

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549**

**FORM 10-Q**

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

for the quarterly period ended December 31, 2009

**OR**

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

for the transition period from \_\_\_\_\_ to \_\_\_\_\_

*Commission File Number 0-9355*

**CUBIC ENERGY, INC.**

(Exact name of registrant as specified in its charter)

**Texas**  
(State or other jurisdiction of incorporation)

**87-0352095**  
(IRS Employer Identification No.)

**9870 Plano Road  
Dallas, TX 75238**  
(Address of principal executive offices)

**(972) 686-0369**  
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definition of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer   
Non-accelerated filer

Accelerated filer   
Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

As of February 15, 2010, the registrant had 65,044,579 shares of common stock, \$0.05 par value, outstanding.

## Special note regarding forward-looking statements

This quarterly report on Form 10-Q contains forward-looking statements, as defined in Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. All statements, other than statements of historical facts, are forward-looking statements. These forward-looking statements relate to, among other things, the following: our future financial and operating performance and results; our business strategy; market prices; and our plans and forecasts.

Forward-looking statements are identified by use of terms and phrases such as “may,” “expect,” “estimate,” “project,” “plan,” “believe,” “intend,” “achievable,” “anticipate,” “will,” “continue,” “potential,” “should,” “could” and similar words and phrases. Although we believe that the expectations reflected in these forward-looking statements are reasonable, they do involve certain assumptions, risks and uncertainties. Our actual results could differ materially from those anticipated in these forward-looking statements. You should consider carefully the statements in the “Risk Factors” section of this report and our Annual Report on Form 10-K for the fiscal year ended June 30, 2009, as well as other sections of this report, which describe factors that could cause our actual results to differ from those set forth in the forward-looking statements, including, but not limited to, the following factors:

- our ability to generate sufficient cash flow from operations, borrowings or other sources to enable us to service our debt and fully develop our undeveloped acreage positions;
- the volatility in commodity prices for oil and natural gas;
- the possibility that the industry may be subject to future regulatory or legislative actions (including any additional taxes);
- the presence or recoverability of estimated oil and natural gas reserves and the actual future production rates and associated costs;
- the ability to replace oil and natural gas reserves;
- lease or title issues or defects to our oil and gas properties;
- environmental risks;
- drilling and operating risks;
- exploration and development risks;
- competition, including competition for acreage in natural gas producing areas;
- management’s ability to execute our plans to meet our goals;
- our ability to retain key members of senior management;
- our ability to obtain goods and services, such as drilling rigs and other oilfield equipment, and access to adequate gathering systems and pipeline take-away capacity, to execute our drilling program;
- general economic conditions, whether internationally, nationally or in the regional and local market areas in which we do business, may be less favorable than expected, including that the United States economic slow-down might continue to negatively affect the demand for natural gas, oil and natural gas liquids;
- dependence on third-party operators for the production and completion of wells on our acreage;
- the ability to market our natural gas and pipeline capacity through which to sell our natural gas;

- continued hostilities in the Middle East and other sustained military campaigns or acts of terrorism or sabotage; and
- other economic, competitive, governmental, legislative, regulatory, geopolitical and technological factors that may negatively impact our business, operations or pricing.

All forward-looking statements are expressly qualified in their entirety by the cautionary statements in this paragraph and elsewhere in this document. Other than as required under the securities laws, we do not assume a duty to update these forward-looking statements, whether as a result of new information, subsequent events or circumstances, changes in expectations or otherwise.

**CUBIC ENERGY, INC.**

**TABLE OF CONTENTS**

Page

**PART I – FINANCIAL INFORMATION**

Item 1. Financial Statements

Independent Accountant’s Report.....	1
Condensed Balance Sheets As of December 31, 2009 (unaudited) and June 30, 2009.....	2
Condensed Statements of Operations (unaudited) For the three and six months ended December 31, 2009 and 2008.....	3
Condensed Statements of Cash Flows (unaudited) For the six months ended December 31, 2009 and 2008.....	4
Notes to Condensed Financial Statements.....	5-11

Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations .12-18

Item 3. Quantitative and Qualitative Disclosures About Market Risk..... 19

Item 4. Controls and Procedures..... 19

**PART II – OTHER INFORMATION**

Item 1. Legal Proceedings.....20

Item 1A. Risk Factors .....20

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds .....20

Item 3. Defaults Upon Senior Securities .....20

Item 4. Submission of Matters to a Vote of Security Holders .....20

Item 5. Other Information .....20

Item 6. Exhibits.....21

Signatures.....22

Certifications

## **PART I - FINANCIAL INFORMATION**

### **REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

The Stockholders and Board of Directors  
Cubic Energy, Inc.

We have reviewed the accompanying condensed balance sheet as of December 31, 2009, and the related condensed statements of operations for the three and six month periods ended December 31, 2009 and 2008, and the cash flows of Cubic Energy, Inc. for the six month periods ended December 31, 2009 and 2008. These financial statements are the responsibility of the Company's management.

We conducted our reviews in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures to financial data and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our reviews, we are not aware of any material modifications that should be made to the accompanying financial statements for them to be in conformity with accounting principles generally accepted in the United States of America.

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the balance sheet of Cubic Energy, Inc. as of June 30, 2009, and the related statements of operations, stockholders' equity and cash flows for the year then ended (not presented herein); and in our report dated September 28, 2009, we expressed an unqualified opinion on those statements and included an explanatory paragraph regarding the Company's ability to continue as a going concern. In our opinion, the information set forth in the accompanying condensed balance sheet as of June 30, 2009, is fairly stated, in all material respects, in relation to the balance sheet from which it has been derived.

