
**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 10-Q

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

For the Quarterly Period Ended March 31, 2004

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 No. 000-33275

WARREN RESOURCES, INC.

(Exact Name of Registrant as Specified in its Charter.)

Delaware

(State or other jurisdiction of
incorporation or organization)

11-3024080

(I.R.S. Employer
Identification Number)

**489 Fifth Avenue, New York,
New York**

(Address of Principal Executive Offices)

10017

(Zip Code)

Registrant's telephone number, including area code:

(212) 697-9660

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 and 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months and (2) has been subject to such filing requirements for the past 90 days.

Yes No

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

Yes No

The aggregate number of Registrant's outstanding shares on May 12, 2004 was 19,374,070 shares of Common Stock, \$0.0001 par value.

WARREN RESOURCES, INC.

INDEX

PART I—	FINANCIAL INFORMATION	3
	Item 1. Financial Statements	3
	Balance sheets as of March 31, 2004 (Unaudited) and December 31, 2003	3
	Statements of operations (Unaudited) for the three months ended March 31, 2004 and 2003	4
	Statements of cash flows (Unaudited) for the three months ended March 31, 2004 and 2003	5
	Notes to financial statements (Unaudited)	6
	Item 2. Management’s discussion and analysis of financial conditions and results of operations	13
	Item 3. Quantitative and Qualitative Disclosures About Market Risk	16
	Item 4. Evaluation of Disclosure Controls and Procedures	16
PART II—	OTHER INFORMATION	17
	Item 1. Legal Proceedings	17
	Item 2. Changes in Securities	18
	Item 3. Defaults upon Senior Securities	18
	Item 4. Submission of Matters to a Vote of Security Holders	18
	Item 5. Other Information	18
	Item 6. Exhibits and Report on Form 8-K	18
	Signatures	19

PART I—FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

**Warren Resources, Inc. and Subsidiaries
CONSOLIDATED BALANCE SHEETS**

	March 31, 2004	December 31, 2003
	<u>(Unaudited)</u>	
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents.....	\$ 29,216,042	\$ 24,528,999
Accounts receivable – trade	3,207,346	2,386,180
Accounts receivable from affiliated partnerships	249,776	389,271
Trading securities.....	279,276	201,152
Restricted investments in U.S. Treasury Bonds—available-for-sale, at fair value (amortized cost of \$1,305,042 in 2004 and \$1,293,411 in 2003).....	1,460,863	1,402,358
Other current assets	<u>2,228,987</u>	<u>2,031,701</u>
Total current assets.....	<u>36,642,290</u>	<u>30,939,661</u>
OTHER ASSETS		
Oil and gas properties—at cost, based on successful efforts method of accounting, net of accumulated depletion and amortization	97,329,232	94,949,545
Property and equipment—at cost, net.....	513,371	591,663
Restricted investments in U.S. Treasury Bonds-available for sale, at fair value (amortized cost of \$12,729,496 in 2004 and \$12,627,574 in 2003).....	14,401,030	13,808,777
Deferred bond offering costs (net of accumulated amortization of \$3,797,789 in 2004 and \$3,684,097 in 2003).....	2,643,279	2,756,971
Goodwill	3,430,246	3,430,246
Other assets	<u>4,405,138</u>	<u>4,576,800</u>
Total other assets.....	<u>122,722,296</u>	<u>120,114,002</u>
	<u>\$ 159,364,586</u>	<u>\$ 151,053,663</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES		
Current maturities of debentures	\$ 4,725,970	\$ 4,809,470
Current maturities of other long-term liabilities	296,629	208,383
Accounts payable and accrued expenses	7,941,646	8,956,529
Deferred income—turnkey drilling contracts with affiliated partnerships.....	<u>21,529,338</u>	<u>22,438,272</u>
Total current liabilities	<u>34,493,583</u>	<u>36,412,654</u>
LONG-TERM LIABILITIES		
Debentures, less current portion.....	42,533,730	43,285,230
Other long-term liabilities, less current portion.....	<u>1,450,944</u>	<u>1,613,081</u>
	<u>43,984,674</u>	<u>44,898,311</u>
MINORITY INTEREST	12,322,366	13,348,654
STOCKHOLDERS' EQUITY		
8% convertible preferred stock, par value \$.00001; authorized 20,000,000 shares, issued and outstanding, 6,533,145 shares in 2004 and 6,507,729 shares in 2003 (aggregate liquidation preference \$78,397,740 in 2004 and \$78,092,748 in 2003)	76,710,530	76,334,024
Common Stock — \$.0001 par value; authorized, 100,000,000 shares; issued 19,374,070 in 2004 and 17,349,070 shares in 2003).....	1,937	1,735
Additional paid-in-capital	60,268,032	47,739,159
Accumulated deficit	(68,788,044)	(67,729,178)
Accumulated other comprehensive income, net of applicable income taxes of \$731,000 in 2004 and \$517,000 in 2003	<u>1,099,563</u>	<u>776,359</u>
	69,292,018	57,122,099
Less common stock in Treasury—at cost; 632,250 shares in 2004 and 2003	<u>728,055</u>	<u>728,055</u>
Total shareholders' equity	<u>68,563,963</u>	<u>56,394,044</u>
	<u>\$ 159,364,586</u>	<u>\$ 151,053,663</u>

The accompanying notes are an integral part of these financial statements

Warren Resources, Inc. and Subsidiaries
CONSOLIDATED STATEMENTS OF OPERATIONS

	Three Months Ended March 31, (Unaudited)	
	2004	2003
REVENUES		
Turnkey contracts with affiliated partnerships	\$ 908,934	\$ 863,197
Oil and gas sales from marketing activities	1,383,575	1,409,891
Well services	230,605	242,727
Oil and gas sales	1,226,475	1,535,011
Net gain on investments	49,813	73,544
Interest and other income	532,900	313,311
	4,332,302	4,437,681
EXPENSES		
Turnkey contracts	1,433,440	910,849
Cost of marketed oil and gas purchased from affiliated partnerships	1,348,219	1,376,662
Well services	111,878	168,197
Production & exploration	998,417	960,738
Depreciation, depletion and amortization	402,145	159,975
General and administrative	1,172,288	1,030,258
Interest	108,853	946,913
	5,575,240	5,553,592
Loss before provision for income taxes	(1,242,938)	(1,115,911)
Deferred income tax benefit	(214,000)	(3,000)
Net loss before minority interest and change in accounting principle	(1,028,938)	(1,112,911)
Minority interest	(29,928)	(33,193)
Net loss before change in accounting principle	(1,058,866)	(1,146,104)
Cumulative effect of change in accounting principle	—	(88,218)
Net loss	(1,058,866)	(1,234,322)
Less dividends and accretion on preferred shares	1,645,925	800,162
Net loss applicable to common stockholders	\$ (2,704,791)	\$ (2,034,484)
Basic and diluted loss per common share		
Loss before accounting change	\$ (0.15)	\$ (0.12)
Cumulative effect of change in accounting principle	—	—
Net loss	\$ (0.15)	\$ (0.12)
Weighted average common shares outstanding	17,973,963	16,874,305

The accompanying notes are an integral part of these financial statements

Warren Resources, Inc. and Subsidiaries
CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the three months ended	
	March 31, (Unaudited)	
	2004	2003
Cash flows from operating activities:		
Net loss	\$ (1,058,866)	\$ (1,234,322)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Accretion of discount on available-for-sale debt securities	(166,065)	(125,486)
Amortization and write-off of deferred bond offering costs	113,692	180,569
Gain on sale of US treasury bonds-available for sale	—	(102,810)
Depreciation, depletion and amortization	402,145	159,975
Accretion of asset retirement obligation	16,416	—
Deferred tax benefit	(214,000)	(3,000)
Change in assets and liabilities:		
(Increase) decrease in trading securities	(78,124)	38,690
(Increase) decrease in accounts receivable-trade	(821,165)	3,442,064
Decrease in accounts receivable from affiliated partnerships	139,494	536,592
(Increase) decrease in other assets	(25,625)	97,565
Decrease in accounts payable and accrued expenses	(1,079,998)	(1,228,904)
Decrease in deferred income from affiliated partnerships	(908,934)	(863,197)
Decrease in other long term liabilities	(73,291)	(316,914)
Net cash provided by (used in) operating activities	(3,754,321)	580,822
Cash flows from investing activities:		
Purchases of oil and gas properties	(3,560,471)	(1,125,477)
Purchase of property and equipment	(3,827)	—
Proceeds from the sale of property and equipment, net of selling fees	3,500	28,087
Proceeds from U.S. Treasury Bonds-available-for-sale	52,512	573,621
Net cash used in investing activities	(3,508,286)	(523,769)
Cash flows from financing activities:		
Payments on other long-term debt	(852,016)	(937,511)
Issuance of common stock, net	14,175,000	—
Issuance of preferred stock, net	126,730	853,418
Dividends paid on preferred stock	(1,500,064)	—
Net cash provided by (used in) financing activities	11,949,650	(84,093)
Net increase (decrease) in cash and cash equivalents	4,687,043	(27,040)
Cash and cash equivalents at beginning of period	24,528,999	23,184,936
Cash and cash equivalents at end of period	<u>\$ 29,216,042</u>	<u>\$ 23,157,896</u>
Supplemental disclosure of cash flow information		
Cash paid for interest, net of amount capitalized	\$ —	\$ 766,344
Cash paid for income taxes	—	—

The accompanying notes are an integral part of these financial statements

WARREN RESOURCES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

MARCH 31, 2004

NOTE 1—ORGANIZATION

Warren Resources, Inc. (the “Company” or “Warren”), was formed on June 12, 1990 under the laws of the state of New York for the purpose of acquiring and developing oil and gas properties. On September 5th, 2002, the Company changed its state of incorporation to Delaware. As a result, all shares of the Company’s stock were converted into shares of the Delaware corporation. The Company’s properties are primarily located in New Mexico, Texas, Wyoming and California. In addition, the Company serves as the managing general partner (the “MGP”) to affiliated partnerships and joint ventures.

The accompanying unaudited financial statements and related notes present the Company’s consolidated financial position as of March 31, 2004 and December 31, 2003, the results of operations for the three months ended March 31, 2004 and 2003 and cash flows for the three months ended March 31, 2004 and 2003. The unaudited financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with the instructions of Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three months ended March 31, 2004 are not necessarily indicative of the results that may be expected for the fiscal year ending December 31, 2004. The accounting policies followed by the Company are set forth in Note A to the Company’s financial statements on Form 10-K for the year ended December 31, 2003. These interim financial statements and notes thereto should be read in conjunction with our annual consolidated financial statements presented in our 2003 Annual Report on Form 10-K.

NOTE 2—MANAGEMENT’S PLANS

The Company had a net loss of \$1.1 million for the quarter ended March 31, 2004, as compared to a loss of \$1.2 million for the corresponding quarter ending March 31, 2003. At March 31, 2004, current assets exceeded current liabilities by approximately \$2.1 million.

In order to improve operations and liquidity and meet its cash flow needs, the company has or intends to do the following:

- Raise additional capital through the sale of preferred and common stock.
- Obtain a credit facility based in part on the value of our proven reserves.
- Generate turnkey profit and operating cash flow from turnkey drilling contracts equal to approximately 25% of the total amount of total turnkey revenue.
- Increase oil and gas production and revenues by drilling our Wyoming and California properties.
- Increase oil and gas revenues by exchanging preferred stock for interests in producing properties.
- Use \$2.0 million of deferred drilling credits from Anadarko Petroleum Corporation to develop our acreage in the Washakie Basin, Wyoming.

As a result of these plans, management believes that it will generate sufficient cash flows to meet its current obligations in 2004.

NOTE 3—STOCK OPTIONS

At March 31, 2004, the Company had stock-based compensation plans. The Company accounts for those plans under the recognition and measurement principles of Accounting Principles Board (APB) Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations. The following table illustrates the effect on net loss and loss per share if the Company had applied the fair-value recognition provisions of Financial Accounting Standards Board (FASB) Statement No. 123, "Accounting for Stock-Based Compensation," to stock-based employee compensation:

	<u>Three months ended March 31,</u>	
	<u>2004</u>	<u>2003</u>
Net loss, as reported	\$ (1,058,866)	\$ (1,234,322)
Deduct: Total stock-based employee compensation expense determined under fair-value-based method for all awards, net of related tax effects	<u>(17,498)</u>	<u>—</u>
Pro forma net loss	<u>\$ (1,076,364)</u>	<u>\$ (1,234,322)</u>
Basic and diluted loss per share:		
As reported -	\$ (.15)	\$ (0.12)
Pro forma -	\$ (.15)	\$ (0.12)

NOTE 4—PLUGGING AND ABANDONMENT LIABILITY

In June 2001, the Financial Accounting Standard Board issued SFAS No. 143, "Accounting for Asset Retirement Obligations" which requires entities to record the fair value of a liability for an asset retirement obligation in the period in which it is incurred and a corresponding increase in the carrying amount of the related long-lived asset. The Company adopted SFAS No. 143 on January 1, 2003 and recorded a net asset of \$557,000, a related liability of \$645,000 (using a 10% discount rate) and a cumulative effect of change in accounting principle of \$88,000. During the three months ending March 31, 2004 and 2003 the asset retirement liability was increased by approximately \$16,000 and \$21,000 respectively, as a result of accretion and recorded as interest expense. During the three months ended March 31, 2004 there has been no significant changes in cash flow assumptions for the liability or liabilities incurred or settled during the period. The Company has treasury bills held in escrow with a fair market value of \$2,789,000 which are legally restricted for potential plugging and abandonment liability in the Wilmington field.

NOTE 5—CHANGES IN SHAREHOLDERS' EQUITY

During the three months ended March 31, 2004, the Company raised \$14 million through the private placement of 2,000,000 shares of common stock and issued 1,000,000 warrants to four institutional investors managed by a large Boston-based investment advisor. The Company also sold 25,000 shares of its common stock for \$175,000 and issued 12,500 warrants to a single investor. All warrants have expected lives of five years and have a cumulative weighted average exercise price of \$11.07.

