

MKS INSTRUMENTS INC

Form 10-K

March 16, 2006

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

**Form 10-K  
FOR ANNUAL AND TRANSITION REPORTS PURSUANT  
TO SECTIONS 13 OR 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934**

(Mark One)

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

**For the fiscal year ended December 31, 2005**

**or**

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

**For the transition period from to**

**Commission File number 0-23621**

**MKS Instruments, Inc.**

*(Exact Name of Registrant as Specified in Its Charter)*

**Massachusetts**

*(State or other Jurisdiction of  
Incorporation or Organization)*

**90 Industrial Way, Wilmington, Massachusetts**

*(Address of Principal Executive Offices)*

**04-2277512**

*(IRS Employer  
Identification No.)*

**01887**

*(Zip Code)*

**Registrant's Telephone Number, including area code:**

**(978) 284-4000**

**Securities registered pursuant to Section 12(b) of the Act:**

**None.**

**Securities registered pursuant to Section 12(g) of the Act:**

**Common Stock, no par value**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  No

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

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Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer  Accelerated filer  Non-accelerated filer

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

Aggregate market value of the voting and non-voting common equity held by nonaffiliates of the registrant as of June 30, 2005 based on the closing price of the registrant's Common Stock on such date as reported by the Nasdaq National Market: \$595,265,198; Number of shares outstanding of the issuer's Common Stock, no par value, as of February 24, 2006: 54,783,234.

**DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the definitive Proxy Statement for MKS' Annual Meeting of Stockholders to be held on May 8, 2006 are incorporated by reference into Part III of this Form 10-K.

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**SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS**

MKS management believes that this Annual Report on Form 10-K contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. When used herein, the words believe, anticipate, plan, expect, estimate, intend, may, see, will, would and similar expressions are intended to identify forward-looking statements. These forward-looking statements reflect management's current opinions and are subject to certain risks and uncertainties that could cause actual results to differ materially from those stated or implied. MKS assumes no obligation to update this information. Risks and uncertainties include, but are not limited to, those discussed in the section entitled Risk Factors.

**PART I**

**Item 1. Business**

MKS Instruments, Inc. (the Company or MKS) was founded in 1961 as a Massachusetts corporation. We are a leading worldwide provider of instruments, components, subsystems and process control solutions that measure, control, power and monitor critical parameters of semiconductor and other advanced manufacturing processes.

We are managed as one operating segment which is organized around three product groups: Instruments and Control Systems, Power and Reactive Gas Products and Vacuum Products. Our products are derived from our core competencies in pressure measurement and control, materials delivery, gas and thin-film composition analysis, electrostatic charge control, control and information management, power and reactive gas generation and vacuum technology.

Our products are used in diverse markets and applications including the manufacture of, among other things: semiconductor devices for diverse electronics applications;

flat panel displays for hand-held devices, laptop computers, desktop computer monitors and television sets;

magnetic and optical storage media;

optical filters and fiber optic cables for data and telecommunications;

optical coatings for eyeglasses, architectural glass and solar panels; and

magnetic resonance imaging (MRI) medical equipment.

For over 40 years, we have focused on satisfying the needs of our customers by establishing long-term, collaborative relationships. We have a diverse base of customers that includes manufacturers of semiconductor capital equipment, semiconductor devices, data storage equipment, medical equipment and flat panel displays, as well as industrial and biopharmaceutical manufacturing companies, and university, government and industrial research laboratories. During the years ended December 31, 2005, 2004 and 2003, we estimate that approximately 71%, 74% and 69% of our net sales, respectively, were to semiconductor capital equipment manufacturers and semiconductor device manufacturers. Our top 10 customers for the year ended December 31, 2005 were Applied Materials, ASM International, Celerity Group, General Electric, Lam Research, Novellus Systems, Phillips, PSK Tech, Tokyo Electron and Ulvac.

We file reports, proxy statements and other documents with the Securities and Exchange Commission. You may read and copy any document we file at the SEC Headquarters at Office of Investor Education and Assistance, 100 F Street, NE, Washington, D.C. 20549. You should call 1-800-SEC-0330 for more information on the public reference room. Our SEC filings are also available to you on the SEC's Internet site at <http://www.sec.gov>.

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Our internet address is [www.mksinstruments.com](http://www.mksinstruments.com). We are not including the information contained in our website as part of, or incorporating it by reference into, this annual report on Form 10-K. We make available free of charge through our web site our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to these reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, or the Exchange Act, as soon as reasonably practicable after we electronically file such materials with the Securities and Exchange Commission.

**Markets and Applications**

We are focused on improving process performance and productivity by controlling advanced manufacturing processes in semiconductor, thin-film and other non-semiconductor market sectors. We estimate that approximately 71%, 74% and 69% of our net sales for the years ended December 31, 2005, 2004 and 2003, respectively, were to semiconductor capital equipment manufacturers and semiconductor device manufacturers. Approximately 8%, 8% and 10% of our net sales in the years ended December 31, 2005, 2004 and 2003, respectively, were for thin-film processing equipment applications, including compact discs, digital video discs (DVDs) and other digital storage media; flat panel displays for computer and television screens; and thin-film coatings for architectural glass and optics. Approximately 21%, 18% and 21% of our net sales in the years ended December 31, 2005, 2004 and 2003, respectively, were for other non-semiconductor manufacturing applications. These include, but are not limited to, industrial manufacturing, magnetic resonance imaging (MRI) medical equipment, biopharmaceutical manufacturing, and university, government and industrial research laboratories.

We estimate that approximately 37%, 34% and 41% of our net sales for the years ended December 31, 2005, 2004 and 2003, respectively, were to customers located in international markets. International sales include sales by our foreign subsidiaries, but exclude direct export sales. Please refer to Note 11 in the Notes to Consolidated Financial Statements for further information.

***Semiconductor Manufacturing Applications***

The majority of our sales are derived from products sold to semiconductor capital equipment manufacturers and semiconductor device manufacturers. Our products are used in the major semiconductor processing steps such as depositing materials onto substrates and etching and cleaning circuit patterns.

Our products are also used for process facility applications such as gas distribution, pressure control and vacuum distribution, and electrostatic charge control in clean rooms where semiconductor manufacturing takes place. In addition, we provide specialized instruments that monitor the performance of manufacturing equipment and products that distribute, manage, and classify process control information. We anticipate that the semiconductor manufacturing market will continue to account for a substantial portion of our sales. While the semiconductor device manufacturing market is global, major semiconductor capital equipment manufacturers are concentrated in Europe, Japan and the United States.