PHILIP VOGEL & CO., PC

/s/ Philip Vogel & Co., PC  
Certified Public Accountants

Dallas, Texas  
February 15, 2010

**CUBIC ENERGY, INC.**  
**CONDENSED BALANCE SHEETS**

**Item 1. Financial Statements**

	<b>December 31, 2009 (unaudited)</b>	<b>June 30, 2009</b>
<b><u>Assets</u></b>		
Current assets:		
Cash and cash equivalents	\$ 2,179,901	\$ 71,050
Accounts receivable - trade	755,673	200,950
Other prepaid expenses	23,599	55,063
Total current assets	2,959,173	327,063
Property and equipment:		
Oil and gas properties, full cost method:		
Proved properties (including wells and related equipment and facilities)	7,857,618	15,725,709
Unproven properties	855,750	890,715
Office and other equipment	28,420	28,420
Property and equipment, at cost	8,741,788	16,644,844
Less accumulated depreciation, depletion and amortization	5,457,552	4,934,973
Property and equipment, net	3,284,236	11,709,871
Other assets:		
Deferred loan costs, net	49,244	89,700
Other - Long term Drilling Credit	30,958,368	-
Total other assets	31,007,612	89,700
	<b>\$ 37,251,021</b>	<b>\$ 12,126,634</b>
<b><u>Liabilities and stockholders' equity</u></b>		
Current liabilities:		
Current portion of long term debt	\$ -	\$ 26,657,390
Accounts payable and accrued expenses	581,594	299,381
Due to affiliates	545,867	1,192,828
Total current liabilities	1,127,461	28,149,599
Long-term liabilities:		
Long-term debt, net of discounts	\$ 18,255,788	\$ -
Total long-term liabilities	\$ 18,255,788	\$ -
Stockholders' equity:		
Preferred stock - 8% preferred stock, \$.01 par value, redeemable at \$120 convertible at \$1.20 per common share		
Authorized 10,000,000 shares none issued;		
* 103,500 shares @ \$100/sh (*unissued 12/31/09 see Note B)	\$ 1,035	\$ -
Additional paid-in capital - Preferred stock	10,348,965	-
Common stock - \$.05 par value, authorized 100,000,000 shares,		
issued 64,674,565 + * 10,350,000 (*shares unissued 12/31/09 see Note B)		
shares at December 31, 2009 and 62,570,564 shares at June 30, 2009	3,751,228	3,128,528
Additional paid-in capital - Common stock and warrants	53,655,572	30,062,168
Accumulated deficit	(49,889,028)	(49,213,661)
Stockholders' equity	17,867,772	(16,022,965)
	<b>\$ 37,251,021</b>	<b>\$ 12,126,634</b>

*The accompanying notes are an integral part of these statements.*

**CUBIC ENERGY, INC.**

**CONDENSED STATEMENTS OF OPERATIONS**  
**(unaudited)**

	<b>Three months ended</b>		<b>Six months ended</b>	
	<b>December 31,</b>		<b>December 31,</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
Revenues:				
Oil and gas sales	\$ 599,117	\$ 491,966	\$ 959,018	\$ 1,166,937
Total revenues	<u>\$ 599,117</u>	<u>\$ 491,966</u>	<u>\$ 959,018</u>	<u>\$ 1,166,937</u>
Costs and expenses:				
Oil and gas production, operating and development costs	354,810	399,743	646,147	764,099
General and administrative expenses	538,489	449,094	983,412	900,393
Depreciation, depletion and non-loan-related amortization	289,983	296,227	522,580	559,984
Impairment loss on oil and gas properties	-	8,599,871	-	8,599,871
Total operating costs and expenses	<u>1,183,282</u>	<u>9,744,935</u>	<u>2,152,139</u>	<u>10,824,347</u>
Operating loss	<u>(584,165)</u>	<u>(9,252,969)</u>	<u>(1,193,121)</u>	<u>(9,657,410)</u>
Non-operating income (expense):				
Other income	644	12,290	1,097	30,395
Interest expense, including amortization of loan discount	(680,068)	(540,600)	(1,167,457)	(1,085,875)
Amortization of loan costs	<u>(29,548)</u>	<u>(33,960)</u>	<u>(63,509)</u>	<u>(67,921)</u>
Total non-operating expense	<u>(708,972)</u>	<u>(562,270)</u>	<u>(1,229,869)</u>	<u>(1,123,401)</u>
Gain on debt extinguishment	<u>1,747,623</u>	<u>-</u>	<u>1,747,623</u>	<u>-</u>
Income from operations before income taxes	454,486	(9,815,239)	(675,367)	(10,780,811)
Provision for income taxes (Louisiana state taxes)	-	-	-	-
Net income (loss)	<u>\$ 454,486</u>	<u>\$ (9,815,239)</u>	<u>\$ (675,367)</u>	<u>\$ (10,780,811)</u>
Net income (loss) per common share - basic and diluted	<u>\$ 0.01</u>	<u>\$ (0.16)</u>	<u>\$ (0.01)</u>	<u>\$ (0.18)</u>
Weighted average common shares outstanding	64,674,565	60,335,564	64,113,131	60,310,917

*The accompanying notes are an integral part of these statements.*

**CUBIC ENERGY, INC.**

**CONDENSED STATEMENTS OF CASH FLOWS  
(Unaudited)**

	Six months ended December 31,	
	2009	2008
<b>Cash flows from operating activities:</b>		
Net (loss)	\$ (675,367)	\$ (10,780,811)
Adjustments to reconcile net (loss) to cash provided (used) by operating activities:		
Depreciation, depletion and amortization	1,036,760	887,329
Impairment Loss on Oil and Gas properties	-	8,599,871
Gain on debt extinguishment	(1,747,623)	-
Change in assets and liabilities:		
(Increase) decrease in accounts receivable - trade	(554,723)	42,305
(Increase) decrease in other prepaid expenses	31,464	45,551
Increase (decrease) in accounts payable and accrued liabilities	282,213	(38,805)
Increase (decrease) in due to affiliates	103,509	175,727
Net cash provided (used) by operating activities	\$ (1,523,767)	\$ (1,068,834)
<b>Cash flows from investing activities:</b>		
Acquisition and development of oil and gas properties	(2,349,754)	(4,175,529)
Increase (decrease) in capital portion of due to affiliates	(750,470)	(51,171)
Purchase of office equipment	-	(13,748)
(Increase) decrease in advances on development costs	(5,558)	33,399
(Increase) decrease in other assets	-	-
Net cash provided (used) by investing activities	\$ (3,105,782)	\$ (4,207,049)
<b>Cash flows from financing activities:</b>		
Proceeds from credit facility	5,000,000	3,172,200
Issuance of preferred stock, net	-	-
Issuance of common stock, net	1,788,400	1,095,952
Loan costs incurred and other	(50,000)	-
Net cash provided (used) by financing activities	\$ 6,738,400	\$ 4,268,152
<b>Net increase (decrease) in cash and cash equivalents</b>	\$ 2,108,851	\$ (1,007,731)
<b>Cash and cash equivalents:</b>		
Beginning of period	71,050	2,144,002
End of period	\$ 2,179,901	\$ 1,136,271
Other information:		
Cash interest paid on debt	\$ 716,764	\$ 857,111
Non-cash investing and financing activities:		
*Common and preferred stock for drilling credits	\$ 20,700,000	\$ -
Property interest assigned for drilling credits	10,252,810	-
Equity interest issued creating a deferred interest from debt modification	12,077,704	-

\* shares pending NYSE Amex approval for issuance

*The accompanying notes are an integral part of these statements.*

**CUBIC ENERGY, INC.**

**NOTES TO CONDENSED FINANCIAL STATEMENTS  
AS OF DECEMBER 31, 2009  
(Unaudited)**

**Note A – Summary of Significant Account Policies:**

**Basis of presentation**

The accounting policies followed by Cubic Energy, Inc., a Texas corporation (the “Company” or “Cubic”), are set forth in the Company’s financial statements that are a part of its Annual Report on Form 10-K for the fiscal year ended June 30, 2009 and should be read in conjunction with the financial statements contained herein.