As of March 31, 2004, 6,533,145 shares of convertible preferred stock were issued and outstanding. Preferred dividends of approximately \$1.6 million and \$1.5 million were accrued at March 31, 2004 and December 31, 2003, respectively. The Company has incurred cumulative issuance costs of approximately \$2.1 million in relation to these shares. For the three months ended March 31, 2004, the Company issued 25,416 preferred shares, 14,086 relating to the recapitalization of drilling programs and 11,330 for cash consideration of approximately \$135,960. The preferred stock pays an 8% cumulative dividend, which is payable quarterly, and is treated as a deduction in additional paid in capital. The holders of the preferred stock are not entitled to vote except as defined by the agreement or as provided

by applicable law. The preferred stock may be voluntarily converted at the election of the holder, commencing one year after the date of issuance. Each outstanding redeemable convertible preferred share is convertible into common stock of the Company based on the table below. The conversion rate is subject to adjustment from time to time as defined by the agreement.

Period	Common to Preferred
Until June 30, 2005	1 to 1
July 1, 2005 through June 30, 2006	.75 to 1
July 1, 2006 through redemption	.50 to 1

Additionally, commencing seven years after the date of issuance, holders of the preferred stock may elect to require the Company to redeem their preferred stock at a redemption price equal to the liquidation value of \$12.00 per share, plus accrued but unpaid dividends, if any (“Redemption Price”). Upon the receipt of a redemption election, the Company, at its option, shall either: (1) pay the holder cash in the amount equal to the Redemption Price or (2) issue to holder shares of common stock up to a maximum of 1.5 shares of common stock for each one share of preferred stock redeemed. The Company is accreting the carrying value of its preferred stock to its redemption price using the effective interest method with changes recorded to additional paid in capital. The accretion of preferred stock results in a reduction of earnings per share applicable to common stockholders.

NOTE 6—LOSS PER SHARE

Basic loss per share is computed by dividing net loss by the weighted average number of shares of common stock outstanding during the period. Diluted loss per share is based on the assumption that stock options are converted into common shares using the treasury stock method and convertible bonds, debentures and preferred stock are converted using the if-converted method. Conversion is not assumed if the results are anti-dilutive. Potential common shares at March 31, 2004 and March 31, 2003 of 11,881,840 and 9,336,916 respectively, relating to convertible bonds, debentures and preferred stock, 2,241,012 and 1,514,459, respectively, relating to incentive stock options and 1,184,643 potential shares relating to warrants at March 31, 2004, were excluded from the computation of diluted loss per share because they are anti-dilutive. Incentive stock options have a weighted average exercise price of \$5.10 and \$5.59 at March 31, 2004 and March 31, 2003, respectively. Warrants have a weighted average exercise price of \$11.07 at March 31, 2004. The convertible bonds and debentures may be converted from the date of issuance until maturity at 100% of principal amount into common stock of the Company at prices ranging from \$5 to \$50. The preferred stock may be converted at the discretion of the holder (See Note 5).

NOTE 7—LONG TERM DEBT

The convertible bonds and debentures may be converted from the date of issuance until maturity at 100% of principal amount into common stock of the Company at prices ranging from \$5 to \$50. Each year the holders of the convertible debentures may tender to the Company up to 10% of the aggregate debentures issued and outstanding. Bonds and debentures outstanding are as follows:

	March 31, 2004	December 31, 2003
12% Sinking Fund Debentures, due December 31, 2007	\$ 9,251,000	\$ 9,616,000
12% Secured Convertible Debentures, due December 31, 2009	770,000	790,000
12% Secured Convertible Bonds, due December 31, 2010	1,700,000	1,705,000
13.02% Sinking Fund Convertible Debentures, due December 31, 2010	14,645,200	14,655,200
13.02% Sinking Fund Convertible Debentures, due December 31, 2015	11,692,500	11,792,500
12% Secured Convertible Bonds, due December 31, 2016	1,365,000	1,365,000
12% Sinking Fund Convertible Debentures, due December 31, 2017	5,215,000	5,500,000
12% Secured Convertible Bonds, due December 31, 2020	1,485,000	1,485,000
12% Secured Convertible Bonds, due December 31, 2022	1,136,000	1,186,000
	47,259,700	48,094,700
Less: Current Portion	4,725,970	4,809,470
Long Term Portion	\$ 42,533,730	\$ 43,285,230

NOTE 8—CAPITALIZED INTEREST

Interest of approximately \$1,501,000 and \$929,000 was capitalized during the three months ended March 31, 2004 and 2003, respectively, relating to California and Wyoming properties. This increase results from a higher cost basis in our oil and gas properties due to the consent solicitation (See Note 12).

NOTE 9—LITIGATION

On September 28, 1999, Magness Petroleum Company, our joint venture partner in the Wilmington Field, filed a complaint against Warren, Warren E&P, Inc. (“Warren E&P”), and certain Warren subsidiaries in the Superior Court of Los Angeles County, alleging that we had breached our joint venture agreement with Magness and an alleged oral agreement regarding advance payment of expenses for drilling and completion operations. Magness sought dissolution of the joint venture, an accounting and a declaratory judgment as to the rights of the parties under the joint venture agreement. We were successful in enforcing the arbitration provision in the joint venture agreement and entered into an agreement with Magness to submit the matter for arbitration by the Judicial Arbitration Mediation Services, or “JAMS,” before the Honorable Keith J. Wisot, a retired Los Angeles Superior Court Judge. Judge Wisot, as the arbitrator, ruled that the joint venture agreement is a valid enforceable agreement, declined to dissolve the joint venture, denied Magness’ claims for breach of contract, and held that he and JAMS would retain jurisdiction to enforce the Final Award. On August 8, 2001, Magness filed a demand with the American Arbitration Association, or “AAA,” reasserting its claims for dissolution of the joint venture and breach of contract. Subsequently Warren sought to enforce the original Final Award rendered by Judge Wisot in the JAMS arbitration. After a procedural determination of proper arbitration forum that was eventually determined by the California Court of Appeals in December 2002 and a Motion for Clarification filed in January 2003 before the California Superior Court, in September 2003 the California Superior Court ordered that JAMS will hear Warren’s motion to enforce the Final Award covering unauthorized direct labor charges and tangible costs and AAA will hear Magness’s new theory of dissolution of the joint venture based on their claim that voting rights within the joint venture should be based on ownership of working interests in the Wilmington Town Unit (“WTU”), which includes property never contributed to the joint venture, instead of ownership of joint venture working interests, a determination whether Magness can independently drill new wells in the WTU without Warren’s consent if the joint venture is not dissolved and Warren’s claims for damages for Magness preventing resumption of drilling activities by Warren as ordered by Judge Wisot in JAMS. The AAA arbitration is being held from May 3, 2004 to May 14, 2004 and the JAMS arbitration hearing on the Motion to Enforce Final Award is being held from May 19, 2004 to May 21, 2004. Accordingly, pending final resolution, further development of the Wilmington Field will be curtailed. See our 2003 Form 10-K “Risk Factors - If we are unable to settle our disagreements with our joint venture partner in the Wilmington Field, the value of our interest there or realization of that value could be significantly diminished or delayed.”

In 1998, Warren E&P was sued in the 81st Judicial District Court of Frio County, Texas by Stricker Drilling Company, Inc. and Manning Safety Systems to recover the value of lost equipment based on a well blow out. Warren was later joined in the suit as a defendant. As a result of the lawsuit, Gotham Insurance Company, Warren E&P’s well blow-out insurer, intervened. The suit was settled in 1999 with all parties except Gotham. Gotham paid over \$1.7 million under the insurance policy and now seeks a refund of approximately \$1.5 million of monies paid, denying coverage, and alleging fraud and misrepresentation and a failure of Warren E&P to act with due diligence and pursuant to safety regulations. Warren E&P countersued for the remaining proceeds under the policy coverage. In the summer and fall of 2000, summary judgments were entered for Warren E&P on essentially all claims except its bad faith claims against Gotham. Gotham’s claims against Warren E&P and Warren were rejected. Final judgment was rendered on May 14, 2001 in Warren E&P’s favor for the remaining policy proceeds, interest and attorney fees. Gotham appealed the final judgment to the San Antonio Court of Appeals seeking a refund of approximately \$1.5 million. The case on appeal was orally argued on March 28, 2002. On July 23, 2003, a three judge panel of the San Antonio Court of Appeals rendered its decision in favor of Gotham on all points, except for the amount of restitution owed by Warren E&P and related parties, reversing the earlier summary judgment entered by the trial court for Warren E&P. Although the three judge panel of the San Antonio Court of Appeals acknowledged that Gotham asked for the Court to render its judgment in Gotham’s favor on its restitution claims,

Gotham gave no particulars, and therefore the Court of Appeals remanded Gotham's restitution claims to the trial court for further proceedings consistent with its opinion. Although the ultimate resolution is uncertain, counsel has advised Warren E&P that it believes the three judge panel of the San Antonio Court of Appeals committed numerous errors of fact and law, primarily relying on their erroneous conclusion that Warren E&P as operator of the oil well incurred no loss. Accordingly, Warren E&P has appealed the San Antonio Court of Appeals panel decision to the Texas Supreme Court, and has been requested by the Texas Supreme Court to submit full briefs, which was done on April 15, 2004. The decision to accept a full review of the San Antonio Court of Appeal's decision with oral argument being heard by the Texas Supreme Court is at the Court's discretion.

We are also a party to legal actions arising in the ordinary course of our business. In the opinion of our management, based in part on consultation with legal counsel, the liability, if any, under these claims is either adequately covered by insurance or would not have a material adverse effect on us.

NOTE 10—BUSINESS SEGMENT INFORMATION

The Company's operating activities can be divided into four major segments: turnkey contracts, oil and gas marketing, oil and gas exploration and production operations and well services. The Company drills oil and natural gas wells for Company-sponsored drilling programs and retains an interest in each well. Also, the Company markets natural gas for affiliated drilling programs. The Company charges Company-sponsored drilling programs and other third parties competitive industry rates for well operations and gas gathering. Segment information is as follows:

	Three Months Ended	
	March 31, 2004	March 31, 2003
Revenue		
Turnkey Contracts	\$ 908,934	\$ 863,197
Oil and Gas Marketing	1,383,575	1,409,891
Oil and Gas Operations	1,226,475	1,535,011
Well Services	230,605	242,727
Other	582,713	386,855
	<u>\$ 4,332,302</u>	<u>\$ 4,437,681</u>
	March 31, 2004	March 31, 2003
Operating Income (Loss)		
Turnkey Contracts	\$ (550,052)	\$ (73,218)
Oil and Gas Marketing	35,356	33,229
Oil and Gas Operations	(94,972)	453,199
Well Services	118,727	74,530
Other	(751,997)	(1,603,651)
	<u>\$ (1,242,938)</u>	<u>\$ (1,115,911)</u>

NOTE 11—COMPREHENSIVE LOSS

Other comprehensive loss consists primarily of net unrealized investment gains and losses, net of income tax effect. Total comprehensive losses for the periods are as follow:

	<u>2004</u>	<u>2003</u>
Three Months ending March 31,	\$ (735,662)	\$ (1,230,437)

NOTE 12—CONSENT SOLICITATION

During the fourth quarter of 2002, the Company, acting as the MGP, commenced a vote solicitation of the limited partners of the certain partnerships (the "Partnership Recapitalization Offers") to: (1) obtain the requisite two-thirds affirmative vote of their respective partners to convert the drilling program from a Delaware limited partnership into a Delaware limited liability company (the "LLC") wherein all LLC members would have limited liability, including the Company, and (ii) upon conversion to an LLC, the Company would contribute as additional capital to the LLC its unregistered 8% convertible preferred stock with a value equal to between 110% to 120% of the potential repurchase price of consenting members' interests ("Preferred Members") calculated as of December 31, 2002. The Company would receive additional standard membership interests in the LLC and be specially allocated, pro rata as a standard member, the Preferred Members' interests in the oil and gas properties owned by their respective programs (the "Recapitalization"). Acceptance by Preferred Members of the Recapitalization terminated their repurchase rights under the original buy/sell agreements. At December 31, 2002, six of the thirteen programs obtained the requisite votes to convert to LLCs and because of the majority control by the Company were consolidated in the financial statements for the year ended December 31, 2002. As a result, the Company issued 1,342,960 preferred shares to these six LLC's in 2002 with an estimated fair value of \$16,115,520. At March 31, 2003, the remaining seven programs obtained the requisite votes to convert to LLCs and on average 72.9% of the program members elected to become Preferred Members in their LLC. During the first quarter ended March 31, 2003, the Company issued 1,641,628 preferred shares to the remaining seven LLCs as a capital contribution, with an estimated fair value of \$19,699,536 and received its prorata share of additional standard membership interests in the LLCs. The fair value of the preferred shares was based on actual cash sales to independent parties in this time period. Due to the majority control of these thirteen affiliated partnerships, the Company has consolidated these entities for financial reporting purposes at March 31, 2003. The Company accounted for the remaining seven LLCs as a purchase transaction with the estimated fair value of the assets and liabilities assumed in the acquisition as follows:

Estimated fair value of assets acquired	
Current assets	\$ 3,512
Oil and gas properties	<u>28,342,950</u>
Total fair value of assets	28,346,462
Liabilities assumed	
Accounts payable	144,122
Minority Interest	<u>8,502,804</u>
Total liabilities assumed	<u>8,646,926</u>
Cost of acquisition	<u>\$ 19,699,536</u>

Subsequent to the recapitalization offers that closed on March 31, 2003, and December 31, 2002, certain minority interest limited partners elected to convert to preferred members during the three months ended March 31, 2004,

which resulted in the Company issuing 14,086 preferred shares to these individuals with an estimated fair value of \$169,032.

The following summarizes pro forma unaudited results of operations for the periods ended March 31, 2004 and 2003 as if these acquisitions had been consummated immediately prior to January 1, 2003. These pro forma results are not necessarily indicative of future results.

