

Edgar Filing: CRIMSON EXPLORATION INC. - Form 424B3

CRIMSON EXPLORATION INC.
Form 424B3
August 16, 2005

Filed pursuant to Rule 424(b)(3)
Registration No. 333-116048

Prospectus Supplement No. 1
(To Prospectus dated August 9, 2005)

P R O S P E C T U S
SUPPLEMENT No. 1

CRIMSON EXPLORATION INC.

18,861,799 Shares of Crimson Exploration Inc. Common Stock
(the "Shares")

This document supplements the prospectus of Crimson Exploration Inc., dated August 9, 2005, relating to the resale of up to 18,861,799 Shares issuable to certain selling shareholders assuming the exercise of warrants or conversion of certain preferred stock by those shareholders. This prospectus supplement includes the attached Quarterly Report on Form 10-Q of Crimson Exploration Inc. for the quarterly period ended June 30, 2005.

This prospectus supplement is incorporated by reference into, and should be read in conjunction with, the prospectus dated August 9, 2005. This prospectus supplement is not complete without, and may not be delivered or utilized except in connection with, the prospectus dated August 9, 2005.

Investing in our stock involves a high degree of risk. Please see "Risk Factors" beginning on page 9 of the prospectus, dated August 9, 2005, for a discussion of certain factors that you should consider before investing.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or passed upon the accuracy or adequacy of this prospectus. Any representation to the contrary is a criminal offense.

The date of this prospectus supplement is August 16, 2005

FORM 10-Q

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Edgar Filing: CRIMSON EXPLORATION INC. - Form 424B3

WASHINGTON, D.C. 20549

(X) QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2005

OR

() TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934
for the transition period from ____ to ____

Commission file number 1-12108

CRIMSON EXPLORATION INC.

(Exact name of Registrant as specified in its charter)

Texas
(State or other jurisdiction
of incorporation)

87-0444770
(IRS Employer
Identification No.)

480 North Sam Houston Parkway East
Suite 300
Houston, Texas
(Address of principal executive offices)

77060
(zip code)

(281) 820-1919
(Registrant's telephone number, including area code)

GulfWest Energy Inc.
(Former name)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(D) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

YES X NO

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

YES NO X

The number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date, August 15, 2005, was 28,838,144 shares of Common Stock, \$.001 par value.

CRIMSON EXPLORATION INC.

FORM 10-Q FOR THE QUARTER ENDED
JUNE 30, 2005

| | | |
|------------|---|----|
| Part I: | Financial Statements | |
| Item 1. | Financial Statements | |
| | Consolidated Balance Sheets, June 30, 2005 and December 31, 2004 | 3 |
| | Consolidated Statements of Operations—for the three months and six months ended June 30, 2005 and 2004 | 5 |
| | Consolidated Statements of Cash Flows—for the six months ended June 30, 2005 and 2004 | 6 |
| | Notes to Consolidated Financial Statements | 7 |
| Item 2. | Management's Discussion and Analysis of Financial Condition and Results of Operations | 15 |
| Item 3. | Quantitative and Qualitative Disclosures about Market Risk | 18 |
| Item 4. | Controls and Procedures | 19 |
| Part II: | Other Information | |
| Item 2. | Unregistered Sales of Equity Securities and Use of Proceeds | 20 |
| Item 4. | Submission of Matters to a Vote of Security Holders | 20 |
| Item 6. | Exhibits | 22 |
| Signatures | | 24 |

2

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS.

CRIMSON EXPLORATION INC.
CONSOLIDATED BALANCE SHEETS

ASSETS

| | |
|---------------------------------|----------------------------|
| June 30, 2005 (Unaudited) | December 2004 (Audit |
| ----- | ----- |

Edgar Filing: CRIMSON EXPLORATION INC. - Form 424B3

| | | | |
|---|----|--------------|-------|
| CURRENT ASSETS | | | |
| Cash and cash equivalents | \$ | 1,083,304 | \$ |
| Accounts receivable - net of allowance for doubtful accounts of \$-0- in 2005 and 2004 | | 2,696,344 | 1 |
| Prepaid expenses | | 220,929 | |
| | | ----- | ----- |
| Total current assets | | 4,000,577 | 2 |
| | | ----- | ----- |
| PROPERTY AND EQUIPMENT | | | |
| Oil and gas properties, using the successful efforts method of accounting | | 64,848,517 | 58 |
| Other property and equipment | | 1,394,485 | 1 |
| Less: accumulated depreciation, depletion and amortization | | (11,296,458) | (9) |
| | | ----- | ----- |
| Net property and equipment | | 54,946,544 | 50 |
| | | ----- | ----- |
| OTHER ASSETS | | | |
| Deposits | | 9,804 | |
| Investments | | 261,209 | |
| Debt issue cost, net | | 2,640 | 1 |
| Deferred tax asset, net | | 4,172,353 | 3 |
| Derivative instruments | | - | |
| | | ----- | ----- |
| Total other assets | | 4,446,006 | 5 |
| | | ----- | ----- |
| TOTAL ASSETS | \$ | 63,393,127 | \$ 57 |
| | | ===== | ===== |

The Notes to Consolidated Financial Statements are
an integral part of these statements.

3

CRIMSON EXPLORATION INC.
CONSOLIDATED BALANCE SHEETS

LIABILITIES AND STOCKHOLDERS' EQUITY

| | June 30, 2005 (Unaudited) | December 31, 2004 (Audited) |
|---------------------------------|---------------------------------|-----------------------------------|
| | ----- | ----- |
| CURRENT LIABILITIES | | |
| Notes payable | \$ 40,300 | \$ 4,916,566 |
| Notes payable - related parties | 1,000,000 | 2,140,000 |

Edgar Filing: CRIMSON EXPLORATION INC. - Form 424B3

| | | |
|---|---------------|--------------|
| Current portion of long-term debt | 87,886 | 22,686,25 |
| Current portion of long-term debt - related parties | - | 112,19 |
| Accounts payable - trade | 3,355,741 | 4,654,56 |
| Accrued expenses | 279,880 | 940,58 |
| Income taxes payable | 118,255 | 118,25 |
| Derivative instruments | 2,156,988 | 1,680,80 |
| | ----- | ----- |
| Total current liabilities | 7,039,050 | 37,249,21 |
| | ----- | ----- |
| NONCURRENT LIABILITIES | | |
| Long-term debt, net of current portion | 84,134 | 805,45 |
| Asset retirement obligations | 1,183,176 | 1,144,85 |
| | ----- | ----- |
| Total noncurrent liabilities | 1,267,310 | 1,950,30 |
| | ----- | ----- |
| OTHER LIABILITIES | | |
| Derivative instruments | 743,245 | |
| | ----- | ----- |
| Total Liabilities | 9,049,605 | 39,199,52 |
| | ----- | ----- |
| COMMITMENTS AND CONTINGENCIES | | |
| STOCKHOLDERS' EQUITY | | |
| Preferred stock | 1,033 | 25 |
| Common stock | 28,783 | 19,39 |
| Additional paid-in capital | 72,679,741 | 34,062,50 |
| Retained deficit | (18,366,035) | (15,405,50) |
| | ----- | ----- |
| Total stockholders' equity | 54,343,522 | 18,676,64 |
| | ----- | ----- |
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY | \$ 63,393,127 | \$ 57,876,16 |
| | ===== | ===== |

The Notes to Consolidated Financial Statements are an integral part of these statements.

