematical objects and information.

Since inception, we have operated in a development phase typical of a software company and have focused on developing technologies and products and securing intellectual property rights while we develop relationships with potential customers and resellers. Our corporate activities to date have included raising capital, strategic and business planning, completing the registration of our common stock with the U. S. Securities and Exchange Commission (the “Commission”), and retaining executive management. We have minimal sales and no sales contracts and are considered to be in the development stage as of March 31, 2006.

During September 2005, the Company implemented a change in its business strategy and took certain actions to reduce its overhead costs. We began marketing and sales activities for our ***nViz^x***™ product line in late June 2005 under a marketing and distribution agreement (the “Reseller Agreement”) with a leading mathematical computational software developer; however, sales under the Reseller Agreement have been minimal to date. The Company intends to continue to offer for sale its existing ***nViz^x*** visualization products, including continuing to market these products under the Reseller Agreement and in its internet web store, but the Company does not presently plan to introduce new versions of the product or upgrades unless and until sales for the current products increase significantly. The Company has discontinued its development projects unrelated to ***nViz^x***. The Company has terminated its use of software development services previously provided to the Company by Splinex Outsourcing, Inc., a Russian outsourcing company, and significantly reduced its software development team in the United States. In addition, the Company has terminated or accepted resignations from certain executives and managers. The Company intends to explore alternative uses of its existing technology through licensing or other business development activities. The Company has borrowed funds from a related party, Ener1 Group, Inc., to pay certain ongoing expenses while it pursues such alternatives, which could include acquisitions of or joint ventures with companies that could benefit from certain of the Company’s core technologies. The Company does not anticipate receiving funding from Ener1 Group, Inc. sufficient to pay past due obligations including severance obligations until it has been able to implement its business development further. As of March 31, 2006, the Company had borrowed $429,000 from Ener1 Group, Inc. under a demand note.

On December 13, 2005, the Company signed a letter of intent to acquire EnerSoft, Inc. (“EnerSoft”), a privately held technology company that specializes in the development of video processing filters, signal and imaging processing and video compression technologies. Ener1 Group, Inc., a company affiliated with the Company by common ownership and common control, owns 95% of the equity of EnerSoft. EnerSoft is a development stage software company with no assets or revenues. The Company discontinued further due diligence activities and negotiations related to EnerSoft in May 2006.

In accordance with the funding provisions in the Predecessor’s operating agreement, certain members of the Predecessor contributed capital of $2,000,000 to the Predecessor. As of July 27, 2005, the Company had borrowed $2,500,000 under a $2,500,000 revolving loan agreement with a company that is affiliated with the Company through common ownership (the “Bzinfin Loan”). The Company borrowed an additional $50,000 from Bzinfin during

September 2005, and the loan agreement was amended to include the additional borrowing under the same terms and conditions.

Several factors exist that raise significant doubt as to our ability to continue operating as a going concern. These factors include our history of net losses and the facts that our company is in the development stage and we have earned minimal revenues to date. Our independent auditors' report on our financial statements for the year ended March 31, 2006 contains an explanatory paragraph about our ability to continue as a going concern. In the absence of attaining profitable operations and achieving positive cash flow from operations, or obtaining significant additional debt or equity financing, we will have difficulty meeting current and long-term obligations.

Company History

We were organized under the laws of the State of Delaware in February 2004 to conduct the business and operations of Splinex, LLC, a Florida limited liability company (our "Predecessor"). Effective April 1, 2004, Splinex, LLC reorganized as a corporation and, as a result, contributed its assets, liabilities and operations to us under a contribution agreement. Our financial statements include the accounts of Splinex Technology Inc. and our Predecessor, and all material inter-company transactions have been eliminated. We began activity October 28, 2003 (inception).

On January 18, 2005, we merged with a subsidiary of Ener1, Inc., an affiliated company controlled by certain direct and indirect beneficial owners of the membership interests of our Predecessor (the "Merger"). We survived the Merger and issued 5,000,000 shares of our common stock to Ener1, Inc. in the Merger. Ener1, Inc. declared a dividend of the 5,000,000 shares that it received to its shareholders of record as of January 17, 2005 (the "Distribution"). The dividend was paid on January 24, 2005. Immediately after the Merger, and prior to the Distribution, Splinex, LLC and Ener1, Inc. owned 95% and 5%, respectively, of our then outstanding common stock. We registered the Distribution by Ener1, Inc. of our common stock on a registration statement on Form S-1 filed with the Commission. As a result of the Merger and the Distribution, we became a public reporting company subject to the information and reporting requirements of the Securities Exchange Act of 1934. The Merger and the Distribution are described further in our Registration Statement on Form S-1, filed with the Commission on December 27, 2004 (Registration No. 333-116817).

Our principal executive offices are located at 500 W. Cypress Creek Road, Suite 100, Fort Lauderdale, Florida 33309. Our telephone number is (954) 556-4020 and our website address is www.splinex.com.

While we intend to operate our business as described in this document, we are a new company with a limited operating history. As we further develop our products, expand our market presence, and grow our business, our experience, changes in market conditions, and other factors outside our control, may require us to alter our market focus and anticipated methods of conducting our business.

Our Technology

Our software is based upon proprietary mathematic algorithms developed by, or exclusively on behalf of, our company. Our software is intended to address workflow problems that have long been associated with the use, including the creation, manipulation, editing and rendering, of 3D graphics for digital content creation and with the related need to manage 3D information. We believe our software will enable more precise and rapid display of 3D surface and solid models, including models based on natural and synthetic data sources. For the end-user of our products, this may allow faster results with greater levels of accuracy while requiring less expensive computer hardware than presently required.

Our Strategy

Our strategy is to sell our software as an add-on software program compatible with Mathematica and MapleSoft. We offer our product for sale on our internet web store and through the Reseller Agreement. If the Company had additional funding, it would consider increasing the marketing expenditures to target the Mathematica and MapleSoft users.

Principal Products and Their Markets

Our principal product is ***nViz^x***, a software program that allows users to visualize sophisticated and complex multi-dimensional data and objects faster and with greater control and detail than was previously possible with other products. The first versions of ***nViz^x*** are add-ons (i.e., a product sold separately and used in connection with the

technical computing software) which were released for use with Mathematica and Maple, two third-party technical computing software programs published by Wolfram Research Inc. (“WRI”) and Waterloo Maple, Inc., respectively. Mathematica and Maple are programs used for advanced mathematical functions and problem solving, such as numeric and symbolic computation plus interactive document creation.

We began marketing ***nViz^x^*** v1.5 for Maplesoft in June 2005 under a Reseller Agreement with Waterloo Maple Inc., the developer of Maplesoft software. Under the Reseller Agreement, Maplesoft and Splinex will conduct a number of joint marketing efforts. Maplesoft currently makes ***nViz^x^*** for Maplesoft v1.5 available for purchase on its web site.

Due to limited financing sources, we may license our software and technology to users in various vertical markets.

Distribution

All of our current products are marketed and sold on the Internet through our website where they are also made available for download and limited free trial. Also, under the Reseller Agreement, our ***nViz^x^*** v1.5 for Maplesoft product became available for sale in June 2005 through Maplesoft's distribution channels including their web store, their direct sales force and their worldwide network of resellers.

Advertising and promotion

We conducted a limited marketing effort from February through August 2005, including:

- providing direct sample/limited trial offers and sales through direct mail campaigns and over the Internet;
- attracting unique visitors through search engine and similar key word technology on the Internet;
- distributing trial and sample versions of our programs at seminars and industry events; and
- buying sponsored search links, such as AdWords offered by Google, Inc.

Customer service and support and training

We do not currently offer technical support and customer service. Our software is accompanied by a thorough user guide. Our web site contains examples of applications of the software. We held webinars from March through August 2005, which are web-based training sessions.

Sources and availability of physical product components

We expect most of our customers to download the purchased product and related manuals over the Internet. For customers who want to purchase a physical product consisting of a CD-ROM and printed manuals, we make a physical product kit available at no extra charge. To date, we have not experienced difficulties in obtaining raw materials for the manufacture of our products, the replication of CD-ROMs, or the printing and assembly of components and do not expect to in the future

Dependence on a few major resellers

We are a new company without a sales force and limited visibility in the market. We rely on internet visits to our web store and web site and a small number of resellers such as Maplesoft, with well established international sales and distribution networks, for our sales.

Our intellectual property

Our provisional and utility patent applications

We have currently on file five provisional patent applications and one utility patent application with the United States Patent and Trademark Office that cover the underlying technology in several of our existing and planned products. These provisional and utility patent applications are for problem-solving formulas and mathematical procedures that we believe are unique and allow a more efficient representation or management of three-dimensional graphic data.

The provisional patent process

Since June 8, 1995, the U.S. Patent and Trademark Office has offered inventors the option of filing a provisional application for patent, which is designed to provide a lower-cost first patent filing in the United States. A provisional application for patent allows filing without a formal patent claim, oath or declaration, or any information disclosure statement and provides the means to establish an early effective filing date. It also allows the applicant to use the term "Patent Pending.". It allows the holder to provide proof of the date that the invention was first submitted to the U.S. Patent and Trademark Office, but does not allow the holder to sue others for infringement. Provisional patent applications are confidential and are not released to the public.

A provisional application for patent has a term of 12 months from the date the provisional application is filed. The 12-month term cannot be extended. During the term, the inventor can determine whether it is beneficial to incur the additional cost of prosecuting a non-provisional patent application. The provisional application can be converted to a non-provisional utility or design patent application by filing the non-provisional application with a specific reference to the provisional application.

Trademarks

As appropriate, we will seek to register some of our product names and logos in the United States and internationally, if we determine that such registration is prudent.

Protection of our intellectual property

Our success and ability to compete is dependent in part on our ability to develop and maintain the proprietary aspects of our technology and operate without infringing upon the proprietary rights of others. To protect our proprietary information we rely primarily on a combination of patent and trademark protection, anti-piracy measures, copyrights, trade secret and confidentiality procedures, and contractual confidentiality provisions. We also use contractual provisions to protect many of our intellectual property rights. We require employees, consultants and many of those with whom we have business relationships to sign non-disclosure and confidentiality agreements. We require all employees and consultants to sign invention assignment agreements.

Research and development

Our research and development expenses were $661,994 and $1,208,722 for the years ending March 31, 2006 and 2005, respectively, or 30% and 44% of our fiscal year 2006 and 2005 operating costs. Until their curtailment in September 2005, our research and development activities, which consist primarily of computer programming development, were conducted by scientists and mathematicians at our facilities in Fort Lauderdale, Florida and by software engineers, scientists, mathematicians and graphic designers employed by Splinex Outsourcing, LLC, a Russian limited liability company located in Ekaterinburg, Russia.

We began working with Russia-based programmers in October, 2003. Initially, the expenses of our Russian operations were paid on our behalf by a Russian consultant who handled administrative matters for us in Russia. We agreed to pay this consultant $20,000 per month to fund our Russian operations, including all costs associated with our development efforts in Russia, including wages and benefits paid to Russian personnel, rent and computer-related expenses. We agreed to increase this amount to $24,000 per month in January 2004. In March 2004, the consultant formed Splinex Outsourcing to handle administrative and employment matters in connection with our Russian operations. Splinex Outsourcing generally seeks to enter into invention assignment, consulting and other agreements with the employees, consultants, contractors and vendors involved in our development efforts in Russia as necessary to secure our intellectual property rights. In July 2004, the Russian consultant became an employee in our Fort Lauderdale offices., and his employment was terminated in September 2005.

Between July 2004 and September 2004, we had an arrangement with ANTAO, Ltd., a company formed by one of the members of Splinex, LLC, our majority stockholder, to be the administrative vehicle for our development efforts in Russia, under which we forwarded funds to ANTAO to forward to Splinex Outsourcing and to cover ANTAO's administrative costs and taxes. In September 2004, all of the outstanding stock of ANTAO was contributed to us and it became our wholly-owned subsidiary. The owner of the outstanding securities of Splinex Outsourcing has agreed to contribute these securities to ANTAO at which time Splinex Outsourcing would become our indirect, wholly-owned subsidiary. Currently, Splinex Outsourcing has a nominal amount of assets, primarily computers and office furniture, and the contribution would be recorded at fair value. We do not have any plans to effect this contribution in the near future.

Our Customers

We target sales of our products and services to Mathematica and MapleSoft users. We offer our product for sale on our internet web store and through the Reseller Agreement. Our products are used by end-users who create sophisticated computational and analytical models, digital content, or manage 3D information. Potential customers in this market segment include mathematics, science and engineering educational institutions and students.

If the Company had additional funding for development, other additional markets for derivatives of our product include software used for visualization of images in medical imaging, geomatics imaging, terrestrial imaging, metrological imaging, entertainment imaging, seismic and sonar scan arrays imaging and national security & military imaging.

Competition

In general

The markets for visualization software and technologies are numerous and very diverse. The majority of vendors choose to focus on sales in a specific vertical market segment such as satellite imagery, medical imaging, oil & gas exploration, or metrology.

Our current strategy for ***nViz^x*** is to sell it as an add-on product for general purpose technical computing programs such as Mathematica and Maple. Competition in some segments of the market is intense, due to the fact that certain companies, such as Wolfram Research, offer plug-in visualization software for their flagship products. Furthermore, competing software programs are also available for free download on the internet (“freeware”).

The products we primarily compete with in the professional end-user market segment are Dynamic Visualizer ™ distributed by Wolfram Research and Simulink™ distributed by The MathWorks. Dynamic Visualizer, like ***nViz^x*** for Mathematica, can be used to create 3D graphics using data from Mathematica. We believe ***nViz^x*** for Mathematica has a richer features set, provides for higher levels of interaction, and offers higher performance than competing products.

Many products available today such as Mathematica™, MatLab™, Maple™ and MathCAD™ include some of the basic functionality found within our products. As the demand for visualization within the add-on market for ***nViz^x*** grows, we anticipate producers of computational software will respond by providing additional visualization capabilities in their products. These producers may seek to accomplish this by developing new products in-house, licensing software and/or technology or entering into reseller agreements with companies such as ours.

The overall market for visualization software and technologies includes many different segments. Our competitors include several large, well-funded companies, as well as many smaller and private companies. Many of our competitors and potential competitors may have greater name recognition and financial, technical, and/or marketing resources than we have. They may be able to devote greater resources to the development, promotion and sale of their products than we can. Competitive pressures may result in decreased sales volumes, price reductions and/or increased operating costs, and could result in lower revenues, margins and net income. Potential customers may have concerns about purchasing from us because of our size relative to larger competitors.

Many of our future potential competitors operate both internationally and regionally, and many of them have well-recognized product lines that will compete with us in a wide range of our planned products. As we begin our marketing efforts into new market segments, we will be at a disadvantage to established competitors until we develop brand recognition and customer loyalty for our products. We also expect competition from other emerging companies. We expect competition to persist and intensify as the multi-dimensional visualization markets develop and competitors develop additional product and service offerings.

We believe that the principal competitive factors in our industry are:

- the ability to continue to create innovative and relevant technology;
- the quality and breadth of product and service offerings;
- the ease and speed with which a product can be integrated with existing customers’ software and systems, embedded in semiconductors, integrated with a manufacturer’s existing internal systems and deployed to end-users;
- whether the software operates efficiently within numerous environments;

- financial resources;
- price;
- time to market; and
- effectiveness of sales and marketing efforts.

We cannot be certain that we will be able to compete successfully in the future.

Employees

At July 1, 2006, we employed 2 people based at our Fort Lauderdale, Florida office, one of whom is a senior programmer and developer of nVizx. None of our employees are represented by a collective bargaining agreement.

Item 2. Description of Property

Until June 1, 2006 we subleased approximately 4,000 square feet of office and research and development space at 550 W. Cypress Creek Road, Suite 410, Fort Lauderdale, Florida, from an affiliated company, Ener1 Group. Our sublease of this property expires on February 28, 2008. We paid $62,363 annually to Ener1 Group under this sublease, and we believe this property was adequately covered by insurance. We vacated the space as a result of restructuring activities on June 1, 2006, and shared space thereafter at the offices of Ener1 Inc. at 500 West Cypress Creek road Suite 100. We believe that our current facilities are adequate to meet our current and immediately foreseeable needs, and additional space is readily available in the area on reasonable terms if we need additional space to accommodate additional growth.