The financial information included herein as of December 31, 2009, and for the three and six month periods ended December 31, 2009, and 2008, have been presented without an audit, pursuant to accounting principles for interim financial information generally accepted in the United States of America, and the rules of the Securities and Exchange Commission.

The Company believes that the disclosures are adequate to make the information presented not misleading. The information presented reflects all adjustments (consisting solely of normal recurring adjustments, except for the adjustment described in Note C), which are, in the opinion of management, necessary for a fair statement of results for the periods.

**Earnings per share**

The Company has adopted the provisions of Financial Accounting Standards Board, Accounting Standards Codification (“FASB ASC”) 260, “*Earnings per Share*”. FASB ASC 260 reporting requirements replace primary and fully-diluted earnings per share (“EPS”) with basic and diluted EPS. Basic EPS is calculated by dividing net income (available to common stockholders) by the weighted average number of common shares outstanding for the period. Diluted EPS reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock.

Potential dilutive securities (e.g., stock warrants and convertible debt) have been considered, but the dilutive effect of the potential dilutive securities is not believed to be material. The Company reported net income in the three months ended December 31, 2009. The Company reported net losses in six month period ended December 31, 2009 and in the three and six month periods ended December 31, 2008, and, accordingly, their effects would be anti-dilutive. The weighted average number of common and common equivalent shares outstanding was 64,674,565 and 60,335,634 for the quarters ended December 31, 2009 and 2008, respectively, 64,113,131 and 60,310,917 for the six month periods ended December 31, 2009 and 2008, respectively.

**CUBIC ENERGY, INC.**

**NOTES TO CONDENSED FINANCIAL STATEMENTS  
AS OF DECEMBER 31, 2009  
(Unaudited)**

**Note B – Stockholders' Equity:**

**Stock issuances**

In connection with the following common stock issuances, the Company entered into Subscription and Registration Rights Agreements ("Subscription Agreements") with certain investors. Pursuant to the Subscription Agreements, the Company issued an aggregate of 2,104,001 shares of common stock and warrants exercisable into 1,052,000 shares of common stock.

On August 18, 2009, four investors acquired 804,000 shares of common stock and warrants exercisable into 402,000 shares of common stock, through the payment of \$683,400. The warrants are exercisable through July 31, 2014, at \$0.85 per share.

On August 26, 2009, six investors acquired 1,300,001 shares of common stock and warrants exercisable into 650,000 shares of common stock, through the payment of \$1,105,001. The warrants are exercisable through July 31, 2014, at \$0.85 per share.

With respect to certain of such issuances, the Company paid broker-dealer commissions in the aggregate amount of \$59,500 to Avalon Group, Ltd.

Pursuant to the Subscription Agreements, the investors paid aggregate consideration of approximately \$1,788,400, all of which has been or will be used for working capital purposes. The aforementioned issuances were made in reliance upon an exemption from registration set forth in Regulation D and / or Section 4(2) of the Securities Act of 1993, as amended, which exempts transactions by an issuer not involving a public offering.

On November 24, 2009, the Company entered into transactions with Tauren Exploration, Inc. ("Tauren") and Langtry Mineral & Development, LLC ("Langtry"), both of which are entities controlled by Calvin Wallen III, the Chief Executive Officer of the Company, under which the Company has acquired \$30,952,810 in pre-paid drilling credits (the "Drilling Credits") applicable towards the development of its Haynesville Shale rights in Northwest Louisiana. The Company will use the Drilling Credits to fund \$30,952,810 of its share of the drilling and completion costs for those horizontal Haynesville Shale wells drilled in sections previously operated by an affiliate of the Company, which are now operated by a third party.

As consideration for the Drilling Credits, the Company, (a) has conveyed to Tauren a net overriding royalty interest of approximately 2% in its leasehold rights below the Taylor Sand formation of the Cotton Valley and (b) has agreed to issue to Langtry 10,350,000 Company common shares and preferred stock in the amount of \$10,350,000, convertible into Company common shares at \$1.20 per common share, five year conversion term, with such issuance of the common shares and the preferred stock dependent upon the approval of the Company's additional listing application with the NYSE Amex. The preferred stock will be entitled to cumulative dividends equal to 8% per annum, payable quarterly, which dividends may be paid in cash or in additional shares of preferred stock, in the Company's discretion. The preferred stock may be redeemed by the Company at any time, at a redemption price equal to 20% over the original issue price.

**CUBIC ENERGY, INC.**

**NOTES TO CONDENSED FINANCIAL STATEMENTS  
AS OF DECEMBER 31, 2009  
(Unaudited)**

The consideration with respect to these transactions was determined pursuant to negotiations between the Company, Tauren and Langtry, and not pursuant to any formula. The foregoing transactions were approved by a special committee of the board of directors of the Company comprised exclusively of the Company's non-employee directors.

The shares will be issued by the Company in reliance upon an exemption from registration set forth in Regulation D and/or Section 4(2) of the Securities Act of 1933, as amended, which exempts transactions by an issuer not involving a public offering.

**Stock grants**

There were no stock grants made to directors, officers or key employees during the six months ended December 31, 2009 or December 31, 2008.

**Note C – Oil and Gas Properties**

The capitalized costs included in the full cost pool are subject to a "ceiling test", which limits such costs to the aggregate of the estimated present value, using a ten percent discount rate, of the future net revenues from proved reserves, based on current economic and operating conditions plus the lower of cost and estimated net realizable value of unproven properties.

The Company recorded no impairment loss on oil and gas properties for the three or six months ended December 31, 2009 compared to an impairment loss on oil and gas properties in the amount of \$8,599,871 for the three and six months ended December 31, 2008 as a result of the full cost ceiling test. The weighted average natural gas price utilized for the December 31, 2008 ceiling impairment evaluation was \$5.907 per Mcf.

**CUBIC ENERGY, INC.**

**NOTES TO CONDENSED FINANCIAL STATEMENTS  
AS OF DECEMBER 31, 2009  
(Unaudited)**

**Note D – Long-term debt:**

**March 2007 debt issue**

On March 5, 2007, Cubic entered into a Credit Agreement with Wells Fargo Energy Capital, Inc. (“Wells Fargo”) providing for a revolving credit facility of \$20,000,000 (the “Revolving Note”) and a convertible term loan of \$5,000,000 (the “Term Loan”; and together with the Revolving Note, the “Credit Facility”). The indebtedness bore interest at a fluctuating rate equal to the sum of the Wells Fargo Bank prime rate plus two percent (2%) per annum, was originally scheduled to mature on March 1, 2010, and was secured by substantially all of the assets of the Company. Approximately \$5,000,000 of the funded amount was used, together with cash on hand, to retire the Company’s previously outstanding senior debt that was due February 6, 2009.

In connection with entering into the Credit Facility, the Company issued to Wells Fargo warrants, with five-year expirations, for the purchase of up to 2,500,000 shares of Company common stock at an exercise price of \$1.00 per share.