***Thin-Film Manufacturing Applications***

***Flat Panel Display Manufacturing.***

Our products are used in the manufacture of flat panel displays, which require the same or similar fabrication processes as semiconductor manufacturing. Flat panel displays are used in electronic hand-held devices, laptop computers, desktop computer monitors, and television sets. Flat panel display technology is designed to replace bulkier cathode ray tube (CRT) technology in computer monitors and television sets. We sell products to flat panel display equipment manufacturers and to end-users in the flat panel display market. The major manufacturers of flat panel displays are concentrated in Japan, Korea and Taiwan, and the major manufacturers of flat panel display equipment are concentrated in Japan and the United States. The transition to larger panel sizes and higher display resolution is driving the need for improved process controls to reduce defects.

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*Magnetic and Optical Storage Media.*

Our products are used to manufacture:

magnetic storage media which store and read data magnetically;

optical storage media which store and read data using laser technology;

compact discs;

hard disks;

data storage devices; and

digital video discs.

The transition to higher density storage capacity requires manufacturing processes incorporating tighter process controls. The major manufacturers of storage media are concentrated in Japan and the Asia Pacific region, and the major manufacturers of storage media capital equipment are concentrated in Europe, Japan and the United States.

*Optical Filters, Optical Fibers and Other Coating Processes.*

Our products are used in optical filter, optical fiber and other optical thin-film coating processes. Our products are sold both to coating equipment manufacturers and to manufacturers of products made using optical thin-film coating processes. Optical filters and fibers used for data transmission are manufactured using processes to deposit chemical vapors that are similar to those used in semiconductor manufacturing. The requirement for higher data transmission rates is driving the need for improved control of optical filters and fiber coating processes. Optical thin film coating for eyeglasses, solar panels and architectural glass are deposited using processes similar to those used in semiconductor manufacturing. Optical filter, optical fiber and other optical thin-film processing manufacturers are concentrated in Europe, Japan and the United States.

*Other Non-Semiconductor Manufacturing Applications*

Our products are used in advanced applications such as high energy physics, emission control, chemical agent detection, fuel cell research, vacuum freeze drying of pharmaceuticals, foods and beverages, and in vacuum processes involved in light bulb and gas laser manufacturing. Our power delivery products are also incorporated into other end-market products such as MRI medical equipment. In addition, our products are sold to government, university and industrial laboratories for vacuum applications involving research and development in materials science, physical chemistry and electronics materials. The major equipment and process providers and research laboratories are concentrated in Europe, Japan and the United States.

**Product Groups**

We group our products into three product groups: Instruments and Control Systems, Power and Reactive Gas Products and Vacuum Products. Also, please refer to Note 11 in the Notes to Consolidated Financial Statements for further information.

**1. Instruments and Control Systems**

This product group includes pressure measurement and control products, materials delivery products, gas and thin film composition analysis products, electrostatic charge control products, and control and information technology products.

**Pressure Measurement and Control Products.** Each of our pressure measurement and control product lines consists of products that are designed for a variety of pressure ranges and accuracies.

**Baratron Pressure Measurement Products.** These products are typically used to measure the pressure of the gases being distributed upstream of the process chambers, to measure process chamber pressures and to

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measure pressures between process chambers, vacuum pumps and exhaust lines. We believe we offer the widest range of gas pressure measurement instruments in the semiconductor and advanced thin-film materials processing industries.

*Automatic Pressure and Vacuum Control Products.* These products enable precise control of process pressure by electronically actuating valves that control the flow of gases in and out of the process chamber to minimize the difference between desired and actual pressure in the chamber.

In most cases, Baratron pressure measurement instruments provide the pressure input to the automatic pressure control device. Together, these components create an integrated automatic pressure control subsystem. Our pressure control products can also accept inputs from other measurement instruments, enabling the automatic control of gas input or exhaust based on parameters other than pressure.

*Materials Delivery Products.* Each of our materials delivery product lines consists of products that are designed for a variety of flow ranges and accuracies.

*Flow Measurement and Control Products.* Flow measurement products include gas, vapor and liquid flow measurement products based upon thermal conductivity, pressure and direct liquid injection technologies. The flow control products combine the flow measurement device with valve control elements based upon solenoid, piezo-electric and piston pump technologies. These products measure and automatically control the mass flow rate of gases and vapors into the process chamber. Our thermal-based mass flow controllers control gas flow based on the molecular weight of gases and our pressure-based mass flow controllers, based on Baratron pressure instrument measurement and control technology, restrict flow in the gas line to transform pressure control into mass flow control.

Our flow measurement products also include a calibration system that independently measures mass flow and compares this measurement to that of the process chamber mass flow controller. The demand for our calibration system is driven by the increasingly stringent process control needs of the semiconductor industry and the need to reduce costly downtime resulting from stopping operations to address mass flow controller problems.

*Gas and Thin-Film Composition Analysis Products.* Gas and thin-film composition analysis instruments are sold to a variety of industries including the semiconductor industry.

*Mass Spectrometry-Based Gas Composition Analysis Instruments.* These products are based on quadruple mass spectrometer sensors that separate gases based on molecular weight. These sensors include built-in electronics and are provided with software that analyzes the composition of background and process gases in the process chamber. These instruments are provided both as portable laboratory systems and as process gas monitoring systems used in the diagnosis of semiconductor manufacturing process systems.

*Fourier Transform Infra-Red (FTIR) Based Gas and Thin-Film Composition Analysis Products.* FTIR-based products provide information about the composition of gases and thin-films by measuring the absorption of infra-red light as it passes through the sample being measured. Gas analysis applications include measuring the compositions of mixtures of reactant gases; measuring the purity of individual process gases; measuring the composition of process exhaust gas streams to determine process health; monitoring gases to ensure environmental health and safety; and monitoring combustion exhausts. These instruments are provided as portable laboratory systems and as process gas monitoring systems used in the diagnosis of manufacturing processes.

Mass spectrometry-based and FTIR-based gas monitoring systems can indicate out-of-bounds conditions, such as the presence of undesirable contaminant gases and water vapor or out-of-tolerance amounts of specific gases in the process, which alert operators to diagnose and repair faulty equipment.

*Leak Detection Products.* Helium leak detection is used in a variety of industries including semiconductor, HVAC, automotive and aerospace to ensure the leak integrity of both manufactured products and manufacturing equipment. We believe that our products are the smallest mass spectrometer-based helium leak detectors currently available.



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*Optical Monitoring Instruments.* We manufacture a range of optical monitoring instruments that are sold primarily for thin-film coating applications such as the manufacture of optical filters. The optical monitors measure the thickness and optical properties of a film being deposited, allowing the user to better control the process.