4

CRIMSON EXPLORATION INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED)

| | Three Months | | Six |
|--------------------|----------------|-------|-------|
| | Ended June 30, | | Ended |
| | 2005 | 2004 | 2005 |
| | ----- | ----- | ----- |
| OPERATING REVENUES | | | |

Edgar Filing: CRIMSON EXPLORATION INC. - Form 424B3

| | | | |
|---|--------------|--------------|----------------|
| Oil and gas sales | \$ 4,367,751 | \$ 2,494,347 | \$ 8,001,911 |
| Operating overhead and other income | 25,289 | 40,919 | 55,462 |
| | ----- | ----- | ----- |
| Total operating revenues | 4,393,040 | 2,535,266 | 8,057,373 |
| | ----- | ----- | ----- |
| OPERATING EXPENSES | | | |
| Lease operating expenses | 1,364,998 | 1,284,972 | 2,765,862 |
| Depreciation, depletion and amortization | 835,231 | 437,043 | 1,491,009 |
| Dry holes, abandoned property and impaired assets | 389,183 | 326,512 | 391,339 |
| Accretion expense | 19,161 | 20,358 | 38,322 |
| General and administrative | 934,902 | 472,441 | 1,553,129 |
| | ----- | ----- | ----- |
| Total operating expenses | 3,543,475 | 2,541,326 | 6,239,661 |
| | ----- | ----- | ----- |
| INCOME (LOSS) FROM OPERATIONS | 849,565 | (6,060) | 1,817,712 |
| | ----- | ----- | ----- |
| OTHER INCOME AND EXPENSE | | | |
| Interest expense | (18,099) | (1,014,609) | (1,216,600) |
| Other financing costs | (5,000) | (369,270) | (1,910,159) |
| Loss from equity in investments | (36,159) | - | (36,159) |
| Loss on sale of assets | (25,894) | (226,809) | (38,916) |
| Unrealized gain (loss) on derivative instruments | 618,775 | (1,438,249) | (1,394,706) |
| Forgiveness of debt | - | 12,475,612 | - |
| | ----- | ----- | ----- |
| Total other income and expense | 533,623 | 9,426,675 | (4,596,540) |
| | ----- | ----- | ----- |
| INCOME (LOSS) BEFORE INCOME TAXES | 1,383,188 | 9,420,615 | (2,778,828) |
| | ----- | ----- | ----- |
| INCOME TAXES | (537,889) | - | 849,802 |
| | ----- | ----- | ----- |
| NET INCOME (LOSS) | 845,299 | 9,420,615 | (1,929,026) |
| | ----- | ----- | ----- |
| DIVIDENDS ON PREFERRED STOCK | (924,661) | (97,334) | (1,697,781) |
| | ----- | ----- | ----- |
| NET INCOME (LOSS) AVAILABLE TO COMMON SHAREHOLDERS | \$ (79,362) | \$ 9,323,281 | \$ (3,626,807) |
| | ===== | ===== | ===== |
| NET INCOME (LOSS) PER COMMON SHARE, BASIC | | | |
| | \$ (.00) | \$.50 | \$ (.15) |
| | ===== | ===== | ===== |
| DILUTED | | | |
| | \$ (.00) | \$.29 | \$ (.15) |
| | ===== | ===== | ===== |

The Notes to Consolidated Financial Statements are
an integral part of these statements

Edgar Filing: CRIMSON EXPLORATION INC. - Form 424B3

(UNAUDITED)

| | Six Months Ended Jun | |
|--|----------------------|-------|
| | 2005 | |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net income (loss) | \$ (1,929,026) | \$ |
| Adjustments to reconcile net income (loss) to net cash | | |
| Provided by operating activities: | | |
| Depreciation, depletion and amortization | 1,491,009 | |
| Accretion expense | 38,322 | |
| Stock option expense | 19,670 | |
| Stock compensation expense | 29,999 | |
| Debt issue cost expense | 1,779,596 | |
| Discount on note payable | 502,120 | |
| Loss from equity in investments | 36,159 | |
| Deferred tax benefit | (849,802) | |
| Forgiveness of debt | - | (1 |
| Note payable issued and charged to interest | - | |
| Loss on sale of property and equipment | 38,915 | |
| Dry holes, abandoned property and impaired assets | - | |
| Unrealized loss on derivative instruments | 1,394,706 | |
| Increase in accounts receivable - trade, net | (1,010,646) | |
| (Increase) decrease in prepaid expenses | (92,212) | |
| Decrease in accounts payable and accrued expenses | (1,979,197) | (|
| | ----- | ----- |
| Net cash used in operating activities | (530,387) | (|
| | ----- | ----- |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Proceeds from sale of property and equipment | 101,491 | |
| Capital expenditures | (6,431,925) | |
| | ----- | ----- |
| Net cash used in investing activities | (6,330,434) | (|
| | ----- | ----- |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Proceeds from sale of preferred stock, net | 38,212,517 | |
| Proceeds from common stock warrants exercised | 200 | |
| Payments on debt | (31,815,988) | (1 |
| Proceeds from debt issuance | 1,820,000 | 1 |
| Debt issue cost | (2,640) | (|
| Dividends paid | (681,341) | (|
| | ----- | ----- |
| Net cash provided by financing activities | 7,532,748 | (|
| | ----- | ----- |
| INCREASE IN CASH AND CASH EQUIVALENTS | 671,927 | |
| CASH AND CASH EQUIVALENTS, | | |
| Beginning of period | 411,377 | |
| | ----- | ----- |
| CASH AND CASH EQUIVALENTS, | | |
| End of period | \$ 1,083,304 | \$ |
| | ===== | ===== |

Edgar Filing: CRIMSON EXPLORATION INC. - Form 424B3

CASH PAID FOR INTEREST

\$ 718,768 \$
=====

The Notes to Consolidated Financial Statements are
an integral part of these statements.

6

CRIMSON EXPLORATION INC. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2005 AND 2004
(UNAUDITED)

1. BASIS OF PRESENTATION

During interim periods, we follow the accounting policies set forth in our Annual Report on Form 10-K filed with the Securities and Exchange Commission. Users of financial information produced for interim periods are encouraged to refer to the footnotes contained in the Annual Report when reviewing interim financial results.

On June 29, 2005, our predecessor, GulfWest Energy Inc., a Texas corporation ("GulfWest"), merged with and into Crimson Exploration Inc., a Delaware corporation ("Crimson"), for the purpose of changing our state of incorporation from Texas to Delaware (the "Reincorporation"). The Reincorporation was accomplished pursuant to an Agreement and Plan of Merger, dated June 28, 2005, which was approved by GulfWest's shareholders at the 2005 Annual Shareholders' Meeting held June 1, 2005.

The accompanying financial statements include the Company and its wholly-owned subsidiaries: RigWest Well Service, Inc. formed September 5, 1996; GulfWest Texas Company formed September 23, 1996; DutchWest Oil Company formed July 28, 1997; Southeast Texas Oil and Gas Company, L.L.C. acquired September 1, 1998; SETEX Oil and Gas Company formed August 11, 1998; GulfWest Oil & Gas Company formed February 8, 1999; LTW Pipeline Co. formed April 19, 1999; GulfWest Development Company formed November 9, 2000; GulfWest Oil & Gas Company (Louisiana) LLC formed July 31, 2001; and, S.G.C. Transmission, LLC formed December 30, 1993. All material intercompany transactions and balances are eliminated upon consolidation.

As a result of our April 27, 2004 refinancing we recorded \$11,884,145 in forgiveness of debt and a hedging liability of \$591,467 was eliminated. At December 31, 2004 we reclassified the eliminated hedging liability to forgiveness of debt. This reclassification is reflected in the June 30, 2004 periods. Certain other prior period amounts have also been reclassified to conform with current year presentations.

In management's opinion, the accompanying interim financial statements contain all material adjustments, consisting only of normal recurring adjustments necessary to present fairly the financial condition, the results of operations, and the cash flows of Crimson Exploration Inc. for the interim periods.

2. NON-CASH INVESTING AND FINANCING ACTIVITIES

During the six month period ended June 30, 2005 we settled \$350,163 in

Edgar Filing: CRIMSON EXPLORATION INC. - Form 424B3

dividends by issuing 377,917 shares of common stock and we issued 29,100 shares of common stock to satisfy and record a \$23,280 fee for a loan extension prior to the sale of the Series G Preferred Stock. In addition we recorded \$29,999 in director fee expense associated with the issuance of 34,090 shares of common stock to directors under the new Director Compensation Plan. Also, on March 30, 2005 one of our employees exercised 25,000 common stock options for \$11,250 which is recorded as an account receivable. Under our cashless exercise procedures, the stock has been posted for sale by a broker and the receivable will be settled when the stock is sold. During the period, we invested \$23,006 in an oil and gas partnership by contributing our cost basis in undrilled oil and gas leases. In addition, we financed new field trucks for the \$45,724 cost.