The warrants were issued by the Company in reliance upon an exemption from registration set forth in Regulation D and/or Section 4(2) of the Securities Act of 1933, as amended, which exempts transactions by an issuer not involving a public offering.

The Company allocated the proceeds from the issuance of the debt to the warrants, the debt and net profits interest, in the future production of hydrocarbons from or attributable to Cubic’s net interest in its Louisiana properties, which was granted to Wells Fargo, based on their relative fair market values at the date of issuance. The value assigned to the warrants of \$1,314,289 was recorded as an increase in additional paid-in capital and the value assigned to the net profits interest of \$213,148 was recorded as a credit to the full cost pool for oil and gas properties. The assignment of a value to the warrants and net profits interest resulted in a loan discount being recorded. The discount is being amortized over the original three-year term of the debt as additional interest expense. Amortization for the quarters ended December 31, 2009 and 2008 was \$109,974 and \$129,713, respectively and was \$239,686 and \$259,425 for the six month periods ended December 31, 2009 and 2008, respectively.

Cubic incurred loan costs of \$240,613 on the issuance of the debt and warrants. The amount allocable to the debt of \$166,590 has been capitalized and is being amortized over the term of the debt. Amortization for the fiscal year ended June 30, 2009 was \$55,733 and is expected to be approximately \$37,105 for fiscal 2010. Amortization for the quarters ended December 31, 2009 and 2008 was \$11,910 and \$14,048 respectively and was \$25,958 and \$28,096 for the six month periods ended December 31, 2009 and 2008. Cubic also incurred commitment fees of \$170,000 related to subsequent increases in the Credit Facility’s borrowing base; such amount was capitalized in fiscal 2008 and is being amortized over the remaining term of the loan. Amortization for the quarters ended December 31, 2009 and 2008 was \$16,882 and \$19,913 respectively and was \$36,795 and \$39,826 for the six month periods ended December 31, 2009 and 2008.

**CUBIC ENERGY, INC.**

**NOTES TO CONDENSED FINANCIAL STATEMENTS  
AS OF DECEMBER 31, 2009  
(Unaudited)**

On December 18, 2009, the senior debt was modified as set forth below. In connection with the modification, the Company recorded a gain on extinguishment of debt of \$1,748,719. Such amount includes the write-off of the unamortized deferred loan cost (\$26,947), and the write-off of the remaining loan discount (\$102,924).

The convertible term loan of \$5,000,000 is convertible into 5,000,000 shares of Cubic common stock, at a conversion price of \$1.00 per share.

On December 18, 2009, the Company entered into a Second Amendment to Credit Agreement with Wells Fargo, providing for a revolving credit facility of up to \$40 million and a convertible term loan of \$5 million (the "Amended Credit Agreement"). The borrowing base under the revolving credit facility is initially established at \$25 million. The indebtedness bears interest at a fluctuating rate equal to the sum of the Wells Fargo Bank prime rate plus two percent (2%) per annum, matures on July 1, 2012 and is secured by substantially all of the assets of the Company. In connection with entering into the Amended Credit Agreement, the Company issued to Wells Fargo additional warrants, expiring on December 1, 2014, for the purchase of up to 5,000,000 shares of Company common stock at an exercise price of \$1.00 per share, and extended the expiration date of the warrants to purchase 2,500,000 shares of Company common stock that were previously issued to Wells Fargo to December 1, 2014.

The Company allocated the proceeds from the issuance of the debt to the warrants, the debt and the beneficial conversion feature based on their fair market values at the date of issuance. The fair value assigned to the extension of 2.5 million warrants, at modification date of \$923,302 and an additional 5 million warrants at \$8,031,896, was recorded as an increase in additional paid-in capital. The difference in the fair value of the term loan and the face amount of \$1,877,494 was recorded as an extinguishment of debt, offset by the amount of unamortized deferred loan cost and discounts associated with the original debt of \$129,871. The beneficial conversion feature equaled \$5,027,494 which was reduced to \$3,122,506 based on the limitation to the fair value to debt. The assignment of a value to the warrants and beneficial conversion feature as well as the write-down of the term loan to the fair value resulted in a total loan discount in the amount of \$13,955,198 being recorded. The discount is being amortized over the three-year term of the debt as additional interest expense. Amortization was \$210,986 for the quarter ended December 31, 2009, and was \$210,986 for the six month period ended December 31, 2009. Amortization for the fiscal years ending June 30, 2010, 2011 and 2012 is expected to be approximately \$2,938,730, \$5,500,699 and \$5,515,769, respectively.

Cubic incurred loan costs of \$50,000 on the issuance of the debt and warrants. The amount was capitalized and allocated to the debt and is being amortized over the term of the debt. Amortization was \$756 for the quarter ended December 31, 2009 and \$756 for the six month period ended December 31, 2009. Amortization for the fiscal years ending June 30, 2010, 2011, and 2012 is expected to be approximately \$10,529, \$19,708 and \$19,762, respectively.

## CUBIC ENERGY, INC.

### NOTES TO CONDENSED FINANCIAL STATEMENTS AS OF DECEMBER 31, 2009 (Unaudited)

#### **May 2008 subordinated debt issue and refinancing**

On May 6, 2008, the Company issued a subordinated promissory note in the amount of \$2,000,000 (the "Subordinated Note") to Diversified Dynamics Corporation (the "Lender"), an entity controlled by William Bruggeman, who beneficially owns more than 5% of the common stock of the Company. The Subordinated Note bore interest at a fluctuating rate equal to the sum of the prime rate plus two percent (2%) per annum, and was scheduled to mature on April 30, 2010. As consideration for the loan made by Lender pursuant to the Subordinated Note, the Company agreed to convey to Lender, upon the repayment in full of the indebtedness evidenced by the Subordinated Note and the repayment in full of the senior indebtedness evidenced by the Credit Facility with Wells Fargo, an undivided 0.375% net profits interest in the future production of hydrocarbons from or attributable to Cubic's net interest in its Louisiana properties. The proceeds of the Subordinated Note were being used for general corporate and working capital purposes.

Issuing the Subordinated Note required the consent of the holder of the Company's senior indebtedness, Wells Fargo, which consent it granted on May 5, 2008. Subsequently, on May 8, 2008, the Credit Facility with Wells Fargo was amended by the First Amendment to the Credit Agreement (the "First Amendment"). Material provisions of the First Amendment included the following: (i) the Company may not prepay all or any part of the principal balance outstanding on the Term Loan prior to its maturity on March 1, 2010 without the consent of Wells Fargo; and (ii) the amount of the borrowing base was increased to \$20,000,000, which amount was fully drawn upon, subsequent to the end of fiscal 2008, on August 20, 2008.

On December 18, 2009, the Company issued a subordinated promissory note payable to Calvin A. Wallen, III, the Company's Chairman of the Board and Chief Executive Officer, in the principal amount of \$2,000,000 (the "Wallen Note"). This note bears interest at the prime rate plus one percent (1%), with interest payable monthly. This Wallen Note was entered into with the consent of Wells Fargo and the outstanding principal balance is due and payable on August 31, 2012 and is subordinated to the indebtedness under the Amended Credit Agreement. The proceeds of this note were used to repay the Subordinated Note and the net profits interests were conveyed.