*Electrostatic Charge Control Products.* Industries that rely on high technology manufacturing, such as the semiconductor, flat panel display, and data storage industries, are vulnerable to electrostatic charge-related contamination and yield problems. We design and manufacture products to control electrostatic attraction, electrostatic discharge, and electromagnetic interference.

*Control and Information Technology Products.* We design and manufacture a suite of products that allow semiconductor manufacturing customers to better control their processes through computer-controlled automation. These products include digital control network products, process chamber and system controllers, data analysis products and connectivity products. Digital control network products are used to connect sensors, actuators and subsystems to the chamber and system control computers. They support a variety of industry-standard connection methods including DeviceNet, Profibus, ethernet and conventional discrete digital and analog signals. Chamber and system control computers process these signals in real time and allow customers to precisely manage the process conditions. Connectivity products allow information to flow from the process sensors and subsystems and from the process tool control computer to the factory network. By enabling this information flow, we believe that we help customers optimize their processes through Advanced Process Control (APC), and diagnose equipment problems from a remote location (e-diagnostics).

## **2. Power and Reactive Gas Products**

This product group includes power delivery products and reactive gas generation products.

*Power Delivery Products.* Our power delivery products are used in the semiconductor, flat panel display, data storage and medical markets. In the semiconductor, flat panel and data storage markets, our microwave, RF and DC power supplies are used to provide energy to various etching, stripping and deposition processes. A range of impedance matching units transfer power from the power supplies to the customer's process. We also provide sensors to measure delivered voltage and current along with plasma impedance. This information is used both to better control the generator output and as a process chamber diagnostic. Our power amplifiers are also used in MRI medical equipment including the most advanced 3T (three Tesla) machines.

*Reactive Gas Generation Products.* Reactive gases are used to etch, strip and deposit films on wafers, to clean wafers during processing, and to clean process chambers to reduce particle contamination. A reactive gas is created when energy is added to a stable gas to break apart its molecules. The resulting dissociated gas produces rapid chemical reactions when it comes into contact with other matter. Our reactive gas products include ozone generators and subsystems used for deposition of insulators onto semiconductor devices, ozonated water delivery systems for advanced semiconductor wafer and flat panel display cleaning, atomic fluorine generators for process chamber cleaning, microwave plasma based products for photo resist removal and a new line of generators based on the fluorine cleaning architecture which provide reactive gases for a wide range of semiconductor, flat panel and thin film applications.

## **3. Vacuum Products**

This product group consists of vacuum technology products, including vacuum gauges, valves and components.

*Vacuum Gauging Products.* We offer a wide range of vacuum instruments consisting of vacuum measurement sensors and associated power supply and readout units. These vacuum gauges measure phenomena that are related to the level of pressure in the process chamber and downstream of the process chamber between the chamber and the pump. These gauges are used to measure vacuum at pressures lower than those measurable with a Baratron instrument or to measure vacuum in the Baratron instrument range where less accuracy is required. Our indirect pressure gauges use thermal conductivity and ionization gauge technologies to measure pressure from atmospheric pressure to one trillionth of atmospheric pressure.

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*Vacuum Valves and Components.* Our vacuum valves are used on the gas lines between the process chamber and the pump downstream of the process chamber. Our vacuum components consist of flanges, fittings, traps and heated lines that are used downstream from the process chamber to provide leak free connections and to prevent condensable materials from depositing particles near or back into the chamber. The manufacture of devices with small circuit patterns cannot tolerate contamination from atmospheric leaks or particles. Our vacuum components are designed to minimize such contamination and thus increase yields and reduce downtime.

***Application-Specific Integrated Subsystems***

We also combine these products and technologies into application-specific integrated subsystems. Integrated subsystems are made by each product group, and typically provide higher functionality in a smaller footprint, depending upon the application.

For example, we have a line of integrated flow and pressure control subsystems that combine two or more of our products and technologies into products for specific process applications. We have developed a range of Back-Side Wafer Cooling Subsystems which are needed to control the flow and pressure of the helium used to effect the cooling of wafers in semiconductor manufacturing. By combining the functions of our Baratron pressure measurement instruments, flow measurement instruments, control electronics and valves into a range of compact subsystems, this product line addresses the need for smaller components that save valuable clean room space.

Integrated subsystems represented approximately 27% of revenues for the year ended December 31, 2005 compared to approximately 25% and 20% of revenues for the years ended December 31, 2004 and 2003, respectively.

**Customers**

Our largest customers include leading semiconductor capital equipment manufacturers such as Applied Materials, Lam Research, Novellus Systems and Tokyo Electron. Sales to our top ten customers accounted for approximately 48%, 49% and 42% of net sales for the years ended December 31, 2005, 2004 and 2003, respectively. Applied Materials accounted for approximately 18%, 20% and 18% of our net sales for the years ended December 31, 2005, 2004 and 2003, respectively.

**Sales, Marketing and Support**

Our worldwide sales, marketing and support organization is critical to our strategy of maintaining close relationships with semiconductor capital equipment manufacturers and semiconductor device manufacturers. We sell our products primarily through our direct sales force. As of December 31, 2005, we had 155 sales employees worldwide, located in China, France, Germany, Japan, Korea, the Netherlands, Singapore, Taiwan, the United Kingdom and the United States. We also maintain sales representatives and agents in a number of countries, which supplement this direct sales force. We maintain a marketing staff that identifies customer requirements, assists in product planning and specifications, and focuses on future trends in the semiconductor and other markets.

As semiconductor device manufacturers have become increasingly sensitive to the significant costs of system downtime, they have required that suppliers offer comprehensive local repair service and close customer support. Manufacturers require close support to enable them to repair, modify, upgrade and retrofit their equipment to improve yields and adapt new materials or processes. To meet these market requirements, we maintain a worldwide sales and support organization in 14 countries. Technical support is provided by applications engineers located at offices in China, France, Germany, Japan, Korea, the Netherlands, Singapore, Taiwan, the United Kingdom and the United States. Repair and calibration services are provided at 28 service depots located worldwide. We provide warranties from one to three years, depending upon the type of product.