Item 3. Legal Proceedings

From time to time, we may be involved in litigation relating to claims arising out of our intellectual property and operations. We are not currently a party to any such proceedings.

Item 4. Submission of Matters to Vote

None.

PART II

Item 5. Market for Common Equity and Related Stockholder Matters

At July 14, 2006, the number of shares outstanding of the issuer's common stock was 100,507,770 shares. There was no established public trading market for our common stock prior to July 2005. The approximate number of record holders of our common stock at July 1, 2006 was 200. The number of shareholders of record does not include beneficial owners of common stock whose shares are held in the names of various dealers, clearing agencies, banks, brokers and other fiduciaries. The principal market for our stock was the Over-the-Counter Bulletin Board. On July 7, 2006, the closing price of our common stock was $0.04.

The following table sets forth the high and low prices for our common stock for the period indicated as reported by the OTC Electronic Bulletin Board. No shares were reported traded before July 7, 2005. The quotations reflect inter-dealer prices, without retail mark-up, mark-down or commission and may not represent actual transactions.

Year	**Fiscal Quarter Ended**	**High**	**Low**
2006	September 30, 2005	$ 0.51	$ 0.05
	December 31, 2005	$ 0.51	$ 0.25
	March 31, 2006	$ 0.25	$ 0.06

We have not paid any cash dividends during the last two fiscal years and do not anticipate paying any cash dividends on our common stock.

Plan Shares Outstanding

The following table sets forth information with respect to our equity compensation plan approved by our security holders and equity compensation plans not approved by security holders. The information in this table is as of July 14, 2006.

Plan Category	Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in the first column)
Equity compensation plans approved by security holders.	800,000	$0.10	4,200,000 (1)

(1) The terms of our equity compensation plan provide that after June 30, 2005, we may grant options under our equity compensation plan to purchase up to the lesser of an additional 5,000,000 shares of common stock, 5 percent of our outstanding shares of common stock on such date, or an amount determined by our board of directors. No increase

in the plan has been approved under this provision.

Recent Sales of Unregistered Securities

None

Item 6. Management's Discussion and Analysis or Plan of Operations

This Annual Report on Form 10-KSB contains forward -looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. These statements relate to our expectations, hopes, intentions or strategies regarding future events or future financial performance. Any statements contained in this report that are not statements of historical fact may be deemed forward-looking statements. In some cases, forward-looking statements can be identified by terminology such as "may," "will," "should," "expect," "plan," "anticipate," "intend", "believe," "estimate," "predict," "potential" or "continue," or the negative of such terms or other comparable terminology. Forward-looking statements include but are not limited to statements regarding: the expected release dates and future sales of our products; development of other products; expected hiring levels; marketing plans; increases of selling, general and administrative costs and research and development spending; our product development strategy; and financing requirements. These statements are only predictions and are subject to a number of assumptions, risks and uncertainties that could cause actual results to differ materially from those expressed or implied in the forward-looking statements. The following important factors, in addition to those discussed in our filings with the Commission from time to time, and other unforeseen events or circumstances, could affect our future results and could cause those results or other outcomes to differ materially from those expressed or implied in our forward-looking statements: general economic conditions; competition; our ability to raise capital; our ability to control costs; changes within our industries; release of new and upgraded products and services by us or our competitors; development of our sales force; employee retention; our ability to protect our intellectual property; legal and regulatory issues; changes in accounting policies or practices; and successful adoption of our products and services.

All forward-looking statements are based on information available to us on the date of this filing, and we assume no obligation to update such statements.

The following discussion should be read in conjunction with our other filings with the Commission and the consolidated financial statements and related notes included in this Annual Report.

Overview

Splinex develops, licenses and services software that enables the generation, manipulation, viewing and image-based searching of complex, multi-dimensional mathematical objects and information. We believe end-users of our software products, such as mathematicians, scientists, graphic designers or digital artists working on complex graphical three-dimensional problems, will experience greater productivity through improved interaction with, enhanced visual representation and faster manipulation of, and greater technical and artistic precision in representing, multi-dimensional mathematical objects and information.

Since inception, we have operated in a development phase typical of a software company and have focused on developing technologies and products and securing intellectual property rights while we develop relationships with potential customers and resellers. Our corporate activities to date have included raising capital, strategic and business planning, completing the registration of our securities with the Commission, and retaining executive management. We have minimal sales and no sales contracts and are considered to be in the development stage as of March 31, 2006.

We began activity October 28, 2003 (inception). Effective April 1, 2004, our Predecessor reorganized as a corporation and, as a result, contributed its assets, liabilities and operations to us. Our financial statements include the accounts of Splinex Technology Inc. and our Predecessor, and all material inter-company transactions have been eliminated.

The Company's financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the settlement of liabilities and commitments in the normal course of business. The Company is in the development stage and has had minimal revenues since inception. Management recognizes that the Company must

raise capital sufficient to fund start up, development and marketing activities until such time as it can generate revenues and net cash flows in amounts necessary to enable it to continue in existence. The realization of assets and satisfaction of liabilities in the normal course of business is dependent upon the Company achieving these goals. Management’s plans include continuing efforts to develop the Company’s first commercial product, borrowing funds under the revolving loan agreement described below, and raising additional capital.

In accordance with the funding provisions in the Predecessor's operating agreement, certain members of the Predecessor contributed capital of $2,000,000 to the Predecessor. As of July 27, 2005, the Company had borrowed $2,500,000 under a $2,500,000 revolving loan agreement with a company that is affiliated with the Company through common ownership (the "Bzinfin Loan"). The Company borrowed an additional $50,000 from Bzinfin during September 2005, and the loan agreement was amended to include the additional borrowing under the same terms and conditions. From October 2005 through March 31, 2006, the Company borrowed $429,000 from Ener1 Group, Inc. under a demand note.

During September 2005, the Company implemented a change in its business strategy and took certain actions to reduce its overhead costs. The Company intends to maintain and support its existing ***nViz^x^*** visualization products, but the Company does not presently plan to introduce new versions of the product or upgrades unless and until sales for the current products increase significantly. The Company has discontinued its development projects unrelated to ***nViz^x^***. The Company has terminated its use of software development services previously provided to the Company by Splinex Outsourcing, Inc., a Russian outsourcing company, and significantly reduced its software development team in the United States. In addition, the Company has terminated or accepted resignations from certain executives and managers. The Company intends to explore alternative uses of its existing technology through licensing or other business development activities. The Company has borrowed funds from a related party, Ener1 Group, Inc., to pay certain ongoing expenses while it pursues such alternatives, which could include acquisitions of or joint ventures with companies that could benefit from certain of the Company's core technologies. The Company does not anticipate receiving funding from Ener1 Group, Inc. sufficient to pay past due obligations including severance obligations until it has been able to implement its business development further.

Management believes that actions presently being taken, as described in the preceding paragraphs, provide the opportunity for the Company to continue as a going concern; however, there is no assurance this will occur.

Plan of Operation

During the period from inception on October 28, 2003 through October 1, 2004, our research and development activities were primarily directed towards developing core technologies and software libraries that could be used in various applications and market segments.

During the period from October 1, 2004 through August 2005, we have directed most of our software development activities to developing and releasing a commercial version of our software product called *nViz^x^*, the first versions of which were designed for use with Mathematica and Maple, two third-party technical computing software programs published by Wolfram Research Inc. and Waterloo Maple, Inc., respectively. Mathematica and Maple are programs used for advanced mathematical functions and problem solving, such as numeric and symbolic computation plus interactive document creation. *nViz^x^* is an add-on (i.e., a product sold separately and used in connection with the technical computing software) software program that allows users to visualize sophisticated and complex multi-dimensional data and objects faster and with greater control and detail than is currently possible.

The first version of *nViz^x^* v1.0 for Mathematica was commercially released and made available for purchase in March 2005. *nViz^x^* v1.5 for Maplesoft was commercially released and made available for purchase in June 2005. In June 2005, we entered into a Reseller Agreement with Waterloo Maple Inc., the parent company of Maplesoft, the developer of Maple software. Under the Reseller Agreement, Maplesoft and Splinex agreed to conduct a number of joint marketing and sales initiatives. Additionally, Maplesoft agreed to promote *nViz^x^* v1.5 for Maple through its web site and other marketing activities directed to its customer base. We have not had significant sales of either product, and do not have sufficient funds to market the product to achieve higher sales. Our current marketing activities consist solely of the marketing efforts of our reseller and availability of the product for purchase at our internet web store.

Using our core software libraries, we have the capability to develop additional versions of n *nViz*^{x} as visualization add-ons for other technical computing software products similar to Mathematica and Maplesoft and for spreadsheet products like Microsoft Excel. However, due to low product sales, we intend to make available for purchase our existing *nViz*^{x} visualization products, but do not presently plan to introduce new versions of the product or upgrades unless and until sales of the current products increase significantly. We may explore alternative uses of our existing technology through licensing or other business development activities. We may pursue acquisitions of, or joint ventures with, companies that can benefit from our technology.

On December 13, 2005, we signed a letter of intent to acquire EnerSoft, Inc. (“EnerSoft”), a privately held technology company that specializes in the development of video processing filters, signal and imaging processing and video compression technologies. Ener1 Group, Inc., a company affiliated with our Company by common ownership and common control, owns 95% of the equity of EnerSoft. EnerSoft is a development stage software company with no assets or revenues. The Company discontinued further due diligence activities and negotiations related to EnerSoft in May 2006.

At March 31, 2006, we had cash of $9,458 and negative working capital of $4.4 million, of which $3.3 million was owed to a related party. Through employee terminations, the termination of our use of software development services previously provided to us by Splinex Outsourcing, Inc., and implementation of other expense controls, we have reduced our monthly cash expenses to approximately $60,000. We are currently dependent upon funds advanced from Ener1 Group, Inc. to pay these ongoing expenses. We do not anticipate receiving funding sufficient to pay our past due obligations, including severance obligations, until we have been able to implement our business development plans further.

We cannot provide assurance you that we will be able to raise additional funds on terms favorable to us or at all. If we raise additional funds through the sale of equity or convertible debt securities, our current stockholders' ownership percentage of our common stock will be reduced. In addition, these transactions may dilute the value of our common stock. We may have to issue securities that have rights, preferences and privileges senior to our common stock. The terms of any additional indebtedness may include restrictive financial and operating covenants that would limit our ability to compete and expand. Our failure to obtain any required future financing could materially and adversely affect our financial condition.

As of March 31, 2006, we have no material planned capital expenditures.

Results of Operations for the Year Ended March 31, 2006 Compared to the Year Ended March 31, 2005

We incurred a loss of $2,263,329, or $0.02 per share, for the year ended March 31, 2006 (which we refer to as "fiscal 2006") compared to a loss of $3,296,189, or $0.03 per share, for the year ended March 31, 2005 (which we refer to as "fiscal 2005"). Our total operating expenses for fiscal 2006 were $2,138,323. Our total operating expenses for fiscal 2005 were $2,770,859 and non-operating expenses related to the Merger were $512,321. Interest expenses in fiscal 2006 were $126,977 compared to fiscal 2005 interest expense of $13,058. Our operating expenses decreased significantly during fiscal 2006 as we terminated product development activities and related personnel and terminated most of our workforce.

Operating expenses in fiscal 2006 included $196,018 for sales and marketing expenses, $1,280,311 for general and administrative expenses, and $661,994 for research and development costs. Operating expenses in fiscal 2005 included $365,278 for sales and marketing expenses, $1,196,859 for general and administrative expenses, and $1,208,722 for research and development costs.

Sales and marketing expenses in fiscal 2006 consisted primarily of wages and benefits of $96,064, advertising and promotional expenses of $73,804, and web store development and ecommerce costs of $19,283. Sales and marketing expenses in fiscal 2005 consisted primarily of wages and benefits of $171,336, advertising and promotional expenses of $116,935, and web store development and ecommerce costs of $33,086. Advertising and promotion activities, which included direct mail and email campaigns, began primarily in February 2005 and continued though April 2005. We discontinued marketing activities and terminated the marketing personnel in September 2005.

General and administrative expenses for fiscal 2006 included wages and benefits of $261,612; consulting fees of $200,000 paid to a director, Dr. Novak and a related party, Mike Zoi; severance costs related to the departure of the chief executive officer of $404,960; travel and related costs of $4,402; audit fees of $62,583; legal expenses of $79,046, of which $9,200 was payable to Ener1 Group to reimburse Ener1 Group for the services of our general counsel, who is also an officer of Ener1 Group; information technology; rent of $62,363; insurance costs of $84,538; and depreciation of $34,910. General and administrative expenses for fiscal 2005 included wages and benefits of $410,389; consulting fees of $200,000 paid to a director, Dr. Novak and a related party, Mike Zoi; executive recruiting fees of $75,015 related to our search for a chief executive officer; travel and related costs of $76,449; audit fees of $59,699; general legal expenses of $48,636, of which $35,530 was payable to Ener1 Group to reimburse Ener1 Group for the services of our general counsel, who is also an officer of Ener1 Group; information technology and web

site costs of $69,317; rent of $60,606; insurance costs of $26,239; and depreciation of $24,075. Wages decreased due to the termination of the CEO in September 2005. Insurance expense increased due to directors and officers insurance which we obtained when we went public in January 2005.

Research and development expenses for fiscal 2006 included $473,032 for wages and benefits paid to U.S. based programmers; $156,207 for wages and administrative costs of our Russian-based scientists and programmers; $20,570 paid to software consultants; and $10,000 for immigration and employee relocation costs. Research and development expenses for fiscal 2005 included $589,099 for wages and benefits paid to U.S. based programmers; $295,000 for wages and administrative costs of our Russian-based scientists and programmers; $205,802 paid to software consultants; and $86,447 for immigration and employee relocation costs. We terminated our use of software development services previously provided to the Company by Splinex Outsourcing, Inc., a Russian outsourcing company, and significantly reduced our software development team in the United States in September 2005.

Historically, we have outsourced a substantial amount of our research and software development services to Russia based scientists and programmers. Our Russia based research and development expenses consist primarily of payroll and related expenses for Russia based programmers and administrative costs, which include rent and related facility costs, computer-related expenses such as personal computers, software and related supplies and equipment. We outsourced programming work to approximately 30 scientists and programmers in Russia.

Related parties reimburse the Company for the time spent by one of its employees for patent and research work; as a result, administrative wages and research and development wages are net of reimbursements of $17,160 and $46,080, respectively, for the year ended March 31, 2005. Other administrative services were provided by personnel of Ener1, Inc. in the amount of $1,782 and $5,849 for the years ended March 31, 2006 and 2005.

Costs incurred in fiscal 2005 in connection with the Merger and becoming a public company of $512,320 include legal expenses of $321,485, audit and related fees of $122,832, and printing and other costs of $68,003.

Interest expenses increased to $126,977 for the year ended March 31, 2006 compared to $13,058 in fiscal 2005 from due to borrowings under the Bzinfin loan and loans from Ener1 Group. Interest under the Bzinfin loan is due at maturity in February 2007.

Liquidity and capital resources

At March 31, 2006, we had negative working capital of $4,448,961 and cash of $9,458 and we have no further borrowing availability under the Bzinfin Loan.

Several factors exist that raise significant doubt as to our ability to continue operating as a going concern. These factors include our history of net losses and the facts that our company is in the development stage and we have earned minimal revenues to date. We have no remaining funds available under our revolving loan agreement and are dependent upon Ener1 Group, Inc. to fund our operations. Our independent auditors' report on our financial statements for the year ended March 31, 2006 contains an explanatory paragraph about our ability to continue as a going concern. In the absence of attaining profitable operations and achieving positive cash flow from operations or obtaining significant additional debt or equity financing, we will continue to have difficulty meeting current and long-term obligations.