#### **Note E – Related party transactions**

An affiliated company, Tauren Exploration, Inc. ("Tauren"), which is owned 100% by the Company's President and Chief Executive Officer, Calvin Wallen III, owned working interests in wells in which the Company owns working interests. As of December 31, 2009 and June 30, 2009, the Company owed Tauren \$288,870 and \$649,205, respectively for miscellaneous capital expenditures and general and administrative expenses paid by Tauren on the Company's behalf.

In addition, certain wells in which the Company owns a working interest were operated by an affiliated company, Fossil Operating, Inc. ("Fossil"), which is owned 100% by the Company's President and Chief Executive Officer, Calvin Wallen III. As of December 31, 2009 and June 30, 2009, the Company owed Fossil \$629,069 and \$815,238, respectively, and was owed by Fossil \$372,073 and \$271,615, respectively, for oil and gas sales.

## CUBIC ENERGY, INC.

### NOTES TO CONDENSED FINANCIAL STATEMENTS AS OF DECEMBER 31, 2009 (Unaudited)

#### Note F – Subsequent Events

In May 2009, the FASB issued new authoritative guidance for subsequent events. Such authoritative guidance establishes general standards of accounting for, and disclosure of, events that occur after the balance sheet date but before financial statements are issued or are available to be issued. In particular, this statement sets forth: (1) the period after the balance sheet date during which management of a reporting entity should evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements, (2) the circumstances under which an entity should recognize events or transactions occurring after the balance sheet date in its financial statements and (3) the disclosures that an entity should make about events or transactions that occurred after the balance sheet date. Adoption of this authoritative position did not have a material impact on the Company's condensed consolidated financial statements. The Company evaluated subsequent events through the date the accompanying financial statements were issued, which was February 15, 2010.

On January 8, 2010, Cubic received notice from the NYSE Amex LLC (the "Exchange") that the Exchange has granted the Company a further extension of time, through March 31, 2010, to evidence full compliance with the Exchange's continued listing standards.

As previously disclosed on June 29, 2009 and September 17, 2009, the Exchange previously notified Cubic that it believed the Company was not in compliance with Section 1003(a)(iv) of the Exchange's Company Guide in that it has sustained losses which are so substantial in relation to its overall operations or its existing financial resources, or its financial condition has become so impaired that it appears questionable, in the opinion of the Exchange, as to whether the Company will be able to continue operations and/or meet its obligations as they mature. The Company thereafter submitted its plan to strengthen its financial condition and evidence compliance with Section 1003(a)(iv) for the Exchange's review. Based on this plan, Cubic was granted an extension by the Exchange, originally through December 28, 2009.

In granting the extension from December 28, 2009 to March 31, 2010, the Exchange indicated that the Company has made a reasonable demonstration of its ability to regain compliance with Section 1003(a)(iv) by March 31, 2010. In that regard, and as previously disclosed within the last 60 days, the Company entered into certain transactions, pursuant to which the Company acquired \$30,952,810 in pre-paid drilling credits applicable towards the development of its Haynesville Shale rights in Northwest Louisiana, and also entered into the Amended Credit Agreement with Wells Fargo, which served to increase the Company's revolving credit line to \$40,000,000 from \$20,000,000 and borrowing base to \$25,000,000 from \$20,000,000 and extended the maturity date to July 1, 2012 from March 7, 2010.

The Company continues to execute the Exchange's accepted plan that advances the Company towards full compliance, and continues to work in conjunction with the Exchange in this regard.

The Company will continue to be subject to periodic reviews by the Exchange during the extension period. Failure to make progress consistent with the plan or to regain compliance with the continued listing standards by the end of the extension period could result in the Company being delisted from the Exchange.

## **Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.**

The following discussion of operations for the six months ended December 30, 2009 and 2008 should be read in conjunction with our condensed financial statements and the notes thereto included in this Quarterly Report on Form 10-Q and with the financial statements, notes and management's discussion and analysis included in our Annual Report on Form 10-K for the year ended June 30, 2009.

Statements in this discussion may be forward-looking. These forward-looking statements involve risks and uncertainties, including those discussed below, which could cause actual results to differ from those expressed.

### **Overview**

Cubic Energy, Inc. is an independent upstream energy company engaged in the development and production of, and exploration for, crude oil and natural gas. Our oil and gas assets and activities are concentrated exclusively in Louisiana and Texas.

Our corporate strategy with respect to our asset acquisition and development efforts was to position the Company in a low risk opportunity while building main stream high yield reserves. The acquisition of our acreage in DeSoto and Caddo Parishes, Louisiana, puts us in a reservoir rich environment both in the Cotton Valley and Bossier/Haynesville Shale formations, with additional shallow formations to exploit as well. We have had success on our acreage with wells completed in the Cotton Valley and Bossier/Haynesville Shale formations. The Company also owns an interest in the right-of-ways, infrastructure and pipelines for its Caddo and DeSoto Parish, Louisiana acreage.

We share our Bossier/Haynesville formation acreage with Goodrich Petroleum Corporation, Chesapeake and EXCO Operating Company, LP, and all three companies are third-party operators actively drilling on our shared acreage. As a result of this drilling activity, we expect to see improving production volumes in this next quarter.

Our financial results depend upon our third-party Haynesville Shale operators along with many factors, which are largely driven by the volume of our natural gas production and the price that we receive for that production. Our Cotton Valley production volumes will decline as reserves are depleted unless we obtain and expend capital in successful development and exploration activities or acquire properties with existing production. The amount we realize for our production depends predominantly upon commodity prices, which are affected by changes in market demand and supply, as impacted by overall economic activity, weather, pipeline capacity constraints, inventory storage levels, basis differentials and other factors. Accordingly, finding and developing oil and natural gas reserves at economical costs is critical to our long-term success.

As part of the Company's strategic plan to restructure our debt and raise additional operating capital, during the second quarter of fiscal 2010. Wells Fargo expanded the Company's credit facility to \$45 million from \$25 million and extended the maturity date to July 1, 2012 from March 6, 2010. The Company also acquired \$30.9 million in drilling credit, dedicated for the future drilling and completion of horizontal Haynesville Shale formation wells. For additional discussion, see below under "Capital Resources and Liquidity".

Management believes in the value of its assets, being drilled by third-party operators, and will continue to explore strategic ways that allow the Company to leverage those assets to gain full shareholder value.