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### **Research and Development**

Our products incorporate sophisticated technologies to power, measure, control and monitor increasingly complex gas-related semiconductor manufacturing processes, thereby enhancing uptime, yield and throughput for our semiconductor device manufacturing customers. Our products have continuously advanced as we strive to meet our customers' evolving needs. We have developed, and continue to develop, new products to address industry trends, such as the transition from 200mm wafers to 300mm wafers and the shrinking of integrated circuit line-widths from 90 nanometers to 65 nanometers and below. In addition, we have developed, and continue to develop, products that support the migration to new classes of materials, such as copper for low resistance conductors, high-k dielectric materials for capacitors and gates and low-k dielectric materials for low loss insulators that are used in small geometry manufacturing. We have undertaken an initiative to involve our marketing, engineering, manufacturing and sales personnel in the concurrent development of new products in order to reduce the time to market for new products. Our employees also work closely with our customers' development personnel. These relationships help us identify and define future technical needs on which to focus research and development efforts. We support research at academic institutions targeted at advances in materials science and semiconductor process development. At December 31, 2005, we had 377 research and development employees, primarily located in the United States. Our research and development expenses were \$55.9 million, \$57.0 million and \$47.7 million for the years ended December 31, 2005, 2004 and 2003, respectively. Our research and development efforts include numerous projects, none of which are individually material, and generally have a duration of 12 to 30 months.

### **Manufacturing**

Our manufacturing facilities are located in China, Germany, Israel, Japan, Mexico, the United Kingdom and the United States. Manufacturing activities include the assembly and testing of components and subassemblies, which are integrated into products. We outsource some of our subassembly work. We purchase a wide range of electronic, mechanical and electrical components, some of which are designed to our specifications. We consider our responsiveness to our customers' significantly fluctuating product demands by using lean manufacturing techniques to be a distinct competitive advantage.

### **Competition**

The market for our products is highly competitive. Principal competitive factors include:

historical customer relationships;

product quality, performance and price;

breadth of product line;

manufacturing capabilities; and

customer service and support.

Although we believe that we compete favorably with respect to these factors, there can be no assurance that we will continue to do so.

We encounter substantial competition in most of our product lines, although no single competitor competes with us across all product lines. Certain of our competitors may have greater financial and other resources than us. In some cases, competitors are smaller than we are, but well established in specific product niches. Celerity offers products that compete with our pressure and materials delivery products. Advanced Energy and Horiba each offer materials delivery products that compete with our product line of mass flow controllers. Nor-Cal Products, Inc. and VAT, Inc., each offer products that compete with our vacuum components. Inficon offers products that compete with our vacuum measurement and gas analysis products. Brooks Automation and Inficon each offer products that compete with our vacuum gauging products. Advanced Energy offers products that compete with our power delivery and reactive gas generator products.



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### **Patents and Other Intellectual Property Rights**

We rely on a combination of patent, copyright, trademark and trade secret laws and license agreements to establish and protect our proprietary rights. As of December 31, 2005, we owned 253 U.S. patents, 170 foreign patents and had 104 pending U.S. patent applications. Foreign counterparts of certain of these applications have been filed or may be filed at the appropriate time.

We require each of our employees, including our executive officers, to enter into standard agreements pursuant to which the employee agrees to keep confidential all of our proprietary information and to assign to us all inventions while they are employed by us.

For a discussion of litigation relating to our intellectual property, see Item 3. Legal Proceedings.

### **Employees**

As of December 31, 2005, we employed 2,270 persons. We believe that our ongoing success depends upon our continued ability to attract and retain highly skilled employees for whom competition is intense. None of our employees are represented by a labor union or are party to a collective bargaining agreement. We believe that our employee relations are good.

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

***Our business depends substantially on capital spending in the semiconductor industry which is characterized by periodic fluctuations that may cause a reduction in demand for our products.***

We estimate that approximately 71%, 74% and 69%, of our net sales for the years ended December 31, 2005, 2004 and 2003, respectively, were to semiconductor capital equipment manufacturers and semiconductor device manufacturers, and we expect that sales to such customers will continue to account for a substantial majority of our sales. Our business depends upon the capital expenditures of semiconductor device manufacturers, which in turn depend upon the demand for semiconductors. Periodic reductions in demand for the products manufactured by semiconductor capital equipment manufacturers and semiconductor device manufacturers may adversely affect our business, financial condition and results of operations.

Historically, the semiconductor market has been highly cyclical and has experienced periods of overcapacity, resulting in significantly reduced demand for capital equipment. For example, in 2001 through the first half of 2003, we experienced a significant reduction in demand from OEM customers, and lower gross margins due to reduced absorption of manufacturing overhead. In addition, many semiconductor manufacturers have operations and customers in Asia, a region that in past years has experienced serious economic problems including currency devaluations, debt defaults, lack of liquidity and recessions. We cannot be certain that semiconductor downturns will not continue or recur. A decline in the level of orders as a result of any downturn or slowdown in the semiconductor capital equipment industry could have a material adverse effect on our business, financial condition and results of operations.

***Our quarterly operating results have fluctuated, and are likely to continue to vary significantly, which may result in volatility in the market price of our common stock.***

A substantial portion of our shipments occurs shortly after an order is received and therefore we operate with a low level of backlog. As a result, a decrease in demand for our products from one or more customers could occur with limited advance notice and could have a material adverse effect on our results of operations in any particular period. A significant percentage of our expenses is relatively fixed and based in part on expectations of future net sales. The inability to adjust spending quickly enough to compensate for any shortfall would magnify the adverse impact of a shortfall in net sales on our results of operations. Factors that could cause fluctuations in our net sales include:

the timing of the receipt of orders from major customers;

shipment delays;

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disruption in sources of supply;

seasonal variations of capital spending by customers;

production capacity constraints; and

specific features requested by customers.

In addition, our quarterly operating results may be adversely affected due to charges incurred in a particular quarter, for example, relating to inventory obsolescence, bad debt or asset impairments.

As a result of the factors discussed above, it is likely that we may in the future experience quarterly or annual fluctuations and that, in one or more future quarters, our operating results may fall below the expectations of public market analysts or investors. In any such event, the price of our common stock could decline significantly.

***The loss of net sales to any one of our major customers would likely have a material adverse effect on us.***

Our top ten customers accounted for approximately 48%, 49% and 42% of our net sales for the years ended December 31, 2005, 2004 and 2003, respectively. The loss of a major customer or any reduction in orders by these customers, including reductions due to market or competitive conditions, would likely have a material adverse effect on our business, financial condition and results of operations. During the years ended December 31, 2005, 2004 and 2003, one customer, Applied Materials, accounted for approximately 18%, 20% and 18%, respectively, of our net sales. None of our significant customers, including Applied Materials, has entered into an agreement requiring it to purchase any minimum quantity of our products. The demand for our products from our semiconductor capital equipment customers depends in part on orders received by them from their semiconductor device manufacturer customers.