During September 2005, the Company implemented a change in its business strategy and took certain actions to reduce its overhead costs. The Company intends to maintain and support its existing ***nViz^x*** visualization products, but the Company does not presently plan to introduce new versions of the product or upgrades unless and until sales for the current products increase significantly. The Company has discontinued its development projects unrelated to ***nViz^x***. The Company has terminated its use of software development services previously provided to the Company by Splinex Outsourcing, Inc., a Russian outsourcing company, and significantly reduced its software development team in the United States. In addition, the Company has terminated or accepted resignations from certain executives and managers. The Company may explore alternative uses of its existing technology through licensing or other business development activities. The Company has borrowed funds from a related party, Ener1 Group, Inc., to pay certain ongoing expenses while it pursues such alternatives, which could include acquisitions of or joint ventures with companies that could benefit from certain of the Company's core technologies. The Company does not anticipate receiving funding from Ener1 Group, Inc. sufficient to pay past due obligations including severance obligations until it has been able to implement its business development further.

In accordance with the funding provisions in the Predecessor's operating agreement, certain members of the Predecessor contributed capital of $2,000,000 to the Predecessor. As of July 27, 2005, we had borrowed $2,500,000 under the Bzinfin loan. We borrowed an additional $50,000 from Bzinfin during September 2005, and the loan agreement was amended to include the additional borrowing under the same terms and conditions. We borrowed

$429,000 from Ener1 Group during fiscal 2006, and an additional $106,000 From April 1, 2006 through July 1, 2006. The loans are demand notes, and bear interest at an annual rate of 5% payable at maturity.

In the absence of attaining profitable operations and achieving positive cash flows from operations or obtaining significant additional debt or equity financing, we will continue to have difficulty meeting current and long-term obligations.

During the year ending March 31, 2005, one of our affiliates, Ener1 Group, Inc., loaned us $800,000 to fund our working capital needs. This loan had an annual interest rate of 5%. These loans were assumed by Bzinfin, S.A., our lender under the revolving loan agreement, effective February 21, 2005 and, as a result, are included in the $1,700,000 outstanding balance at March 31, 2005 under the revolving loan agreement.

Prior to April 1, 2004, we operated through our Predecessor as a limited liability company. On April 1, 2004, our Predecessor contributed all of its assets, liabilities and operations to us. Under SEC Staff Accounting Bulletin Topic 4 (B), the undistributed earnings (losses) of our Predecessor were treated as a constructive distribution to the members of our Predecessor followed by a capital contribution to us. On April, 1, 2004, the effective date of the contribution, we reclassified the accumulated deficit to date of $822,847 to additional paid in capital.

We do not have material exposure to market risks associated with changes in interest rates related to cash equivalent securities held at March 31, 2006.

Off-balance sheet arrangements

At March 31, 2006, we did not have any off-balance sheet arrangements, as defined in tem 303(c)(4)(2) of SEC Regulation S-B.

Recent accounting pronouncements

SFAS No. 154, Accounting Changes and Error Corrections, was issued in May 2005 and replaces APB Opinion No. 20 and SFAS No. 3. SFAS No. 154 requires retrospective application for voluntary changes in accounting principle in most instances and is required to be applied to all accounting changes made in fiscal years beginning after December 15, 2005.   We do not expect our adoption of SFAS No. 154 on April 1, 2006 will have a material impact on our financial position, results of operations or cash flows.

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders
of Splinex Technologies, Inc.

We have audited the accompanying consolidated balance sheets of Splinex Technologies, Inc. (a Development Stage Company) as of March 31, 2006 and 2005, and the related consolidated statements of operations, changes in stockholders' deficiency in assets and cash flows for the years then ended and for the period from October 28, 2003 (inception) through March 31, 2006. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company has determined that it is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Splinex Technologies, Inc. as of March 31, 2006 and 2005, and the results of their operations and their cash flows for the years then ended and from October 28, 2003 (inception) through March 31, 2006, in conformity with accounting principles generally accepted in the United States of America.

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 2 to the consolidated financial statements, the Company has experienced recurring losses in the development stage. This raises substantial doubt about the Company's ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 2. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

/s/ Daszkal Bolton LLP

Boca Raton, Florida
June 30, 2006

SPLINEX TECHNOLOGY INC.
(A DEVELOPMENT STAGE COMPANY)
CONSOLIDATED BALANCE SHEETS

ASSETS	March 31, 2005	March 31, 2006
Current assets		
Cash	$ 256,347	$ 9,458
Prepaid expenses and other	30,925	38,358
Loans and advances to employees - current portion	13,834	831
Total current assets	301,106	48,647
Property and equipment, net	49,862	7,340
Accounting software license	37,000	20,192
Other assets	9,881	9,881
Loans to employees - long term portion	9,875	—
Total assets	$ 407,724	$ 86,060
LIABILITIES AND STOCKHOLDERS' DEFICIENCY IN ASSETS		
Current liabilities		
Demand note payable and accrued interest due to related party - Ener1 Group	—	435,540
Note payable and accrued interest due to related party - Bzinfin	—	2,677,707
Accounts payable	434,967	563,006
Accrued expenses	221,572	683,093
Due to related parties	106,760	138,262
Other current liabilities	30,655	—
Total current liabilities	793,954	4,497,608
Long term liabilities		
Note payable and accrued interest due to related party - Bzinfin	1,708,240	—
Total liabilities	2,502,194	4,497,608
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS' DEFICIENCY IN ASSETS		
Preferred stock ($.001 par value, 150,000,000 shares authorized and no shares issued and outstanding)	—	—
Common stock ($.001 par value, 300,000,000 shares authorized and 100,670,270 and 100,757,770 shares issued and outstanding)	100,670	100,758
Treasury stock, at cost; 0 and 250,000 shares, respectively	—	(62,500)
Paid in capital	1,101,049	1,109,712
Deficit accumulated during the development stage	(3,296,189)	(5,559,518)
Total stockholders' deficiency in assets	(2,094,470)	(4,411,548)
Total liabilities and stockholders' deficiency in assets	$ 407,724	$ 86,060

See accompanying notes to consolidated financial statements.

SPLINEX TECHNOLOGY INC.
(A DEVELOPMENT STAGE COMPANY)
CONSOLIDATED STATEMENTS OF OPERATIONS

	Year Ended March 31, 2005	Year Ended March 31, 2006	Cumulative From Inception (October 28, 2003) Through March 31, 2006
Net sales	$ 49	$ 1,971	$ 2,020
Operating Expenses			
Sales and marketing	365,278	196,018	561,296
General and administrative	1,196,859	1,280,311	3,186,217
Research and development	1,208,722	661,994	1,984,516
Total operating expenses	2,770,859	2,138,323	5,732,029
Costs of merger and registration	512,321	—	512,321
Total expenses	3,283,180	2,138,323	6,244,350
Loss from operations	(3,283,131)	(2,136,352)	(6,242,330)
Interest expense, net	(13,058)	(126,977)	(140,035)
Loss before income taxes	(3,296,189)	(2,263,329)	(6,382,365)
Income taxes	—	—	—
Net loss	$ (3,296,189)	$ (2,263,329)	$ (6,382,365)
Net loss per basic and fully diluted share	$ (0.03)	$ (0.02)	$ (0.07)
Weighted average shares outstanding	96,113,724	100,582,154	97,730,721

See accompanying notes to consolidated financial statements.

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SPLINEX TECHNOLOGY INC.
(A DEVELOPMENT STAGE COMPANY)
CONSOLIDATED STATEMENTS OF CHANGES IN
STOCKHOLDERS' DEFICIENCY IN ASSETS

	Preferred Stock		**Common Stock**		**Treasury Stock**	**Additional Paid in Capital**	**Deficit Accumulated During the Development Stage**	**Total Stockholders' Deficiency in Assets**
	Shares	**Amount**	**Shares**	**Amount**				
Balance at March 31, 2004	—	$ —	95,000,000	$ 95,000		$ (67,847)	$ —	$ 27,153
Capital contributions	—	—	—	—		1,150,000	—	1,150,000
Shares issued as executive compensation and other non-cash expenses	—	—	670,270	670	—	23,896	—	24,566
Shares issued in Merger	—	—	5,000,000	5,000	—	(5,000)	—	—
Net loss	—	—	—	—	—	—	(3,296,189)	(3,296,189)
Balance at March 31, 2005	—	—	100,670,270	100,670		1,101,049	(3,296,189)	(2,094,470)
Acquisition of treasury stock	—	—	—		(62,500)			(62,500)
Stock options exercised	—	—	87,500	88	—	8,663		8,751
Net loss	—	—	—	—	—	—	(2,263,329)	(2,263,329)
Balance at March 31, 2006	—	$ —	100,757,770	$ 100,758	$ (62,500)	$ 1,109,712	$ (5,559,518)	$ (4,411,548)

See accompanying notes to consolidated financial statements.

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SPLINEX TECHNOLOGY INC.
(A DEVELOPMENT STAGE COMPANY)
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended March 31, 2005	Year Ended March 31, 2006	Cumulative From Inception (October 28, 2003) Through March 31, 2006
Cash flows from operating activities:			
Net loss	$ (3,296,189)	$ (2,263,329)	$ (6,382,365)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation	24,075	34,909	64,477
Executive compensation and other expenses			—
paid with common stock	24,566	7,613	32,179
Non cash interest expense	8,240	126,007	134,247
Changes in operating assets and liabilities:			—
Prepaid expenses and other	(31,158)	(21,280)	(58,550)
Due to related parties	106,759	31,502	138,261
Other assets	—	—	(9,881)
Accounts payable	376,469	128,040	563,007
Accrued expenses	72,531	407,771	629,343
Total adjustments	581,482	714,562	1,493,083
Net cash used in operating activities	(2,714,707)	(1,548,767)	(4,889,282)
Cash flows from investing activities:			
Purchase of equipment	(24,200)	—	(79,429)
Employee loans and advances, net	(20,159)	22,878	(831)
Net cash used in investing activities	(44,359)	22,878	(80,260)
Cash flows from financing activities:			
Note payable related party	1,700,000	1,279,000	2,979,000
Contributed capital from equity investors	1,150,000	—	2,000,000
Net cash provided by financing activities	2,850,000	1,279,000	4,979,000
Net increase (decrease) in cash	90,934	(246,889)	9,458
Cash at beginning of period	165,413	256,347	—
Cash at end of period	$ 256,347	$ 9,458	$ 9,458
Supplemental Disclosure of Cash Flow Information			
Cash paid during the year for:			
Interest	$ —	$ —	$ —
Income taxes	$ —	$ —	$ —
Non-cash investing and financing activities:			
Common stock issued in merger	$ 150,000	$ —	$ 150,000
Costs of merger recorded as reduction in paid in capital	$ (150,000)	$ —	$ (150,000)

See accompanying notes to consolidated financial statements.

SPLINEX TECHNOLOGY INC.
(A DEVELOPMENT STAGE COMPANY)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Basis of Presentation

Splinex Technology Inc. ("Technology") was organized under the laws of the State of Delaware as a wholly owned subsidiary of Splinex, LLC, a Florida limited liability company (the "Predecessor"), to conduct the business and operations of the Predecessor. Under an agreement effective April 1, 2004 (the "Contribution Agreement"), the Predecessor contributed substantially all of its assets, liabilities and operations to Technology. The financial statements include the accounts of Technology and the Predecessor (combined, the "Company"), and all material intercompany transactions have been eliminated. Certain items have been reclassified to the current year's presentation. The Company began its development stage activity on October 28, 2003 ("Inception").

Reclassifications

Certain prior period amounts have been reclassified to conform to the current year presentation.

Basis of Consolidation

The consolidated financial statements include the accounts of Splinex Technology Inc. and its wholly owned subsidiary, ANTAO Ltd., a limited liability company formed under the laws of Russia ("ANTAO"). All material intercompany accounts and transactions have been eliminated in consolidation.

Business Activity

The Company develops, licenses and services software that enables the generation, manipulation, viewing and image-based searching of complex, multi-dimensional mathematical objects and information. Since inception, the Company has operated in a development phase typical of a software company and has focused on developing technologies and products and securing intellectual property rights while developing relationships with potential customers. Corporate activities to date have included raising capital, strategic and business planning, completing the registration of the Company's securities with the U. S. Securities and Exchange Commission, and retaining executive management. The Company has minimal sales and no sales contracts and is considered to be in the development stage as of March 31, 2006.

The Company has no revenues to date. Since its inception, the Company has been dependent upon the receipt of capital investment or other financing to fund its continuing activities. In addition to the normal risks associated with a new business venture, there can be no assurance that the Company's product development will be successfully completed or that it will be a commercial success. Further, the Company is dependent upon certain related parties to provide continued funding and capital resources.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities as of the balance sheet date and the reported amounts of expenses for the period presented. Actual results could differ from those estimates.

Cash and Cash Equivalents

Cash and cash equivalents include highly liquid money market investments purchased with an original maturity of three months or less. At March 31, 2006, the Company had no cash equivalents. The Company maintains its cash in a bank deposit account which, at times, may exceed federally insured limits. Accounts are guaranteed by the Federal Deposit Insurance Corporation (FDIC) up to $100,000. At March 31, 2006, the Company had no deposits in excess of FDIC insured limits.

Foreign Currency Transactions

All transactions of the Company are denominated in U.S. dollars. The Company paid Russian research, programming and administrative costs under a U.S. dollar denominated agreement. Consolidated general and administrative expenses include immaterial foreign exchange rate losses on small Russian bank balances maintained by ANTAO. The Company has not engaged in foreign currency hedging activities.

Stock-Based Compensation

Statement of Financial Accounting Standards ("SFAS") No. 123R, "Accounting for Stock-Based Compensation," requires companies to record employee stock option compensation at fair value. The Company adopted SFAS 123R during the quarter ending March 31, 2005.

Software Development Costs

The Company accounts for software development costs in accordance with SFAS No. 86, "Accounting for the Costs of Computer Software to Be Sold, Leased or Otherwise Marketed." Costs incurred to establish the technological feasibility of a computer software product are considered research and development costs and are expensed as incurred. When the technological feasibility of a software product has been established using the working model approach, development cost are capitalized. Capitalization of these costs ceases when the product is ready for production. The Company has expensed all software development costs since inception.

Revenue recognition

The Company expects to recognize revenues, net of sales returns and other allowances, from the licensing of products and from service revenues.

Product revenues will consist of revenues from end-user licenses (sometimes referred to as royalties) and fees for stand-alone software and technology under time-based or perpetual licenses. Service revenues will consist of fees from professional services, which will include fees for software development services, software maintenance contracts and customer training and consulting services.

The Company will recognize revenues in accordance with Statement of Position or "SOP" 97-2, "Software Revenue Recognition," as amended, SOP 81-1, "Accounting for Performance of Construction-Type and Certain Production-Type Contracts," and Staff Accounting Bulletin or "SAB" 104, "Revenue Recognition." The Company will recognize revenues when persuasive evidence of an arrangement exists, delivery has occurred, the vendor's fee is fixed or determinable, vendor-specific objective evidence exists for all undelivered elements of the arrangement and collection is determined to be probable.

Fixed assets

The Company depreciates computer equipment and software over the useful lives of such assets, generally three years.

Earnings Per Share

Basic net earnings (loss) per common share are computed by dividing net earnings (loss) applicable to common shareholders by the weighted-average number of common shares outstanding during the period. Diluted net earnings (loss) per common share is determined using the weighted-average number of common shares outstanding during the period, adjusted for the dilutive effect of common stock equivalents, consisting of shares that would be issued upon exercise of common stock options. In periods when losses are reported, the weighted-average number of common shares outstanding excludes common stock equivalents, because their inclusion would be anti-dilutive.

On January 18, 2005, the Company completed a 95,000 for one stock split. Stockholders' equity has been restated to give retroactive recognition to the stock split for all periods presented by reclassifying the par value of the additional shares arising from the split from paid-in-capital to common stock. All references in the financial statements and notes to number of shares and per share amounts reflect the stock split.