### **Capital Resources and Liquidity**

#### **Working Capital**

The Company's working capital increased to \$1,831,712 at December 31, 2009 from (\$27,822,536) at June 30, 2009. This increase was primarily due the amendment of the Wells Fargo credit facility. The cash used by investing activities of \$3,105,782 and operating activities of \$1,523,767, consists mainly of costs related

to non-operated wells and for daily operations, in the six months ended December 31, 2009. These cash outflows were partially offset by cash flows provided by financing activities of \$6,738,400 resulting from \$1,788,400 of proceeds from the issuance of common stock (as a result of the exercise of warrants), and the borrowing of \$5,000,000 on the aforementioned revolving line of credit with Wells Fargo in the six months ended December 31, 2009.

On November 24, 2009, the Company entered into transactions with Tauren Exploration, Inc. ("Tauren") and Langtry Mineral & Development, LLC ("Langtry"), both of which are entities controlled by Calvin Wallen III, the Chief Executive Officer of the Company, under which the Company has acquired \$30,952,810 in pre-paid drilling credits (the "Drilling Credits") applicable towards the development of its Haynesville Shale rights in Northwest Louisiana. The Company will use the Drilling Credits to fund \$30,952,810 of its share of the drilling and completion costs for those horizontal Haynesville Shale wells drilled in sections previously operated by an affiliate of the Company which are now operated by a third party.

As consideration for the Drilling Credits, the Company, (a) has conveyed to Tauren a net overriding royalty interest of approximately 2% in its leasehold rights below the Taylor Sand formation of the Cotton Valley and (b) has agreed to issue to Langtry 10,350,000 Company common shares and preferred stock in the amount of \$10,350,000, convertible into Company common shares at \$1.20 per common share, five year conversion term, with such issuance of the common shares and the preferred stock dependent upon the approval of the Company's additional listing application with the NYSE Amex. The preferred stock will be entitled to cumulative dividends equal to 8% per annum, payable quarterly, which dividends may be paid in cash or in additional shares of preferred stock, in the Company's discretion. The preferred stock may be redeemed by the Company at any time, at a redemption price equal to 20% over the original issue price.

The consideration with respect to these transactions was determined pursuant to negotiations between the Company, Tauren and Langtry, and not pursuant to any formula. The foregoing transactions were approved by a special committee of the board of directors of the Company comprised exclusively of the Company's non-employee directors.

The shares will be issued by the Company in reliance upon an exemption from registration set forth in Regulation D and/or Section 4(2) of the Securities Act of 1933, as amended, which exempts transactions by an issuer not involving a public offering.

The Company has increased its planned capital expenditures for the remainder of fiscal 2010. The acquisition of the Drilling Credits along with the increased Wells Fargo credit facility, mentioned in Note D, will allow the Company to continue to participate in the horizontal drilling and completion of Haynesville Shale wells on its acreage position. It also provides capital for the following projects in the remainder of fiscal 2010: re-completions and workovers of current wells; the acquisition of additional leaseholds in and around our core acreage position; and final payments that may be outstanding in the acquisition of rights-of-way in certain of our leases. As a result, our projected capital expenditures for fiscal 2010 are expected to be approximately \$21,000,000, which is above the minimum amount that we projected in both our Quarterly Report on Form 10-Q for the quarter ended September 30, 2009 and our Annual Report on Form 10-K for the year ended June 30, 2009.

The Company plans to fund these capital expenditures, among other ways, through cash on hand and cash provided from operations. Additionally, because future cash flows and the availability of borrowings are subject to a number of variables, such as prevailing prices of oil and natural gas, actual production from existing and newly-completed wells, the Company's success in developing and producing new reserves, and the uncertainty with respect to the amount of funds which may ultimately be required to finance the Company's development and exploration program, there can be no assurance that the Company's capital resources will be sufficient to sustain the Company's development and exploration activities.

## Cash Flow

Our net (decrease) increase in cash and cash equivalents is summarized as follows:

	<b>Six months ended</b>	
	<b>December 31,</b>	
	<b>2009</b>	<b>2008</b>
Net cash provided (used) by operating activities	\$ (1,523,767)	\$ (1,068,834)
Net cash provided (used) by investing activities	(3,105,782)	(4,207,049)
Net cash provided (used) by financing activities	<u>6,738,400</u>	<u>4,268,152</u>
Net increase (decrease) in cash and cash equivalents	<u>\$ 2,108,851</u>	<u>\$ (1,007,731)</u>

**Operating Activities** – During the six months ended December 31, 2009, the Company used cash flows from operating activities of (\$1,523,767) as compared to (\$1,068,834) in the prior year period. Cash flow from operations is dependent on our ability to increase production through our development and exploratory activities and the price received for oil and natural gas.

**Investing Activities** – The cash used in investing activities consists of capital expenditures related to the drilling and completion of new wells and the acquisition and development of additional oil and gas properties. In the six months ended December 31, 2009, we had capital spending related to the acquisition and development of oil and gas properties of \$2,349,754 and used net cash of \$3,105,782 in investing activities. In the six months ended December 31, 2008, we had capital spending related to the acquisition and development of oil and gas properties of \$4,175,529 and used net cash of \$4,207,049 in investing activities.

**Financing Activities** – Net cash flows provided by financing activities were \$6,738,400 and \$4,268,152 in the six month periods ended December 31, 2009 and 2008, respectively.

During the 2009 period, we received an aggregate of \$1,788,400 in proceeds from the issuance of stock (resulting from the exercise of warrants), and, on December 18, 2009, Cubic drew upon an additional \$5,000,000 from Wells Fargo under the revolving line of credit component of our Credit Facility in order to pay past due invoices and working interest expenses on our non-operated acreage. As a result, the Company has borrowed \$25,000,000 of the \$40,000,000 potentially available under the Credit Facility's Revolving Note (and an aggregate of \$45,000,000 under the Credit Facility). During the 2008 period, we received an aggregate of \$1,095,952 in proceeds from the issuance of stock (resulting from the exercise of warrants) and drew upon \$3,172,200 from the Revolving Note of our Credit Facility.

## Contractual Obligations

We have no material changes in our long-term commitments associated with our capital expenditure plans or operating agreements other than those described above. Our level of capital expenditures will vary in future periods depending on: the success we experience in our acquisition, developmental and exploration activities; oil and natural gas price conditions; and other related economic factors. Currently, no sources of liquidity or financing are provided by off-balance sheet arrangements or transactions with unconsolidated, limited-purpose entities. We have no contractual commitments pertaining to exploration, development and production activities.