During the six month period ended June 30, 2004, we issued a note payable for \$600,000 in exchange for an account payable for \$538,954 and \$61,046 in related interest expense was recorded. Also, in conjunction with the refinancing of debt in April 2004; we issued common stock warrants valued

7

at \$916,029 which were recorded as a note discount, we issued \$500,000 of preferred stock of a wholly owned subsidiary as a commission to a financial advisor, we recorded a \$360,000 payable for a loan termination fee and we obtained and recorded \$12,475,612 in debt forgiveness.

3. DERIVATIVE INSTRUMENTS

In the past we have entered into, and may in the future enter into, certain derivative arrangements with respect to portions of our oil and natural gas production to reduce our sensitivity to volatile commodity prices. During 2005 and 2004, we entered into price swaps and put agreements with financial institutions. We believe that these derivative arrangements, although not free of risk, allow us to achieve a more predictable cash flow and to reduce exposure to price fluctuations. However, derivative arrangements limit the benefit to us of increases in the prices of crude oil and natural gas sales. Moreover, our derivative arrangements apply only to a portion of our production and provide only partial price protection against declines in price. Such arrangements may expose us to risk of financial loss in certain circumstances. We expect that the monthly volume of derivative arrangements will vary from time to time. We continuously reevaluate our price hedging program in light of increases in production, market conditions, commodity price forecasts, capital spending and debt service requirements. The following derivatives were in place at June 30, 2005 or were added subsequent to that date and are effective for the production periods shown.

| Crude Oil ----- | | Volume/ Month ----- | Average Price/ Unit ----- |
|----------------------------------|--------|------------------------|-------------------------------|
| May 2004 thru October 2005 | Swap | 10,000 Bbls | \$32.00 |
| April 2005 thru June 2005 | Swap | 2,000 Bbls | \$56.50 |
| July 2005 thru October 2005 | Swap | 1,000 Bbls | \$56.50 |
| November 2005 thru December 2005 | Swap | 11,000 Bbls | \$56.50 |
| January 2006 thru March 2006 | Collar | 10,000 Bbls | Floor \$50.00-\$59.00 Ceiling |

Edgar Filing: CRIMSON EXPLORATION INC. - Form 424B3

| | | | |
|---------------------------------|--------|------------|-------------------------------|
| April 2006 thru December 2006 | Collar | 9,000 Bbls | Floor \$50.00-\$59.00 Ceiling |
| January 2007 thru December 2007 | Collar | 3,000 Bbls | Floor \$45.00-\$59.45 Ceiling |

| Natural Gas ----- | | Volume/ Month ----- | Average Price/ Unit ----- |
|----------------------------------|--------|------------------------|------------------------------|
| June 2004 thru October 2005 | Swap | 60,000 MMBTU | \$5.15 |
| April 2005 thru June 2005 | Swap | 20,000 MMBTU | \$7.45 |
| July 2005 thru October 2005 | Swap | 10,000 MMBTU | \$7.45 |
| November 2005 thru December 2005 | Swap | 70,000 MMBTU | \$7.45 |
| January 2006 thru December 2006 | Collar | 70,000 MMBTU | Floor \$6.00-\$8.25 Ceiling |
| January 2007 thru December 2007 | Collar | 20,000 MMBTU | Floor \$6.00-\$6.95 Ceiling |

These volumes represent approximately 75% of the estimated production (for both oil and natural gas) on current proved producing properties for the remainder of 2005 and for 2006 and approximately 30% of estimated production for 2007.

We also had the following put options in place at June 30, 2005, for the months reflected.

| Crude Oil ----- | Monthly Volume ----- | Price per Bbl ----- | Fair Value Asset (Liability) ----- |
|-------------------------------|-------------------------|------------------------|---|
| November 2005 thru April 2006 | 7,000 Bbls | \$25.75 put | \$ 212 |
| May 2006 thru October 2006 | 6,000 Bbls | \$25.75 put | \$ 1,288 |
| November 2006 thru April 2007 | 5,000 Bbls | \$25.75 put | \$ 2,902 |

8

The following puts on natural gas were terminated effective April 1, 2005.

| Natural Gas ----- | Monthly Volume ----- | Price per MMBTU ----- |
|-------------------------------|-------------------------|--------------------------|
| November 2005 thru April 2006 | 50,000 MMBTU | \$4.50 put |
| May 2006 thru October 2006 | 40,000 MMBTU | \$4.50 put |
| November 2006 thru April 2007 | 30,000 MMBTU | \$4.50 put |

At the end of each reporting period we are required by SFAS 133 to record on our balance sheet the marked to market valuation of our derivative instruments. These valuations are based on the NYMEX strip prices for those

Edgar Filing: CRIMSON EXPLORATION INC. - Form 424B3

future periods, as of the balance sheet date. As a result of these agreements, we recorded a non-cash charge to earnings, for unsettled contracts, of \$1,394,706 for the six month period ended June 30, 2005 and a charge of \$1,150,402 for the six month period ended June 30, 2004. For settled contracts, during the six month periods we realized a cash charge to earnings of \$1,469,718 for the six month period ended June 30, 2005 and \$702,649 for the six month period ended June 30, 2004, which are included in oil and gas sales.

The estimated change in fair value of the derivatives is reported in Other Income and Expense as unrealized (gain) loss on derivative instruments.

4. STOCK BASED COMPENSATION

In October 1995, SFAS No. 123, "Stock Based Compensation," (SFAS 123) was issued. This statement requires that we choose between two different methods of accounting for stock options and warrants. The statement defines a fair-value-based method of accounting for stock options and warrants but allows an entity to continue to measure compensation cost for stock options and warrants using the accounting prescribed by APB Opinion No. 25 (APB 25), "Accounting for Stock Issued to Employees." Use of the APB 25 accounting method results in no compensation cost being recognized if options are granted at an exercise price at the current market value of the stock on the date of grant or higher. We will continue to use the intrinsic value method under APB 25 but are required by SFAS 123 to make pro forma disclosures of net income (loss) and earnings (loss) per share as if the fair value method had been applied in our 2005 and 2004 financial statements.

We use the Black Sholes option pricing model to estimate the fair value of the options. If we had used the fair value method required by SFAS 123, our net loss and per share information would approximate the following amounts:

| Three Months | 2005 | | 2004 | |
|------------------------------------|-------------|--------------|--------------|--------------|
| | As Reported | Proforma | As Reported | Proforma |
| SFAS 123 | | | | |
| compensation cost | \$ | \$ 624,204 | \$ | \$ 5,250 |
| APB 25 | | | | |
| compensation cost | \$ (50,580) | \$ 50,580 | \$ | \$ |
| Net income (loss) | \$ (79,362) | \$ (754,146) | \$ 9,323,281 | \$ 9,318,031 |
| Income (loss) per common share, | | | | |
| Basic | \$ (.00) | \$ (.03) | \$.50 | \$.50 |
| Diluted | \$ (.00) | \$ (.03) | \$.29 | \$.29 |

Edgar Filing: CRIMSON EXPLORATION INC. - Form 424B3

| Six Months | 2005 | | 2004 | |
|-------------------|---------------|---------------|--------------|-------------|
| | As Reported | Proforma | As Reported | Proforma |
| SFAS 123 | | | | |
| compensation cost | \$ | \$ 765,729 | \$ | \$ 5,250 |
| APB 25 | | | | |
| compensation cost | \$ 19,670 | \$ (19,670) | \$ | \$ |
| Net income (loss) | \$(3,626,807) | \$(4,372,866) | \$ 9,020,278 | \$9,015,028 |
| Income (loss) per | | | | |
| common share, | | | | |
| Basic | \$ (.15) | \$ (.18) | \$.49 | \$.49 |
| Diluted | \$ (.15) | \$ (.18) | \$.34 | \$.34 |

On December 16, 2004, the Financial Accounting Standards Board (FASB) issued FASB Statement No. 123 (revised 2004), Share-Based Payments which is a revision of FASB No. 123, Accounting for Stock-Based Compensation. Statement 123 (R) supercedes APB opinion No. 25, Accounting for Stock Issued to Employees, and amends FASB Statement No. 95, Statement of Cash Flows. Generally, the approach in Statement 123 (R) is similar to the approach described in Statement 123. However, Statement 123 (R) requires all share-based payments to employees, including grants of employee stock options, to be recognized in the income statement based on their fair values. Pro forma disclosure will no longer be an alternative. The effective date of this statement will be our first quarter of 2006.