Promotional and Advertising Expenses

Promotional and advertising expenses were $73,804 and $116,935 for the years ended March 31, 2006 and 2005, respectively.

Fair Value of Financial Instruments

The Company's financial instruments consist mainly of cash, short-term payables and borrowings under the notes payable. The Company believes that the carrying amounts approximate fair value, due to their short-term maturities and current interest rates.

Impairment of Long-Lived Assets

The Company reviews its long-lived assets for impairment whenever events or changes indicate that the carrying amount of an asset or group of assets may not be recoverable. No impairment losses were recorded during the fiscal periods ended March 31, 2006 and 2005.

Recently Issued Accounting Pronouncements and Interpretations

SFAS No. 154, Accounting Changes and Error Corrections, was issued in May 2005 and replaces APB Opinion No. 20 and SFAS No. 3. SFAS No. 154 requires retrospective application for voluntary changes in accounting principle in most instances and is required to be applied to all accounting changes made in fiscal years beginning after December 15, 2005. The Company's expected April 1, 2006 adoption of SFAS No. 154 is not expected to have a material impact on the Company's financial position, results of operations or cash flows.

NOTE 2. GOING CONCERN CONSIDERATIONS

The Company's financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the settlement of liabilities and commitments in the normal course of business. The Company is in the development stage and has had minimal revenues since inception. Management recognizes that the Company must raise capital sufficient to fund start up, development and marketing activities until such time as it can generate revenues and net cash flows in amounts necessary to enable it to continue in existence. The realization of assets and satisfaction of liabilities in the normal course of business is dependent upon the Company achieving these goals. Management's plans include continuing efforts to develop the Company's first commercial product, borrowing funds under the revolving loan agreement described below, and raising additional capital.

In accordance with the funding provisions in the Predecessor's operating agreement, certain members of the Predecessor contributed capital of $2,000,000 to the Predecessor. As of July 27, 2005, the Company had borrowed $2,500,000 under a $2,500,000 revolving loan agreement with a company that is affiliated with the Company through common ownership (the "Bzinfin Loan"). The Company borrowed an additional $50,000 from Bzinfin during September 2005, and the loan agreement was amended to include the additional borrowing under the same terms and conditions. From October 2005 through March 31, 2006, the Company borrowed $429,000 from Ener1 Group, Inc. under a demand note.

During September 2005, the Company implemented a change in its business strategy and took certain actions to reduce its overhead costs. The Company intends to maintain and support its existing ***nViz^x*** visualization products, but the Company does not presently plan to introduce new versions of the product or upgrades unless and until sales for the current products increase significantly. The Company has discontinued its development projects unrelated to ***nViz^x***. The Company has terminated its use of software development services previously provided to the Company by Splinex Outsourcing, Inc., a Russian outsourcing company, and significantly reduced its software development team in the United States. In addition, the Company has terminated or accepted resignations from certain executives and managers. The Company intends to explore alternative uses of its existing technology through licensing or other business development activities. The Company has borrowed funds from a related party, Ener1 Group, Inc., to pay certain ongoing expenses while it pursues such alternatives, which could include acquisitions of or joint ventures with companies that could benefit from certain of the Company's core technologies. The Company does not anticipate receiving funding from Ener1 Group, Inc. sufficient to pay past due obligations including severance obligations until it has been able to implement its business development further.

Management believes that actions presently being taken, as described in the preceding paragraphs, provide the opportunity for the Company to continue as a going concern; however, there is no assurance this will occur.

NOTE 3. SEGMENT INFORMATION

The Company's sole reportable business segment is visual communication software products and services. The Company's accounting policies for segments are the same as those described in the summary of significant accounting policies.

NOTE 4. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at March 31, 2005 and 2006:

	2005	2006
Office and computer equipment	$ 53,082	$ 40,225
Computer software	26,308	26,308
	79,390	66,533
Less accumulated depreciation	(29,529)	(59,193)
	$ 49,862	$ 7,340

Depreciation expense was $34,910 and $24,075 for the fiscal years ending March 31, 2006 and 2005, respectively.

NOTE 5. EMPLOYEE LOANS AND ADVANCES

The Company advanced expatriate employees certain relocation-related costs. The employees signed promissory notes with an annual simple interest rate of 6%. Principal and interest due under these notes is payable over a period of 24 months from the date of the note, and all principal was paid by terminated employees during 2006. The current portion of the remaining note receivable is included in current assets.

NOTE 6. ACCRUED EXPENSES

Accrued liabilities represent expenses that apply to the reported period and have not been billed by the provider or paid by the Company. At March 31, 2005 and 2006, accrued liabilities consisted of the following:

	2005	2006
Accrued severance and termination obligations	$ -	$ 561,111
Executive relocation and legal	85,472	-
Accrued Russian programming closing costs	17,627	43,000
Audit	40,000	40,000
Accrued vacation	35,285	11,555
Miscellaneous	43,188	27,426
	$ 221,572	$ 683,093

NOTE 7. STOCKHOLDERS' EQUITY RECAPITALIZATION AND MERGER

On January 18, 2005, the Company effected a 95,000-for-one split of its common stock, and amended its Certificate of Incorporation to increase the authorized common stock to 300,000,000 shares and increase the authorized preferred stock to 150,000,000 shares; the common stock and preferred stock each have a par value of $0.001 per share. Each stockholder of common stock is entitled to one vote for each share held. The preferred stock may be divided into series with the designations, powers, preferences, and relative rights and any qualifications, limitations or restrictions as determined by the Company's board of directors.

Prior to April 1, 2004, the Company operated through the Predecessor as a limited liability company. On April 1, 2004, the Predecessor contributed substantially all of its assets, liabilities and operations to Technology pursuant to a Contribution Agreement. Under SEC Staff Accounting Bulletin Topic 4 (B), the undistributed earnings (losses) of the limited liability company were treated as a constructive distribution to the owners followed by a contribution of the capital to the new C Corporation. On April, 1, 2004, the effective date of the Contribution Agreement, the Company reclassified the accumulated deficit to date of $822,847 to additional paid in capital.

On January 18, 2005, the Company and Ener1, Inc., an affiliated company controlled by certain direct and indirect beneficial owners of the membership interests of the Predecessor, completed the merger of Ener1 Acquisition Corp., a wholly-owned subsidiary of Ener1, Inc., into the Company (the "merger") in exchange for 5,000,000 shares of the Company's common stock. The Company survived the merger. Ener1, Inc. declared a dividend of the 5,000,000 shares that it received in the merger to its shareholders of record as of January 17, 2005 (the "distribution"). The Company registered the distribution on a registration statement on Form S-1 initially filed with the Securities and Exchange Commission on June 24, 2004 and declared effective on January 11, 2005. The dividend was paid on January 24, 2005. Immediately after the merger, and prior to the distribution, the Predecessor and Ener1, Inc. owned 95% and 5%, respectively, of the Company's then-outstanding common stock. As a result of the merger and the distribution, the Company became a public reporting company subject to the information and reporting requirements of the Securities Exchange Act of 1934. The merger and the distribution are described further in the Company's Registration Statement on Form S-1, filed with the Securities and Exchange Commission on December 27, 2004 (Registration No. 333-116817). Ener1 Acquisition Corp. had no operations and no assets or liabilities prior to the merger. The acquisition was recorded at Ener1 Acquisition Corp.'s book value on the date of acquisition, which was zero.

During October 2005, a former employee forfeited 62,500 restricted shares of the Company's common stock. The Company has recorded the forfeited restricted stock as treasury stock at the closing price of the common stock on the date of the forfeiture.

NOTE 8. STOCK OPTIONS AND STOCK GRANTS

In June 2004, the board of directors of the Company formally approved the 2004 Stock Option Plan (the “Plan”), which initially authorizes the issuance of grants to Company employees to purchase up to 5,000,000 shares of the Company’s common stock. After June 30, 2005, the Company may grant options under the Plan to purchase up to the lesser of an additional 5,000,000 shares of common stock, 5 percent of the outstanding shares of the Company common stock on such date, or an amount determined by the board of directors.

During the year ended March 31, 2005, the Company approved the issuance of options to purchase up to 4,825,000 shares of the Company's common stock under the Plan, as follows:

On January 18, 2005, pursuant to an employment agreement dated September 1, 2004, the Company granted to its chief executive officer an option to purchase 2,000,000 shares of common stock under the Plan. These options have an exercise price of $0.20 per share. As of March 31, 2005, this option was vested with respect to 388,888 shares, and the remaining shares vest at a rate of 55,555 per month over the following 29 months.

Pursuant to an employment agreement dated January 25, 2005, the Company granted to an executive officer an option to purchase 1,000,000 shares of common stock under the Plan with an exercise price of $0.20 per share. The options will vest with respect to 250,000 shares on January 25, 2006 and at a rate of 20,833 shares per month thereafter.

In January 2005, the Company's board of directors approved the issuance of options to purchase an aggregate of 1,825,000 shares of the Company common stock to employees of the Company. These options have an exercise price of $0.10 per share, and vested 12.5% on the date of grant, 12.5% on June 24, 2005, and 12.5% every six months thereafter and expire on the ten-year anniversary of the grant. The options were formally delivered in May and June 2005.

During the year ended March 31, 2005, the Company approved the issuance of options to purchase 2,250,000 shares of the Company common stock, which are not under the Plan, as follows:

On January 18, 2005, pursuant to an employment agreement dated September 1, 2004, the Company granted to its chief executive officer an option to purchase 1,500,000 shares of common stock. This option has an exercise price of $0.50 per share. This option will be fully vested upon the first to occur of (1) the date that the cumulative revenues of the Company exceed $50,000,000 or (2) September 1, 2009.

On January 25, 2005, the Company agreed to grant to an executive officer an option to purchase 750,000 shares of the Company's common stock if the Company has not commenced development and committed funding of a specified research and development project by January 25, 2006. If granted, this option will have an exercise price per share equal to the fair market value on the date of grant. This option would vest in three equal installments beginning on the one-year anniversary of the date of grant.

During the year ending March 31, 2006, 5,437,500 shares expired or were forfeited, and 87,500 shares were exercised. No options were granted during fiscal 2006. The following table summarizes the changes in stock options for the two years ending March 31, 2006.

Options	**Number of Options**		**Weighted Average Price**	**Average Remaining Contractual Term**		**Intrinsic Value**
Outstanding at March 31, 2004	—					
Granted	6,325,000	$	0.24	10		
Exercised	—					
Forfeited or expired	—					
Outstanding at March 31, 2005	6,325,000	$	0.24	9.8		
Granted	—					
Exercised	(87,500)	$	0.10			
Forfeited or expired	(5,437,500)	$	0.23			
Outstanding at March 31, 2006	800,000	$	0.10	8.8	$	—
Vested or expected to vest at March 31, 2006	300,000	$	0.10	8.8	$	—
Exercisable at March 31, 2006	300,000	$	0.10	8.8	$	—

During the quarter ending March 31, 2005, the Company adopted the provisions of SFAS No. 123 for accounting for transactions in which an entity exchanges its equity instruments for goods or services, including obtaining employee services in share-based payment transactions. The weighted average Black-Scholes value of options granted under the stock plans during fiscal 2005 was $0. Accordingly, no compensation expense has been recorded for stock option grants as such grants were all considered to be made at or above fair market value on the date of grant. The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions used for grants made in fiscal 2005:

Weighted average expected life in years	10
Dividend per share	none
Volatility	0%
Risk free interest rate	4.0%

The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options that have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions. The Company assumed zero stock price volatility because its stock did not have an established trading market. Because the Company's employee stock options have characteristics different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion, the existing models do not necessarily provide a reliable single measure of the fair value of its employee stock options.

During the year ended March 31, 2005, the Company granted 400,000 shares of restricted common stock to its chief executive officer; as of March 31, 2006, the restrictions as to the transferability of such shares had lapsed. The Company also granted 250,000 shares of restricted common stock to an executive that was subject to a lapsing right of forfeiture commencing in January 2006; the employee forfeited the 250,000 shares in October 2005 under a termination agreement. The Company recorded compensation expense of $19,500 for these restricted stock grants during fiscal 2005.

NOTE 9. LONG TERM DEBT DUE TO RELATED PARTY

Effective April 1, 2004, a company that is affiliated with the Company through common ownership, entered into a revolving loan agreement with the Company under which the Company borrowed $2,550,000 in aggregate principal through March 31, 2006. Loans under this agreement bear interest at an annual rate of 5% and must be repaid two years from the date of the initial funding, which occurred on February 7, 2005.

During the year ending March 31, 2005, Ener1 Group, Inc., a company that is affiliated with the Company through common ownership, loaned the Company $800,000 to fund working capital needs. These loans were assumed by Bzinfin, S.A., the lender under the Company's revolving loan agreement, effective February 21, 2005, andare included in the $2,550,000 outstanding balance at March 31, 2006 under the revolving loan agreement. At March 31, 2006, the Company had borrowed $429,000 from Ener1 Group under a demand note bearing annual interest of 5% to fund working capital needs.

NOTE 10. INCOME TAXES

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts of assets and liabilities used for income tax purposes. At March 31, 2006 and 2005, the Company had cumulative federal net operating loss carry forwards (NOL) of approximately $5,039,000 and $2,780,000, respectively. The NOL expires during the year 2025.

The net provision (benefit) for income taxes consisted of the following at March 31, 2005 and 2006:

	2005	2006
Current Federal income taxes	$ —	$ —
Deferred income tax benefit	(1,045,000)	(850,000)
Change in valuation allowance	1,045,000	850,000
Total income tax provision	$ —	$ —

Significant components of the Company's deferred tax assets at March 31, 2005 and 2006 are as follows:

	2005	2006
Net operating loss carryforwards	$ 1,032,000	$ 1,635,000
Accrued compensation and other	13,000	260,000
	1,045,000	1,895,000
Valuation allowance for deferred tax assets	(1,045,000)	(1,895,000)
Net deferred tax asset	$ —	$ —

A reconciliation between actual income taxes and amounts computed by applying the federal statutory rate of 34% to pre-tax loss is summarized as follows:

	2005	2006
U. S. Federal statutory rate on loss before income taxes	34.0%	34.0%
Non deductible items registration cost	-5.9%	—%
State income tax, net of federal tax benefit	3.6%	3.6%
Increase in valuation allowance	-31.7%	-37.6%
Total income tax provision	0.0%	0.0%

Operating losses of the Predecessor in the amount of $822,847 prior to the date of the Contribution Agreement were allocated to the Predecessor and are not available to the Company as net operating loss carryforwards. On a pro forma basis, had the Company been taxed as a C corporation for federal income tax purposes, the income tax benefit would have been $279,768 for the period ending March 31, 2004, which would have been fully offset by a valuation allowance.

NOTE 11. RELATED PARTY TRANSACTIONS

On January 1, 2004 and February 1, 2004, the Company entered into consulting agreements with two members of the Predecessor, one of whom is also director of the Company. The consulting agreements engage the members to provide consulting services including advice regarding equity restructuring, business planning, strategic planning, and international licensing in exchange for $100,000 per year or a monthly fee to each consultant of $8,333. General and administrative expenses for the years ended March 31, 200 6 and 2005 include consulting fees under these agreements of $200,000 and $200,000, respectively. Accounts payable includes $184,000 and $0 due to the related party consultants at March 31, 2006 and March 31, 2005 respectively.

The Company shares personnel with Ener1, Inc. and Ener1 Group, Inc., entities affiliated with the Company by common ownership. In addition, Ener1, Inc. paid certain expenses of the Company related to the merger of the Company with Ener1 Acquisition Corp (discussed below under Note 8, "Subsequent Events"). Accordingly, amounts have been allocated to and from the Company for the services of personnel and other expenses. The Company incurred rent expense for its office space under a sublease with Ener1 Group, Inc. in the amounts of $62,263 and $60,274 for the years ended March 31, 2006 and 2005, respectively. On January 24, 2005, the Company issued 20,629 shares of restricted common stock to Ener1 Group, Inc. in partial reimbursement for certain expenses paid for by Ener1 Group, Inc. at a value of $0.25 per share.