Attempts to lessen the adverse effect of any loss or reduction of net sales through the rapid addition of new customers could be difficult because prospective customers typically require lengthy qualification periods prior to placing volume orders with a new supplier. Our future success will continue to depend upon:

our ability to maintain relationships with existing key customers;

our ability to attract new customers;

our ability to introduce new products in a timely manner for existing and new customers; and

the success of our customers in creating demand for their capital equipment products which incorporate our products.

***As part of our business strategy, we have entered into and may enter into or seek to enter into business combinations and acquisitions that may be difficult and costly to integrate, may be disruptive to our business, may dilute stockholder value or may divert management attention.***

We made several acquisitions in the years 2000 through 2002 and, more recently, in January 2006. As a part of our business strategy, we may enter into additional business combinations and acquisitions. Acquisitions are typically accompanied by a number of risks, including the difficulty of integrating the operations, technology and personnel of the acquired companies, the potential disruption of our ongoing business and distraction of management, expenses related to the acquisition and potential unknown liabilities associated with acquired businesses. If we are not successful in completing acquisitions that we may pursue in the future, we may be required to reevaluate our growth strategy, and we may incur substantial expenses and devote significant management time and resources in seeking to complete proposed acquisitions that will not generate benefits for us.

In addition, with future acquisitions, we could use substantial portions of our available cash as all or a portion of the purchase price. We could also issue additional securities as consideration for these acquisitions,

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which could cause significant stockholder dilution. Our prior acquisitions and any future acquisitions may not ultimately help us achieve our strategic goals and may pose other risks to us.

As a result of our previous acquisitions, we have added several different decentralized operating and accounting systems, resulting in a complex reporting environment. We expect that we will need to continue to modify our accounting policies, internal controls, procedures and compliance programs to provide consistency across all our operations. In order to increase efficiency and operating effectiveness and improve corporate visibility into our decentralized operations, we are currently implementing a new worldwide Enterprise Resource Planning ( ERP ) system. We completed our first site implementation in October 2005 and we expect to continue to implement the ERP system by converting our remaining operations in phases over the next few years. Although we have a plan to accomplish the ERP implementation, we may risk potential disruption of our operations during the conversion periods and the implementation could require significantly more management time and we could incur significantly higher implementation costs than currently estimated.

***An inability to convince semiconductor device manufacturers to specify the use of our products to our customers that are semiconductor capital equipment manufacturers would weaken our competitive position.***

The markets for our products are highly competitive. Our competitive success often depends upon factors outside of our control. For example, in some cases, particularly with respect to mass flow controllers, semiconductor device manufacturers may direct semiconductor capital equipment manufacturers to use a specified supplier's product in their equipment. Accordingly, for such products, our success will depend in part on our ability to have semiconductor device manufacturers specify that our products be used at their semiconductor fabrication facilities. In addition, we may encounter difficulties in changing established relationships of competitors that already have a large installed base of products within such semiconductor fabrication facilities.

***If our products are not designed into successive generations of our customers' products, we will lose significant net sales during the lifespan of those products.***

New products designed by semiconductor capital equipment manufacturers typically have a lifespan of five to ten years. Our success depends on our products being designed into new generations of equipment for the semiconductor industry. We must develop products that are technologically advanced so that they are positioned to be chosen for use in each successive generation of semiconductor capital equipment. If customers do not choose our products, our net sales may be reduced during the lifespan of our customers' products. In addition, we must make a significant capital investment to develop products for our customers well before our products are introduced and before we can be sure that we will recover our capital investment through sales to the customers in significant volume. We are thus also at risk during the development phase that our products may fail to meet our customers' technical or cost requirements and may be replaced by a competitive product or alternative technology solution. If that happens, we may be unable to recover our development costs.

***The semiconductor industry is subject to rapid demand shifts which are difficult to predict. As a result, our inability to expand our manufacturing capacity in response to these rapid shifts may cause a reduction in our market share.***

Our ability to increase sales of certain products depends in part upon our ability to expand our manufacturing capacity for such products in a timely manner. If we are unable to expand our manufacturing capacity on a timely basis or to manage such expansion effectively, our customers could implement our competitors' products and, as a result, our market share could be reduced. Because the semiconductor industry is subject to rapid demand shifts which are difficult to foresee, we may not be able to increase capacity quickly enough to respond to a rapid increase in demand. Additionally, capacity expansion could increase our fixed operating expenses and if sales levels do not increase to offset the additional expense levels associated with any

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such expansion, our business, financial condition and results of operations could be materially adversely affected.

***We operate in a highly competitive industry.***

The market for our products is highly competitive. Principal competitive factors include:

historical customer relationships;

product quality, performance and price;

breadth of product line;

manufacturing capabilities; and

customer service and support.

Although we believe that we compete favorably with respect to these factors, we may not be able to continue to do so. We encounter substantial competition in most of our product lines. Certain of our competitors may have greater financial and other resources than we have. In some cases, competitors are smaller than we are, but well established in specific product niches. We may encounter difficulties in changing established relationships of competitors with a large installed base of products at such customers' fabrication facilities. In addition, our competitors can be expected to continue to improve the design and performance of their products. Competitors may develop products that offer price or performance features superior to those of our products. If our competitors develop superior products, we may lose existing customer and market share.

***Sales to foreign markets constitute a substantial portion of our net sales; therefore, our net sales and results of operations could be adversely affected by downturns in economic conditions in countries outside of the United States.***

International sales include sales by our foreign subsidiaries, but exclude direct export sales. International sales accounted for approximately 37%, 34% and 41%, of net sales for the years ended December 31, 2005, 2004 and 2003, respectively, a significant portion of which were sales to Japan.

We anticipate that international sales will continue to account for a significant portion of our net sales. In addition, certain of our key domestic customers derive a significant portion of their revenues from sales in international markets. Therefore, our sales and results of operations could be adversely affected by economic slowdowns and other risks associated with international sales.

***We have significant foreign operations, and outsource certain operations offshore, which pose significant risks.***

We have significant international sales, service, engineering and manufacturing operations in Europe and Asia, and have outsourced a portion of our manufacturing to Mexico. We may expand the level of manufacturing and certain other operations that we do offshore in order to take advantage of cost efficiencies available to us in those countries. However, we may not achieve the significant cost savings or other benefits that we anticipate from this program. These foreign operations expose us to operational and political risks that may harm our business, including:

political and economic instability;

fluctuations in the value of currencies and high levels of inflation, particularly in Asia and Europe;

changes in labor conditions and difficulties in staffing and managing foreign operations, including, but not limited to, labor unions;

reduced or less certain protection for intellectual property rights;

greater difficulty in collecting accounts receivable and longer payment cycles;

burdens and costs of compliance with a variety of foreign laws;





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increases in duties and taxation;

imposition of restrictions on currency conversion or the transfer of funds;

changes in export duties and limitations on imports or exports;

expropriation of private enterprises; and

unexpected changes in foreign regulations.