	Pro Forma (unaudited)	
	Three months ended March 31,	
	2004	2003
Revenues	\$ 4,332,302	\$ 6,765,628
Net loss	\$ (1,058,866)	\$ (735,851)
Loss per share – basic and diluted	\$ (0.15)	\$ (0.09)

NOTE 13—GOODWILL

The Company adopted SFAS No. 142, *Goodwill and Other Intangible Assets*, effective January 1, 2002 and as such, has not subsequently recorded any amortization of goodwill. Under the new rule the Company only adjusts the carrying amount of goodwill or indefinite life intangible assets upon an impairment. During the three months ended March 31, 2004 and March 31, 2003, no events occurred which would indicate that an impairment of goodwill existed.

During the second quarter of 2003, the Company retained an independent outside valuation expert to assist in developing the fair value analysis necessary to conduct the testing for impairment of its goodwill, all of which arose in its acquisition of Warren E&P. The results of this analysis indicated that no impairment of goodwill had occurred in 2003. The 2004 annual impairment testing will be performed during the second quarter of 2004.

Item 2. Management's discussion and analysis of financial conditions and results of operations

FORWARD-LOOKING INFORMATION

Forward-looking statements for 2004 and later periods are made in this document. Such statements represent estimates by management based on the Company's historical operating trends, its proved oil and gas reserves and other information currently available to management. The Company cautions that the forward-looking statements provided herein are subject to all the risks and uncertainties incident to the acquisition, development and marketing of, and exploration for oil and gas reserves. These risks include, but are not limited to, oil and natural gas price risk, environmental risks, drilling risk, reserve quantity risk and operations and production risk. For all the above reasons, actual results may vary materially from the forward-looking statements and there is no assurance that the assumptions used are necessarily the most likely to occur.

OVERVIEW:

During 2003, we began to transition ourselves from being a provider of turnkey contract services into more of a traditional exploration and production company. As a result, we expect oil and gas sales and production and exploration expense to become more material in future years. Additionally, we anticipate that turnkey contract revenues and expenses will become less material in future years.

Our future success depends upon the development of our core acreage. During 2004 and subsequent, we plan to continue to develop our core acreage, which includes our coalbed methane acreage in the Atlantic and Pacific Rims in the Washakie Basin in Wyoming. Also, after the legal issues have been resolved, we intend to continue to develop our secondary recovery project in California. See, "Legal Proceedings."

LIQUIDITY AND CAPITAL RESOURCES:

We have funded our activities primarily with the proceeds raised through privately placed drilling programs and our private sale of our equity and debt securities. These private placements primarily were made through a network of independent broker dealers. Since 1992, we have raised approximately \$228 million through the private placements of interests in 31 drilling programs. Additionally, we have raised \$71.6 million through the issuance of our debt securities and \$64.4 million through the issuance of our equity securities. In our drilling programs, we fund the costs associated with acreage acquisition and the tangible portion of drilling activities, while investors in the drilling programs fund all intangible drilling costs.

Our cash and cash equivalents increased \$4.7 million for the three months ended March 31, 2004. This resulted from \$11.9 million in cash from financing activities offset by \$3.7 million of cash used in operating activities and \$3.5 million of cash used in investing activities.

Cash provided from financing activities primarily relates to the sale of 2,000,000 shares of the Company's common stock to four accredited investors for \$7 per share. This was partially offset by payments on long term debt and dividends paid on preferred stock of \$852 thousand and \$1.5 million, respectively.

Cash used in operating activities primarily relates to drilling wells on behalf of the drilling programs.

Cash used in investing activities primarily relates to expenditures on oil and gas properties during the first three months of 2004. This was partially offset by the receipt of U.S. Treasury Bonds previously held in escrow on behalf of our drilling program and debentures.

Our most material commitment of funds relates to the drilling programs. Our deferred revenue balance relating to our drilling commitments totaled \$21.5 million at March 31, 2004. This commitment varies pro rata with the amount of funds raised through our drilling programs.

The Company had a net loss of \$1.1 million for the three months ended March 31, 2004, as compared to a net loss of \$1.2 million for the corresponding period ending March 31, 2003. At March 31, 2004, current assets exceeded current liabilities by approximately \$2.1 million. During the first three months of 2004, shareholders' equity increased \$12.2 million from \$56.4 million to \$68.6 million, primarily due to the sale of common stock as discussed above.

During 2003, we raised \$6.4 million for our drilling programs compared to \$5.4 million and \$18.1 million in 2002 and 2001, respectively. As a result, the Company's turnkey revenue and total gross profit in 2004 will be similar to 2003 but less than 2002 and the number of the Company's oil and gas properties developed through partnership arrangements will be reduced in comparison to prior years.

In order to improve operations and liquidity and meet its cash flow needs, we have or intend to do the following:

- Raise additional capital through the sale of preferred and common stock.
- Obtain a credit facility based in part on the value of our proven reserves.
- Generate turnkey profit and operating cash flow from turnkey drilling contracts equal to approximately 25% of the total amount of total turnkey revenue.
- Increase oil and gas production and revenues by drilling our Wyoming and California properties.
- Increase oil and gas revenues by exchanging preferred stock for interests in producing properties.
- Use \$2.0 million of deferred drilling credits from Anadarko Petroleum Corporation to develop our acreage in the Washakie Basin, Wyoming.

As a result of these plans, management believes that it will generate sufficient cash flows to meet its current obligations in 2004.

RESULTS OF OPERATIONS:

Three months Ended March 31, 2004 Compared to Three Months Ended March 31, 2003

Turnkey contract revenue and expenses. Turnkey contract revenue increased \$46 thousand in the first quarter to \$0.9 million, a 5% increase compared to the corresponding quarter of the preceding year. Additionally, turnkey contract expense increased \$0.5 million during the first quarter to \$1.4 million, a 57% increase compared to the same period in 2003. The drilling activity in the first quarter was flat when compared to the corresponding quarter of 2003.

Net loss from turnkey activities was \$0.5 million for the first quarter. This compares to a net loss of \$48 thousand for the corresponding quarter in 2003. This increase in net loss during the first quarter of 2004 results from drilling shallow re-entry wells with higher profit margins in 2003 as compared to deeper Washakie wells in 2004 with lower profit margins.

Oil and gas sales and costs from marketing activities. Oil and gas sales from marketing activities decreased \$26 thousand in the first quarter to \$1.4 million, a 2% decrease compared to the same period last year. Cost of oil and gas marketing activities decreased \$28 thousand in the quarter to \$1.3 million, a 2% decrease compared to the same quarter in 2003. Oil and gas production from the wells in the drilling programs in which we earn a marketing fee for the three months ended March 31, 2004 and 2003 was 0.3 Bcfe and 0.3 Bcfe, respectively. The average price per Mcfe during the first quarter of 2004 and 2003 was \$4.16 and \$5.12, respectively.

The gross profit from marketing activities for the first quarter of 2004 was \$35 thousand as compared to \$33 thousand in the same period last year.

Well services activities. Well services revenue decreased \$12 thousand in the first quarter to \$0.2 million, a 5% decrease compared to the corresponding quarter of the preceding year. Well services expense decreased \$56

thousand in the first quarter to \$0.1 million. These nominal fluctuations in the first quarter of 2004 are consistent with the flat drilling activity compared to the same period in 2003.

Gross profit from well services activities was \$119 thousand for the first quarter of 2004. This compared to gross profit of \$75 thousand for the corresponding quarter of last year.

Oil and gas sales. Revenue from oil and gas sales decreased \$0.3 million in the first quarter to \$1.2 million, a 20% decrease compared to the same quarter in 2003, due to a decrease in gas prices during the first quarter in 2004 as compared to 2003.

Production & exploration. Production and exploration expense increased \$38 thousand in the first quarter of 2004 to \$1.0 million, a 4% increase compared to the same quarter in 2003.

Net gain on investments. Net gain on investments was \$50 thousand for the first quarter of 2004. Net gain on investments was \$74 thousand during the first quarter of 2003. Primarily, investments represent zero coupon U.S. treasury bonds held in our inventory. Fluctuations in net gain or loss on investments resulted from changes in long-term interest rates.

Interest and other income. Interest and other income increased \$0.2 million in the first quarter to \$0.5 million, a 70% increase compared to the same quarter in 2003. This increase reflects the recognition of additional drilling credits relating to the joint venture with Anadarko of \$0.2 million.

Depreciation, Depletion and Amortization. Depreciation, depletion and amortization expense increased \$0.2 million for the quarter to \$0.4 million, a 151% increase compared to the corresponding quarter last year. This increase resulted from a higher cost basis in oil and gas properties in 2004 due to the consent solicitation, as compared to the same quarter in 2003.

General and administrative expenses. General and administrative expenses increased \$0.1 million in the first quarter of 2004 to \$1.2 million, a 14% increase compared to the corresponding quarter last year. This increase reflects an increase in legal fees relating to our California property. See "legal proceedings".

Interest expense. Interest expense decreased \$0.8 million in the first quarter to \$0.1 million, an 89% decrease compared to the same quarter last year. This decrease reflects an increase in the amount of interest capitalized on our Wyoming and California properties due to the consent solicitation.

Contractual obligations. There have been no material changes outside of the ordinary course of business in the Company's contractual obligations from those disclosed in the Company's Annual Report on Form 10-K for the year ended December 31, 2003.

CRITICAL ACCOUNTING POLICIES

Oil and Gas Properties

The Company uses the successful efforts method of accounting for oil and gas properties. Under this methodology, costs incurred to acquire mineral interests in oil and gas properties, to drill and equip exploratory wells that find proved reserves and to drill and equip development wells are capitalized. Costs to drill exploratory wells that do not find proved reserves, geological and geophysical costs and costs of carrying and retaining unproved properties are expensed.

Unproved oil and gas properties that are individually significant are periodically assessed for impairment of value and a loss is recognized at the time of impairment by providing an impairment allowance. Other unproved properties are amortized based on the Company's experience of successful drilling, terms of leases and historical lease expirations.

Capitalized costs of producing oil and gas properties are depleted by the units-of-production method on a field-by-field basis. Lease costs are depleted using total proved reserves while lease equipment and intangible development costs are depleted using proved developed reserves. The Company's proved properties are evaluated on a field-by-

field basis for impairment. An impairment loss is indicated whenever net capitalized costs exceed expected future net cash flow based on engineering estimates. In this circumstance, the Company recognizes an impairment loss for the amount by which the carrying value of the properties exceeds the estimated fair value (based on discounted cash flow).

On the sale or retirement of a complete unit of a proved property, the cost and related accumulated depletion and amortization are eliminated from the property accounts, and the resultant gain or loss is recognized. On the retirement or sale of a partial unit of proved property, the cost is charged to accumulated depletion and amortization with a resulting gain or loss recognized in earnings.

On the sale of an entire interest in an unproved property, a gain or loss on the sale is recognized, taking into consideration the amount of any recorded impairment if the property had been assessed individually. If a partial interest in an unproved property is sold, the amount received is treated as a reduction of the cost of the interest retained.

Revenue Recognition

Affiliated partnerships enter into agreements with the Company to drill wells to completion for a fixed price. The Company, in turn, enters into drilling contracts primarily with unrelated parties to drill wells on a day work basis. Therefore, if problems are encountered on a well, the cost of that well will increase and gross profit will decrease and could result in a loss on the well. The Company recognizes revenue from the turnkey drilling agreements on a proportional performance method as services are performed. When estimates of revenues and expenses indicate a loss, the total estimated loss is accrued. Oil and gas sales result from undivided interests held by the Company in various oil and gas properties. Sales of natural gas and oil produced are recognized when delivered to or picked up by the purchaser. Oil and gas sales from marketing activities result from sales by the Company of oil and gas produced by affiliated joint ventures and partnerships and are recognized when delivered to purchasers.

Contingent Repurchase Obligation

A contingent repurchase obligation is recognized when the present value of the Company's potential future obligation to affiliated partnerships under repurchase agreements is greater than their estimated future net revenues from oil and gas properties, as determined by independent petroleum engineers.

Item 3. *Quantitative and qualitative disclosure about market risk*

Commodity Risk. Our major market risk exposure is the commodity pricing applicable to our natural gas and oil production. Realized commodity prices received for our production are primarily driven by the prevailing worldwide price for crude oil and spot prices applicable to natural gas. The effects of price volatility is expected to continue.

Item 4. *Evaluation of Disclosure Controls and Procedures*

Our management, under the supervision and with the participation of our Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), has evaluated the effectiveness of our disclosure controls and procedures as defined in Securities and Exchange Commission ("SEC") Rule 13a-15(e) and 15d-15(e) as of the end of the period covered by this report. Based upon that evaluation, management has concluded that our disclosure controls and procedures are effective to ensure that we are required to disclose in reports that we file or submit under the Securities Exchange Act is communicated to management, including the CEO and CFO, as appropriate to allow timely decisions regarding required disclosure and is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms.