Related parties reimburse the Company for the time spent by one of its employees for patent and research work; as a result, administrative wages and research and development wages are net of reimbursements of $17,160 and $46,080, respectively, for the year ended March 31, 2005. Administrative expenses for the years ended March 31, 2006 and 2005 include legal expenses payable to Ener1 Group, Inc. for the services of an Ener1 Group employee who serves as the Company's general counsel in the amount of $9,200 and $35,530, respectively. Other administrative services were provided by personnel of Ener1, Inc. in the amount of $1,782 and $5,849 for the years ended March 31, 2006 and 2005.

The Company worked with Russia-based scientists and programmers who were paid on the Company's behalf under an agreement with a Russian consultant who handled administrative matters for the Company in Russia through July 2004. This consultant became an employee of the Company in July 2004. The Company paid the expenses of the Company's operations in Russia through this consultant in the amounts of $93,800 and $48,000 for the period from inception through March 31, 2004 and for the year ended March 31, 2005, respectively. In March 2004, the consultant formed Splinex Outsourcing LLC to handle administrative and employment matters in connection with the Company's Russian operations. In April 2004, a member of the Predecessor formed ANTAO to facilitate the payment of expenses to Splinex Outsourcing; ANTAO became a subsidiary of the Company on September 12, 2004. From July 2, 2004 through March 31, 2005, the Company paid $260,000 to ANTAO, of which ANTAO had retained $10,000 for minimum cash requirements and payment of its administrative expenses, and paid $250,000 to Splinex Outsourcing LLC to date. During the year ending March 31, 2006, the Company paid $120,207 (unaudited) to Splinex Outsourcing LLC, of which $40,207 was paid through ANTAO and $80,000 was paid through Ener1 Group, Inc. In September 2005, the Company terminated the development work provided by Splinex Outsourcing.

NOTE 12. ACQUISITION

On September 20, 2004, the sole stockholder of ANTAO, who is a member of Splinex, LLC, contributed the outstanding stock of ANTAO to the Company pursuant to his obligations under the Splinex, LLC operating agreement. ANTAO's sole asset was cash of $2,509, which represents advances previously paid by the Company. This asset was offset by a liability of $2,509 for amounts due to Splinex Outsourcing LLC. The results of operations of ANTAO have been included in the consolidated interim results of operations of the Company from September 20, 2004.

NOTE 13. COMMITMENTS AND CONTINGENCIES

Foreign subsidiary

The Company has outsourced computer programming to a company located in Ekaterinberg Russia. The Company may engage in outsourcing in Russia again in the future. The outsourcing company's operations in Russia are subject to significant risks not typically associated with companies in North America and Western Europe. These risks include, among others, political, economic and legal risks associated with doing business in Russia, limitations on foreign currency transactions, and risks associated with evolving Russian laws on issues including creditor rights and intellectual property. The Company's ability to develop products and earn revenues may be adversely affected by

changes in the political, economic, legal and social conditions in Russia, and by changes in governmental policies with respect to laws and regulations, anti-inflationary measures, foreign currency transactions, and rates and methods of taxation, among other things.

Lease Commitments

Effective April 1, 2004, the Company assumed the rights and obligations under a sublease agreement for its office facility that the Predecessor entered into in October 2003. The sublease agreement expires on February 28, 2008. The Company terminated the lease on June 1, 2006, and a subtenant assumed the lease obligations to Ener 1 Group.

Minimum commitments on the above agreement for the years subsequent to March 31, 2006 are as follows:

2007	$ 62,000
2008	59,000
	$ 121,000

30

ITEM 8: Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None

ITEM 8A: Controls and Procedures

Our disclosure controls and procedures are designed to provide reasonable assurance that information required to be disclosed in our reports filed or submitted under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our chief executive officer and chief financial officer, as appropriate, to allow for timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management is required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

As of March 31, 2006, we carried out an evaluation, under the supervision and with the participation of our management, which consisted solely of our president (principal executive officer) who also is our chief financial officer, of the effectiveness of the design and operation of our disclosure controls and procedures. Based on the foregoing, our principal executive and financial officer concluded that our disclosure controls and procedures were effective and were operating at the reasonable assurance level.

There were no changes in internal controls over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

ITEM 8B: Other Information

None.

PART III

Item 9. Directors, Executive Officers, Promoters and Control Persons; Compliance With Section 16(a) of the Exchange Act

Directors and executive officers

The following table sets forth information regarding our directors and executive officers.

Name	Age	Position	Director or Officer Since
Dr. Peter Novak	53	Chairman and Director	2004
Alexander Yarmolinsky	32	Director	2005
Curtis Wolfe	43	General Counsel, Secretary and Director	2004
Gerard Herlihy	53	President and Chief Financial Officer	2004

Each of our directors will hold office until our next meeting of stockholders at which directors are elected or until his successor is duly elected and qualified.

Dr. Peter Novak has been a director of our company since its founding in February 2004 and Chairman since September 2005. From February 2004 until September 1, 2004, Dr. Novak was our President. Since 2001, he has been the chief technology officer and a director of Ener1 Group and a director of Ener1. Since 1991, Dr. Novak has worked with Mike Zoi, who is also a director of Ener1, focusing on bringing advanced electronic technologies to market. In 1998, Dr. Novak worked with Mr. Zoi to form On Power Battery s.r.l. (subsequently renamed Ener1 s.r.l.). Dr. Novak is the "sole administrator," a position equivalent to president, and sole director, for Ener1 s.r.l. which commenced development of a research, development and production facility for advanced lithium metal batteries in Italy in 1998. For the next three years, Dr. Novak worked with Mr. Zoi to manage the start-up business operations of Ener1 s.r.l. Dr. Novak was, during that period, and is now, primarily responsible for technology development. In that capacity, he performed and supervised research and development and developed numerous technologies for which patent applications are now in process at the United States Patent and Trademark office and elsewhere. In 2001, Dr. Novak and Mr. Zoi formed Ener1 Holdings, Inc., now named Ener1 Group. As chief technology officer of Ener1 Group, Dr. Novak is responsible for all technology development, licensing and patent matters. Dr. Novak also assists in the management of the business affairs of Ener1 Group. Dr. Novak graduated from the Ural Polytechnic Institute, Physics and Technical Department, with specialization in experimental nuclear physics. Dr. Novak obtained his Ph.D. degree in physical chemistry from the Institute of Solid State Chemistry, Ural Branch Academy of Science, Russia.

Alexander Yarmolinsky has been a director of our company since June 2005. From 1999 through 2005, Mr. Yarmolinsky has been employed by Burr, Pilger & Mayer, LLP, a public accounting firm, most recently as a senior tax manager. Currently, Mr. Yarmolinsky is employed by The Marcus and Millichap Company, a diversified real estate firm, as a Vice President of tax. Mr. Yarmolinsky earned a Bachelor of Arts degree in accounting from the University of San Francisco and a Masters of Science in taxation from Golden Gate University. Mr. Yarmolinsky is a member of the American Institute of Certified Public Accountants and the California Society of CPAs.

Curtis Wolfe has been our general counsel and secretary since June 2004 and a director since December 2004. Mr. Wolfe also serves as general counsel for Ener1 Group. Prior to joining Ener1 Group, Mr. Wolfe was a partner at the law firm Steel Hector & Davis LLP where he practiced law from 1998 to 2004. While at Steel Hector, Mr. Wolfe built a practice focusing on complex corporate transactions, including mergers and acquisitions, finance and intellectual property with an expertise in software licensing. Prior to 1998, Mr. Wolfe practiced law in the business and finance department of Ballard Spahr Andrews & Ingersoll in Philadelphia, Pennsylvania. Mr. Wolfe is admitted to practice law in Florida, Delaware and Pennsylvania. Mr. Wolfe has served on the board of directors of the Zoological Society

of Florida since 2002 and served from 2002 until 2004 on the executive committee and board of directors of the Miami-Dade County Beacon Council, Inc., Miami-Dade County, Florida's official economic development agency. Mr. Wolfe holds a Juris Doctor degree from the University of Iowa College of Law and a Bachelor of Integrated Studies degree in English, Mathematics and Latin American Studies from Weber State University in Ogden, Utah.

Gerard Herlihy has been our chief financial officer since June 2004 and our president since September 2005. In February 2006, Mr. Herlihy was appointed Chief Financial Officer of Ener1 Group in addition to his current responsibilities at Splinex. In the year prior to joining our company, Mr. Herlihy provided accounting, financing and acquisition advisory consulting services to public and private companies. From 2001 through 2003, he was also the founder and chief executive officer of Putt Trak Inc., a vision systems software development company for sports training devices. From 1996 to 2000, Mr. Herlihy was chief financial and administrative officer of Williams Controls, Inc., a publicly-held manufacturer of sensors and controls. Mr. Herlihy held previous positions directing turnarounds in public and private companies and in investment banking and public accounting. Mr. Herlihy has a Masters of Business Administration degree from the Harvard Business School and a Bachelor of Science degree from the University of Rhode Island and is a Certified Public Accountant (inactive status).

Board composition

As of July 10, 2006, our board of directors currently consists of three members. The number of directors may change from time to time, solely as determined by resolution adopted by a majority of the board of directors. Our bylaws require a minimum of one director and allow a maximum of nine directors.

Alexander Yarmolinsky is an independent director who iDER-BOTTOM: black">

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pursuing the development of projects that we believe will generate attractive rates of return;

•

maintaining a balanced portfolio of lower risk, long-lived oil and gas properties that provide stable cash flows;

•

seeking property acquisitions that complement our core areas; and

•

allocating an increasing percentage of our capital budget to leasing and testing new areas with exploratory wells.

We have historically acquired operated and non-operated properties that meet or exceed our rate of return criteria. For acquisitions of properties with additional development, exploitation and exploration potential, our focus has been on acquiring operated properties so that we can better control the timing and implementation of capital spending. In some instances, we have been able to acquire non-operated property interests at attractive rates of return that established a presence in a new area of interest or that have complemented our existing operations. We intend to continue to acquire both operated and non-operated interests to the extent we believe they meet our return criteria. In addition, our willingness to acquire non-operated properties in new geographic regions provides us with geophysical and geologic data in some cases that leads to further acquisitions in the same region, whether on an operated or non-operated basis. We sell properties when we believe that the sale price realized will provide an above average rate of return for the property or when the property no longer matches the profile of properties we desire to own.

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Our revenue, profitability and future growth rate depend on factors beyond our control, such as economic, political and regulatory developments and competition from other sources of energy. Oil and gas prices historically have been volatile and may fluctuate widely in the future. Sustained periods of low prices for oil or gas could materially and adversely affect our financial position, results of operations, cash flows, access to capital, and the quantities of oil and gas reserves that we can economically produce.

Third Quarter 2007 Highlights and Future Considerations

On July 3, 2007, we completed a public offering of 5,000,000 shares of our common stock at a price of $40.50 per share, providing net proceeds of $193.9 million. Pursuant to the exercise of the underwriters' overallotment option, we sold an additional 425,000 shares of common stock on July 11, 2007, also at $40.50 per share, providing net proceeds of $16.5 million. We used the net proceeds to repay a portion of the debt outstanding under our credit agreement, thereby increasing the borrowing capacity available under the credit agreement.

On July 17, 2007, we sold our approximate 50% non-operated working interest in several gas fields located in the LaSalle and Webb Counties of Texas for total cash proceeds of $40.1 million, resulting in a pre-tax gain on sale of $29.7 million. The divested properties had estimated proved reserves of 2.3 MMBOE as of December 31, 2006, adjusted to the July 1, 2007 divestiture effective date, resulting in a sale price of $17.77 per BOE. Our June 2007 average daily net production from these fields was 760 BOE/d. We used the net proceeds to repay a portion of the debt outstanding under our credit agreement.

During the third quarter of 2007, we sold our interests in several additional non-core properties for an aggregate amount of $4.1 million in cash. The divested properties are located in Louisiana, Michigan, Oklahoma and Texas. The average daily net production from the divested property interests was 123 BOE/d as of the dates of disposition. We used the net proceeds from these asset sales to fund drilling.

We continue to have significant development and related infrastructure activity on the Postle and North Ward Estes fields acquired in 2005, which has resulted in reserve and production increases. During the first nine months of 2007, we incurred $203.0 million of exploration and development expenditures on these two projects, and we expect to allocate an additional $60.0 million to these two projects for the remainder of 2007.

Our expansion of the CO_2 flood at the Postle field, located in Texas County, Oklahoma, is generating positive results. In October, average net production from the field increased to approximately 5,600 BOE/d. This compares to the field's average net production of 5,300 BOE/d in May 2007. We are currently injecting approximately 112 MMcf/d of CO_2 into the field's producing reservoir, the Morrow formation, at a depth of approximately 6,100 feet.

On May 22, 2007, we initiated our CO_2 flood in the North Ward Estes field, located in Ward and Winkler Counties, Texas. We are currently injecting approximately 14 MMcf/d of CO_2 into the Yates formation, the field's producing reservoir, at a depth of approximately 2,600 feet. Our target for CO_2 injection into the field is 100 MMcf/d by the end of the first quarter of 2008. We expect an initial response from this CO_2 flood during the second half of 2008. Net production from North Ward Estes in October has been averaging approximately 5,150 BOE/d.

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We are currently drilling two horizontal wells on our Robinson Lake prospect in Mountrail County, North Dakota. Both wells will target the Middle Bakken formation at a depth of approximately 9,900 feet. We hold an average working interest of 93% and an average net revenue interest of 74% in the two new wells. Production test results are expected from both wells before year end.

Our discovery well on the Robinson Lake prospect, the Peery State 11-25H, was completed in May 2007 in the Middle Bakken formation with an initial flow rate of 1,081 Bbl/d of oil and 1.0 MMcf/d of gas. The current flow rate is 300 Bbl/d of oil and 300 Mcf/d of gas. The triple-lateral well drilled approximately 21,000 feet of horizontal well bore. We hold a 99% working interest (80% net revenue interest) in the discovery well and are the operator.

Our Robinson Lake prospect encompasses 118,000 gross (81,000 net) acres, on which we plan to drill 18 Middle Bakken wells during the next 26 months. We currently have one drilling rig and one large workover rig working full time at Robinson Lake and plan to add a second drilling rig in January 2008 and a third drilling rig by the end of the first quarter of 2008. The workover rig is being used to drill the lateral sections of the wells.

Immediately east of the Robinson Lake prospect is the Parshall field. We own 66,000 gross (14,000 net) acres in the Parshall field, where we have participated in 22 wells. The initial 11 wells were completed between June 2006 and September 2007 and had average initial production rates of approximately 1,324 BOE/d per well. Seven wells are currently undergoing completion operations while another four are currently being drilled. We hold an average 20% working interest in the non-operated Parshall field. An additional eight wells are currently budgeted to be drilled in Parshall field during the remainder of 2007. In addition, we are drilling a 100% working interest well in the northeast portion of Parshall field.

During the third quarter, we moved two rigs into the Piceance Basin to drill Williams Fork and Iles wells on our Boies Ranch and Jimmy Gulch properties in Rio Blanco County, Colorado. Each rig has drilled one well at Boies Ranch to a total depth of approximately 11,500 feet. These two wells are currently awaiting completion operations and two additional wells are currently being drilled. Drilling operations are expected to commence at Jimmy Gulch in the first quarter of 2008. We are drilling groups of four to eight wells off of pads, with each rig moving to the next well off the same pad. Across our Boies Ranch and Jimmy Gulch Prospects, our ownership ranges from 50% to 100% working interests and 49% to 89% net revenue interests. We hold a 100% working interest and an average net revenue interest of 86% in the two new Boies Ranch wells that have reached total depth. In the two wells that are being drilled, we own a 100% working interest and an average net revenue interest of 89%.