If any of these risks materialize, our operating results may be adversely affected.

***Unfavorable currency exchange rate fluctuations may lead to lower operating margins or may cause us to raise prices, which could result in reduced sales.***

Currency exchange rate fluctuations could have an adverse effect on our net sales and results of operations and we could experience losses with respect to our hedging activities. Unfavorable currency fluctuations could require us to increase prices to foreign customers, which could result in lower net sales by us to such customers. Alternatively, if we do not adjust the prices for our products in response to unfavorable currency fluctuations, our results of operations could be adversely affected. In addition, most sales made by our foreign subsidiaries are denominated in the currency of the country in which these products are sold and the currency they receive in payment for such sales could be less valuable at the time of receipt as a result of exchange rate fluctuations. We enter into forward foreign exchange contracts and may enter into local currency purchased options to reduce currency exposure arising from intercompany sales of inventory. However, we cannot be certain that our efforts will be adequate to protect us against significant currency fluctuations or that such efforts will not expose us to additional exchange rate risks.

***Key personnel may be difficult to attract and retain.***

Our success depends to a large extent upon the efforts and abilities of a number of key employees and officers, particularly those with expertise in the semiconductor manufacturing and similar industrial manufacturing industries. The loss of key employees or officers could have a material adverse effect on our business, financial condition and results of operations. We believe that our future success will depend in part on our ability to attract and retain highly skilled technical, financial, managerial and marketing personnel. We cannot be certain that we will be successful in attracting and retaining such personnel.

***Our proprietary technology is important to the continued success of our business. Our failure to protect this proprietary technology may significantly impair our competitive position.***

As of December 31, 2005, we owned 253 U.S. patents, 170 foreign patents and had 104 pending U.S. patent applications. Although we seek to protect our intellectual property rights through patents, copyrights, trade secrets and other measures, we cannot be certain that:

we will be able to protect our technology adequately;

competitors will not be able to develop similar technology independently;

any of our pending patent applications will be issued;

domestic and international intellectual property laws will protect our intellectual property rights; or

third parties will not assert that our products infringe patent, copyright or trade secrets of such parties.

***Protection of our intellectual property rights may result in costly litigation.***

Litigation may be necessary in order to enforce our patents, copyrights or other intellectual property rights, to protect our trade secrets, to determine the validity and scope of the proprietary rights of others or to defend against claims of infringement. We are, from time to time, involved in lawsuits enforcing or defending our intellectual property rights and may be involved in such litigation in the future. Such litigation could result



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in substantial costs and diversion of resources and could have a material adverse effect on our business, financial condition and results of operations.

We may need to expend significant time and expense to protect our intellectual property regardless of the validity or successful outcome of such intellectual property claims. If we lose any litigation, we may be required to seek licenses from others or change, stop manufacturing or stop selling some of our products.

***The market price of our common stock has fluctuated and may continue to fluctuate for reasons over which we have no control.***

The stock market has from time to time experienced, and is likely to continue to experience, extreme price and volume fluctuations. Prices of securities of technology companies have been especially volatile and have often fluctuated for reasons that are unrelated to the operating performance of the companies. The market price of shares of our common stock has fluctuated greatly since our initial public offering and could continue to fluctuate due to a variety of factors. In the past, companies that have experienced volatility in the market price of their stock have been the objects of securities class action litigation. If we were the object of securities class action litigation, it could result in substantial costs and a diversion of our management's attention and resources.

***Our dependence on sole, limited source suppliers, and international suppliers, could affect our ability to manufacture products and systems.***

We rely on sole, limited source suppliers and international suppliers for a few of our components and subassemblies that are critical to the manufacturing of our products. This reliance involves several risks, including the following:

the potential inability to obtain an adequate supply of required components;

reduced control over pricing and timing of delivery of components; and

the potential inability of our suppliers to develop technologically advanced products to support our growth and development of new systems.

We believe that in time we could obtain and qualify alternative sources for most sole, limited source and international supplier parts. Seeking alternative sources of the parts could require us to redesign our systems, resulting in increased costs and likely shipping delays. We may be unable to redesign our systems, which could result in further costs and shipping delays. These increased costs would decrease our profit margins if we could not pass the costs to our customers. Further, shipping delays could damage our relationships with current and potential customers and have a material adverse effect on our business and results of operations.

***We are subject to governmental regulations. If we fail to comply with these regulations, our business could be harmed.***

We are subject to federal, state, local and foreign regulations, including environmental regulations and regulations relating to the design and operation of our products. We must ensure that the affected products meet a variety of standards, many of which vary across the countries in which our systems are used. For example, the European Union has published directives specifically relating to power supplies. In addition, the European Union has issued directives relating to regulation of recycling and hazardous substances, which may be applicable to our products, or to which some customers may voluntarily elect to adhere to. We must comply with any applicable regulation adopted in connection with these directives in order to ship affected products into countries that are members of the European Union. We believe we are in compliance with current applicable regulations, directives and standards and have obtained all necessary permits, approvals, and authorizations to conduct our business. However, compliance with future regulations, directives and standards, or customer demands beyond such requirements, could require us to modify or redesign certain systems, make

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capital expenditures or incur substantial costs. If we do not comply with current or future regulations, directives and standards:

we could be subject to fines;

our production could be suspended; or

we could be prohibited from offering particular systems in specified markets.

***Certain stockholders have a substantial interest in us and may be able to exert substantial influence over our actions.***

As of December 31, 2005, John R. Bertucci, our Executive Chairman, and certain members of his family, in the aggregate, beneficially owned approximately 17% of our outstanding common stock. As a result, these stockholders, acting together, may be able to exert substantial influence over our actions. Pursuant to the acquisition of the ENI Business of Emerson Electric Co. ( Emerson ), we issued approximately 12,000,000 shares of common stock to Emerson and its wholly owned subsidiary, Astec America, Inc. Emerson owned approximately 18% of our outstanding common stock as of December 31, 2005, and a representative of Emerson is a member of our board of directors. Accordingly, Emerson may be able to exert substantial influence over our actions.