During the fiscal quarter covered by this report, there have been no significant changes in internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II—OTHER INFORMATION

Item 1. *Legal Proceedings*

On September 28, 1999, Magness Petroleum Company, our joint venture partner in the Wilmington Field, filed a complaint against Warren, Warren E&P, Inc. (“Warren E&P”), and certain Warren subsidiaries in the Superior Court of Los Angeles County, alleging that we had breached our joint venture agreement with Magness and an alleged oral agreement regarding advance payment of expenses for drilling and completion operations. Magness sought dissolution of the joint venture, an accounting and a declaratory judgment as to the rights of the parties under the joint venture agreement. We were successful in enforcing the arbitration provision in the joint venture agreement and entered into an agreement with Magness to submit the matter for arbitration by the Judicial Arbitration Mediation Services, or “JAMS,” before the Honorable Keith J. Wisot, a retired Los Angeles Superior Court Judge. Judge Wisot, as the arbitrator, ruled that the joint venture agreement is a valid enforceable agreement, declined to dissolve the joint venture, denied Magness’ claims for breach of contract, and held that he and JAMS would retain jurisdiction to enforce the Final Award. On August 8, 2001, Magness filed a demand with the American Arbitration Association, or “AAA,” reasserting its claims for dissolution of the joint venture and breach of contract. Subsequently Warren sought to enforce the original Final Award rendered by Judge Wisot in the JAMS arbitration. After a procedural determination of proper arbitration forum that was eventually determined by the California Court of Appeals in December 2002 and a Motion for Clarification filed in January 2003 before the California Superior Court, in September 2003 the California Superior Court ordered that JAMS will hear Warren’s motion to enforce the Final Award covering unauthorized direct labor charges and tangible costs and AAA will hear Magness’s new theory of dissolution of the joint venture based on their claim that voting rights within the joint venture should be based on ownership of working interests in the Wilmington Town Unit (“WTU”), which includes property never contributed to the joint venture, instead of ownership of joint venture working interests, a determination whether Magness can independently drill new wells in the WTU without Warren’s consent if the joint venture is not dissolved and Warren’s claims for damages for Magness preventing resumption of drilling activities by Warren as ordered by Judge Wisot in JAMS. The AAA arbitration is being held from May 3, 2004 to May 14, 2004 and the JAMS arbitration hearing on the Motion to Enforce Final Award is being held from May 19, 2004 to May 21, 2004. Accordingly, pending final resolution, further development of the Wilmington Field will be curtailed. See our 2003 Form 10-K “Risk Factors - If we are unable to settle our disagreements with our joint venture partner in the Wilmington Field, the value of our interest there or realization of that value could be significantly diminished or delayed.”

In 1998, Warren E&P was sued in the 81st Judicial District Court of Frio County, Texas by Stricker Drilling Company, Inc. and Manning Safety Systems to recover the value of lost equipment based on a well blow out. Warren was later joined in the suit as a defendant. As a result of the lawsuit, Gotham Insurance Company, Warren E&P’s well blow-out insurer, intervened. The suit was settled in 1999 with all parties except Gotham. Gotham paid over \$1.7 million under the insurance policy and now seeks a refund of approximately \$1.5 million of monies paid, denying coverage, and alleging fraud and misrepresentation and a failure of Warren E&P to act with due diligence and pursuant to safety regulations. Warren E&P countersued for the remaining proceeds under the policy coverage. In the summer and fall of 2000, summary judgments were entered for Warren E&P on essentially all claims except its bad faith claims against Gotham. Gotham’s claims against Warren E&P and Warren were rejected. Final judgment was rendered on May 14, 2001 in Warren E&P’s favor for the remaining policy proceeds, interest and attorney fees. Gotham appealed the final judgment to the San Antonio Court of Appeals seeking a refund of approximately \$1.5 million. The case on appeal was orally argued on March 28, 2002. On July 23, 2003, a three judge panel of the San Antonio Court of Appeals rendered its decision in favor of Gotham on all points, except for the amount of restitution owed by Warren E&P and related parties, reversing the earlier summary judgment entered by the trial court for Warren E&P. Although the three judge panel of the San Antonio Court of Appeals acknowledged that Gotham asked for the Court to render its judgment in Gotham’s favor on its restitution claims, Gotham gave no particulars, and therefore the Court of Appeals remanded Gotham’s restitution claims to the trial court for further proceedings consistent with its opinion. Although the ultimate resolution is uncertain, counsel has advised Warren E&P that it believes the three judge panel of the San Antonio Court of Appeals committed numerous errors of fact and law, primarily relying on their erroneous conclusion that Warren E&P as operator of the oil well incurred no loss. Accordingly, Warren E&P has appealed the San Antonio Court of Appeals panel decision to the Texas Supreme Court, and has been requested by the Texas Supreme Court to submit full briefs, which was

done on April 15, 2004. The decision to accept a full review of the San Antonio Court of Appeal's decision with oral argument being heard by the Texas Supreme Court is at the Court's discretion.

We are also a party to legal actions arising in the ordinary course of our business. In the opinion of our management, based in part on consultation with legal counsel, the liability, if any, under these claims is either adequately covered by insurance or would not have a material adverse effect on us.

Item 2. Changes in Securities

a. Not applicable

b. Not applicable

c. In February 2004, the Company issued 2,025,000 Units at a price of \$7.00 per Unit to five accredited investors, with each Unit consisting of one share of the Company's common stock, par value \$0.0001 per share, .25 Class A Warrants to purchase one Common Share at an exercise price of \$10.00 per share, and .25 Class B Warrants to purchase one Common Share at an exercise price of \$12.50 per share, for an aggregate receipt of \$14,175,000. The following were filed under Item 7 "Exhibits": Subscription and Registration Rights Agreement executed by the purchasers and Warren, Class A Common Stock Purchase Warrants and Class B Common Stock Purchase Warrants delivered by Warren to the purchasers of the Units. The Units, shares of common stock and Warrants are restricted securities. The issuance was exempt from registration under the Securities Act of 1933, as amended (the "Securities Act") pursuant to Section 4(2).

Item 3. Defaults upon Senior Securities

Not applicable.

Item 4. Submission of Matters to a Vote of Security Holders

Not applicable.

Item 5. Other Information

Not applicable.

Item 6. Exhibits and Reports on Form 8-K

a) Exhibits

Exhibits not incorporated by reference to a prior filing are designated by an (*) and are filed herewith; all exhibits not so designated are incorporated herein by reference to a prior filing as indicated.

Exhibit Number	Description	Original Filed Exhibit
10.1*	Employment Agreement effective March 1, 2004 between Lloyd Davies and the Company.	
10.2*	Amendment to Employment Agreement effective January 1, 2004 between Norman F. Swanton and the Company	
10.3*	Amendment to Employment Agreement effective January 1, 2004 between Timothy A. Larkin and the Company	
10.4*	Employment Agreement effective January 1, 2004 between David E. Fleming and the Company	
31.1*	Certification of Chief Executive Officer pursuant to Rule 13a-15(e)/15d-15(e)	
31.2*	Certification of Chief Financial Officer pursuant to Rule 13a-15(e)/15d-15(e)	

- 32.1* Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as adopted by Section 906 of the Sarbanes-Oxley Act of 2002
- 32.2* Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as adopted by Section 906 of the Sarbanes-Oxley Act of 2002

(b) Reports on Form 8-K

A report on Form 8-K dated February 11, 2004 was filed with the Commission reflecting that the company had completed an initial closing of 2,000,000 Units to four accredited investors, with each Unit consisting of one share of the Company's common stock, par value \$0.0001 per share, .25 Class A Warrants to purchase one Common Share at an exercise price of \$10.00 per share, and .25 Class B Warrants to purchase one Common Share at an exercise price of \$12.50 per share. The Units were sold at the price of \$7.00 per Unit for an aggregate of up to \$19,600,000. This event was reported under Item 5 "Other Events". The following were filed under Item 7 "Exhibits": Subscription and Registration Rights Agreement executed by the purchasers and Warren, Class A Common Stock Purchase Warrants and Class B Common Stock Purchase Warrants delivered by Warren to the purchasers of the Units.

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.

WARREN RESOURCES, INC.
(Registrant)

Date: May 12, 2004

By: /s/ Timothy A. Larkin
Timothy A. Larkin
*Executive Vice President,
Chief Financial Officer and
Principal Accounting Officer*

EMPLOYMENT AGREEMENT

EMPLOYMENT AGREEMENT (this “Agreement”), dated effective as of March 1, 2004, by and between Warren Resources, Inc., a New York corporation (the “Company”), and Lloyd Davies (the “Employee”).

WITNESSETH:

WHEREAS, the Company desires to employ the Employee upon the terms and conditions set forth in this Agreement; and

WHEREAS, the Employee desires to accept an offer of employment with the Company upon the terms and conditions set forth herein;

NOW, THEREFORE, in consideration of the premises and the respective covenants and agreements of the parties herein contained, and intending to be legally bound hereby, the parties hereto agree as follows:

1. **Employment.** The Company hereby agrees to employ the Employee, and the Employee hereby agrees to serve the Company, on the terms and conditions hereinafter set forth in this Agreement.
 2. **Term.** This Agreement, and the employment of the Employee by the Company hereunder, will commence on the date hereof (the “Effective Date”) and terminate on March 1, 2005 (the “Initial Term”), subject to termination as set forth herein (the “Employment Period”). As used herein, the term “Employment Year” shall mean each consecutive twelve (12) month period during the Employment Period commencing on the Effective Date, or the yearly anniversary thereof, as the case may be. Effective on the first anniversary of the Effective Date, this Agreement shall be automatically extended indefinitely until the Company or the Employee shall give ninety (90) days prior written notice to the other party that it or he, as the case may be, in its or his sole discretion, wishes to terminate this Agreement.
 3. **Position and Duties.** Subject to the provisions of this Section 3, during the Employment Period, the Employee shall serve as the Executive Vice President of the Company and Chairman and Chief Executive Officer of the Company’s wholly-owned subsidiary Warren E&P, Inc., a New Mexico corporation (“Warren E&P”), and shall faithfully perform the duties and responsibilities normally associated with such positions, subject to the oversight and direction of the Chief Executive Officer of the Company and the Board of Directors of the Company.
-

4. **Place of Employment.** Generally, the Employee will fulfill all duties and responsibilities to the Company as set forth herein from the current principal place of business of Warren E&P, located at 123 West 1st Street, Casper, Wyoming, or the Company, located at 489 Fifth Avenue, New York, New York, or to any other place where the principal place of business of Warren E&P or the Company may be relocated.

5. **Best Efforts.** The Employee's employment with the Company shall be sixty (60%) percent time and the Employee shall devote his best efforts and sixty (60%) percent of his business time exclusively to the performance of his duties and responsibilities as set forth in this Agreement, which duties and responsibilities shall be performed competently, carefully and faithfully. Except as provided below, the Employee shall not, while an employee of the Company and without the prior written consent of the Company, engage in any other gainful occupation or activity which conflicts with or impinges upon the full and faithful performance of the Employee's duties, or otherwise violates any other term or provision of this Agreement. It is expressly understood and agreed, however, that the provisions of this Section 5 shall not be construed to prevent the Employee from pursuing any other activity or profession in the 40% of the time not devoted to the Company, including investing for his own account or pursuing charitable or civic activities; provided, that such activities do not impair the performance by the Employee of his duties and responsibilities hereunder, or otherwise violate any provision of this Agreement, and that Employee shall not become employed by or affiliated with another company in the oil and gas industry.

6. **The Employee's Compensation.**

(a) **Salary.** During the Employment Period, for the services described herein the Company shall pay to the Employee an annual base salary of \$200,000.00 (as adjusted pursuant to the terms hereof, the "Base Compensation"). The Base Compensation shall be increased on each anniversary date of this Agreement by any increases in the cost of living based on the changes in the "Consumer Price Index" as published from time to time by the U.S. Department of Commerce for the New York City metropolitan area. The Base Compensation will be paid to the Employee in accordance with the normal payroll practices of the Company in effect from time to time, less all required withholdings for benefits, federal, state and local taxes, if any. The amount of the Base Compensation may, in the Company's discretion, be increased by the Company on an annual basis during the Employment Period. All increases to the Base Compensation, if any, shall be based on the condition of the Company's business and results of operations and the Company's evaluation of the Employee's individual performance for the relevant period. Any increases made to the Base Compensation shall be in the discretion of the Company.

(b) **Incentive Bonus Compensation.** In addition to the Base Compensation to which the Employee is entitled under Section 6(a), the Employee shall be eligible to be awarded incentive bonus compensation (the "Bonus Compensation") with respect to each calendar year or portion thereof during which the Employee was employed by the Company hereunder equal to up to and including 100% of the Employee's Base Compensation. The criteria for determining the amount of the Bonus Compensation shall

be determined by mutual agreement between the Employee and the Chief Executive Officer of the Company and shall be approved by the Compensation Committee of the Board of Directors. Incentive Bonus Compensation shall be paid within 90 days following the end of the calendar year.

(c) **Options.** Employee shall be entitled to participate in the Company's Equity Incentive Plan (the "Equity Incentive Plan"), and will be awarded 60,000 options thereunder, exercisable at the price of \$7.00 per share of common stock for a period ending five years after the date of grant of the option (the "Options"). The Options shall vest and be subject to immediate exercise as follows: 20,000 on the date hereof; 20,000 one year after the date hereof and 20,000 two years after the date hereof. The grant of such Options shall be documented with a formal award letter from the Company to the Employee setting forth the terms and conditions of Employee's Options.

7. **The Employee's Benefits.** As an employee of the Company, the Employee shall be entitled to receive and enjoy the following benefits during the Employment Period:

(a) **Participation in Company Benefit Plans.** The Employee shall be entitled to participate in and to receive benefits generally available to senior executives under those certain employee benefit plans and arrangements which may be offered by the Company from time to time during the Employment Period, subject to and on a basis consistent with the terms, conditions and overall administration of such plans and arrangements by the Company. The Company shall provide full medical, hospitalization and dental insurance coverage for the Employee.

(b) **Vacations.** The Employee shall be entitled to 60% of four (4) weeks of paid vacation per Employment Year, provided that any vacations are to be taken at times mutually agreeable to the Company and the Employee. In addition to the foregoing, the Employee shall be entitled to receive all paid holidays given by the Company to its employees generally. If Employee has not used his accrued but unused vacation days during an Employment Year, such days may not be carried over to another and shall be deemed waived by the Employee. Any accrued but unused vacation days in an Employment Year shall be reimbursed in cash to Employee upon a termination of his employment Without Cause hereunder.

(c) **Business Expense Reimbursement.** The Company shall promptly reimburse or pay the Employee for all reasonable and necessary business expenses paid or incurred by the Employee in performing his duties and responsibilities hereunder; provided, that, the Employee shall have (i) submitted such reasonable documentation as may be requested by the Company in accordance with the reimbursement policies of the Company in effect from time to time and (ii) obtained the prior approval of the Company for all charges in excess of \$5,000.