5. FINANCING ACTIVITY

On April 27, 2004, we completed an \$18,000,000 financing package with new energy lenders. We used \$15,700,000 in net proceeds from the financing to retire existing debt of \$27,584,145, resulting in forgiveness of debt of \$12,475,612, the elimination of a hedging liability and the return to the Company of Series F Preferred Stock with an aggregate liquidation preference of \$1,000,000 (this preferred stock, at the request of the Company, was transferred by the previous lender to a financial advisor to the Company and to two affiliated companies). The taxable gain resulting from these transactions will be completely offset by available net operating loss carryforwards for income tax purposes. The term of the note was eighteen months and it bore interest at the prime rate plus 11%. The rate increased by .75% per month beginning in month ten. We paid the new lenders \$1,180,000 in cash fees and also issued them warrants to purchase 2,035,621 shares of our common stock at an exercise price of \$.01 per share, expiring in five years (exercised in April, 2005). The warrants were subject to anti-dilution provisions. In connection with the February 2005 transactions described below, the anti-dilution provisions were amended such that additional issuances of stock (other than issuances to all holders) would not trigger an adjustment to the number of shares issuable upon exercise of the warrants.

On January 7, 2005, we amended our April 2004 credit agreement to extend the target date for repayment to February 28, 2005. We exercised this option on January 26, 2005 and issued 29,100 shares of our common stock in connection with this amendment.

On February 28, 2005, we sold in a private placement, 81,000 shares of our Series G Preferred Stock to OCM GW Holdings, LLC ("OCMGW") for an aggregate offering price of \$40.5 million. GulfWest Oil and Gas Company, ("GWOG") a subsidiary of the Company, issued, in a private placement, 2,000 shares of our Series A Preferred Stock, having a liquidation preference of \$1.0

Edgar Filing: CRIMSON EXPLORATION INC. - Form 424B3

million, to OCMGW for \$1.5 million. Net proceeds of the offerings of approximately \$38.2 million after expenses were used for the repayment of substantially all of our outstanding debt and other past due liabilities and for general corporate purposes.

10

The Series G Preferred Stock bears a coupon of 8% per year, has an aggregate liquidation preference of \$40.5 million (excluding accumulated undeclared dividends), is convertible into common stock at \$0.90 per share and is senior to all of our capital stock. For the first four years after issuance, we may defer the payment of dividends on the Series G Preferred Stock and these deferred dividends will also be convertible into our common stock at \$0.90 per share. In addition, the Series G Preferred Stock is entitled to nominate and elect a majority of the members of our Board of Directors.

In connection with these recapitalization transactions, the terms of the Series A Preferred Stock were amended such that by March 15, 2005, all such stock would either convert into a newly created Series H Preferred Stock on a one for one basis or into common stock at a conversion price of \$0.35 per share. The Series H Preferred Stock is required to be paid a dividend of 40 shares of common stock per share of Series H Preferred Stock per year. At March 15, 2005, holders of 6,700 shares of Series A Preferred Stock converted to Series H Preferred Stock and holders of 3,250 shares of Series A Preferred Stock converted to an aggregate 4,642,859 shares of common stock. One Series H Preferred Stock holder converted its shares of Series H Preferred Stock into 285,715 shares of common stock. In April, 2005, an additional 1,250 shares converted into 1,785,714 of common stock. The outstanding Series H Preferred Stock has an aggregate liquidation preference of \$2.625 million. The Series H Preferred Stock is senior to all of our capital stock other than Series G Preferred Stock.

In addition, we amended the terms of our 9,000 shares of Series E Preferred Stock such that the coupon of 6% per year may be deferred for the next four years and these deferred dividends will be convertible into common stock at conversion price of \$0.90 per share. The original liquidation preference of the Series E Preferred Stock of \$500 per share remains convertible into common stock at \$2.00 per share. The Series E Preferred Stock has an aggregate liquidation preference of \$4.5 million (excluding accumulated undeclared dividends), and is senior to all of our common stock, of equal preference with our Series D Preferred Stock as to liquidation and junior to our Series G and Series H Preferred Stock.

On May 17, 2005, we executed a promissory note for the benefit of OCM GW Holdings, in the principal amount of \$1 million, payable on the earlier of July 17, 2005 or the day on which we are able to make draws under a credit facility under which greater than \$1 million may be borrowed. Interest on the unpaid principal accrued at 4.59% per annum. We repaid the note in full on July 19, 2005 from borrowings under our new \$100 million senior secured revolving credit facility.

On July 15, 2005, we entered into a \$100 million senior secured revolving credit facility with Wells Fargo Bank, National Association. Borrowings under the new credit facility will be subject to a borrowing base limitation based on our current proved oil and gas reserves. The initial borrowing base is set at \$20 million and will be subject to semi-annual redeterminations, with the first redetermination to be December 1, 2005.

Edgar Filing: CRIMSON EXPLORATION INC. - Form 424B3

The facility will be secured by a lien on all our assets, and the assets of our subsidiaries, as well as a security interest in the stock of all our subsidiaries. The credit facility has a term of three years, and all principal amounts, together with all accrued and unpaid interest, will be due and payable in full on June 30, 2008. Proceeds from extensions of credit under the facility will be for acquisitions of oil and gas properties and for general corporate purposes. The facility also provides for the issuance of letters-of-credit up to a \$3 million sub-limit. On August 15, 2005, the outstanding balance under our facility was \$1.5 million.

Advances under the facility will be in the form of either base rate loans or Eurodollar loans. The interest rate on the base rate loans fluctuates based upon the higher of (1) the lender's "prime rate" and (2) the Federal Funds rate, plus a margin of 0.50%, plus a margin of between 0.0% and 0.5% depending on the percent of the borrowing base utilized at the time of the credit extension. The interest rate on the Eurodollar loans fluctuates based upon the rate at which Eurodollar deposits in the London Interbank market ("Libor") are quoted for the maturity selected, plus a margin of 1.25% to 2.00% depending on the percent of the borrowing base utilized at

11

the time of the credit extension. Eurodollar loans of one, three and six months may be selected by us. A commitment fee of 0.375% on the unused portion of the borrowing base will accrue, and be payable quarterly in arrears.

The credit agreement includes usual and customary affirmative covenants for credit facilities of this type and size, as well as customary negative covenants, including, among others, limitation on liens, hedging, mergers, asset sales or dispositions, payments of dividends, incurrence of additional indebtedness, certain leases and investments outside of the ordinary course of business. The credit agreement also requires us to maintain a ratio of current assets to current liabilities, except that any availability under the borrowing base will be considered as an addition to current assets, and any current assets or liabilities resulting from hedging agreements will be excluded, of at least 1.0 to 1.0, an interest coverage ratio of EBITDAX (earnings before interest, taxes, depreciation and amortization and exploration expense) to cash interest expense of 3.0 to 1.0 and a tangible net worth of at least \$45 million, subject to adjustment based on future results of operations and any sales of equity securities. EBITDAX and tangible net worth are calculated without consideration of unrealized gains and losses related to stock derivatives accounted for under variable accounting rules for commodity hedges. At June 30, 2005 we were in compliance with the aforementioned financial covenants.

6. NOTES PAYABLE

Notes payable and related party notes payable are as follows:

June 30,
2005

Edgar Filing: CRIMSON EXPLORATION INC. - Form 424B3

Non-interest bearing note payable to an unrelated party;
payable out of 50% of the net transportation revenues
from a certain natural gas pipeline that is not yet in
service; no due date. \$ 40,300

Promissory note payable to a former director at 8%; due
May, 2001; unsecured. Retired March, 2005.

Promissory note payable to an unrelated party at 10%; payable on demand;
unsecured. Retired March, 2005.

Promissory note payable to an unrelated party; payable on demand; interest
at 8%; interest increased to 12% on January 1, 2003; secured by certain
oil and gas properties. Retired March, 2005.

Note payable to a bank; due July, 2004; secured by guaranty
of a director; interest at prime rate (prime rate 5.25% at
December 31, 2004 with a floor of 4.75% and a
ceiling of 8.0%. Retired February, 2005.