***Some provisions of our restated articles of organization, as amended, our amended and restated by-laws and Massachusetts law could discourage potential acquisition proposals and could delay or prevent a change in control of us.***

Anti-takeover provisions could diminish the opportunities for stockholders to participate in tender offers, including tender offers at a price above the then current market price of the common stock. Such provisions may also inhibit increases in the market price of the common stock that could result from takeover attempts. For example, while we have no present plans to issue any preferred stock, our board of directors, without further stockholder approval, may issue preferred stock that could have the effect of delaying, deterring or preventing a change in control of us. The issuance of preferred stock could adversely affect the voting power of the holders of our common stock, including the loss of voting control to others. In addition, our amended and restated by-laws provide for a classified board of directors consisting of three classes. The classified board could also have the effect of delaying, deterring or preventing a change in control of us.

***Changes in financial accounting standards may adversely affect our reported results of operations.***

A change in accounting standards or practices could have a significant effect on our reported results and may even affect our reporting of transactions completed before the change was effective. New accounting pronouncements and varying interpretations of existing accounting pronouncements have occurred and may occur in the future. Such changes may adversely affect our reported financial results or may impact our related business practice.

For example, Statement on Financial Accounting Standards No. 123R Share-Based Payment , which requires us to measure all employee stock-based compensation awards using a fair value method and record such expense in our consolidated financial statements, when adopted in the first quarter of 2006, will have a material adverse impact on our consolidated financial statements as reported under generally accepted accounting principles in the United States. The adoption of this statement will adversely impact our gross margin as well as our operating expenses in 2006.

**Item 1B. *Unresolved Staff Comments***

None.

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**Item 2. *Properties***

The following table provides information concerning MKS principal and certain other owned and leased facilities as of December 31, 2005:

|                  | <b>Sq. Ft.</b> | <b>Activity</b>  | <b>Products Manufactured</b>              | <b>Lease Expires</b> |
|------------------|----------------|--|---|----------------------|
| Massachusetts    | 82,000         | Manufacturing, and Research & Development                                  | Pressure Measurement and Control Products | (1)                  |
| Texas            | 20,880         | Manufacturing, Sales, Customer Support, Service and Research & Development | Control & Information Management Products | May 31, 2012         |
|                  | 20,750         | Manufacturing, Customer Support, Service and Research & Development        | Reactive Gas Generation Products          | March 31, 2006       |
|                  | 124,000        | Manufacturing, Customer Support, Service and Research & Development        | Vacuum Products                           | (2)                  |
| Israel           | 7,000          | Manufacturing and Research & Development                                   | Control & Information Management Products | December 31, 2006    |
| , U.K            | 13,000         | Manufacturing, Sales, Customer Support and Service                         | Materials Delivery Products               | (3)                  |
|                  | 32,200         | Manufacturing, Customer Support, Service and Research & Development        | Power Delivery Products                   | (4)                  |
| e, Massachusetts | 40,000         | Manufacturing  |   |                      |

|  |               |               |               |               |
|--|---------------|---------------|---------------|---------------|
|  | For the three |               | For the nine  |               |
|  | months ended  |               | months ended  | thro          |
|  | September 30, | September 30, | September 30, | September 30, |
|  | 2009          | 2008          | 2008          | 2008          |

|                                  |    |         |    |           |    |         |    |           |    |       |
|----------------------------------|----|---------|----|-----------|----|---------|----|-----------|----|-------|
| s and<br>ome:<br>ment<br>n joint | \$ | -       | \$ | -         | \$ | -       | \$ | -         | \$ | 1,13  |
| m<br>into<br>ture                |    | -       |    | -         |    | -       |    | -         |    | 36    |
| venues                           |    | -       |    | -         |    | -       |    | -         |    | 1,50  |
|                                  |    | 92,663  |    | 88,567    |    | 276,189 |    | 265,243   |    | 3,71  |
| onal<br>ulting                   |    | 61,814  |    | 117,048   |    | 176,174 |    | 257,906   |    | 5,03  |
| ey<br>tion                       |    | -       |    | 3,636     |    | -       |    | 14,101    |    | 23    |
| tion                             |    | 159     |    | 224       |    | 458     |    | 685       |    | 10    |
| and                              |    | 1,752   |    | 1,110     |    | 5,451   |    | 6,482     |    | 11    |
| g and                            |    | 3,090   |    | 9,449     |    | 27,083  |    | 45,880    |    | 2,06  |
| enses                            |    | 159,478 |    | 220,034   |    | 485,355 |    | 590,297   |    | 11,27 |
| n sale<br>ment                   |    | -       |    | 669,570   |    | -       |    | 669,570   |    | 66    |
| on of                            |    |         |    |           |    |         |    |           |    |       |
| erties,<br>ved                   |    | -       |    | 3,928,000 |    | -       |    | 3,928,000 |    | 3,92  |
| ent<br>n<br>nt                   |    | -       |    | 525,947   |    | -       |    | 525,947   |    | 52    |
| ore<br>axes                      |    | 159,478 |    | 5,343,551 |    | 485,355 |    | 5,713,814 |    | 14,89 |
| n for<br>axes                    |    | -       |    | -         |    | -       |    | -         |    | -     |

|                |    |            |    |            |    |            |    |            |    |        |
|----------------|----|------------|----|------------|----|------------|----|------------|----|--------|
| ment           | \$ | 159,478    | \$ | 5,343,551  | \$ | 485,355    | \$ | 5,713,814  | \$ | 14,895 |
| Loss per share | \$ | (0.01)     | \$ | (0.29)     | \$ | (0.03)     | \$ | (0.31)     | \$ |        |
| ng             |    | 18,705,550 |    | 18,478,030 |    | 18,668,187 |    | 18,423,431 |    | 12,311 |
| nying          |    |            |    |            |    |            |    |            |    |        |

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SIBERIAN ENERGY GROUP INC. (A  
Development Stage Company)

Condensed Consolidated Statements of  
Stockholders' Equity

For the cumulative period of Development Stage Activity - January 1,  
2003 through September 30, 2009