8. **Termination of Employment.** The Employee's employment with the Company may be terminated as follows:

(a) **With Cause.** The Employee's employment with the Company may be terminated by the Company at any time for "Cause." As used herein, the term "Cause" shall refer to the following: (i) theft, fraud, dishonesty, gross negligence or willful malfeasance by the Employee in connection with the performance of his duties hereunder (collectively, "Theft Events"); (ii) a material breach or failure to fulfill and perform the Employee's duties hereunder, which breach or failure is not cured to the reasonable satisfaction of the Company within forty-five (45) days after written demand from the Company (if such breach is at all curable during such time in the reasonable determination of the Company; failing such determination, "Cause" shall have occurred upon the occurrence of such breach or failure); (iii) conviction of a felony or a crime involving moral turpitude; (iv) habitual neglect of duties or misconduct in the performance of the Employee's duties and responsibilities hereunder following an initial notice of warning from the Company with respect thereto; or (v) a repeated or ongoing failure to comply with the reasonable directions and instructions of management of the Company in connection with the performance of the Employee's duties and responsibilities hereunder following an initial notice of warning from the Company with respect thereto. Upon termination for Cause, all rights of the Employee under this Agreement shall immediately terminate and the Company shall have no further obligations. A termination of the Employee's employment with the Company by the Employee upon his voluntary resignation or voluntary retirement shall be treated as a termination for Cause hereunder. In connection therewith, the Employee covenants and agrees not to voluntarily resign or voluntarily retire without providing the Company with ninety (90) days' prior written notice. Upon a termination for Cause, Employee shall receive in full satisfaction of all amounts due to him an amount equal to the remainder of Base Compensation through date of termination. Notwithstanding any of the foregoing, in the event that the Company has terminated Employee's employment on account of a Theft Event, the Company shall be entitled to withhold from any amounts otherwise due to Employee under this Subsection 8(a) the amount of monetary damages incurred by the Company from such Theft Event which shall be quantified and determined in writing by the Company within 90 days after the date of termination. The Employee agrees that his eligibility to receive any and all amounts described in this Section 8(a) shall be subject to and contingent upon the Employee's execution of a full and complete general release in favor of the Company and its affiliated persons and entities, satisfactory to the Company in its sole discretion.

(b) **Without Cause.** The Employee's employment with the Company may be terminated by the Company at any time without Cause, but in the event of any such termination pursuant to this Section 8(b), the Company will pay, in addition to any other amounts due hereunder, the Employee severance pay in an amount equal to the greater of (i) the balance of all of Employee's remaining and unpaid Base Compensation due for the balance of the then existing term hereunder, or (ii) 90 days of Base Compensation, payable upon execution and delivery of the release described below, less all required withholdings and in accordance with then current payroll practices of the Company and applicable law or regulation. In addition, Employee shall receive any accrued but unpaid vacation time for the current Employment Year. The Employee agrees that his eligibility to receive any and all amounts described in this Section 8(b) shall be subject to and contingent upon the Employee's execution of a full and complete general

release in favor of the Company and its affiliated persons and entities, satisfactory to the Company in its sole discretion.

(c) **Termination for Death or Disability.** The Employee's employment hereunder shall terminate immediately upon the Employee's death or Disability. For purposes of the preceding sentence, the term "**Disability**" shall mean the Employee's inability, by reason of physical or mental incapacity (determined by a licensed physician reasonably acceptable to the Employee and the Company), to perform the essential functions of his job, with or without a reasonable accommodation by the Company, for an aggregate of ninety (90) days during any twelve (12) month period, *provided further* that during any such continuous period, the Employee's Base Compensation payable under Section 6(a) shall be reduced by the amount, if any, of payments to the Employee under any short-term or long-term disability insurance policy, plan or program maintained by the Company. During any period when the Employee implicitly or explicitly purports to be unable to perform his duties hereunder by reason of physical or mental illness, incapacity or disability, the Employee, at the request and expense of Company, shall submit to one or more examinations by a physician of the Company's choice. A termination of the Employee's employment with the Company due to any of the foregoing provisions of this Section 8(c) shall be treated as a termination without Cause hereunder.

(d) **Termination by Employee for Good Reason.** Employee shall have the right to terminate this Agreement for "Good Reason". The following events affecting Employee shall constitute "Good Reason" within the meaning of this Agreement: (i) if Employee, at any time during the Employment Period (except during a period of Disability), has suffered a material change or diminution in duties and responsibilities from those contemplated herein, or (ii) if there is a Change of Control Event, as defined below.

For purposes of this Employment Agreement, a "Change of Control" shall mean the happening of any of the following:

(i) the acquisition by any person or group deemed a person under Sections 3(a)(9) and 13(d)(3) of the Securities Exchange Act of 1934 (the "Exchange Act") (other than the Company and its subsidiaries as determined immediately prior to that date) of beneficial ownership, directly or indirectly (with beneficial ownership determined as provided in Rule 13d-3, or any successor rule, under the Exchange Act), of a majority of the total combined voting power of all classes of stock of the Company having the right under ordinary circumstances to vote at an election of the Board of Directors of the Company, if such person or group deemed a person was not a beneficial owner of at least five percent (5%) of such total combined voting power of the Company on the date of this Agreement;

(ii) the election to the Board of Directors of the Company of members as a result of which a majority of the Board of Directors shall consist of persons who are not members of the Board of Directors as of the Effective Date (including Employee as a member of the Board of Directors as of the Effective Date), except in the event that such slate of Directors is proposed by the management of the Company;

(iii) the date of approval by the stockholders of the Company of an agreement providing for the merger or consolidation of the Company with another corporation or other entity where (x) stockholders of the Company immediately prior to such merger or consolidation would not beneficially own following such merger or consolidation shares entitling such stockholders to 50% or more of all votes (without consolidation of the rights of any class of stock to elect directors by a separate class vote) to which all stockholders of the surviving corporation would be entitled in the election of directors, or (y) where the members of the Board of Directors, immediately prior to such merger or consolidation, would not, immediately after such merger or consolidation, constitute a majority of the board of directors of the surviving corporation; or

(iv) the sale of all or substantially all of the assets of the Company.

(e) **Status upon Termination.** The termination of this Agreement, and the Employee's employment hereunder, for any reason whatsoever shall constitute the Employee's effective termination and resignation from any other positions or duties with the Company and all of its affiliates.

(f) **Effect of Termination.**

(i) In the event of a termination of the Employee's employment with the Company hereunder for any reason, in addition and subject to the provisions of Sections 8(a), 8(b), 8(c) and 8(d), the Employee shall be entitled to receive all Base Compensation and accrued benefits owing through the date of termination in accordance with the Company's normal practices then in effect.

(ii) In the event of a termination of the Employee's employment without Cause pursuant to Sections 8(b), 8(c) or 8(d) above, the Company shall also pay the Employee severance compensation in accordance with Section 8(b) above. Furthermore, if the Employee is terminated without Cause, or the employment ceases under Section 8(c) or 8(d), all unvested options granted to the Employee pursuant to the Equity Incentive Plan shall become fully vested and be kept in effect for 90 days following the Employee's termination of employment.

(iii) In the event of a termination of the Employee's employment with the Company hereunder for Cause pursuant to Section 8(a) above, all rights of the Employee under this Agreement shall immediately terminate and the Company shall have no further obligations hereunder, subject to Section 8(f)(i) above and this provision. Furthermore, if the Employee is terminated for Cause, all unvested options granted to the Employee pursuant to the Equity Incentive Plan shall terminate.

9. **Noncompetition and Confidentiality.**

(a) **Noncompetition.** During the Employment Period and, in the case of a termination of the Employee's employment for Cause, for a period of six (6) months following the date of termination of employment, or, in the case of a termination of the Employee's employment without Cause, for a period of one day following the date of termination of employment (the "Covered Period"), the Employee agrees not to engage in any Competitive Activity within the States of New York, California, New Mexico, Texas and Wyoming. As used herein, the term "Competitive Activity" shall mean the following: (i) providing competitive services, other than on behalf of the Company, to any Customer (as defined below); (ii) serving as an officer, director, employee, consultant, advisor, agent or representative of, or otherwise associating in any other capacity with, any person, corporation, partnership, limited liability company, sole proprietorship, association or other business enterprise, other than the Company, engaged in the business of oil and gas exploration, drilling and production or any other business in which the Company is engaged (each, a "Competitive Enterprise"), or engaging individually in any Competitive Enterprise; (iii) owning or acquiring, directly or indirectly, any interest in any Competitive Enterprise (provided, however, the Employee shall be allowed to passively own for investment purposes, directly or indirectly, no more than ten percent (10%) of the issued and outstanding publicly traded securities of any issuer engaged in a Competitive Enterprise); (iv) soliciting or inducing any partner, stockholder, member, principal, director, officer, employee, consultant, agent or other representative of the Company or one or more affiliates to leave the employ or retention of the Company or such affiliate or hiring away any of the foregoing persons; and/or (v) encouraging, requesting or advising, explicitly or implicitly, any Customer or supplier of the Company or one or more of its affiliates to withdraw, curtail or cancel its business relationships with the Company or any affiliate thereof (unless expressly requested to do so by the Company as part of the Employee's employment services provided hereunder).

As used in this Section 9, the term "Customer" shall include any person who is or was a customer of the Company or an affiliate thereof at any time during the period commencing with the Employment Period through the end of the Covered Period.

(b) **Confidentiality.** During the Employment Period and for a period of three (3) years thereafter, the Employee shall not, except as may otherwise be required by law, directly or indirectly disclose to any person or entity, or use or cause to be used in any manner adverse to the interests of the Company or any affiliate thereof, any Confidential Information (as defined below in this Section 9(b)). The Employee agrees that, upon the termination of his employment with the Company for any reason, all Confidential Information (other than a copy of this Agreement and any other agreements that have been personally executed by the Employee other than in his capacity as an officer of the Company) and duplicates thereof in the possession or control of the Employee, in any form or format, including, without limitation, written, visual, audio, electronic or magnetic formats, shall forthwith be returned to the Company and shall not be retained by the Employee or furnished or communicated to any third party in any form whatsoever.

As used in this Section 9(b), the term "Confidential Information" shall mean the following: (i) information disclosed to the Employee or known by the Employee as a consequence of the Employee's relationship with the Company or any Affiliate thereof, as

defined below, not generally known in the Company's business, about the Company's or an Affiliate's employees, customers, directors, officers, partners, shareholders, advertising methods, public relations methods, business plans, operations, methods, processes and forecasts, vendors, finances, trade marks, trade secrets, source code, patent applications, manuals, designs, technical specifications and other intellectual property; (ii) information disclosed to the Employee or known by the Employee as a consequence of the Employee's relationship with the Company or any Affiliate thereof, not generally known in the businesses in which the customers of the Company or its affiliates are or may be engaged, about the products, processes, operations, trade information and services of any such customer; or (iii) information disclosed to the Employee by the Company or any of its affiliate which is marked as "confidential" or, if communicated verbally, is followed up by written correspondence designating such information as "confidential." Affiliate shall mean any person or entity that directly, or indirectly, through one or more intermediaries, controls, or is controlled by, or is under common control with, the Company.

(c) **Severability.** The invalidity or nonenforceability of any provision of this Section 9 in any respect shall not affect the validity or enforceability of the other provisions of this Section 9 in any other respect, or of any other provision of this Agreement. In the event that any provision of this Section 9 shall be held invalid or unenforceable by a court of competent jurisdiction by reason of the geographic or business scope or the duration thereof or for any other reason, such invalidity or unenforceability shall attach only to the particular aspects of such provision found invalid or unenforceable as applied and shall not affect or render invalid or unenforceable any other provision of this Section 9 or the enforcement of such provision in other circumstances, and this Section 9 shall be construed as if the geographic or business scope or the duration of such provision or other basis on which such provision has been challenged had been more narrowly drafted so as not to be invalid or unenforceable.

10. **Business Opportunities.** During the Employment Period, the Employee agrees to bring all business opportunities to the Company relating to or otherwise associated with the business or businesses then conducted by the Company or each affiliate thereof, or business or businesses proposed to be conducted by the Company.

11. **Rights to Work Product.** The Employee agrees that all work performed by the Employee pursuant hereto shall be the sole and exclusive property of the Company, in whatever stage of development or completion. With respect to any copyrightable works prepared in whole or in part by the Employee pursuant to this Agreement, including compilations of lists or data, the Employee agrees that all such works will be prepared as "work-for-hire" within the meaning of the Copyright Act of 1976, as amended (the "Act"), of which the Company shall be considered the "author" within the meaning of the Act. In the event (and to the extent) that such works or any part or element thereof is found as a matter of law not to be a "work-for-hire" within the meaning of the Act, the Employee hereby assigns to the Company the sole and exclusive right, title and interest in and to all such works, and all copies of any of them, without further consideration, and agrees, to the extent reasonable under the circumstances, to cooperate with the Company to register, and from time to time to enforce, all patents, copyrights and other rights and protections relating to such works in any and all countries.

To that end, the Employee agrees to execute and deliver all documents requested by the Company in connection therewith, and the Employee hereby irrevocably designates and appoints the Company as the Employee's agent and attorney-in-fact to act for and on behalf of the Employee and in the Employee's stead to execute, register and file any such applications, and to do all other lawfully permitted acts to further the registration, protection and issuance of patents, copyrights or similar protections with the same legal force and effect as if executed by the Employee. The Company shall reimburse the Employee for all reasonable costs and expenses incurred by the Employee pursuant to this Section 11.

12. **No Disparaging Statements.** During the Term of employment and for one (1) year after termination of this Agreement for any reason whatsoever, the Employee and the Company agree to refrain from making any disparaging statements, either orally or in writing, about the other party (and, on the part of the Employee, about any affiliate of the Company, or any directors, officers, shareholders, employees, agents or other representatives of the Company or any affiliate thereof).

13. **Survival.** The provisions of Sections 8(b), 8(c), 8(d), 8(f), 9, 11, 12, 14, 15, 16 and 17 hereof shall survive the termination of this Agreement for the applicable time period necessary to fully effectuate the provisions of such sections.