## Results of Operations

For the Three Months ended December 31, 2009 and 2008

	Three months ended		Change	
	December 31,		Amount	%
	2009	2008		
<b>Production Volumes:</b>				
Oil (Bbl)	387	524	(137)	-26%
Natural gas liquids (gallons)	13,490	25,967	(12,477)	-48%
Natural gas (Mcf)	141,123	68,913	72,210	105%
Total (Mcf)	145,373	75,764	69,608	92%
<b>Weighted Average Sales Prices:</b>				
Oil (per Bbl)	\$ 73.62	\$ 48.46	\$ 25.16	52%
Natural gas liquids (per gallon)	\$ 1.28	\$ 0.79	\$ 0.49	62%
Natural gas (per Mcf)	\$ 3.92	\$ 6.47	\$ (2.55)	-39%
<b>Selected Expenses per Mcfe:</b>				
Production costs	\$ 2.31	\$ 4.80	\$ (2.49)	-52%
Workover expenses (non-recurring)	\$ 0.17	\$ 0.14	\$ 0.03	18%
Severance taxes	\$ (0.12)	\$ 0.17	\$ (0.29)	-172%
Other revenue deductions	\$ 0.08	\$ 0.31	\$ (0.22)	-73%
Total lease operating expenses	\$ 2.44	\$ 5.42	\$ (2.98)	-55%
General and administrative expenses	\$ 3.70	\$ 5.93	\$ (2.22)	-38%
Depreciation, depletion and amortization	\$ 1.99	\$ 3.91	\$ (1.92)	-49%

### Revenues

OIL AND GAS SALES increased 22% to \$599,117 for the quarter ended December 31, 2009 from \$491,966 for the quarter ended December 31, 2008 primarily due to higher gas volumes resulting from non-operated new wells coming online in the 2009 quarter versus the 2008 quarter. The average natural gas price we received in the 2009 quarter was \$3.92 per Mcf versus \$6.47 in the 2008 quarter.

### Costs and Expenses

OIL AND GAS PRODUCTION, OPERATING AND DEVELOPMENT COSTS decreased 11% to \$354,810 (59% of oil and gas sales) for 2009 from \$399,743 (81% of oil and gas sales) for 2008 primarily due to lower natural gas prices and no new wells being brought on-line in Louisiana, which resulted in: a \$17,875 decrease in the cost of chemicals; a \$59,421 decrease in salt water hauling and disposal costs; and \$21,856 in common facility expenses for production from the Company's Johnson Branch wells. Such decreases were partially offset by a \$13,730 increase in costs passed-through to the Company by the purchaser of the Company's gas. Such costs are deducted from the Company's gross revenue by the purchaser and include, but are not limited to: costs to market the Company's gas, compression fees, and the cost of fuel used by the purchaser to convey the Company's gas.

GENERAL AND ADMINISTRATIVE EXPENSES increased 20% to \$538,489 for 2009 from \$449,094 in 2008 primarily as a result of increases of \$64,089 in consulting fees related to the fairness opinion obtained by the Special Committee of the Board of Directors and a \$106,290 increase in legal fees for tax issues related to the acquisition of the Drilling Credits and related matters. These amounts were offset by a \$38,100 decrease in contracted professional services related to a decrease in "division order" accounting work during the three months ended December 31, 2009 as compared to the 2008 period.

DEPRECIATION, DEPLETION AND NON-LOAN RELATED AMORTIZATION decreased 3% to \$289,983 in 2009 from \$296,227 in 2008. The decrease was primarily due to the steep decline curve related to the shale, at December 31, 2009 as compared to December 31, 2008.

GAIN ON DEBT EXTINGUISHMENT was realized in 2009 as a result of the refinancing of the debt with Wells Fargo. The existing loan balance of \$1,877,494 was decreased (written off) as a term of the amendment of the Wells Fargo credit facility that was extinguished and offset by debt extinguishment costs of \$129,871. This created an overall gain on debt extinguishment of \$1,747,623.

INTEREST EXPENSE increased 26% to \$680,068 in 2009 from \$540,600 in 2008 primarily due to an increase in debt to \$27,000,000 at December 31, 2009 from \$17,658,410 at December 31, 2008. This year over year increase resulted from the Second Amendment to the Wells Fargo Credit Agreement, which increase the revolving line of credit with Wells Fargo, and the draw of \$5,000,000 under the terms of the new agreement. The weighted average debt balance (before discounts) for the 2009 quarter was \$27,271,739 as compared to \$27,000,000 in the 2008 quarter. The amendment of the Credit Facility with Wells Fargo also resulted in a loan discount being recorded. The discount is being amortized over the amended three-year term of the debt as additional interest expense with \$210,986 being recorded in the 2009 quarter and was \$129,713 for the 2008 quarter.

For the Six Months ended December 31, 2009 and 2008

	Six months ended December 31,		Change	
	2009	2008	Amount	%
<b>Production Volumes:</b>				
Oil (Bbl)	588	789	(201)	-25%
Natural gas liquids (gallons)	22,417	45,287	(22,870)	-50%
Natural gas (Mcf)	236,676	132,940	103,736	78%
Total (Mcf)	243,407	144,145	99,263	69%
<b>Weighted Average Sales Prices:</b>				
Oil (per Bbl)	\$ 71.68	\$ 74.12	\$ (2.44)	-3%
Natural gas liquids (per gallon)	\$ 1.20	\$ 1.33	\$ (0.13)	-10%
Natural gas (per Mcf)	\$ 3.76	\$ 7.89	\$ (4.13)	-52%
<b>Selected Expenses per Mcfe:</b>				
Production costs	\$ 2.42	\$ 4.65	\$ (2.23)	-48%
Workover expenses (non-recurring)	\$ 0.10	\$ 0.11	\$ (0.01)	-10%
Severance taxes	\$ 0.02	\$ 0.22	\$ (0.20)	-93%
Other revenue deductions	\$ 0.11	\$ 0.32	\$ (0.20)	-64%
Total lease operating expenses	\$ 2.65	\$ 5.30	\$ (2.65)	-50%
General and administrative expenses	\$ 2.65	\$ 5.30	\$ (2.65)	-50%
Depreciation, depletion and amortization	\$ 2.15	\$ 3.88	\$ (1.74)	-45%

## Revenues

OIL AND GAS SALES decreased 18% to \$959,018 for the six months ended December 31, 2009 from \$1,166,937 for the six months ended December 31, 2008 primarily due to lower gas prices created by over-supply and a down turn in the economy in the 2009 period versus the 2008 period. The weighted average natural gas price we received in the 2009 period was \$3.76 per Mcf versus \$7.89 in the 2008 period.

## Costs and Expenses

OIL AND GAS PRODUCTION, OPERATING AND DEVELOPMENT COSTS decreased 15% to \$646,147 (67% of oil and gas sales) for 2009 from \$764,099 (66% of oil and gas sales) for 2008 primarily due to lower natural gas prices and no new wells being brought on-line in Louisiana, which resulted in: a \$49,105 decrease in the cost of chemicals; a \$97,450 decrease in salt water hauling and disposal costs; and \$43,638 in common facility expenses for production from the Company's Johnson Branch wells. There was also a \$18,199 decrease in costs passed-through to the Company by the purchaser of the Company's gas. Such costs are deducted from the Company's gross revenue by the purchaser and include, but are not limited to: costs to market the Company's gas, compression fees, and the cost of fuel used by the purchaser to convey the Company's gas.

GENERAL AND ADMINISTRATIVE EXPENSES increased 9% to \$983,412 for 2009 from \$900,393 in 2008 primarily as a result of \$84,089 in consulting fees incurred in the six months ended on December 31, 2009 related to certain expenses incurred in connection with the acquisition of the Drilling Credits and related matters.