Promissory note payable to unrelated party; interest at 6%; due June, 2003.
Retired January, 2005.

Promissory note payable to one of our directors; interest at
8%; due on demand; unsecured. Retired March, 2005.

Promissory note payable to one of our directors; interest at
prime rate (prime rate 5.25% at December 31, 2004); due
May, 2003; secured by Common Stock of DutchWest Oil
Company, our wholly owned subsidiary. Retired March,
2005.

Promissory note payable to an unrelated party at 8%; due
June 2003; secured by 4% in the last draft of the
Common Stock of DutchWest Oil Company, our wholly
owned subsidiary. Retired March, 2005.

Promissory note payable to an unrelated party at 8%; due
May 2003; secured by 8% of the Common Stock of
DutchWest Oil Company, our wholly owned subsidiary.
Retired March, 2005.

Note payable to an entity owned by two directors of the
company, due September 2004; interest at prime plus
2% (prime rate 5.25% at December 31, 2004). Secured
by oil and gas leases. Retired March, 2005.

Line of credit (up to \$3,500,000) to a bank; due June 2004;

Edgar Filing: CRIMSON EXPLORATION INC. - Form 424B3

secured by the guaranty of a director; interest at prime rate (prime rate 5.25% at December 31, 2004) with a floor of 4.75% and a ceiling of 8.0%. Retired February, 2005.

Note payable to a related party, due July 2005, interest at 4.59%. Retired July, 2005.

1,000,000

\$ 1,040,300
=====

Long-term debt is as follows:

June 30, 2005

Line of credit (up to \$3,000,000) to a bank; due July, 2005; secured by the guaranty of a director; interest greater prime rates less .25% or 5.25% (prime note 5.25% at December 31, 2004); retired February 2005.

\$

Subordinated promissory notes to various individuals at 9.5% interest per annum; amounts include \$50,000 due to related parties. Retired \$100,000 March, 2005.

50,000

Notes payable to finance vehicles, payable in aggregate monthly installments of approximately \$4,000, including interest of 9% to 13% per annum; secured by the related equipment; due various dates through 2010.

122,020

Promissory note to a director; interest at 8.5%; due December 31, 2003. Retired March, 2005.

Note payable to lender; interest at prime plus 11% (prime rate 5.25% at December 31, 2004) interest only; due October, 2006; secured by related oil and gas properties. Retired February, 2005.

Note payable to a bank with monthly principal payments of \$36,000; interest at prime plus 1% (prime rate 5.25% at December 31, 2004 with a minimum prime rate of 5.5%; final payment due November, 2003; secured by related oil and gas properties; extended to July, 2007. Retired February, 2005.

Edgar Filing: CRIMSON EXPLORATION INC. - Form 424B3

Note payable to unrelated party to finance saltwater disposal well with monthly installments of \$4,540, including interest at 10% per annum; final payment due January, 2005; secured by related well. Retired March, 2005.

| | |
|----------------------|-----------|
| | ----- |
| | 172,020 |
| Less current portion | 87,886 |
| | ----- |
| Total long-term debt | \$ 84,134 |
| | ===== |

7. TAXES

For the six month period ended June 30, 2005 we incurred a taxable loss of approximately \$2.8 million and tax differences of approximately \$.9 million resulting in an approximately \$.8 million increase in our deferred tax asset. We expect to fully utilize this increase in deferred tax assets in the future. Deferred tax assets are shown net of a \$2.5 million valuation allowance. The valuation allowance was recorded because we expect we will not be able to use net operating loss carryforwards of approximately \$6.6 million due to the limitations of Internal Revenue Code Section 382.

8. STOCKHOLDERS EQUITY

The following table sets forth the changes in the stockholder's equity during the period ended June 30, 2005.

| | NUMBER OF SHARES | | | |
|---|--------------------|-----------------|-----------------|--------------------|
| | PREFERRED STOCK | COMMON STOCK | COMMON STOCK | PREFERRED STOCK |
| | ----- | | | |
| BALANCE DECEMBER 31, 2004 | 25,290 | 19,393,969 | \$19,394 | \$253 |
| Common stock issued for services and fees | | 63,190 | 63 | |
| Preferred stock issued | | | | |
| Series A | 2,000 | | | 20 |
| Series G | 81,000 | | | 810 |
| Preferred stock conversions | | | | |
| Series A to common stock | (3,250) | 4,642,859 | 4,643 | (33) |
| Series F to common stock | (340) | 170,000 | 170 | (3) |
| Series H to common stock | (1,450) | 2,071,429 | 2,072 | (14) |
| Common stock dividends paid | | | | |
| Series A Preferred | | 356,250 | 356 | |
| Series H Preferred | | 21,667 | 22 | |
| Options and warrants exercised | | 2,063,224 | 2,063 | |
| Current year loss | | | | |
| Dividends paid on preferred stock | | | | |
| | ----- | | | |
| BALANCE JUNE 30, 2005 | 103,250 | 28,782,588 | \$28,783 | \$1,033 |
| | ===== | | | |

Edgar Filing: CRIMSON EXPLORATION INC. - Form 424B3

Also during the period the holders of the remaining 6,700 shares of the Series A Preferred Stock, of our wholly owned subsidiary GulfWest Oil and Gas Company, converted to our Series H Preferred Stock.

14

Dividends on all classes of our preferred stock are cumulative until declared as payable by our Board of Directors. Our Series E Preferred Stock accumulates at 6% per annum payable in cash, Series G Preferred Stock accumulates at 8% per annum payable in cash and Series H Preferred Stock accumulates at 40 shares of our common stock per share of the Series H Preferred Stock per annum.

The following table sets forth the accumulated value of undeclared dividends of our preferred stock at June 30, 2005.

| | | |
|--------------------------|----|-----------|
| Series E Preferred Stock | \$ | 90,986 |
| Series G Preferred Stock | | 1,091,836 |
| Series H Preferred Stock | | 56,499 |
| | | ----- |
| | \$ | 1,239,321 |
| | | ===== |

The Series E and Series G dividends are convertible to our common stock at \$.90 per common share. The Series H Preferred Stock has no conversion feature for unpaid dividends. These dividends call for payment of 10 common shares per quarter for each preferred share. Payments are current.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS

----- OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS -----

Overview. -----

We are primarily engaged in the acquisition, development, exploitation and production of crude oil and natural gas, primarily in the onshore producing regions of the United States. Our focus is on increasing production from our existing properties through further exploitation, development and exploration, and on acquiring additional interests in undeveloped crude oil and natural gas properties. Our gross revenues are derived from the following sources:

1. Oil and gas sales that are proceeds from the sale of crude oil and natural gas production to midstream purchasers. This represents over 98% of our gross revenues.
2. Operating overhead and other income that consists of administrative fees received for operating crude oil and natural gas properties for other working interest owners, and for marketing and transporting natural gas for those owners. This also includes earnings from other miscellaneous activities.

The following is a discussion of our consolidated results of operations, financial condition and capital resources. You should read this discussion in conjunction with our Consolidated Financial Statements and the Notes thereto contained elsewhere herein.

Results of Operations.

The factors which most significantly affect our results of operations are (1) the sales price of crude oil and natural gas, (2) the level of total sales volumes of crude oil and natural gas, (3) the cost and efficiency of operating our own properties, (4) depletion and depreciation of oil and gas property costs and related equipment, (5) the level of and interest rates on borrowings, and (6) the level and success of acquiring or finding new reserves, and the acquisition, finding and development costs incurred in adding these reserves.

We consider depletion and depreciation of oil and gas properties and related support equipment to be critical accounting estimates, based upon estimates of total recoverable oil and gas reserves.

The estimates of oil and gas reserves utilized in the calculation of depletion and depreciation are estimated in accordance with guidelines established by the Securities and Exchange Commission and the Financial Accounting Standards Board, which require that reserve estimates be

15

prepared under existing economic and operating conditions with no provision for price and cost escalations over prices and costs existing at period end, except by contractual arrangements.