14. **Compliance With Other Agreements.** The Employee and the Company each hereby represent and warrant to the other that the execution and delivery of this Agreement and the performance of such party's obligations hereunder will not, with or without the giving of notice and/or the passage of time, (i) violate any judgment, writ, injunction or order of any court, arbitrator or governmental agency applicable to such party, or (ii) conflict with, result in the breach of any provision of or the termination of, or constitute a default under, any agreement to which such party is a party or by which such party is or may be bound. The parties agree to indemnify and hold harmless each other from any liability, judgment or claim incurred, entered or made against such party based on its reliance on the representations and warranties made in this Section 14, including all costs and expenses and attorney's fees incurred or paid by such party in connection with the foregoing.

15. **Injunctive Relief.** The Employee acknowledges and agrees that the Company and its affiliates are engaged in a highly competitive business and that the protections of the Company and each such affiliate set forth in Sections 9, 10 and 11 of this Agreement are fair and reasonable and are of vital concern to the Company and its affiliates. Further, the Employee acknowledges and agrees that monetary damages for any violation of such Sections will not adequately compensate the Company and its affiliates with respect to any such violation. Therefore, in the event of a breach by the Employee of any of the terms and provisions contained in Sections 9, 10 or 11 hereof, the Company shall be entitled to institute legal proceedings to enforce the specific performance of this Agreement by the Employee and to enjoin the Employee from any further violations. The remedies available to the Company pursuant to this Section 15 may be exercised cumulatively by the Company in conjunction with all other rights and remedies provided by law.

16. **Arbitration Of Disputes.** If any dispute shall arise between the Employee and the Company in connection with this Agreement, and such dispute cannot be resolved amicably by the parties, the same shall be conclusively and finally resolved by binding arbitration. Any party hereto may commence an arbitration proceeding by providing written notice to the other party requesting the arbitration of an unresolved dispute. Each such dispute, if any, shall be submitted to an arbitrator acceptable to both parties. If either the Employee or the Company refuses or neglects to agree to appoint an arbitrator within thirty (30) days after receipt of written notice from the other party requesting the other party to do so, the American Arbitration Association may appoint such arbitrator. The arbitrator shall be experienced in the subject matter of the dispute. Except as otherwise specifically set forth herein, the arbitrators shall conduct the arbitration in accordance with the Commercial Arbitration Rules of the American Arbitration Association. The decision in writing of the arbitrator, when filed with the parties hereto, shall be final and binding on both parties. Judgment may be entered upon the final decision of the arbitrator in any court having jurisdiction. Such arbitration shall take place in New York, New York.

Notwithstanding anything to the contrary contained in this Section 16, nothing shall prohibit the Company or Employee from pursuing all legal and equitable remedies available to the Company or Employee in order to enforce the provisions of Sections 9, 10 and 11 of this Agreement. To the extent that any court action is permitted consistent with or to enforce this Agreement, the parties hereby consent to the jurisdiction of the federal or state courts sitting in any state where the Company maintains an office. Accordingly, with respect to any such court action, all of the parties hereto (a) submit to the personal jurisdiction of such courts, (b) consent to service of process and (c) waive any other requirement (whether imposed by statute, rule of court, or otherwise) with respect to personal jurisdiction or service of process.

17. **Amendment; Waiver; Discharge.** No provision of this Agreement may be amended, waived or discharged unless such amendment, waiver or discharge is agreed to in writing and signed by the Employee and a duly authorized representative of the Company. No waiver by either party hereto at any time of any breach by the other party hereto of, or compliance with, any condition or provision of this Agreement to be performed by such other party shall be deemed a waiver of similar or dissimilar provisions or conditions at the same or at any prior or subsequent time.

18. **Validity.** The invalidity or unenforceability of any provision or provisions of this Agreement shall not affect the validity or enforceability of any other provision of this Agreement, which shall remain in full force and effect.

19. **Notices.** All notices, demands and other communications provided for in this Agreement shall be in writing and shall be delivered by hand or sent via fax transmission (with written fax confirmation) or mailed postage prepaid or by registered, certified or express mail or reputable overnight courier service, charges prepaid, and shall be deemed given when so delivered, if delivered by hand, or upon receipt of reasonably adequate fax confirmation, if faxed, or, if mailed, five (5) business days after mailing (or

one (1) business day in the case of express mail or overnight courier service), addressed as follows:

If to the Employee:

Lloyd Davies
3340 Creekview Drive
Bonita Springs, FL 34134

If to the Company:

Warren Resources, Inc.
489 Fifth Avenue
32nd Floor
New York, NY 10016
Attention: Chief Executive Officer
(Fax): (212) 697-9466
(Tel.): (212) 697-9660

or to such other address or person as any party may have furnished to the other in writing in accordance herewith, except that notices of change of address shall be effective only upon receipt.

20. **Headings.** All headings contained in this Agreement are for reference purposes only and shall not in any way effect the meaning or interpretation of any provision or provisions of this Agreement.

21. **Entire Agreement.** This Agreement sets forth the entire agreement of the parties hereto in respect of the subject matter contained herein and supersedes all prior agreements, promises, covenants, understandings, arrangements, communications, representations or warranties, whether oral or written, by any party or representative of any party hereto.

22. **Assignment and Transfer.** The Employee's rights and obligations under this Agreement shall not be transferable by assignment or otherwise, and any purported assignment, transfer or delegation thereof shall be void. This Agreement shall inure to the benefit of, and be binding upon and enforceable by, any purchaser of substantially all of the Company's assets, any corporate successor to the Company or any assignee thereof.

23. **Counterparts.** This Agreement may be executed in several counterparts, each of which shall be deemed to be an original but all of which together will constitute one and the same instrument.

24. **Governing Law.** The validity, interpretation, construction and performance of this Agreement shall be governed by the laws of the State of New York without regard to its conflicts of law principles.

IN WITNESS WHEREOF, the parties have executed this Agreement as of the date and year first above written.

WARREN RESOURCES, INC.

By: /s/ Norman F. Swanton
Name: Norman F. Swanton
Title: Chief Executive Officer

/s/ Lloyd Davies
Lloyd Davies

AMENDMENT TO EMPLOYMENT AGREEMENT

This First Amendment (“Amendment”) is made and entered into effective as of January 1, 2004 (the “Effective Date”) to the Employment Agreement referenced below by and between Warren Resources, Inc. (“Company” or “Employer”), and Norman F. Swanton, an individual (“Employee”) (together the “Parties”).

RECITALS

WHEREAS, the Parties had entered into an Employment Agreement effective on January 1, 2001 (the “Original Agreement”); and

WHEREAS, the Parties now want to amend the Original Agreement to make such changes as are specifically covered herein and as specifically identified in italics.

AGREEMENT

NOW, THEREFORE, for good and valuable consideration, and in consideration of the mutual covenants and conditions herein set forth, the receipt and sufficiency of which is hereby acknowledged, the Parties agree as follows:

Section 6 (b) is hereby deleted and revised to read in its entirety as follows:

(b) **Incentive Bonus Compensation.** In addition to the Base Compensation to which the Employee is entitled under Section 6(a), the Employee shall be eligible to be awarded incentive bonus compensation (the “Bonus Compensation”) with respect to each calendar year or portion thereof during which the Employee was employed by the Company hereunder equal to up to and including 100% of the Employee’s Base Compensation. The criteria for determining the amount of the Bonus Compensation shall be determined by mutual agreement between the Employee and the Compensation Committee of the Board of Directors and be approved by the Board of Directors. Incentive Bonus Compensation shall be paid within 90 days following the end of the calendar year.

Section 8(f) is hereby deleted and revised to read in its entirety as follows:

(f) **Effect of Termination.**

(i) In the event of a termination of the Employee’s employment with the Company hereunder for any reason, in addition and subject to the provisions of Sections 8(a), 8(b), 8(c) and 8(d), the Employee shall be entitled to receive all Base Compensation and accrued benefits owing through the date of termination in accordance with the Company’s normal practices then in effect.

(ii) In the event of a termination of the Employee's employment without Cause pursuant to Sections 8(b), 8(c) or 8(d) above, the Company shall also pay the Employee severance compensation in accordance with Section 8(b) above. Furthermore, if the Employee is terminated without Cause, or the employment ceases under Section 8(c) or 8(d), all unvested options granted to the Employee pursuant to the Equity Incentive Plan shall become fully vested.

(iii) In the event of a termination of the Employee's employment with the Company hereunder for Cause pursuant to Section 8(a) above, all rights of the Employee under this Agreement shall immediately terminate and the Company shall have no further obligations hereunder, subject to Section 8(f)(i) above and this provision. Furthermore, if the Employee is terminated for Cause, all unvested options granted to the Employee pursuant to the Equity Incentive Plan shall terminate.

Except as set forth in this Amendment, the Original Agreement shall remain in full force and effect and references in the Original Agreement to "this Agreement", "hereunder", "herein", "hereof", and words of like effect shall mean the Original Agreement as so amended by this Amendment.

This Amendment may be executed in one or more counterparts and/or by facsimile, each of which shall be deemed an original and all of which signed counterparts, taken together, shall constitute one instrument.

IN WITNESS WHEREOF, the Parties have executed this Amendment as of the Effective Date referenced above.

EMPLOYER:

WARREN RESOURCES, INC.

By: /s/ Timothy A. Larkin
Name: Timothy A. Larkin
Title: Chief Financial Officer

/s/ Norman F. Swanton
Norman F. Swanton

AMENDMENT TO EMPLOYMENT AGREEMENT

This First Amendment (“Amendment”) is made and entered into effective as of January 1, 2004 (the “Effective Date”) to the Employment Agreement referenced below by and between Warren Resources, Inc. (“Company” or “Employer”), and Timothy A. Larkin, an individual (“Employee”) (together the “Parties”).

RECITALS

WHEREAS, the Parties had entered into an Employment Agreement effective on January 1, 2001 (the “Original Agreement”); and

WHEREAS, the Parties now want to amend the Original Agreement to make such changes as are specifically covered herein and as specifically identified in italics.

AGREEMENT

NOW, THEREFORE, for good and valuable consideration, and in consideration of the mutual covenants and conditions herein set forth, the receipt and sufficiency of which is hereby acknowledged, the Parties agree as follows:

Section 6 (b) is hereby deleted and revised to read in its entirety as follows:

(b) **Incentive Bonus Compensation.** In addition to the Base Compensation to which the Employee is entitled under Section 6(a), the Employee shall be eligible to be awarded incentive bonus compensation (the “Bonus Compensation”) with respect to each calendar year or portion thereof during which the Employee was employed by the Company hereunder equal to up to and including 100% of the Employee’s Base Compensation. The criteria for determining the amount of the Bonus Compensation shall be determined by mutual agreement between the Employee and the Chief Executive Officer and be approved by the Compensation Committee of the Board of Directors. Incentive Bonus Compensation shall be paid within 90 days following the end of the calendar year.

Section 8(f) is hereby deleted and revised to read in its entirety as follows:

(f) **Effect of Termination.**

(i) In the event of a termination of the Employee’s employment with the Company hereunder for any reason, in addition and subject to the provisions of Sections 8(a), 8(b), 8(c) and 8(d), the Employee shall be entitled to receive all Base Compensation and accrued benefits owing through the date of termination in accordance with the Company’s normal practices then in effect.

(ii) In the event of a termination of the Employee's employment without Cause pursuant to Sections 8(b), 8(c) or 8(d) above, the Company shall also pay the Employee severance compensation in accordance with Section 8(b) above. Furthermore, if the Employee is terminated without Cause, or the employment ceases under Section 8(c) or 8(d), all unvested options granted to the Employee pursuant to the Equity Incentive Plan shall become fully vested.

(iii) In the event of a termination of the Employee's employment with the Company hereunder for Cause pursuant to Section 8(a) above, all rights of the Employee under this Agreement shall immediately terminate and the Company shall have no further obligations hereunder, subject to Section 8(f)(i) above and this provision. Furthermore, if the Employee is terminated for Cause, all unvested options granted to the Employee pursuant to the Equity Incentive Plan shall terminate.

Except as set forth in this Amendment, the Original Agreement shall remain in full force and effect and references in the Original Agreement to "this Agreement", "hereunder", "herein", "hereof", and words of like effect shall mean the Original Agreement as so amended by this Amendment.

This Amendment may be executed in one or more counterparts and/or by facsimile, each of which shall be deemed an original and all of which signed counterparts, taken together, shall constitute one instrument.

IN WITNESS WHEREOF, the Parties have executed this Amendment as of the Effective Date referenced above.

EMPLOYER:

WARREN RESOURCES, INC.

By: /s/ Norman F. Swanton
Name: Norman F. Swanton
Title: Chief Executive Officer

/s/ Timothy A. Larkin
Timothy A. Larkin

EMPLOYMENT AGREEMENT

EMPLOYMENT AGREEMENT (this “Agreement”), dated effective as of January 1, 2004, by and between Warren Resources, Inc., a New York corporation (the “Company”), and David E. Fleming (the “Employee”). This agreement shall supercede and replace the prior agreement dated June 25, 2001 between the Company and the Employee.