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In the first half of 2007, we drilled and completed three gas producers at Boies Ranch, with each well flowing at an initial rate of approximately 2.3 MMcf/d of gas from the Williams Fork and Iles formations. Production from these three wells was shut in for most of the third quarter and most of October as repairs were made to a nearby gas processing plant where Boies Ranch gas had been transported. Production is expected to resume from the Boies Ranch area in November at a restricted gross rate of approximately 3.0 MMcf/d of gas (1.5 MMcf/d of gas net to the Company's interests). The three productive wells at Boies Ranch are capable of producing at a combined gross rate of 4.8 MMcf/d of gas. We plan to drill a total of 106 wells on our Boies Ranch and nearby Jimmy Gulch areas through 2009. The wells are scheduled to be drilled on 20-acre spacing units. We plan to have a minimum of two drilling rigs running full time in the Piceance Basin through 2008.

We are evaluating and engaged in discussions with respect to the potential sale of economic interests in other non-core properties, although we have not made a decision on whether to do so or the form that any such transaction would take. Our intention is to monetize the value of some of our predominantly proved developed producing properties with this potential sale. These property interests had estimated reserves of up to 8.1 MMBOE, as of an October 1, 2007 effective date. All properties being considered for potential disposition represent up to 3.5% of our proved reserves as of December 31, 2006 and 11.1%, or 4,500 BOE/d, of our September 2007 average daily net production. We expect to use the net proceeds from these asset sales to repay a portion of the debt outstanding under our credit agreement. We cannot provide any assurance, however, that we will be able to complete these asset sales.

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Results of Operations

Nine Months Ended September 30, 2007 Compared to Nine Months Ended September 30, 2006

Selected Operating Data:	Nine Months Ended September 30, 2007	2006
Net production:		
Oil (MMbls)	7.1	7.3
Natural gas (Bcf)	23.3	24.1
Total production (MMBOE)	11.0	11.4
Net sales (in millions):		
Oil(1)	$ 414.8	$ 436.5
Natural gas(1)	143.2	164.8
Total oil and natural gas sales	$ 558.0	$ 601.3
Average sales prices:		
Oil (per Bbl)	$ 58.37	$ 59.52
Effect of oil hedges on average price (per Bbl)	(0.29)	(1.28)
Oil net of hedging (per Bbl)	$ 58.08	$ 58.24
Average NYMEX price	$ 66.12	$ 68.29
Natural gas (per Mcf)	$ 6.14	$ 6.83
Effect of natural gas hedges on average price (per Mcf)	-	(0.02)
Natural gas net of hedging (per Mcf)	$ 6.14	$ 6.81
Average NYMEX price	$ 6.83	$ 7.46
Cost and expense (per BOE):		
Lease operating expenses	$ 14.05	$ 11.91
Production taxes	$ 3.17	$ 3.24
Depreciation, depletion and amortization expense	$ 13.02	$ 10.30
General and administrative expenses	$ 2.54	$ 2.58

(1) Before consideration of hedging transactions.

Oil and Natural Gas Sales. Our oil and natural gas sales revenue decreased $43.3 million to $558.0 million in the first nine months of 2007 compared to the first nine months of 2006. Sales are a function of volumes sold and average sales prices. Our oil sales and gas sales volumes decreased 3% between periods**.** The volume declines resulted in part from property sales, production shut-ins due to a fire at a third-party refinery, and normal field production decline, which factors were offset by production increases from development activities. The property sales account for a decline of approximately 65 MBOE, 72% of which related to natural gas. As a result of the refinery fire, approximately 34 MBOE of production from the Postle field was shut-in or restricted from February 19 through March 8, 2007. In addition during the first nine months of 2007, we converted several production wells to injectors at our North Ward Estes field, as the reservoir was pressured up in the Phase 1 area in preparation for CO_2 injection. Our average price for oil before effects of hedging decreased 2% and our average price for natural gas before effects of hedging decreased 10% between periods.

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Loss on Oil and Natural Gas Hedging Activities. We hedged 54% of our oil volumes during the first nine months of 2007, incurring derivative settlement losses of $2.1 million, and 54% of our oil volumes during the first nine months of 2006, incurring derivative settlement losses of $9.4 million. We hedged 21% of our gas volumes during the first nine months of 2007, incurring no realized hedging gains or losses and 58% of our gas volumes during the first nine months of 2006, incurring derivative settlement losses of $0.5 million. See Item 3, "Qualitative and Quantitative Disclosures About Market Risk" for a list of our outstanding oil hedges as of October 1, 2007.

Gain on sale of properties. During the nine months ended September 30, 2007, we sold certain non-core properties for aggregate sales proceeds of $45.4 million, resulting in a pre-tax gain on sale of $29.7 million. There was no gain on sale of properties during the nine months ended September 30, 2006.

Lease Operating Expenses. Our lease operating expenses increased $19.3 million to $154.5 million in the first nine months of 2007 compared to the first nine months of 2006. Our lease operating expense as a percentage of oil and gas sales increased from 22% during the first nine months of 2006 to 28% during the first nine months of 2007. Our lease operating expenses per BOE increased from $11.91 during the first nine months of 2006 to $14.05 during the first nine months of 2007. The increase of 18% on a BOE basis was primarily caused by a high level of workover activity, inflation in the cost of oil field goods and services, and a change in labor billing practices. Workovers amounted to $11.3 million in the first nine months of 2007, as compared to $5.9 million of workover activity in the first nine months of 2006. The cost of oil field goods and services increased due to a higher demand in the industry. In addition, during the fourth quarter of 2006, we revised our labor billing practices to better conform to Council of Petroleum Accountants Societies ("COPAS") guidelines. This change in labor billing practices resulted in lower net general and administrative expense and higher amounts of lease operating expense being charged to us and our joint interest owners on properties we operate.

Production Taxes. The production taxes we pay are generally calculated as a percentage of oil and gas sales revenue before the effects of hedging. We take full advantage of all credits and exemptions allowed in our various taxing jurisdictions. Our production taxes for the first nine months of 2007 and 2006 were 6.3% and 6.1%, respectively, of oil and gas sales.

Depreciation, Depletion and Amortization. Depreciation, depletion and amortization expense ("DD&A") increased $26.3 million to $143.2 million during the first nine months of 2007, as compared to the first nine months of 2006. On a BOE basis, our DD&A rate increased from $10.30 during the first nine months of 2006 to $13.02 in the first nine months of 2007. The primary factors causing this rate increase were (1) additional drilling expenditures incurred during the past 12 months in relation to net oil and gas reserve additions over the same time period, and (2) the amount of expenditures necessary to develop proved undeveloped reserves, particularly related to the enhanced oil recovery projects in the Postle and North Ward Estes fields, where the development of undeveloped reserves does not increase existing proved reserves. Under the successful efforts method of accounting, costs to develop proved undeveloped reserves are added into the DD&A rate when incurred. The components of our DD&A expense were as follows (in thousands):

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	Nine Months Ended September 30,	
	2007	2006
Depletion	$ 138,826	$ 113,389
Depreciation	2,293	1,865
Accretion of asset retirement obligations	2,095	1,693
Total	$ 143,214	$ 116,947

Exploration and Impairment Costs. Our exploration and impairment costs increased $3.3 million to $26.2 million in the first nine months of 2007 compared to the first nine months of 2006. The components of exploration and impairment costs were as follows (in thousands):

	Nine Months Ended September 30,	
	2007	2006
Exploration	$ 19,081	$ 21,161
Impairment	7,158	1,742
Total	$ 26,239	$ 22,903

During the first nine months of 2007, we participated in a non-operated exploratory well drilled in the Gulf Coast region that resulted in an insignificant amount of dry hole expense, as compared to the first nine months of 2006, during which we drilled two exploratory dry holes in the Rocky Mountains region and one exploratory dry hole in the Gulf Coast region, totaling $5.3 million. This reduction in exploratory dry hole expense was partially offset by an increase in geological and geophysical ("G&G") activity during the first nine months of 2007. G&G costs amounted to $10.5 million during the first nine months of 2007, as compared to $7.9 million in the first nine months of 2006. The impairment charges in 2007 and 2006 were related to the amortization of leasehold costs associated with individually insignificant unproved properties. The increase in impairment is due to an additional $51.8 million of unproved property being amortized during the nine months ended September 30, 2007, as compared to the same period in 2006.

General and Administrative Expenses. We report general and administrative expenses net of reimbursements. The components of our general and administrative expenses were as follows (in thousands):

	Nine Months Ended September 30,	
	2007	2006
General and administrative expenses	$ 52,338	$ 44,749
Reimbursements and allocations	(24,397)	(15,464)
General and administrative expense, net	$ 27,941	$ 29,285

General and administrative expense before reimbursements and allocations increased $7.6 million to $52.3 million during the first nine months of 2007. The largest components of the increase related to $5.2 million of additional salaries and wages for personnel hired during the past twelve months and $1.1 million in additional Production Participation Plan expense, attributable primarily to the Company's 2007 oil and gas property divestitures. The increase in reimbursements and allocations in the first nine months of 2007 was caused by increased salary expenses and a higher number of field workers on operated properties. In addition during the fourth quarter of 2006, we revised our labor billing practices to better conform to COPAS guidelines. These changes in labor billing practices resulted in higher reimbursements and allocations and higher amounts of lease operating expense being allocated to us and charged to our joint interest owners on properties we operate. Our net general and administrative expenses as a percentage of oil and gas sales remained consistent at 5% during the first nine months of 2007 compared to the first

nine months of 2006.

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Change in Production Participation Plan Liability. For the nine months ended September 30, 2007, this non-cash expense increased to $6.4 million. This expense represents the change in the vested present value of estimated future payments to be made to participants after 2008 under our Production Participation Plan ("Plan"). Although payments take place over the life of oil and gas properties contributed to the Plan, which for some properties is over 20 years, we must expense the present value of estimated future payments over the Plan's five year vesting period. This expense in 2007 and in 2006 primarily reflects changes to future cash flow estimates and related Plan liability due to the effect of a sustained higher price environment, recent drilling activity, and employees' continued vesting in the Plan. During the nine months ended September 30, 2007, the five-year average historical NYMEX prices used to estimate this liability increased $6.09 for crude oil and $0.53 for natural gas from December 31, 2006, as compared to increases of $5.05 for crude oil and $0.15 for natural gas for the nine months ended September 30, 2006. Assumptions that are used to calculate this liability are subject to estimation and will vary from year to year based on the current market for oil and gas, discount rates and overall market conditions.

Interest Expense. The components of our interest expense were as follows (in thousands):

	Nine Months Ended September 30,	
	2007	**2006**
Credit Agreement	$ 20,035	$ 15,219
Senior Subordinated Notes	33,571	33,350
Amortization of debt issue costs and debt discount	3,793	3,922
Accretion of tax sharing liability	1,142	1,549
Other	445	742
Capitalized interest	(2,472)	(303)
Total interest expense	$ 56,514	$ 54,479

The increase in interest expense was mainly due to additional borrowings outstanding in 2007 under our credit agreement, which were partially offset by increased capitalized interest related to construction and expansion of processing facilities.

Our weighted average debt outstanding during the first nine months of 2007 was $996.1 million versus $934.2 million in the first nine months of 2006. Our weighted average effective cash interest rate was 7.2% during the first nine months of 2007 versus 7.0% during the first nine months of 2006. After inclusion of non-cash interest costs related to the amortization of debt issue costs and debt discount and the accretion of the tax sharing liability, our weighted average effective all-in interest rate was 7.7% during the first nine months of 2007 versus 7.5% during the first nine months of 2006.

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Unrealized Derivative Loss. During the first quarter of 2007, we determined that the forecasted transactions, to which certain crude oil collars had been designated, were no longer probable of occurring prior to the contracts expiring from April through December of 2007. We therefore reclassified the net losses attributable to these hedges out of accumulated other comprehensive loss and recognized $1.1 million in unrealized derivative losses in the condensed consolidated statements of income in the first quarter of 2007. Subsequent to the first quarter of 2007, Whiting recognized an additional $0.1 million in unrealized mark-to-market losses on non-qualifying derivatives. We discontinued hedge accounting prospectively for these collars. During the first nine months of 2006, we did not recognize any unrealized derivative losses.

Income Tax Expense. Income tax expense totaled $50.6 million for the first nine months of 2007 and $62.2 million for the first nine months of 2006. Our effective income tax rate increased from 32.6% for the first nine months of 2006 to 37.4% for the first nine months of 2007. Our effective income tax rate was higher for the nine months ended September 30, 2007 primarily due to several non-recurring benefits recognized in 2006 consisting of: a $4.3 million deferred tax benefit for 2005 enhanced oil recovery (“EOR”) tax credits; a $2.3 million benefit relating to a true-up of our effective tax rate to our 2005 state returns as filed; and deferred tax benefits of $1.2 million as a result of state tax legislation enacted in 2006. In addition, during the third quarter of 2007, we incurred incremental current tax expense of $1.5 million as a result of filing our 2006 returns and increasing our foreign tax credit valuation allowance. This expense was partially offset by a $0.6 million deferred tax benefit recognized in 2007 for EOR credits relating to 2003 and 2004.

Net Income. Net income decreased from $128.4 million during the first nine months of 2006 to $84.9 million during the first nine months of 2007. The primary reasons for this decrease included a 3% decrease in equivalent volumes sold, a 10% decrease in gas prices (net of hedging) between periods, higher lease operating expense, DD&A, exploration and impairment, change in Production Participation Plan liability, interest expense and unrealized derivative loss. The decreased production and pricing and increased expenses were partially offset by the gain on sale of properties and lower production taxes, general and administrative expenses and income taxes in the first nine months of 2007.

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Three Months Ended September 30, 2007 Compared to Three Months Ended September 30, 2006

Selected Operating Data:	Three Months Ended September 30, 2007	2006
Net production:		
Oil (MMbls)	2.5	2.5
Natural gas (Bcf)	7.6	8.2
Total production (MMBOE)	3.7	3.9
Net sales (in millions):		
Oil(1)	$ 167.4	$ 156.7
Natural gas(1)	38.2	51.1
Total oil and natural gas sales	$ 205.6	$ 207.8
Average sales prices:		
Oil (per Bbl)	$ 67.51	$ 62.11
Effect of oil hedges on average price (per Bbl)	(0.85)	(0.15)
Oil net of hedging (per Bbl)	$ 66.66	$ 61.96
Average NYMEX price	$ 75.03	$ 70.55
Natural gas (per Mcf)	$ 5.06	$ 6.23
Effect of natural gas hedges on average price (per Mcf)	-	-
Natural gas net of hedging (per Mcf)	$ 5.06	$ 6.23
Average NYMEX price	$ 6.16	$ 6.58
Cost and expense (per BOE):		
Lease operating expenses	$ 14.30	$ 11.88
Production taxes	$ 3.53	$ 3.21
Depreciation, depletion and amortization expense	$ 13.19	$ 10.99
General and administrative expenses	$ 2.88	$ 2.58

(1) Before consideration of hedging transactions.

Oil and Natural Gas Sales. Our oil and natural gas sales revenue decreased $2.2 million to $205.6 million in the third quarter of 2007 compared to the third quarter of 2006. Sales are a function of volumes sold and average sales prices. Our oil sales volumes remained consistent between quarters, and our gas sales volumes decreased 8% between periods. The volume decline resulted primarily from property sales and normal field production decline, which factors were largely offset by production increases from development activities. The property sales account for a decline of approximately 65 MBOE, 72% of which related to natural gas. During the third quarter of 2007, we converted several of our production wells to injectors at our North Ward Estes field, as the reservoir was pressured up in the Phase 1 area in preparation for CO_2 injection. Our average price for oil before effects of hedging increased 9% and our average price for natural gas before effects of hedging decreased 19% between periods.

Loss on Oil and Natural Gas Hedging Activities. We hedged 50% of our oil volumes during the third quarter of 2007, incurring derivative settlement losses of $2.1 million, and 54% of our oil volumes during the third quarter of 2006, incurring derivative settlement losses of $0.4 million. We did not hedge any gas volumes during the third quarter of 2007. We hedged 59% of our gas volumes during the third quarter of 2006, incurring no realized hedging gains or losses. See Item 3, “Qualitative and Quantitative Disclosures About Market Risk” for a list of our outstanding oil hedges as of October 1, 2007.