We emphasize that reserve estimates are inherently imprecise. Accordingly, the estimates are expected to change as more current information becomes available. Our policy is to amortize capitalized oil and gas costs on the unit of production method, based upon these reserve estimates. It is reasonably possible that the estimates of future cash inflows, future gross revenues, the amount of oil and gas reserves, the remaining estimated lives of the oil and gas properties, or any combination of the above will change in the future.

Comparative results of operations for the periods indicated are discussed below.

Three-Month Period Ended June 30, 2005 compared to Three Month Period Ended June 30, 2004.

Revenues

Oil and Gas Sales. During the second quarter, revenues from the sale of crude oil and natural gas, net of realized losses from our hedging instruments, increased 75% from \$2,494,300 in 2004 to \$4,367,800 in 2005. Losses realized on our hedges during the 2005 quarter were \$609,600 for oil and \$203,600 for gas, compared to \$197,300 for oil and \$129,100 for gas in the 2004 quarter. The significant increase in revenues was due to higher oil and gas sales volumes and higher crude oil and natural gas prices, as further described below.

In the second quarter of 2005, our sales volumes were 47,771 barrels of crude oil and 420,657 Mcf of natural gas, or 707,283 natural gas equivalents (mcf) compared to 41,613 barrels of crude oil and 230,247 Mcf of natural gas, or 479,925 Mcfe in the second quarter of 2004. On a daily basis we produced an average of 7,772 Mcfe in the second quarter of 2005 compared to a daily average of 5,274 Mcfe in the 2004 quarter. Higher

Edgar Filing: CRIMSON EXPLORATION INC. - Form 424B3

natural gas and crude oil sales volumes were a direct result of the development program we began in late 2004, and expanded in 2005. The development program included our drilling and completing 2 new gas wells in east Texas in early 2005, the completion of workover and facility projects at our Grand Lake and Lacassine fields in southwest Louisiana, and the workover of gas wells in south Texas. These successful new oil and gas well completions not only offset the loss of production from property sales in 2004, but also allowed us to achieve the 47% increase in production rate from second quarter 2004 to second quarter 2005.

Oil and gas prices are reported net of the realized effect of our hedging agreements. Prices realized were \$37.26 per Bbl and \$6.15 per Mcf in the second quarter of 2005 compared to \$30.41 per Bbl and \$5.34 per Mcf in the second quarter of 2004. Prices before the effects of the hedging agreements were \$50.02 per Bbl and \$6.64 per Mcf in the second quarter of 2005 compared to \$35.15 per Bbl and \$5.90 per Mcf in the second quarter of 2004.

Operating Overhead and Other Income. Revenues from these activities decreased from \$40,900 in 2004 to \$25,300 in 2005, due primarily to lower overhead recoveries on company-operated properties.

Costs and Expenses

Lease Operating Expenses. Overall, lease operating expenses increased 6% from \$1,285,000 in 2004 to \$1,365,000 in 2005. Considering the properties sold in the third quarter of 2004, operating expenses increased 35% from 2004 to 2005. Approximately two-thirds of this increase was due to increased production taxes, compression costs and salt water disposal costs related to higher sales volumes. The remainder was due to higher vendor prices.

16

On a per unit basis, expenses decreased from \$2.68 per Mcfe in 2004, to \$1.93 per Mcfe in 2005. This decrease in lifting cost was due to the higher sales volumes and the sale of the two higher lifting cost fields in the third quarter of 2004.

Depreciation, Depletion and Amortization (DD&A). DD&A increased 91% from \$437,000 in 2004 to \$835,200 in 2005 due to higher production volumes, and from an increase in the DD&A rate per unit from \$.91 per Mcfe in 2004 to \$1.18 per Mcfe in 2005.

General and Administrative (G&A) Expenses. Our G&A expenses increased 98% from \$472,400 in 2004 to \$934,900 in 2005 due to the recent additions to our management team to carry out our growth plan. On a per unit basis, expenses increased from \$.98 per Mcfe in 2004 to \$1.32 per Mcfe in 2005.

Interest Expense. Interest expense decreased 98% from \$1,014,600 in 2004 to \$18,100 in 2005, primarily due to retirement of debt associated with our February, 2005 recapitalization.

Six-Month Period Ended June 30, 2005 compared to Six-Month Period Ended June 30, 2004.

Revenues

Oil and Gas Sales. During the six month period ended June 2005, revenues

Edgar Filing: CRIMSON EXPLORATION INC. - Form 424B3

from the sale of crude oil and natural gas, net of realized losses from our hedging instruments, increased 60% from \$4,995,000 in 2004 to \$8,001,900 in 2005. Losses realized on our hedges during 2005 were \$1,144,900 for oil and \$324,800 for gas, compared to \$406,400 for oil and \$296,200 for gas in the 2004. The significant increase in revenues was due to higher oil and gas sales volumes and higher crude oil and natural gas prices, as further described below.

For the period in 2005, our sales volumes were 92,479 barrels of crude oil and 764,672 Mcf of natural gas, or 1,319,546 natural gas equivalents (mcf) compared to 86,797 barrels of crude oil and 484,003 Mcf of natural gas, or 1,004,785 Mcfe in the 2004 period. On a daily basis we produced an average of 7,290 Mcfe in the six month period of 2005 compared to a daily average of 5,551 Mcfe in the 2004 period. Higher natural gas and crude oil sales volumes were a direct result of the development program we began in late 2004, and expanded in 2005. The development program included our drilling and completing 2 new gas wells in east Texas in early 2005, the completion of workover and facility projects at our Grand Lake and Lacassine fields in southwest Louisiana, and the workover of gas wells in south Texas. These successful new oil and gas well completions not only offset the loss of production from property sales in 2004, but also allowed us to achieve the 31% increase in production rate from the period in 2004 to the period in 2005.

Oil and gas prices are reported net of the realized effect of our hedging agreements. Prices realized were \$36.57 per Bbl and \$6.04 per Mcf for the six month period of 2005 compared to \$29.14 per Bbl and \$5.09 per Mcf in the 2004 period. Prices before the effects of the hedging agreements were \$48.95 per Bbl and \$6.47 per Mcf for the six month period of 2005 compared to \$33.82 per Bbl and \$5.71 per Mcf in the 2004 period.

Operating Overhead and Other Income. Revenues from these activities decreased from \$79,000 in 2004 to \$55,000 in 2005, due primarily to lower overhead recoveries on company-operated properties.

Costs and Expenses

Lease Operating Expenses. Overall, operating expenses increased 6% from \$2,599,300 in 2004 to \$2,765,900 in 2005. Excluding property sales in the third quarter 2004, operating expenses increased 30% from 2004 to 2005. Approximately two-thirds of this increase was due to increased production

17

taxes, compression costs and salt water disposal costs related to higher sales volumes. The remainder was due to higher vendor prices.

On a per unit basis, expenses decreased from \$2.59 per Mcfe in 2004, to \$2.10 per Mcfe in 2005. This decrease in lifting cost was due to the higher sales volumes and the sale of two higher lifting cost fields in third quarter of 2004.

Depreciation, Depletion and Amortization (DD&A). DD&A increased 70% from \$876,200 in 2004 to \$1,491,000 in 2005 due to higher production volumes, and from an increase in the DD&A rate per unit from \$.87 per Mcfe in 2004 to \$1.13 per Mcfe in 2005.

General and Administrative (G&A) Expenses. Our G&A expenses increased 78%

Edgar Filing: CRIMSON EXPLORATION INC. - Form 424B3

from \$873,600 in 2004 to \$1,553,100 in 2005 due to the recent additions to our management team to carry out our growth plan. On a per unit basis, expenses increased from \$.87 per Mcfe in 2004 to \$1.18 per Mcfe in 2005.

Interest Expense. Interest expense decreased 37% from \$1,934,800 in 2004 to \$1,216,600 in 2005, primarily due to retirement of debt associated with our February, 2005 recapitalization.

Financial Condition and Capital Resources

At June 30, 2005, our current liabilities exceeded our current assets by \$3,038,473, while at December 31, 2004 our current liabilities exceeded our current assets by \$35,034,675. The improvement was attributable to repayment of debt with proceeds from the sale of the Series G Preferred Stock. For the second quarter of 2005 we had a loss of \$79,362 compared to a net income of \$9,323,281 for the same period in 2004. The net income generated in 2004 was primarily attributed to \$12.5 million in forgiveness of debt income associated with our April, 2004 refinancing.