WITNESSETH:

WHEREAS, the Company desires to employ the Employee upon the terms and conditions set forth in this Agreement; and

WHEREAS, the Employee desires to accept an offer of employment with the Company upon the terms and conditions set forth herein;

NOW, THEREFORE, in consideration of the premises and the respective covenants and agreements of the parties herein contained, and intending to be legally bound hereby, the parties hereto agree as follows:

1. **Employment.** The Company hereby agrees to employ the Employee, and the Employee hereby agrees to serve the Company, on the terms and conditions hereinafter set forth in this Agreement.
 2. **Term.** This Agreement, and the employment of the Employee by the Company hereunder, will commence on the date hereof (the “Effective Date”) and terminate on December 31, 2004 (the “Initial Term”), subject to termination as set forth herein (the “Employment Period”). As used herein, the term “Employment Year” shall mean each consecutive twelve (12) month period during the Employment Period commencing on the Effective Date, or the yearly anniversary thereof, as the case may be. Effective on the first anniversary of the Effective Date, this Agreement shall be automatically extended indefinitely until the Company or the Employee shall give ninety (90) days prior written notice to the other party that it or he, as the case may be, in its or his sole discretion, wishes to terminate this Agreement.
 3. **Position and Duties.** Subject to the provisions of this Section 3, during the Employment Period, the Employee shall serve as the Senior Vice President and General Counsel of the Company and shall faithfully perform the duties and responsibilities normally associated with such positions, subject to the oversight and direction of the Chief Executive Officer of the Company and the Board of Directors of the Company.
-

4. **Place of Employment.** Generally, the Employee will fulfill all duties and responsibilities to the Company as set forth herein from the current principal place of business of Warren Resources, Inc., located at 489 Fifth Avenue, 32nd Floor, New York, NY 10017 or to any other location in the midtown Manhattan area in New York City where the principal place of business of Warren E&P or the Company may be relocated.

5. **Best Efforts.** The Employee's employment with the Company shall be sixty (60%) percent time and the Employee shall devote his best efforts and sixty (60%) percent of his business time exclusively to the performance of his duties and responsibilities as set forth in this Agreement, which duties and responsibilities shall be performed competently, carefully and faithfully. Except as provided below, the Employee shall not, while an employee of the Company and without the prior written consent of the Company, engage in any other gainful occupation or activity which conflicts with or impinges upon the full and faithful performance of the Employee's duties, or otherwise violates any other term or provision of this Agreement. It is expressly understood and agreed, however, that the provisions of this Section 5 shall not be construed to prevent the Employee from pursuing any other activity or profession in the 40% of the time not devoted to the Company, including investing for his own account or pursuing charitable or civic activities; provided, that such activities do not impair the performance by the Employee of his duties and responsibilities hereunder, or otherwise violate any provision of this Agreement, and that Employee shall not become employed by or affiliated with another company in the oil and gas industry.

6. **The Employee's Compensation.**

(a) **Salary.** During the Employment Period, for the services described herein the Company shall pay to the Employee an annual base salary of \$223,438.00 (as adjusted pursuant to the terms hereof, the "Base Compensation"). The Base Compensation shall be increased on each anniversary date of this Agreement by any increases in the cost of living based on the changes in the "Consumer Price Index" as published from time to time by the U.S. Department of Commerce for the New York City metropolitan area. The Base Compensation will be paid to the Employee in accordance with the normal payroll practices of the Company in effect from time to time, less all required withholdings for benefits, federal, state and local taxes, if any. The amount of the Base Compensation may, in the Company's discretion, be increased by the Company on an annual basis during the Employment Period. All increases to the Base Compensation, if any, shall be based on the condition of the Company's business and results of operations and the Company's evaluation of the Employee's individual performance for the relevant period. Any increases made to the Base Compensation shall be in the discretion of the Company.

(b) **Incentive Bonus Compensation.** In addition to the Base Compensation to which the Employee is entitled under Section 6(a), the Employee shall be eligible to be awarded incentive bonus compensation (the "Bonus Compensation") with respect to each calendar year or portion thereof during which the Employee was employed by the Company hereunder equal to up to and including 100% of the Employee's Base Compensation. The criteria for determining the amount of the Bonus Compensation shall

be determined by mutual agreement between the Employee and the Chief Executive Officer of the Company and shall be approved by the Compensation Committee of the Board of Directors. Incentive Bonus Compensation shall be paid within 90 days following the end of the calendar year.

(c) **Options.** Employee shall be entitled to participate in the Company's Equity Incentive Plan (the "Equity Incentive Plan"), and will be awarded 24,000 options thereunder, exercisable at the price of \$7.00 per share of common stock for a period ending five years after the date of grant of the option (the "Options"). The grant of such Options shall be documented with a formal award letter from the Company to the Employee setting forth the terms and conditions of Employee's Options.

7. **The Employee's Benefits.** As an employee of the Company, the Employee shall be entitled to receive and enjoy the following benefits during the Employment Period:

(a) **Participation in Company Benefit Plans.** The Employee shall be entitled to participate in and to receive benefits generally available to senior executives under those certain employee benefit plans and arrangements which may be offered by the Company from time to time during the Employment Period, subject to and on a basis consistent with the terms, conditions and overall administration of such plans and arrangements by the Company. The Company shall provide full medical, hospitalization and dental insurance coverage for the Employee.

(b) **Vacations.** The Employee shall be entitled to 60% of four (4) weeks of paid vacation per Employment Year, provided that any vacations are to be taken at times mutually agreeable to the Company and the Employee. In addition to the foregoing, the Employee shall be entitled to receive all paid holidays given by the Company to its employees generally. If Employee has not used his accrued but unused vacation days during an Employment Year, such days may not be carried over to another and shall be deemed waived by the Employee. Any accrued but unused vacation days in an Employment Year shall be reimbursed in cash to Employee upon a termination of his employment Without Cause hereunder.

(c) **Business Expense Reimbursement.** The Company shall promptly reimburse or pay the Employee for all reasonable and necessary business expenses paid or incurred by the Employee in performing his duties and responsibilities hereunder; provided, that, the Employee shall have (i) submitted such reasonable documentation as may be requested by the Company in accordance with the reimbursement policies of the Company in effect from time to time and (ii) obtained the prior approval of the Company for all charges in excess of \$5,000.

(d) **Life Insurance.** The Company shall provide term life insurance in the amount of \$1,000,000 on the life of Employee, with Employee's spouse, or other Employee designee, as the named beneficiary for \$500,000 of such life insurance policy.

8. **Termination of Employment.** The Employee's employment with the Company may be terminated as follows:

(a) **With Cause.** The Employee's employment with the Company may be terminated by the Company at any time for "Cause." As used herein, the term "Cause" shall refer to the following: (i) theft, fraud, dishonesty, gross negligence or willful malfeasance by the Employee in connection with the performance of his duties hereunder (collectively, "Theft Events"); (ii) a material breach or failure to fulfill and perform the Employee's duties hereunder, which breach or failure is not cured to the reasonable satisfaction of the Company within forty-five (45) days after written demand from the Company (if such breach is at all curable during such time in the reasonable determination of the Company; failing such determination, "Cause" shall have occurred upon the occurrence of such breach or failure); (iii) conviction of a felony or a crime involving moral turpitude; (iv) habitual neglect of duties or misconduct in the performance of the Employee's duties and responsibilities hereunder following an initial notice of warning from the Company with respect thereto; or (v) a repeated or ongoing failure to comply with the reasonable directions and instructions of management of the Company in connection with the performance of the Employee's duties and responsibilities hereunder following an initial notice of warning from the Company with respect thereto. Upon termination for Cause, all rights of the Employee under this Agreement shall immediately terminate and the Company shall have no further obligations. A termination of the Employee's employment with the Company by the Employee upon his voluntary resignation or voluntary retirement shall be treated as a termination for Cause hereunder. In connection therewith, the Employee covenants and agrees not to voluntarily resign or voluntarily retire without providing the Company with ninety (90) days' prior written notice. Upon a termination for Cause, Employee shall receive in full satisfaction of all amounts due to him an amount equal to the remainder of Base Compensation through date of termination. Notwithstanding any of the foregoing, in the event that the Company has terminated Employee's employment on account of a Theft Event, the Company shall be entitled to withhold from any amounts otherwise due to Employee under this Subsection 8(a) the amount of monetary damages incurred by the Company from such Theft Event which shall be quantified and determined in writing by the Company within 90 days after the date of termination. The Employee agrees that his eligibility to receive any and all amounts described in this Section 8(a) shall be subject to and contingent upon the Employee's execution of a full and complete general release in favor of the Company and its affiliated persons and entities, satisfactory to the Company in its sole discretion.

(b) **Without Cause.** The Employee's employment with the Company may be terminated by the Company at any time without Cause, but in the event of any such termination pursuant to this Section 8(b), the Company will pay, in addition to any other amounts due hereunder, the Employee severance pay in an amount equal to the greater of (i) the balance of all of Employee's remaining and unpaid Base Compensation due for the balance of the then existing term hereunder, or (ii) 90 days of Base Compensation, payable upon execution and delivery of the release described below, less all required withholdings and in accordance with then current payroll practices of the Company and applicable law or regulation. In addition, Employee shall receive any accrued but unpaid vacation time for the current Employment Year. The Employee agrees

that his eligibility to receive any and all amounts described in this Section 8(b) shall be subject to and contingent upon the Employee's execution of a full and complete general release in favor of the Company and its affiliated persons and entities, satisfactory to the Company in its sole discretion.

(c) **Termination for Death or Disability.** The Employee's employment hereunder shall terminate immediately upon the Employee's death or Disability. For purposes of the preceding sentence, the term "**Disability**" shall mean the Employee's inability, by reason of physical or mental incapacity (determined by a licensed physician reasonably acceptable to the Employee and the Company), to perform the essential functions of his job, with or without a reasonable accommodation by the Company, for an aggregate of ninety (90) days during any twelve (12) month period, *provided further* that during any such continuous period, the Employee's Base Compensation payable under Section 6(a) shall be reduced by the amount, if any, of payments to the Employee under any short-term or long-term disability insurance policy, plan or program maintained by the Company. During any period when the Employee implicitly or explicitly purports to be unable to perform his duties hereunder by reason of physical or mental illness, incapacity or disability, the Employee, at the request and expense of Company, shall submit to one or more examinations by a physician of the Company's choice. A termination of the Employee's employment with the Company due to any of the foregoing provisions of this Section 8(c) shall be treated as a termination without Cause hereunder.

(d) **Termination by Employee for Good Reason.** Employee shall have the right to terminate this Agreement for "Good Reason". The following events affecting Employee shall constitute "Good Reason" within the meaning of this Agreement: (i) if Employee, at any time during the Employment Period (except during a period of Disability), has suffered a material change or diminution in duties and responsibilities from those contemplated herein, or (ii) if there is a Change of Control Event, as defined below.

For purposes of this Employment Agreement, a "Change of Control" shall mean the happening of any of the following:

(i) the acquisition by any person or group deemed a person under Sections 3(a)(9) and 13(d)(3) of the Securities Exchange Act of 1934 (the "Exchange Act") (other than the Company and its subsidiaries as determined immediately prior to that date) of beneficial ownership, directly or indirectly (with beneficial ownership determined as provided in Rule 13d-3, or any successor rule, under the Exchange Act), of a majority of the total combined voting power of all classes of stock of the Company having the right under ordinary circumstances to vote at an election of the Board of Directors of the Company, if such person or group deemed a person was not a beneficial owner of at least five percent (5%) of such total combined voting power of the Company on the date of this Agreement;

(ii) the election to the Board of Directors of the Company of members as a result of which a majority of the Board of Directors shall consist of persons who are not members of the Board of Directors as of the Effective Date (including Employee as a

member of the Board of Directors as of the Effective Date), except in the event that such slate of Directors is proposed by the management of the Company;

(iii) the date of approval by the stockholders of the Company of an agreement providing for the merger or consolidation of the Company with another corporation or other entity where (x) stockholders of the Company immediately prior to such merger or consolidation would not beneficially own following such merger or consolidation shares entitling such stockholders to 50% or more of all votes (without consolidation of the rights of any class of stock to elect directors by a separate class vote) to which all stockholders of the surviving corporation would be entitled in the election of directors, or (y) where the members of the Board of Directors, immediately prior to such merger or consolidation, would not, immediately after such merger or consolidation, constitute a majority of the board of directors of the surviving corporation; or

(iv) the sale of all or substantially all of the assets of the Company.

(e) **Status upon Termination.** The termination of this Agreement, and the Employee's employment hereunder, for any reason whatsoever shall constitute the Employee's effective termination and resignation from any other positions or duties with the Company and all of its affiliates.

(f) **Effect of Termination.**

(i) In the event of a termination of the Employee's employment with the Company hereunder for any reason, in addition and subject to the provisions of Sections 8(a), 8(b), 8(c) and 8(d), the Employee shall be entitled to receive all Base Compensation and accrued benefits owing through the date of termination in accordance with the Company's normal practices then in effect.

(ii) In the event of a termination of the Employee's employment without Cause pursuant to Sections 8(b), 8(c) or 8(d) above, the Company shall also pay the Employee severance compensation in accordance with Section 8(b) above. Furthermore, if the Employee is terminated without Cause, or the employment ceases under Section 8(c) or 8(d), all unvested options granted to the Employee pursuant to the Equity Incentive Plan shall become fully vested and be kept in effect for 90 days following the Employee's termination of employment.

(iii) In the event of a termination of the Employee's employment with the Company hereunder for Cause pursuant to Section 8(a) above, all rights of the Employee under this Agreement shall immediately terminate and the Company shall have no further obligations hereunder, subject to Section 8(f)(i) above and this provision. Furthermore, if the Employee is terminated for Cause, all unvested options granted to the Employee pursuant to the Equity Incentive Plan shall terminate.

9. **Noncompetition and Confidentiality.**

(a) **Noncompetition.** During the Employment Period and, in the case of a termination of the Employee's employment for Cause, for a period of six (6) months following the date of termination of employment, or, in the case of a termination of the Employee's employment without Cause, for a period of one day following the date of termination of employment (the "Covered Period"), the Employee agrees not to engage in any Competitive Activity within the States of New York, California, New Mexico, Texas and Wyoming. As used herein, the term "Competitive Activity" shall mean the following: (i) providing competitive services, other than on behalf of the Company, to any Customer (as defined below); (ii) serving as an officer, director, employee, consultant, advisor, agent or representative of, or otherwise associating in any other capacity with, any person, corporation, partnership, limited liability company, sole proprietorship, association or other business enterprise, other than the Company, engaged in the business of oil and gas exploration, drilling and production or any other business in which the Company is engaged (each, a "Competitive Enterprise"), or engaging individually in any Competitive Enterprise; (iii) owning or acquiring, directly or indirectly, any interest in any Competitive Enterprise (provided, however, the Employee shall be allowed to passively own for investment purposes, directly or indirectly, no more than ten percent (10%) of the issued and outstanding publicly traded securities of any issuer engaged in a Competitive Enterprise); (iv) soliciting or inducing any partner, stockholder, member, principal, director, officer, employee, consultant, agent or other representative of the Company or one or more affiliates to leave the employ or retention of the Company or such affiliate or hiring away any of the foregoing persons; and/or (v) encouraging, requesting or advising, explicitly or implicitly, any Customer or supplier of the Company or one or more of its affiliates to withdraw, curtail or cancel its business relationships with the Company or any affiliate thereof (unless expressly requested to do so by the Company as part of the Employee's employment services provided hereunder).