Gain on sale of properties. During the third quarter of 2007, we sold certain non-core properties for aggregate sales proceeds of $44.1 million, resulting in a pre-tax gain on sale of $29.7 million. There was no gain on sale of properties during the third quarter of 2006.

Lease Operating Expenses. Our lease operating expenses increased $7.3 million to $53.5 million in the third quarter of 2007 compared to the third quarter of 2006. Our lease operating expense as a percentage of oil and gas sales increased from 22% during the third quarter of 2006 to 26% during the third quarter of 2007. Our lease operating expenses per BOE increased from $11.88 during the third quarter of 2006 to $14.30 during the third quarter of 2007. The increase of 20% on a BOE basis was primarily caused by a high level of workover activity, inflation in the cost of oil field goods and services, and a change in labor billing practices. Workovers amounted to $4.7 million in the third quarter of 2007, as compared to $1.8 million of workover activity in the third quarter of 2006, and the cost of oil field goods and services increased due to a higher demand in the industry. In addition, during the fourth quarter of 2006, we revised our labor billing practices to better conform to COPAS guidelines. This change in labor billing practices resulted in lower net general and administrative expense and higher amounts of lease operating expense being charged to us and our joint interest owners on properties we operate.

Production Taxes. The production taxes we pay are generally calculated as a percentage of oil and gas sales revenue before the effects of hedging. We take full advantage of all credits and exemptions allowed in our various taxing jurisdictions. Our production taxes for the third quarter of 2007 and 2006 were 6.4% and 6.0%, respectively, of oil and gas sales. The 2007 rate was greater than the 2006 rate due to the change in the property mix associated with recent divestitures and drilling successes.

Depreciation, Depletion and Amortization. Depreciation, depletion and amortization expense (“DD&A”) increased $6.6 million to $49.3 million during the third quarter of 2007, as compared to the third quarter of 2006. On a BOE basis, our DD&A rate increased from $10.99 during the third quarter of 2006 to $13.19 in the third quarter of 2007. The primary factors causing this rate increase were (1) additional drilling expenditures incurred during the past 12 months in relation to net oil and gas reserve additions over the same time period, and (2) the amount of expenditures necessary to develop proved undeveloped reserves, particularly related to the enhanced oil recovery projects in the Postle and North Ward Estes fields, where the development of undeveloped reserves does not increase existing proved reserves. Under the successful efforts method of accounting, costs to develop proved undeveloped reserves are added into the DD&A rate when incurred. The components of our DD&A expense were as follows (in thousands):

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	Three Months Ended September 30,	
	2007	2006
Depletion	$ 47,777	$ 41,430
Depreciation	790	735
Accretion of asset retirement obligations	741	572
Total	$ 49,308	$ 42,737

Exploration and Impairment Costs. Our exploration and impairment costs increased $3.8 million to $10.4 million in the third quarter of 2007 compared to the third quarter of 2006. The components of exploration and impairment costs were as follows (in thousands):

	Three Months Ended September 30,	
	2007	2006
Exploration	$ 7,904	$ 5,618
Impairment	2,516	1,029
Total	$ 10,420	$ 6,647

During the third quarter of 2007, exploration costs increased due to a higher level of geological and geophysical ("G&G") activity. G&G costs amounted to $5.0 million in the third quarter of 2007, as compared to $3.1 million in the third quarter of 2006. The impairment charges in 2007 and 2006 were related to the amortization of leasehold costs associated with individually insignificant unproved properties. The increase in impairment is due to an additional $28.1 million of unproved property being amortized during the three months ended September 30, 2007, as compared to the same period in 2006.

General and Administrative Expenses. We report general and administrative expenses net of reimbursements. The components of our general and administrative expenses were as follows (in thousands):

	Three Months Ended September 30,	
	2007	2006
General and administrative expenses	$ 19,341	$ 15,680
Reimbursements and allocations	(8,561)	(5,645)
General and administrative expense, net	$ 10,780	$ 10,035

General and administrative expense before reimbursements and allocations increased $3.7 million to $19.3 million during the third quarter of 2007. The largest components of the increase related to $1.8 million of additional salaries and wages for personnel hired during the past twelve months and $2.1 million in additional Production Participation Plan expense, attributable primarily to the Company's 2007 oil and gas property divestitures. The increase in reimbursements and allocations in the third quarter of 2007 was caused by increased salary expenses and a higher number of field workers on operated properties. In addition, during the fourth quarter of 2006, we revised our labor billing practices to better conform to COPAS guidelines. These changes in labor billing practices resulted in higher reimbursements and allocations to us and higher amounts of lease operating expense being allocated to us and charged to our joint interest owners on properties we operate. Our general and administrative expenses as a percentage of oil and gas sales remained constant at 5% during the three months ended September 30, 2007 compared to the same period in 2006.

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Change in Production Participation Plan Liability. For the three months ended September 30, 2007, this non-cash expense increased to $2.3 million. This expense represents the change in the vested present value of estimated future payments to be made to participants after 2008 under our Production Participation Plan ("Plan"). Although payments take place over the life of oil and gas properties contributed to the Plan, which for some properties is over 20 years, we must expense the present value of estimated future payments over the Plan's five year vesting period. This expense in 2007 and in 2006 primarily reflects changes to future cash flow estimates and related Plan liability due to the effect of a sustained higher price environment, recent drilling activity, and employees' continued vesting in the Plan. During the three months ended September 30, 2007, the five-year average historical NYMEX prices used to estimate this liability increased $2.32 for crude oil and $0.15 for natural gas from June 30, 2007, as compared to an increase of $1.60 for crude oil and a decrease of $0.29 for natural gas for the three months ended September 30, 2006. Assumptions that are used to calculate this liability are subject to estimation and will vary from year to year based on the current market for oil and gas, discount rates and overall market conditions.

Interest Expense. The components of our interest expense were as follows (in thousands):

	Three Months Ended September 30,	
	2007	**2006**
Credit Agreement	$ 4,595	$ 5,710
Senior Subordinated Notes	11,199	11,177
Amortization of debt issue costs and debt discount	1,251	1,291
Accretion of tax sharing liability	381	498
Other	245	300
Capitalized interest	(1,408)	(97)
Total interest expense	$ 16,263	$ 18,879

The decrease in interest expense was mainly due to repayments under our credit agreement in the third quarter of 2007 and increased capitalized interest related to construction and expansion of processing facilities.

Our weighted average debt outstanding during the third quarter of 2007 was $868.8 million versus $952.8 million in the third quarter of 2006. Our weighted average effective cash interest rate was 7.4% during the third quarter of 2007 versus 7.2% during the third quarter of 2006. After inclusion of non-cash interest costs related to the amortization of debt issue costs and debt discount and the accretion of the tax sharing liability, our weighted average effective all-in interest rate was 7.9% during the third quarter of 2007 versus 7.7% during the third quarter of 2006.

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Unrealized Derivative Loss. During the first quarter of 2007, we determined that the forecasted transactions, to which certain crude oil collars had been designated, were no longer probable of occurring prior to the contracts expiring from April through December of 2007. We therefore reclassified the net losses attributable to these hedges out of accumulated other comprehensive loss and recognized $1.1 million in unrealized derivative losses in the condensed consolidated statements of income in the first quarter of 2007. Subsequent to the first quarter of 2007, Whiting recognized an additional $0.1 million in unrealized mark-to-market losses on non-qualifying derivatives. We discontinued hedge accounting prospectively for these collars. During the third quarter of 2006, we did not recognize any unrealized derivative losses.

Income Tax Expense. Income tax expense totaled $29.6 million for the third quarter of 2007 and $19.3 million for the third quarter of 2006. Our effective income tax rate increased from 28.0% for the third quarter of 2006 to 38.3% for the same period in 2007. Our effective income tax rate was higher in the third quarter of 2007 primarily due to the recognition in 2006 of a $1.8 million deferred tax benefit for 2005 EOR tax credits and a $2.3 million benefit relating to a true-up of our effective tax rate to our 2005 state returns as filed. In addition, during the third quarter of 2007, we incurred incremental current tax expense of $1.5 million as a result of filing our 2006 returns and increasing our foreign tax credit valuation allowance. This expense was partially offset by a $0.6 million deferred tax benefit recognized in 2007 for EOR credits relating to 2003 and 2004.

Net Income. Net income decreased from $49.5 million during the third quarter of 2006 to $47.7 million during the third quarter of 2007. This decrease resulted from a 4% decrease in equivalent volumes sold and a 19% decrease in gas prices (net of hedging) between periods, which factors were partially offset by an 8% increase in oil prices (net of hedging) between periods. In addition, there were higher lease operating expense, production taxes, DD&A, exploration and impairment, general and administrative expenses, change in Production Participation Plan expenses, unrealized derivative losses and income taxes. The decreased production and pricing and increased expenses were partially offset by the gain on sale of properties and lower interest expense in the third quarter of 2007.

Liquidity and Capital Resources

Overview. At December 31, 2006, our debt to total capitalization ratio was 45.6%, we had $10.4 million of cash on hand and $1,186.7 million of stockholders' equity. At September 30, 2007, our debt to total capitalization ratio was 36.2%, we had $8.7 million of cash on hand and $1,472.9 million of stockholders' equity. In the first nine months of 2007, we generated $272.6 million of cash provided by operating activities, a decrease of $79.3 million over the same period in 2006. Cash provided by operating activities decreased primarily because of lower average sales prices for crude oil and natural gas, slightly lower production volumes and higher cash lease operating expenses. We also generated $50.8 million from financing activities primarily consisting of $210.4 million in net proceeds received from the issuance of our common stock, offset by net repayments under our credit agreement totaling $160.0 million. Cash on hand and cash flows from operating and financing activities, as well as proceeds from property divestitures, were primarily used to finance $372.8 million of exploration and development expenditures paid in the first nine months of 2007 and $16.7 million of cash acquisition capital expenditures to acquire the Parshall Prospect in North Dakota. The following chart details our exploration and development expenditures incurred by region during the first nine months of 2007 (in thousands).

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	Drilling and Development Expenditures	Exploration Expenditures	Total Expenditures	% of Total
Permian Basin	$ 125,899	$ 2,981	$ 128,880	33%
Rocky Mountains	116,300	10,585	126,885	32%
Mid-Continent	99,296	1,521	100,817	26%
Gulf Coast	15,646	3,202	18,848	5%
Michigan	14,518	792	15,310	4%
Total incurred	371,659	19,081	390,740	100%
Increase in accrued capital expenditures	(17,973)	-	(17,973)	
Total paid	$ 353,686	$ 19,081	$ 372,767	

We continually evaluate our capital needs and compare them to our capital resources. Our 2007 budgeted exploration and development expenditures for the further development of our property base are $525.0 million, an increase from the $485.1 million incurred on exploration and development expenditures during 2006, primarily due to additional drilling opportunities that have been identified in our Boies Ranch and Jimmy Gulch prospect areas in the Piceance Basin, our Robinson Lake area in the Williston Basin, and other core areas. Although we have no specific budget for property acquisitions in 2007, we will continue to selectively pursue property acquisitions that complement our existing core property base. We expect to fund our 2007 exploration and development expenditures from internally generated cash flow, cash on hand and borrowings under our credit agreement. We believe that should attractive acquisition opportunities arise or exploration and development expenditures exceed $525.0 million, we will be able to finance additional capital expenditures with cash on hand, cash flows from operating activities, borrowings under our credit agreement, issuances of additional debt or equity securities, or agreements with industry partners. Our level of exploration and development expenditures is largely discretionary, and the amount of funds devoted to any particular activity may increase or decrease significantly depending on available opportunities, commodity prices, cash flows and development results, among other factors. We believe that we have sufficient liquidity and capital resources to execute our business plans over the next 12 months and for the foreseeable future.

Credit Agreement. Our wholly-owned subsidiary, Whiting Oil and Gas Corporation (“Whiting Oil and Gas”) has a $1.2 billion credit agreement with a syndicate of banks that, as of September 30, 2007, had a borrowing base of $875.0 million with $220.0 million outstanding, leaving $655.0 million of available borrowing capacity. The borrowing base under the credit agreement is determined at the discretion of the lenders, based on the collateral value of our proved reserves that have been mortgaged to our lenders and is subject to regular redeterminations on May 1 and November 1 of each year, as well as special redeterminations described in the credit agreement. In October 2007, the syndicate of banks approved an increase in the borrowing base under the credit agreement to $900.0 million, effective November 1, 2007.

The credit agreement provides for interest only payments until August 31, 2010, when the entire amount borrowed is due. Whiting Oil and Gas may, throughout the five-year term of the credit agreement, borrow, repay and re-borrow up to the borrowing base in effect from at any given time. The lenders under the credit agreement have also committed to issue letters of credit for the account of Whiting Oil and Gas or other designated subsidiaries of ours in an aggregate amount not to exceed $50.0 million. As of September 30, 2007, letters of credit totaling $0.2 million were outstanding under the credit agreement.

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Interest accrues at Whiting Oil and Gas' option at either (1) the base rate plus a margin, where the base rate is defined as the higher of the prime rate or the federal funds rate plus 0.5% and the margin varies from 0% to 0.5% depending on the utilization percentage of the borrowing base, or (2) at the LIBOR rate plus a margin, where the margin varies from 1.00% to 1.75% depending on the utilization percentage of the borrowing base. We have consistently chosen the LIBOR rate option since it delivers the lowest effective interest rate. Commitment fees of 0.25% to 0.375% accrue on the unused portion of the borrowing base, depending on the utilization percentage and are included as a component of interest expense. As of September 30, 2007, the effective weighted average interest rate on the outstanding principal balance under the credit agreement was 6.4%.

The credit agreement contains restrictive covenants that may limit our ability to, among other things, pay cash dividends, incur additional indebtedness, sell assets, make loans to others, make investments, enter into mergers, enter into hedging contracts, change material agreements, incur liens and engage in certain other transactions without the prior consent of the lenders and requires us to maintain a debt to EBITDAX ratio (as defined in the credit agreement) of less than 3.5 to 1 and a working capital ratio (as defined in the credit agreement) of greater than 1 to 1. Except for limited exceptions, including the payment of interest on the senior notes, the credit agreement restricts the ability of Whiting Oil and Gas and our wholly owned subsidiary, Equity Oil Company, to make any dividends, distributions or other payments to Whiting Petroleum Corporation. The restrictions apply to all of the net assets of these subsidiaries. We were in compliance with our covenants under the credit agreement as of September 30, 2007. The credit agreement is secured by a first lien on all of Whiting Oil and Gas' properties included in the borrowing base for the credit agreement. Whiting Petroleum Corporation and Equity Oil Company have guaranteed the obligations of Whiting Oil and Gas under the credit agreement. Whiting Petroleum Corporation has pledged the stock of Whiting Oil and Gas and Equity Oil Company as security for our guarantee, and Equity Oil Company has mortgaged all of its properties, which are included in the borrowing base for the credit agreement, as security for its guarantee.

Senior Subordinated Notes. In October 2005, we issued $250.0 million of 7% Senior Subordinated Notes due 2014 at par.

In April 2005, we issued $220.0 million of 7.25% Senior Subordinated Notes due 2013. The notes were issued at 98.507% of par, and the associated discount is being amortized to interest expense over the term of the notes.

In May 2004, we issued $150.0 million of 7.25% Senior Subordinated Notes due 2012. The notes were issued at 99.26% of par, and the associated discount is being amortized to interest expense over the term of the notes.

The notes are unsecured obligations of ours and are subordinated to all of our senior debt, which currently consists of Whiting Oil and Gas' credit agreement. The indentures governing the notes contain restrictive covenants that may limit our ability to, among other things, pay cash dividends, redeem or repurchase our capital stock or our subordinated debt, make investments, incur additional indebtedness or issue preferred stock, sell assets, consolidate, merge or transfer all or substantially all of the assets of ours and our restricted subsidiaries taken as a whole and enter into hedging contracts. These covenants may potentially limit the discretion of our management in certain respects. We were in compliance with these covenants as of September 30, 2007. Three of our wholly-owned operating subsidiaries, Whiting Oil and Gas Corporation, Whiting Programs, Inc. and Equity Oil Company, have fully, unconditionally, jointly and severally guaranteed our obligations under the notes.

