Depreciation, depletion, and amortization (DD&A) of our producing properties is computed using the units-of-production method. The economic life of each producing well depends upon the assumed price for future sales of production. Therefore, fluctuations in oil and gas prices will impact the level of proved reserves used in the calculation. Higher prices generally have the effect of increasing reserves, which reduces depletion expense. Lower prices generally have the effect of decreasing reserves, which increases depletion expense. In addition, changes in estimates of reserve quantities, estimates of operating and future development costs, and reclassifications from unproved properties to proved properties will impact depletion expense.

General and administrative expenses consist primarily of salaries and related benefits, office rent, legal fees, consultants, systems costs and other administrative costs incurred in our offices and not directly associated with exploration, development or production activities. While we expect these costs to increase with our growth, we also expect such increases to be proportionately smaller than our production growth.

Production taxes are assessed by state and local taxing authorities pertaining to production, revenues or the value of properties. These typically include production severance, ad valorem, and excise taxes.

Stock compensation expense consists of non-cash charges resulting from the issuance of restricted stock, restricted stock units and stock options. In accordance with our stock incentive plan, such grants are periodically made to non-employee directors, officers and other eligible employees.

The net gain or loss on derivative instruments is the net realized and unrealized gain or loss on derivative contracts, to which we did not apply hedge accounting treatment. That amount will fluctuate based on changes in the fair value of the underlying commodities.

Hedging

From time to time we attempt to mitigate a portion of our price risk through the use of hedging transactions. Management has been authorized to hedge up to 50% of our anticipated 2012 and 2013 equivalent production.

In 2009 we entered into derivative contracts covering approximately 40% of our anticipated 2010 oil and gas production volumes. These contracts were settled in 2010 for a net gain of $52.1 million.

During 2010 we entered into oil and gas contracts relative to our 2011 production which approximated 40 to 45% of our anticipated 2011 oil production and 5 to 6% of projected gas production. Those contracts were settled in 2011 for a net gain of $6.7 million.

For 2012 we have hedged approximately 50% of our anticipated oil production. We do not have any of our gas or NGL production hedged.

As of December 31, 2011 we had entered into the following contracts relative to our 2012 production:

Oil Contracts

				Weighted Average Price	
Period	**Type**	**Volume/Day**	**Index(1)**	**Floor**	**Ceiling**
Jan 12 - Dec 12	Collar	2,000 Bbls	WTI	$80.00	$114.70

(1) WTI refers to West Texas Intermediate price as quoted on the New York Mercantile Exchange.