As used in this Section 9, the term "Customer" shall include any person who is or was a customer of the Company or an affiliate thereof at any time during the period commencing with the Employment Period through the end of the Covered Period.

(b) **Confidentiality.** During the Employment Period and for a period of three (3) years thereafter, the Employee shall not, except as may otherwise be required by law, directly or indirectly disclose to any person or entity, or use or cause to be used in any manner adverse to the interests of the Company or any affiliate thereof, any Confidential Information (as defined below in this Section 9(b)). The Employee agrees that, upon the termination of his employment with the Company for any reason, all Confidential Information (other than a copy of this Agreement and any other agreements that have been personally executed by the Employee other than in his capacity as an officer of the Company) and duplicates thereof in the possession or control of the Employee, in any form or format, including, without limitation, written, visual, audio, electronic or magnetic formats, shall forthwith be returned to the Company and shall not be retained by the Employee or furnished or communicated to any third party in any form whatsoever.

As used in this Section 9(b), the term “Confidential Information” shall mean the following: (i) information disclosed to the Employee or known by the Employee as a consequence of the Employee’s relationship with the Company or any Affiliate thereof, as defined below, not generally known in the Company’s business, about the Company’s or an Affiliate’s employees, customers, directors, officers, partners, shareholders, advertising methods, public relations methods, business plans, operations, methods, processes and forecasts, vendors, finances, trade marks, trade secrets, source code, patent applications, manuals, designs, technical specifications and other intellectual property; (ii) information disclosed to the Employee or known by the Employee as a consequence of the Employee’s relationship with the Company or any Affiliate thereof, not generally known in the businesses in which the customers of the Company or its affiliates are or may be engaged, about the products, processes, operations, trade information and services of any such customer; or (iii) information disclosed to the Employee by the Company or any of its affiliate which is marked as “confidential” or, if communicated verbally, is followed up by written correspondence designating such information as “confidential.” Affiliate shall mean any person or entity that directly, or indirectly, through one or more intermediaries, controls, or is controlled by, or is under common control with, the Company.

(c) **Severability.** The invalidity or nonenforceability of any provision of this Section 9 in any respect shall not affect the validity or enforceability of the other provisions of this Section 9 in any other respect, or of any other provision of this Agreement. In the event that any provision of this Section 9 shall be held invalid or unenforceable by a court of competent jurisdiction by reason of the geographic or business scope or the duration thereof or for any other reason, such invalidity or unenforceability shall attach only to the particular aspects of such provision found invalid or unenforceable as applied and shall not affect or render invalid or unenforceable any other provision of this Section 9 or the enforcement of such provision in other circumstances, and this Section 9 shall be construed as if the geographic or business scope or the duration of such provision or other basis on which such provision has been challenged had been more narrowly drafted so as not to be invalid or unenforceable.

10. **Business Opportunities.** During the Employment Period, the Employee agrees to bring all business opportunities to the Company relating to or otherwise associated with the business or businesses then conducted by the Company or each affiliate thereof, or business or businesses proposed to be conducted by the Company.

11. **Rights to Work Product.** The Employee agrees that all work performed by the Employee pursuant hereto shall be the sole and exclusive property of the Company, in whatever stage of development or completion. With respect to any copyrightable works prepared in whole or in part by the Employee pursuant to this Agreement, including compilations of lists or data, the Employee agrees that all such works will be prepared as “work-for-hire” within the meaning of the Copyright Act of 1976, as amended (the “Act”), of which the Company shall be considered the “author” within the meaning of the Act. In the event (and to the extent) that such works or any part or element thereof is found as a matter of law not to be a “work-for-hire” within the meaning of the Act, the Employee hereby assigns to the Company the sole and exclusive right, title and interest in and to all such works, and all copies of any of them, without

further consideration, and agrees, to the extent reasonable under the circumstances, to cooperate with the Company to register, and from time to time to enforce, all patents, copyrights and other rights and protections relating to such works in any and all countries. To that end, the Employee agrees to execute and deliver all documents requested by the Company in connection therewith, and the Employee hereby irrevocably designates and appoints the Company as the Employee's agent and attorney-in-fact to act for and on behalf of the Employee and in the Employee's stead to execute, register and file any such applications, and to do all other lawfully permitted acts to further the registration, protection and issuance of patents, copyrights or similar protections with the same legal force and effect as if executed by the Employee. The Company shall reimburse the Employee for all reasonable costs and expenses incurred by the Employee pursuant to this Section 11.

12. **No Disparaging Statements.** During the Term of employment and for one (1) year after termination of this Agreement for any reason whatsoever, the Employee and the Company agree to refrain from making any disparaging statements, either orally or in writing, about the other party (and, on the part of the Employee, about any affiliate of the Company, or any directors, officers, shareholders, employees, agents or other representatives of the Company or any affiliate thereof).

13. **Survival.** The provisions of Sections 8(b), 8(c), 8(d), 8(f), 9, 11, 12, 14, 15, 16 and 17 hereof shall survive the termination of this Agreement for the applicable time period necessary to fully effectuate the provisions of such sections.

14. **Compliance With Other Agreements.** The Employee and the Company each hereby represent and warrant to the other that the execution and delivery of this Agreement and the performance of such party's obligations hereunder will not, with or without the giving of notice and/or the passage of time, (i) violate any judgment, writ, injunction or order of any court, arbitrator or governmental agency applicable to such party, or (ii) conflict with, result in the breach of any provision of or the termination of, or constitute a default under, any agreement to which such party is a party or by which such party is or may be bound. The parties agree to indemnify and hold harmless each other from any liability, judgment or claim incurred, entered or made against such party based on its reliance on the representations and warranties made in this Section 14, including all costs and expenses and attorney's fees incurred or paid by such party in connection with the foregoing.

15. **Injunctive Relief.** The Employee acknowledges and agrees that the Company and its affiliates are engaged in a highly competitive business and that the protections of the Company and each such affiliate set forth in Sections 9, 10 and 11 of this Agreement are fair and reasonable and are of vital concern to the Company and its affiliates. Further, the Employee acknowledges and agrees that monetary damages for any violation of such Sections will not adequately compensate the Company and its affiliates with respect to any such violation. Therefore, in the event of a breach by the Employee of any of the terms and provisions contained in Sections 9, 10 or 11 hereof, the Company shall be entitled to institute legal proceedings to enforce the specific performance of this Agreement by the Employee and to enjoin the Employee from any further violations. The

remedies available to the Company pursuant to this Section 15 may be exercised cumulatively by the Company in conjunction with all other rights and remedies provided by law.

16. **Arbitration Of Disputes.** If any dispute shall arise between the Employee and the Company in connection with this Agreement, and such dispute cannot be resolved amicably by the parties, the same shall be conclusively and finally resolved by binding arbitration. Any party hereto may commence an arbitration proceeding by providing written notice to the other party requesting the arbitration of an unresolved dispute. Each such dispute, if any, shall be submitted to an arbitrator acceptable to both parties. If either the Employee or the Company refuses or neglects to agree to appoint an arbitrator within thirty (30) days after receipt of written notice from the other party requesting the other party to do so, the American Arbitration Association may appoint such arbitrator. The arbitrator shall be experienced in the subject matter of the dispute. Except as otherwise specifically set forth herein, the arbitrators shall conduct the arbitration in accordance with the Commercial Arbitration Rules of the American Arbitration Association. The decision in writing of the arbitrator, when filed with the parties hereto, shall be final and binding on both parties. Judgment may be entered upon the final decision of the arbitrator in any court having jurisdiction. Such arbitration shall take place in New York, New York.

Notwithstanding anything to the contrary contained in this Section 16, nothing shall prohibit the Company or Employee from pursuing all legal and equitable remedies available to the Company or Employee in order to enforce the provisions of Sections 9, 10 and 11 of this Agreement. To the extent that any court action is permitted consistent with or to enforce this Agreement, the parties hereby consent to the jurisdiction of the federal or state courts sitting in any state where the Company maintains an office. Accordingly, with respect to any such court action, all of the parties hereto (a) submit to the personal jurisdiction of such courts, (b) consent to service of process and (c) waive any other requirement (whether imposed by statute, rule of court, or otherwise) with respect to personal jurisdiction or service of process.

17. **Amendment; Waiver; Discharge.** No provision of this Agreement may be amended, waived or discharged unless such amendment, waiver or discharge is agreed to in writing and signed by the Employee and a duly authorized representative of the Company. No waiver by either party hereto at any time of any breach by the other party hereto of, or compliance with, any condition or provision of this Agreement to be performed by such other party shall be deemed a waiver of similar or dissimilar provisions or conditions at the same or at any prior or subsequent time.

18. **Validity.** The invalidity or unenforceability of any provision or provisions of this Agreement shall not affect the validity or enforceability of any other provision of this Agreement, which shall remain in full force and effect.

19. **Notices.** All notices, demands and other communications provided for in this Agreement shall be in writing and shall be delivered by hand or sent via fax transmission (with written fax confirmation) or mailed postage prepaid or by registered,

certified or express mail or reputable overnight courier service, charges prepaid, and shall be deemed given when so delivered, if delivered by hand, or upon receipt of reasonably adequate fax confirmation, if faxed, or, if mailed, five (5) business days after mailing (or one (1) business day in the case of express mail or overnight courier service), addressed as follows:

If to the Employee:

David E. Fleming
105 Norfield Road
Weston, Connecticut 06883

If to the Company:

Warren Resources, Inc.
489 Fifth Avenue
32nd Floor
New York, NY 10016
Attention: Chief Executive Officer
(Fax): (212) 697-9466
(Tel.): (212) 697-9660

or to such other address or person as any party may have furnished to the other in writing in accordance herewith, except that notices of change of address shall be effective only upon receipt.

20. **Headings.** All headings contained in this Agreement are for reference purposes only and shall not in any way effect the meaning or interpretation of any provision or provisions of this Agreement.

21. **Entire Agreement.** This Agreement sets forth the entire agreement of the parties hereto in respect of the subject matter contained herein and supersedes all prior agreements, promises, covenants, understandings, arrangements, communications, representations or warranties, whether oral or written, by any party or representative of any party hereto.

22. **Assignment and Transfer.** The Employee's rights and obligations under this Agreement shall not be transferable by assignment or otherwise, and any purported assignment, transfer or delegation thereof shall be void. This Agreement shall inure to the benefit of, and be binding upon and enforceable by, any purchaser of substantially all of the Company's assets, any corporate successor to the Company or any assignee thereof.

23. **Counterparts.** This Agreement may be executed in several counterparts, each of which shall be deemed to be an original but all of which together will constitute one and the same instrument.

24. **Governing Law.** The validity, interpretation, construction and performance of this Agreement shall be governed by the laws of the State of New York without regard to its conflicts of law principles.

IN WITNESS WHEREOF, the parties have executed this Agreement as of the date and year first above written.

WARREN RESOURCES, INC.

By: /s/ Norman F. Swanton

Name: Norman F. Swanton

Title: Chief Executive Officer

/s/ David E. Fleming

David E. Fleming

CERTIFICATION OF CHIEF EXECUTIVE OFFICER

I, Norman F. Swanton, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Warren Resources, Inc.

2. Based on my knowledge, this quarterly 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 quarterly 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-15e and 15d-15e) 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) Paragraph omitted in accordance with SEC instructions contained in SEC release 34-47986;

(c) 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

(d) 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;

5. The registrant's other certifying officers 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 registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weakness in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect 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: May 12, 2004

/s/ Norman F. Swanton
Norman F. Swanton
Chairman and Chief Executive Officer

A signed original of this original statement required by Section 302 has been provided to Warren Resources, Inc., and will be retained by Warren Resources, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

CERTIFICATION OF CHIEF FINANCIAL OFFICER

I, Timothy A. Larkin, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Warren Resources, Inc.

2. Based on my knowledge, this quarterly 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 quarterly 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-15e and 15d-15e) 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) Paragraph omitted in accordance with SEC instructions contained in SEC release 34-47986;

(c) 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

(d) 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;

5. The registrant's other certifying officers 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 registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weakness in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect 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: May 12, 2004

/s/ Timothy A. Larkin
Timothy A. Larkin
Executive Vice President,
Chief Financial Officer and
Principal Accounting Officer

A signed original of this original statement required by Section 302 has been provided to Warren Resources, Inc., and will be retained by Warren Resources, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

WARREN RESOURCES, INC.

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Warren Resources, Inc. (the "Company") on Form 10-Q for the period ending March 31, 2004 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Norman F. Swanton, Chairman of the Board and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, 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 result of operations of the Company.

/s/ Norman F. Swanton
Norman F. Swanton
Chairman of the Board
And Chief Executive Officer

May 12, 2004

A signed original of this original statement required by Section 906 has been provided to Warren Resources, Inc., and will be retained by Warren Resources, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

WARREN RESOURCES, INC.

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Warren Resources, Inc. (the "Company") on Form 10-Q for the period ending March 31, 2004 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Timothy A. Larkin, Senior Vice President, Chief Financial Officer and Principal Accounting Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, 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 result of operations of the Company.

/s/ Timothy A. Larkin
Timothy A. Larkin
Executive Vice President,
Chief Financial Officer
And Principal Accounting Officer

May 12, 2004

A signed original of this original statement required by Section 906 has been provided to Warren Resources, Inc., and will be retained by Warren Resources, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.