DEPRECIATION, DEPLETION AND AMORTIZATION decreased 7% to \$519,983 in 2009 from \$559,984 in 2008. The decrease was primarily due to the steep decline curve related to the shale, at December 31, 2009 as compared to December 31, 2008.

GAIN ON DEBT EXTINGUISHMENT was realized in 2009 as a result of the refinancing of the debt with Wells Fargo. The existing loan balance of \$1,877,494 was decreased (written off) as a term of the amendment of the Wells Fargo credit facility that was extinguished and offset by debt extinguishment costs of \$129,871. This created an overall gain on debt extinguishment of \$1,747,623 for the six months ended December 31, 2009.

INTEREST EXPENSE increased 8% to \$1,167,457 in 2009 from \$1,085,875 in 2008 primarily due to an increase in the weighted average debt balance (before discounts) of \$1,133,750 related to an increase in total debt to \$32,000,000 at December 31, 2009 from \$27,000,000 at December 31, 2008. This year the revolving line of credit with Wells Fargo was amended and increased to \$25,000,000 from \$20,000,000, the \$5,000,000 term note was left in place by Wells Fargo, and both maturity dates were extended to July 1, 2012. The weighted average debt balance (before discounts) for the six months ended December 31, 2008 was \$27,271,739 as compared to \$26,137,989 in the six months ended December 31, 2008. The Credit Facility with Wells Fargo also resulted in a loan discount being recorded. The discount is being amortized over the original three-year term of the debt as additional interest expense with \$450,672 being recorded in the six months ended December 31, 2009.

### **Critical Accounting Policies and Estimates**

Our discussion and analysis of our financial condition and results of operation are based upon the condensed financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. Preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses. There have been no changes to our critical accounting policies from those described in our Annual Report on Form 10-K for the year ended June 30, 2009.

### **Item 3. Quantitative and Qualitative Disclosures About Market Risk.**

#### **Commodity Price Risk**

We are subject to price fluctuations for natural gas and crude oil. Prices received for natural gas sold on the spot market are volatile due primarily to seasonality of demand and other factors beyond our control. Reductions in crude oil, natural gas and natural gas liquids prices could have a material adverse effect on our financial position, results of operations and quantities of reserves recoverable on an economic basis. Any reduction in reserves, including reductions due to price fluctuations, can adversely affect our liquidity and our ability to obtain capital for our acquisition and development activities. To date, we have not entered into futures contracts or other hedging agreements to manage the commodity price risk for a portion of our production.

#### **Interest Rate Risk**

As of December 31, 2009, we had \$32,000,000 of long-term debt outstanding under our Credit Facility and the Wallen Note, each of which matures in fiscal 2013 and bears interest at the prime rate plus 2.0% and prime plus 1.0%, respectively. As a result, our interest costs fluctuate based on short-term interest rates. Based on the aforementioned borrowings outstanding at December 31, 2009, a 100 basis point change in interest rates would change our annual interest expense by approximately \$320,000. We had no interest rate derivatives during the second quarter of fiscal 2010.

### **Item 4. Controls and Procedures**

*Evaluation of disclosure controls and procedures.* Our principal executive and financial officers have concluded, based on their evaluation as of the end of the period covered by this report, that our disclosure controls and procedures under Exchange Act Rules 13a-15(e) and 15d-15(e) are effective to ensure that information we are required to disclose in the reports we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. Our disclosure controls and procedures include controls and procedures designed to ensure that information we are required to disclose in such reports is accumulated and communicated to management, including our principal executive and financial officers, as appropriate to allow timely decisions regarding required disclosure.

*Changes in internal controls over financial reporting.* There were no changes in the Company's internal controls over financial reporting during the most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, these internal controls.

## **PART II – OTHER INFORMATION**

### **Item 1. Legal Proceedings**

There are no legal proceedings to which the Company is a party or to which its properties are subject, which are, in the opinion of management, likely to have a material adverse effect on the Company's results of operations or financial condition.

### **Item 1A. Risk Factors**

There have been no material changes in the risk factors applicable to us from those disclosed in our Fiscal 2009 Annual Report on Form 10-K.

### **Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**

A description of our stock issuances during the six months ended December 31, 2009 is included in "Item 1. Notes to Condensed Financial Statements — "Note B — Stockholders' Equity", and in "Note F — Subsequent Events" is incorporated herein by reference.

### **Item 3. Defaults Upon Senior Securities**

None.

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

None.

### **Item 5. Other Information**

None.

**Item 6. Exhibits**

No.      Description

31.1\*    Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer

31.2\*    Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer

32.1\*    Certification of Chief Executive Officer pursuant to 18 U.S.C. § 1350

32.2\*    Certification of Chief Financial Officer pursuant to 18 U.S.C. § 1350

-----  
\* Filed herewith.

## 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.

**CUBIC ENERGY, INC.**  
(Registrant)

Date: February 16, 2010

By: /s/ Calvin A. Wallen, III  
Calvin A. Wallen, III, President and Chief Executive Officer

Date: February 16, 2010

By: /s/ Larry Badgley  
Larry Badgley, Chief Financial Officer (Principal Financial and Accounting Officer)

**Exhibit 31.1**

**CERTIFICATION**

**Pursuant to Rule 13a-14(a) and 15d-14(a)**

I, Calvin A. Wallen, III, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Cubic Energy, 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 quarterly 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 quarterly report.
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) 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 quarterly report is being prepared;
  - (b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (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 quarterly report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter 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 officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the Audit Committee of the registrant's Board of Directors (or persons performing the equivalent function):
  - (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 16, 2010

Signature: /s/ Calvin A. Wallen, III  
Calvin A. Wallen, III, C.E.O.

**Exhibit 31.2**

**CERTIFICATION**  
**Pursuant to Rule 13a-14(a) and 15d-14(a)**

I, Larry Badgley, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Cubic Energy, 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 quarterly 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 quarterly report.
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) 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 quarterly report is being prepared;
  - (b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (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 quarterly report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter 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 officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the Audit Committee of the registrant's Board of Directors (or persons performing the equivalent function):
  - (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 16, 2010

Signature: /s/ Larry Badgley  
Larry Badgley, C.F.O.

**Exhibit 32.1**

**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 Cubic Energy, Inc. (the "Company") on Form 10-Q for the period ending December 31, 2009 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, as C.E.O., 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 results of operations of the Company.

Date: February 16, 2010

Signature: /s/ Calvin A. Wallen, III  
Calvin A. Wallen, III, C.E.O.

**Exhibit 32.2**

**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 Cubic Energy, Inc. (the “Company”) on Form 10-Q for the period ending December 31, 2009 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, as C.F.O., 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 results of operations of the Company.

Date: February 16, 2010

Signature: /s/ Larry Badgley  
Larry Badgley, C.F.O.