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Shelf Registration Statement. We have on file with the SEC a universal shelf registration statement to allow us to offer an indeterminate amount of securities in the future. Under the registration statement, we may periodically offer from time to time debt securities, common stock, preferred stock, warrants and other securities or any combination of such securities in amounts, prices and on terms announced when and if the securities are offered. The specifics of any future offerings, along with the use of proceeds of any securities offered, will be described in detail in a prospectus supplement at the time of any such offering.

Schedule of Contractual Obligations. The following table summarizes our obligations and commitments as of September 30, 2007 to make future payments under certain contracts, aggregated by category of contractual obligation, for specified time periods. This table does not include Production Participation Plan liabilities since we cannot determine with accuracy the timing of future payment amounts (in thousands):

	Payments due by period				
		Less than			More than
Contractual Obligations	**Total**	**1 year**	**1-3 years**	**3-5 years**	**5 years**
Long-term debt (a)	$ 840,000	$ -	$ 220,000	$ 150,000	$ 470,000
Cash interest expense on debt (b)	309,663	58,658	117,317	87,926	45,762
Asset retirement obligation (c)	40,942	624	1,009	3,008	36,301
Tax sharing liability (d)	27,052	3,565	5,988	5,044	12,455
Derivative contract liability fair value (e)	28,507	23,959	4,548	-	-
Purchasing obligations (f)	295,318	41,211	102,476	97,090	54,541
Drilling rig contracts (g)	56,106	29,340	26,766	-	-
Operating leases (h)	6,700	2,000	4,040	660	-
Total	$ 1,604,288	$ 159,357	$ 482,144	$ 343,728	$ 619,059

(a) Long-term debt consists of the 7.25% Senior Subordinated Notes due 2012 and 2013, the 7% Senior Subordinated Notes due 2014 and the outstanding debt under our credit agreement, and assumes no principal repayment until the due date of the instruments.

(b) Cash interest expense on the 7.25% Senior Subordinated Notes due 2012 and 2013 and the 7% Senior Subordinated Notes due 2014 is estimated assuming no principal repayment until the due date of the instruments. The interest rate swap on the $75.0 million of our $150.0 million fixed rate 7.25% Senior Subordinated Notes due 2012 is assumed to equal 7.7% until the due date of the instrument. Cash interest expense on the credit agreement is estimated assuming no principal repayment until the instrument due date, and a fixed interest rate of 6.4%.

(c) Asset retirement obligations represent the present value of estimated amounts expected to be incurred to plug, abandon and remediate oil and gas properties.

(d) Amounts shown represent the estimated present value of payments due to Alliant Energy based on projected future income tax benefits attributable to an increase in our tax bases. As a result of the Tax Separation and Indemnification Agreement, the increased tax bases are expected to result in increased future income tax deductions and, accordingly, may reduce income taxes otherwise payable by us. Under this agreement, we have agreed to pay Alliant Energy 90% of the future tax benefits we realize annually as a result of this step up in tax basis for the years ending on or prior to December 31, 2013. In 2014, we will be obligated to pay Alliant Energy

the present value of the remaining tax benefits assuming all such tax benefits will be realized in future years.

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(e) We have entered into derivative contracts, primarily costless collars, to hedge our exposure to crude oil price fluctuations. As of September 30, 2007, the forward price curves for crude oil generally exceeded the price curves that were in effect when these contracts were entered into, resulting in a derivative fair value liability. If current market prices are higher than a collar's price ceiling when the cash settlement amount is calculated, we are required to pay the contract counterparties. The ultimate settlement amounts under our derivative contracts are unknown, however, as they are subject to continuing market risk.

(f) We have two take-or-pay purchase agreements, one agreement expiring in March 2014 and one agreement expiring in December 2014, whereby we have committed to buy certain volumes of CO_2 for a fixed fee, subject to annual escalation, for use in enhanced recovery projects in our Postle field in Texas County, Oklahoma and our North Ward Estes field in Ward County, Texas. The purchase agreements are with different suppliers. Under the terms of the agreements, we are obligated to purchase a minimum daily volume of CO_2 (as calculated on an annual basis) or else pay for any deficiencies at the price in effect when the minimum delivery was to have occurred. The CO_2 volumes planned for use on the enhanced recovery projects in the Postle and North Ward Estes fields currently exceed the minimum daily volumes provided in these take-or-pay purchase agreements. Therefore, we expect to avoid any payments for deficiencies.

(g) We currently have two drilling rigs under contract through 2008, one drilling rig through 2009 and one drilling rig through 2010, in addition to a workover rig under contract through 2009, all of which are operating in the Rocky Mountains region. As of September 30, 2007, early termination of these contracts would have required maximum penalties of $41.2 million. No other drilling rigs working for us are currently under long-term contracts or contracts that cannot be terminated at the end of the well that is currently being drilled. Due to the short-term and indeterminate nature of the drilling time remaining on rigs drilling on a well-by-well basis, such obligations have not been included in this table.

(h) We lease 87,000 square feet of administrative office space in Denver, Colorado under an operating lease arrangement through October 31, 2010, and an additional 30,100 square feet of office space in Midland, Texas through February 15, 2012.

Based on current oil and gas prices and anticipated levels of production, we believe that the estimated net cash generated from operations, together with cash on hand and amounts available under our credit agreement, will be adequate to meet future liquidity needs, including satisfying our financial obligations and funding our operations and exploration and development activities.

New Accounting Policies

In June 2006, the Financial Accounting Standards Board ("FASB") issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes*, an interpretation of Statement of Financial Accounting Standards No. 109, *Accounting for Income Taxes* ("FIN 48"). The interpretation creates a single model to address accounting for uncertainty in tax positions. Specifically, the pronouncement prescribes a recognition threshold and a measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The interpretation also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition of certain tax positions.

We adopted the provisions of FIN 48 on January 1, 2007. As a result of the implementation of FIN 48, we recognized a $0.3 million increase in the liability for unrecognized tax benefits, which was accounted for as a reduction to the January 1, 2007, balance of retained earnings. The total amount of unrecognized tax benefits as of the adoption date was $0.4 million, with an additional $0.1 million in unrecognized tax benefits during the third quarter of 2007. Our policy is to recognize interest and penalties accrued related to unrecognized tax benefits within income tax expense.

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New Accounting Pronouncements

In September 2006, the FASB issued Statement No. 157, *Fair Value Measurements* ("SFAS 157"). The adoption of SFAS 157 is not expected to have a material impact on our consolidated financial position or results of operations. However, additional disclosures may be required about the information used to develop the measurements. SFAS 157 establishes a single authoritative definition of fair value, sets out a framework for measuring fair value and requires additional disclosures about fair value measurements. This Standard requires companies to disclose the fair value of their financial instruments according to a fair value hierarchy. SFAS 157 does not require any new fair value measurements, but will remove inconsistencies in fair value measurements between various accounting pronouncements. SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years.

In February 2007, the FASB issued Statement No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities – Including an amendment of FASB Statement No. 115* ("SFAS 159"). SFAS 159 expands the use of fair value accounting but does not affect existing standards which require assets or liabilities to be carried at fair value. Under SFAS 159, a company may elect to use fair value to measure many financial instruments and certain other assets and liabilities at fair value. We decided not to elect fair value accounting for any of our eligible items. The adoption of SFAS 159 therefore will have no impact on our financial position, cash flows or results of operations. If the use of fair value is elected (the fair value option), any upfront costs and fees related to the item must be recognized in earnings and cannot be deferred, e.g., debt issue costs. The fair value election is irrevocable and generally made on an instrument-by-instrument basis, even if a company has similar instruments that it elects not to measure based on fair value. At the adoption date, unrealized gains and losses on existing items for which fair value has been elected are reported as a cumulative adjustment to beginning retained earnings. Subsequent to the adoption of SFAS 159, changes in fair value are recognized in earnings. SFAS 159 is effective for fiscal years beginning after November 15, 2007.

Critical Accounting Policies and Estimates

Information regarding critical accounting policies and estimates is contained in Item 7 of our Annual Report on Form 10-K for the fiscal year ended December 31, 2006.

Effects of Inflation and Pricing

We experienced increased costs during 2006 and the first nine months of 2007 due to increased demand for oil field products and services. The oil and gas industry is very cyclical and the demand for goods and services of oil field companies, suppliers and others associated with the industry put extreme pressure on the economic stability and pricing structure within the industry. Typically, as prices for oil and gas increase, so do all associated costs. Conversely, in a period of declining prices, associated cost declines are likely to lag and may not adjust downward in proportion. Material changes in prices also impact the current revenue stream, estimates of future reserves, borrowing base calculations of bank loans and values of properties in purchase and sale transactions. Material changes in prices can impact the value of oil and gas companies and their ability to raise capital, borrow money and retain personnel. While we do not currently expect business costs to materially increase, continued high prices for oil and gas could result in increases in the costs of materials, services and personnel.

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Forward-Looking Statements

This report contains statements that we believe to be “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. All statements other than historical facts, including, without limitation, statements regarding our future financial position, business strategy, projected revenues, earnings, costs, capital expenditures and debt levels, and plans and objectives of management for future operations, are forward-looking statements. When used in this report, words such as we “expect,” “intend,” “plan,” “estimate,” “anticipate,” “believe” or “sho the negative thereof or variations thereon or similar terminology are generally intended to identify forward-looking statements. Such forward-looking statements are subject to risks and uncertainties that could cause actual results to differ materially from those expressed in, or implied by, such statements.

These risks and uncertainties include, but are not limited to: declines in oil or gas prices; our level of success in exploitation, exploration, development and production activities; adverse weather conditions that may negatively impact development or production activities; the timing of our exploration and development expenditures, including our ability to obtain drilling rigs and CO_2; our ability to obtain external capital to finance acquisitions; our ability to identify and complete acquisitions and to successfully integrate acquired businesses, including our ability to realize cost savings from completed acquisitions; unforeseen underperformance of or liabilities associated with acquired properties; our ability to successfully complete our planned and potential asset dispositions; inaccuracies of our reserve estimates or our assumptions underlying them; failure of our properties to yield oil or gas in commercially viable quantities; uninsured or underinsured losses resulting from our oil and gas operations; our inability to access oil and gas markets due to market conditions or operational impediments; the impact and costs of compliance with laws and regulations governing our oil and gas operations; risks related to our level of indebtedness and periodic redeterminations of our borrowing base under our credit agreement; our ability to replace our oil and gas reserves; any loss of our senior management or technical personnel; competition in the oil and gas industry in the regions in which we operate; risks arising out of our hedging transactions and other risks described under the caption “Risk Factors” in Part II, Item 1A of our Quarterly Report on Form 10-Q for the period ending June 30, 2007. We assume no obligation, and disclaim any duty, to update the forward-looking statements in this report.

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Item 3. Quantitative and Qualitative Disclosures about Market Risk

Our quantitative and qualitative disclosures about market risk for changes in commodity prices and interest rates are included in Item 7A of our Annual Report on Form 10-K for the fiscal year ended December 31, 2006 and have not materially changed since that report was filed.

Our outstanding hedges as of October 1, 2007 are summarized below:

Commodity	Period	Monthly Volume (MMBtu)/(Bbl)	NYMEX Floor/Ceiling
Crude Oil	10/2007 to 12/2007	110,000	$49.00/$71.50
Crude Oil	10/2007 to 12/2007	300,000	$50.00/$76.50
Crude Oil	01/2008 to 03/2008	110,000	$49.00/$70.65
Crude Oil	01/2008 to 03/2008	120,000	$60.00/$73.90
Crude Oil	01/2008 to 03/2008	100,000	$65.00/$80.30
Crude Oil	04/2008 to 06/2008	110,000	$48.00/$71.60
Crude Oil	04/2008 to 06/2008	120,000	$60.00/$74.65
Crude Oil	04/2008 to 06/2008	100,000	$65.00/$80.50
Crude Oil	07/2008 to 09/2008	110,000	$48.00/$70.85
Crude Oil	07/2008 to 09/2008	120,000	$60.00/$75.60
Crude Oil	07/2008 to 09/2008	100,000	$65.00/$81.00
Crude Oil	10/2008 to 12/2008	110,000	$48.00/$70.20
Crude Oil	10/2008 to 12/2008	120,000	$60.00/$75.85
Crude Oil	10/2008 to 12/2008	100,000	$65.00/$81.20

The crude oil collars shown above have the effect of providing a protective floor while allowing us to share in upward pricing movements. Consequently, while these hedges are designed to decrease our exposure to price decreases, they also have the effect of limiting the benefit of price increases beyond the ceiling. For the 2007 crude oil contracts listed above, a hypothetical $1.00 change in the NYMEX price would cause a change in the gain (loss) on hedging activities in 2007 of $1.2 million.

In a 1997 non-operated property acquisition, we became subject to the operator’s fixed price gas sales contract with end users for a portion of the natural gas we produce in Michigan. This contract has built-in pricing escalators of 4% per year. Our estimated future production volumes to be sold under the fixed pricing terms of this contract as of October 1, 2007 are summarized below:

Commodity	Period	Monthly Volume (MMBtu)	2007 Price Per MMBtu
Natural Gas	10/2007 to 05/2011	29,000	$4.75
Natural Gas	10/2007 to 09/2012	66,000	$4.21

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Item 4. Controls and Procedures

Evaluation of disclosure controls and procedures. In accordance with Rule 13a-15(b) of the Securities Exchange Act of 1934 (the “Exchange Act”), our management evaluated, with the participation of our Chairman, President and Chief Executive Officer and our Vice President and Chief Financial Officer, the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Exchange Act) as of September 30, 2007. Based upon their evaluation of these disclosure controls and procedures, the Chairman, President and Chief Executive Officer and the Vice President and Chief Financial Officer concluded that the disclosure controls and procedures were effective as of September 30, 2007 to ensure that information required to be disclosed by us in the reports we file or submit under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission’s rules and forms, and to ensure that information required to be disclosed by us in the reports we file or submit under the Exchange Act is accumulated and communicated to our management, including our principal executive and principal financial officers, as appropriate, to allow timely decisions regarding required disclosure.

Changes in internal control over financial reporting. There was no change in our internal control over financial reporting that occurred during the quarter ended September 30, 2007 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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PART II – OTHER INFORMATION

Item 1. Legal Proceedings

Whiting is subject to litigation claims and governmental and regulatory proceedings arising in the ordinary course of business. It is management's opinion that all claims and litigation we are involved in are not likely to have a material adverse effect on our consolidated financial position, cash flows or results of operations.

Item 1A. Risk Factors

You should carefully consider each of the risks in Part II, Item 1A of our Quarterly Report on Form 10-Q for the period ended June 30, 2007, together with all of the other information contained in this report, before making an investment decision with respect to our securities. If any of the risks develop into actual events, our business, financial condition or results of operations could be materially and adversely affected and you may lose all or part of your investment.

Item 6. Exhibits

The exhibits listed in the accompanying index to exhibits are filed as part of this Quarterly Report on Form 10-Q.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized, on this 31st day of October, 2007.

WHITING PETROLEUM CORPORATION

By /s/ James J. Volker
James J. Volker
Chairman, President and Chief Executive Officer

By /s/ Michael J. Stevens
Michael J. Stevens
Vice President and Chief Financial Officer

By /s/ Brent P. Jensen
Brent P. Jensen
Controller and Treasurer

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EXHIBIT INDEX

Exhibit Number	**Exhibit Description**
(10.1)	Summary of Non-Employee Director Compensation for Whiting Petroleum Corporation.
(31.1)	Certification by Chairman, President and Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act.
(31.2)	Certification by the Vice President and Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act.
(32.1)	Written Statement of the Chairman, President and Chief Executive Officer pursuant to 18 U.S.C. Section 1350.
(32.2)	Written Statement of the Vice President and Chief Financial Officer pursuant to 18 U.S.C. Section 1350.