On July 15, 2005, we entered into a \$100 million senior secured revolving credit facility with Wells Fargo Bank, National Association. Borrowings under the new credit facility will be subject to a borrowing base limitation based on our current proved oil and gas reserves. The initial borrowing base is set at \$20 million and will be subject to semi-annual redeterminations, with the first redetermination to be December 1, 2005. The facility will be secured by a lien on all our assets, and the assets of our subsidiaries, as well as a security interest in the stock of all our subsidiaries. The credit facility has a term of three years, and all principal amounts, together with all accrued and unpaid interest, will be due and payable in full on June 30, 2008. Proceeds from extensions of credit under the facility will be for acquisitions of oil and gas properties and for general corporate purposes. The facility also provides for the issuance of letters-of-credit up to a \$3 million sub-limit. On August 15, 2005, the outstanding balance under our facility was \$1.5 million. (See Note 5 "Financing Activity" in Notes to the Consolidated Financial Statements on page 10.)

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The following market rate disclosures should be read in conjunction with the quantitative disclosures about market risk contained in our 2004 Annual Report on Form 10-K, as well as with the consolidated financial statements and notes thereto included in this quarterly report on Form 10-Q.

All of our financial instruments are for purposes other than trading. We only enter into derivative financial instruments in conjunction with our oil and gas hedging activities.

Hypothetical changes in interest rates and prices chosen for the following stimulated sensitivity effects are considered to be reasonably possible near-term changes generally based on consideration of past fluctuations for each risk category. It is not possible to accurately predict future changes

in interest rates and product prices. Accordingly, these hypothetical

Edgar Filing: CRIMSON EXPLORATION INC. - Form 424B3

changes may not be an indicator of probable future fluctuations.

Interest Rate Risk

At June 30, 2005, we had no variable rate debt.

Commodity Price Risk

We hedge a portion of price risk associated with our oil and natural gas sales through contractual arrangements which are classified as derivative instruments. As of June 30, 2005, these derivative instruments had an estimated fair value liability of \$2,900,233. A hypothetical change in oil and gas prices could have an effect on oil and gas futures prices, which are used to estimate the fair value of our derivative instruments. However, it is not practicable to estimate the resultant change, if any, in the fair value of our derivative instruments.

ITEM 4. CONTROLS AND PROCEDURES

As of June 30, 2005, our President, Chief Executive Officer and our Senior Vice President, Chief Financial Officer evaluated the effectiveness of the design and operation of our disclosure controls and procedures pursuant to Rule 13a-15(b) under the Securities Exchange Act of 1934, as amended ("the Exchange Act"). Based upon this evaluation, they concluded that, subject to the limitations described below, the Company's disclosure controls and procedures offer reasonable assurance that the information required to be disclosed by the Company in the reports it files under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the rules and forms adopted by the Securities and Exchange Commission.

During the period covered by this report, there has been no change in the Company's internal controls over financial reporting that materially affected, or is reasonably likely to materially affect, these controls.

Limitations on the Effectiveness of Controls. Our management, including the Chief Executive Officer and the Chief Financial Officer, does not expect that the Company's disclosure controls and procedures will prevent all error and all fraud. A well conceived and operated control system is based in part upon certain assumptions about the likelihood of future events and can provide only reasonable, not absolute, assurance that the objectives of the control systems are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. There have been no significant changes in our internal controls or in other factors that could significantly affect internal controls subsequent to June 30, 2005.

19

PART II. OTHER INFORMATION

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

On April 1 and April 4, 2005, warrants issued to our former lenders in connection with the completion of our April 2004 financing package,

Edgar Filing: CRIMSON EXPLORATION INC. - Form 424B3

exercisable for an aggregate of 2,035,621 shares of common stock at a price of \$0.01 per share, were exercised for an aggregate of 2,018,224 shares of common stock by cashless exercise. Due to the nature of the transaction and the relationship of the former lenders with us, we believe the exercises were exempt under Section 4(2) of the Securities Act.

On April 22, 2005, two holders of the Series H Convertible Preferred Stock elected to convert 1,250 shares into approximately 1.8 million shares of common stock. Due to the nature of the transaction and the relationship of such holders with us, we believe the conversions were exempt under Section 3(a)(9) or Section 4(2) of the Securities Act.

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

The Company held its Annual Meeting of Shareholders on June 1, 2005 (the "Annual Meeting"). The close of business on April 15, 2005 was fixed as the record date for determining shareholders entitled to notice of, and to vote at, the meeting or any adjournments or postponement thereof. On that date, 26,941,117 shares of our Class A Common Stock, par value \$.001 per share ("Common Stock"), were outstanding and entitled to vote. Shares of our Series G Convertible Preferred Stock, par value \$.01 per share (the "Series G"), and shares of our Series H Convertible Preferred Stock, par value \$.01 per share (the "Series H"), were entitled to vote on an as converted basis with the Common Stock with respect to matters on which approval of our shareholders was required. However, with respect to the election of directors, holders of the Series G were entitled to elect a majority of our directors, but not the remaining directors, which the holders of the Common Stock and Series H were entitled to elect. Allan D. Keel, B. James Ford and Skardon F. Baker were re-elected by the holders of the Series G and continued their term of office after the meeting. On the record date, 81,000 shares of Series G, representing the voting power of 45,315,631 shares of Common Stock, and 6,500 shares of Series H, representing the voting power of 9,285,716 shares of Common Stock, were outstanding. Each of the following matters was approved by shareholders by the following votes:

Proposal 1 - To elect two directors to hold office until the next annual meeting of shareholders and until their successors are duly elected and qualified. Each of the two director nominees were elected by a plurality of votes cast by holders of the Common Stock and Series H Preferred Stock entitled to vote at the Annual Meeting.

| | For | Withheld |
|----------------|------------|----------|
| | --- | ----- |
| Lee B. Backsen | 30,049,734 | 1,000 |
| Lon McCain | 30,049,734 | 1,000 |

20

Proposal 2 - To approve the merger of GulfWest Energy Inc. into a wholly owned Delaware subsidiary, Crimson Exploration Inc., to effectuate the change of our state of incorporation from Texas to Delaware and to increase the number of authorized shares of common stock from 80 million to 200 million. Approval required the affirmative vote of (i) a majority of votes entitled to be cast in respect of the shares of Common Stock, and Series G and Series H (on an as converted basis) voting together as a single class and (ii) a majority of each of the Common Stock, Series G and Series H,

Edgar Filing: CRIMSON EXPLORATION INC. - Form 424B3

each voting by itself separately as a class, with the Series G and Series H voting preferred shares.

| Collectively ----- | For --- | Against ----- | Abstain ----- | Broker Non-Vote ----- |
|---|------------|------------------|------------------|--------------------------|
| Common Stock, Series G and Series H | 70,301,561 | 13,317 | 5,000 | 4,804,480 |
| Separately, as Class ----- | For --- | Against ----- | Abstain ----- | Broker Non-Vote ----- |
| Common Stock | 16,035,984 | 13,317 | 5,000 | 4,804,480 |
| Series G | 80,400 | 0 | 0 | N/A |
| Series H | 6,500 | 0 | 0 | N/A |

Proposal 3 - To approve the 2004 Stock Option and Compensation Plan. The affirmative vote of a majority of the votes cast on the matter by the holders of the Common Stock, Series G and Series H at the Annual Meeting was required for approval (although neither the Plan nor grants under the Plan were contingent on shareholder approval).

| Collectively ----- | For --- | Against ----- | Abstain ----- | Broker Non-Vote ----- |
|---|------------|------------------|------------------|--------------------------|
| Common Stock, Series G and Series H | 69,872,069 | 455,909 | 10,700 | 4,815,680 |

Proposal 4 - To approve the 2005 Stock Incentive Plan. The affirmative vote of a majority of the votes cast on the matter by the holders of the Common Stock, Series G and Series H at the Annual Meeting was required for approval.

| Collectively ----- | For --- | Against ----- | Abstain ----- | Broker Non-Vote ----- |
|---|------------|------------------|------------------|--------------------------|
| Common Stock, Series G and Series H | 69,869,285 | 460,693 | 5,100 | 4,819,280 |

Edgar Filing: CRIMSON EXPLORATION INC. - Form 424B3

ITEM 6. EXHIBITS.

| Number | Description |
|--------|---|
| ----- | ----- |
| 3.1 | Certificate of Incorporation of the Registrant. (Previously filed on our current report on Form 8-K filed July 5, 2005.) |
| 3.2 | Certificate of Designation, Preferences and Rights of Series D Preferred Stock. (Previously filed on our current report on Form 8-K filed July 5, 2005.) |
| 3.3 | Certificate of Designation, Preferences and Rights of Cumulative Convertible Preferred Stock, Series E. (Previously filed on our current report on Form 8-K filed July 5, 2005.) |
| 3.4 | Certificate of Designation, Preferences and Rights of Series G Convertible Preferred Stock. (Previously filed on our current report on Form 8-K filed July 5, 2005.) |
| 3.5 | Certificate of Designation, Preferences and Rights of Series H Convertible Preferred Stock. (Previously filed on our current report on Form 8-K filed July 5, 2005.) |
| 3.6 | Bylaws of the Registrant. (Previously filed on our current report on Form 8-K filed July 5, 2005.) |
| 3.7 | Agreement and Plan of Merger, dated June 28, 2005, between GulfWest Energy Inc. and Crimson Exploration Inc. (Previously filed on our current report on Form 8-K filed July 5, 2005.) |
| 10.1 | Form of Indemnification Agreement for directors and officers. (Previously filed with our Form 8-K, Reg. No. 001-12108, filed with the Commission on July 21, 2005.) |
| 10.2 | Employment Agreement between Tracy Price and GulfWest Energy Inc., dated April 1, 2005. (Previously filed with our Post Effective Amendment No. 1 to our Registration Statement on Form S-1, Reg. No. 333-116048, filed with the Commission on April 6, 2005.) |
| 10.3 | Employment Agreement between Tommy Atkins and GulfWest Energy Inc., dated April 1, 2005. (Previously filed with our Post Effective Amendment No. 1 to our Registration Statement on Form S-1, Reg. No. 333-116048, filed with the Commission on April 6, 2005.) |
| 10.4 | Employment Agreement between Jay S. Mengle and GulfWest Energy Inc., dated April 1, 2005. (Previously filed with our Post Effective Amendment No. 1 to our Registration Statement on Form S-1, Reg. No. 333-116048, filed with the Commission on April 6, 2005.) |
| 10.5 | Employment Agreement between Thomas R. Kaetzer and GulfWest Energy Inc., dated April 1, 2005. (Previously filed with our Post Effective Amendment No. 1 to our Registration Statement on Form S-1, Reg. No. 333-116048, filed with the Commission on April 6, 2005.) |
| 10.6 | Summary terms of June 2005 Director Compensation Plan. |
| 10.7 | Credit Agreement, dated July 15, 2005, among Crimson Exploration Inc., Wells Fargo, N.A., as agent and a lender, and each lender from time to time a party thereto. (Previously filed with our Form 8-K, Reg. No. 001-12108, filed with the Commission on July 21, 2005.) |
| 10.8 | Form of director restricted stock grant. (Previously filed |

Edgar Filing: CRIMSON EXPLORATION INC. - Form 424B3

- with our Form 8-K, Reg. No. 001-12108, filed with the Commission on July 21, 2005.)
- 10.9 Limited Waiver of Shareholders Rights Agreement, dated July 14, 2005, by OCM GW Holdings, LLC. (Previously filed with our Post Effective Amendment No. 2 to our Registration Statement on Form S-1, Reg. No. 333-116048, filed with the Commission on July 26, 2005.)
- 22.1 Subsidiaries of the Registrant (included on page 7 of this Quarterly Report).
- 31.1 Certification of Chief Executive Officer pursuant to Exchange Rule 13a-14 (a) as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2 Certification of Chief Financial Officer pursuant to Exchange Rule 13a-14 (a) as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32 Certification pursuant to 18 U.S.C. Section 1350 pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

23

SIGNATURES

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

CRIMSON EXPLORATION INC.
(Registrant)

Date: August 15, 2005

By: /s/ Allan D. Keel

Allan D. Keel
President and Chief Executive Officer

Date: August 15, 2005

By: /s/ E. Joseph Grady

E. Joseph Grady
Senior Vice President and Chief Financial Officer

24

Exhibit 10.6

GULFWEST ENERGY INC.

Directors Compensation

Annual Retainer and Meeting Fees. Effective June 1, 2005 each non-employee Director will receive an annual retainer of \$10,000 payable quarterly in arrears, and board meeting attendance fees in the amount of \$2,000 per meeting if attending in person or \$1,000 per meeting if participating by phone (maximum

Edgar Filing: CRIMSON EXPLORATION INC. - Form 424B3

annual amount of \$8,000). Committee members will also receive meeting fees for committee meetings to the extent that those meetings are held on days other than scheduled meetings of the entire Board. The Chairman of the Audit Committee will receive an additional annual retainer in the amount of \$5,000 and the Chairman of the Compensation Committee will receive an annual retainer in the amount of \$2,500. Both the Audit Committee and Compensation Committee retainers will be paid semi-annually. No Director who is an employee of the Company will be compensated for service as a member of the Board of Directors or any committee of the Board of Directors.

Share Awards. Effective June 1, 2005 each non-employee Director will receive an initial grant of \$15,000 of restricted stock (based on the fair market value of the stock on the date of grant) with a two year vesting schedule. Upon re-election, each non-employee Director will receive an annual grant of \$10,000 of restricted stock with a one year vesting schedule. Annual share awards received by non-employee Directors are in addition to the Annual Retainer and Meeting Fees discussed above.

Expenses. Each member of the Board of Directors will be reimbursed for all direct expenses incurred in the performance of his/her duties as a Director, including reasonable travel expenses incurred in attending meetings of the board or its committees.

GULFWEST ENERGY INC.

Summary of Director Compensation

- o Annual Retainer of \$10,000 payable quarterly
- o Audit Committee Chairman Retainer of \$5,000 payable semi-annually
- o Compensation Committee Chairman Retainer of \$2,500 payable semi-annually
- o Board Meeting Attendance Fees of \$2,000 per meeting if attended in person, \$1,000 if participating by phone (\$8,000 maximum per individual)
- o Initial grant of \$15,000 Restricted Stock with two year vested
- o Subject to re-election, annual grant of \$10,000 Restricted Stock with one year vested
- o Payment of reasonable travel expenses associated with Board Meeting attendance

Exhibit 31.1

Certification of Chief Executive Officer pursuant to Exchange Act Rule 13a-14(a) as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Allan D. Keel, certify that:

1. I have reviewed this quarterly report of Crimson Exploration Inc.;

Edgar Filing: CRIMSON EXPLORATION INC. - Form 424B3

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 15, 2005

/s/ Allan D. Keel

Allan D. Keel

Edgar Filing: CRIMSON EXPLORATION INC. - Form 424B3

President and Chief Executive Officer

Exhibit 31.2

Certification of Chief Financial Officer pursuant to Exchange Act Rule 13a-14(a)
as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, E. Joseph Grady, certify that:

1. I have reviewed this quarterly report of Crimson Exploration Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

Edgar Filing: CRIMSON EXPLORATION INC. - Form 424B3

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 15, 2005

/s/ E. Joseph Grady

E. Joseph Grady
Senior Vice President of and Chief Financial Officer

Exhibit 32

Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

August 15, 2005

Securities and Exchange Commission
450 Fifth Street, N.W.
Washington, D.C. 20549

Re: Certification Required Under Section 906 of Sarbanes-Oxley Act of 2002

In connection with the accompanying report on Form 10-Q for the period ended June 30, 2005, and filed with the Securities and Exchange Commission on the date hereof (the "Report"), we, Allan D. Keel, President and CEO of Crimson Exploration Inc. (the "Company"), and E. Joseph Grady, Senior Vice President and Chief Financial Officer of the Company hereby certify that:

1. The report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Crimson Exploration Inc.

/s/ Allan D. Keel

By: Allan D. Keel
President and Chief Executive Officer

/s/ E. Joseph Grady

By: E. Joseph Grady
Senior Vice President and Chief Financial Officer