|   | Common Stock<br>Number of<br>Shares | Par<br>Value | Paid-In<br>Capital | Additional<br>Accumulated<br>Deficit | Accumulated<br>Other<br>Comprehensive<br>Income<br>(Loss) | Accumulated<br>Comprehensive<br>Total | Comprehensive<br>Loss |
|---|-------------------------------------|--------------|--------------------|--------------------------------------|---|---------------------------------------|-----------------------|
| Balance, January<br>1, 2003<br>(pre-development<br>stage) | 4,902,886                           | \$ 4,903     | \$ 430,195         | \$ (449,785)                         | \$ -  | \$ (14,687)                           |                       |
| Loss for the year -<br>2003                               | -                                   | -            | -                  | (422,516)                            | -   | (422,516)                             | \$ (422,516)          |
| Shares issued in<br>acquisition (ZNG)                     | 1,000,000                           | 1,000        | (1,000)            | -                                    | -   | -                                     |                       |
| Balance,<br>December 31,<br>2003                          | 5,902,886                           | \$ 5,903     | \$ 429,195         | \$ (872,301)                         | -   | \$ (437,203)                          |                       |
| Loss for the year -<br>2004                               | -                                   | -            | -                  | (833,567)                            | -   | (833,567)                             |                       |
| Foreign currency<br>translation<br>adjustment             | -                                   | -            | -                  | -                                    | (53,120)  | (53,120)                              | \$ (886,687)          |
| Shares issued in<br>acquisition (ZNG)                     | 3,450,000                           | 3,450        | 746,550            | -                                    | -   | 750,000                               |                       |
| Shares issued for<br>professional<br>services             | 50,000                              | 50           | 9,950              | -                                    | -   | 10,000                                |                       |
| Other   | -                                   | -            | 34,426             | -                                    | -   | 34,426                                |                       |
| Balance,<br>December 31,<br>2004                          | 9,402,886                           | \$ 9,403     | \$ 1,220,121       | \$ (1,705,868)                       | \$ (53,120)   | \$ (529,464)                          |                       |
|   | -                                   | -            | -                  | (1,153,686)                          | -   | (1,153,686)                           |                       |

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|   |            |           |              |                |            |              |                |
|---|------------|-----------|--------------|----------------|------------|--------------|----------------|
| Loss for the year - 2005                                  |            |           |              |                |            |              |                |
| Foreign currency translation adjustment                   | -          | -         | -            | -              | 50,614     | 50,614       | \$ (1,103,072) |
| Shares issued for professional services                   | 385,000    | 385       | 197,829      | -              | -          | 198,214      |                |
| Shares issued for accrued salaries                        | 1,700,000  | 1,700     | 301,871      | -              | -          | 303,571      |                |
| Warrants granted for professional services                | -          | -         | 310,000      | -              | -          | 310,000      |                |
| Balance, December 31, 2005                                | 11,487,886 | \$ 11,488 | \$ 2,029,821 | \$ (2,859,554) | \$ (2,506) | \$ (820,751) |                |
| Loss for the year - 2006                                  | -          | -         | -            | (4,072,788)    | -          | (4,072,788)  |                |
| Foreign currency translation adjustment                   | -          | -         | -            | -              | (1,939)    | (1,939)      | \$ (4,074,727) |
| Shares issued for employee stock option plan and warrants | 195,000    | 195       | 45,305       | -              | -          | 45,500       |                |
| Shares issued for geological data                         | 1,900,000  | 1,900     | 3,323,100    | -              | -          | 3,325,000    |                |
| Shares issued for professional services                   | 1,139,499  | 1,140     | 2,120,320    | -              | -          | 2,121,460    |                |
| Warrants granted for professional services                | -          | -         | 1,201,960    | -              | -          | 1,201,960    |                |
| Shares cancelled  | (609,424)  | (610)     | 610          | -              | -          | -            |                |
| Balance, December 31, 2006                                | 14,112,961 | \$ 14,113 | \$ 8,721,116 | \$ (6,932,342) | \$ (4,445) | \$ 1,798,442 |                |

See  
accompanying  
notes.

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SIBERIAN ENERGY GROUP INC. (A  
Development Stage Company)Condensed Consolidated Statements of  
Stockholders' EquityFor the cumulative period of Development Stage Activity - January 1,  
2003 through September 30, 2009

|   | Common Stock<br>Number of<br>Shares | Par<br>Value | Paid-In<br>Capital | Additional<br>Accumulated<br>Deficit | Other<br>Comprehensive<br>Income<br>(Loss) | Accumulated<br>Comprehensive<br>Total | Comprehensive<br>Loss |
|---|-------------------------------------|--------------|--------------------|--------------------------------------|--|---------------------------------------|-----------------------|
| Balance,<br>December 31,<br>2006                                      | 14,112,961                          | \$ 14,113    | \$ 8,721,116       | \$ (6,932,342)                       | \$ (4,445)                                 | \$ 1,798,442                          |                       |
| Loss for the<br>year - 2007   | -                                   | -            | -                  | (2,060,487)                          | -  | (2,060,487)                           |                       |
| Foreign<br>currency<br>translation<br>adjustment                      | -                                   | -            | -                  | -                                    | (9,804)                                    | (9,804)                               | \$ (2,070,291)        |
| Shares issued<br>for employee<br>stock option<br>plan and<br>warrants | 566,935                             | 567          | (567)              | -                                    | -  | -                                     |                       |
| Shares issued<br>for geological<br>data                               | 200,000                             | 200          | 349,800            | -                                    | -  | 350,000                               |                       |
| Shares issued<br>for accrued<br>salaries                              | 788,000                             | 788          | 1,444,618          | -                                    | -  | 1,445,406                             |                       |
| Shares issued<br>for licenses   | 2,000,000                           | 2,000        | 1,318,000          | -                                    | -  | 1,320,000                             |                       |
| Shares issued<br>for professional<br>services                         | 715,134                             | 715          | 1,070,395          | -                                    | -  | 1,071,110                             |                       |
| Warrants<br>granted for   | -                                   | -            | 150,394            | -                                    | -  | 150,394                               |                       |

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professional  
services

Balance,  
December 31,  
2007

18,383,030 \$ 18,383 \$ 13,053,756 \$ (8,992,829) \$ (14,249) \$ 4,065,061

Loss for the  
year - 2008

- - - (5,863,560) - (5,863,560)

Foreign  
currency  
translation  
adjustment

- - - - 27,019 27,019 \$ (5,836,541)

Shares issued  
for professional  
services and  
accrued  
salaries

155,000 155 41,595 - - 41,750

Warrants  
granted for  
professional  
services

- - 6,303 - - 6,303

Shares issued  
for loan  
repayment and  
related interest

107,520 108 10,645 - - 10,753

Balance,  
December 31,  
2008

18,645,550 \$ 18,646 \$ 13,112,299 \$ (14,856,389) \$ 12,770 \$ (1,712,674)

Loss for nine  
months - 2009

- - - (485,355) - (485,355)

Foreign  
currency  
translation  
adjustment

- - - - (14,492) (14,492) \$ (499,847)

Shares issued  
for professional  
services and  
accrued  
salaries

60,000 60 3,540 - - 3,600

Options vested  
to employees

- - 34,389 - - 34,389

and directors

Balance,  
September 30,  
2009

18,705,550 \$ 18,706 \$ 13,150,228 \$ (15,341,744) \$ (1,722) \$ (2,174,532)

See  
accompanying  
notes.

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## SIBERIAN ENERGY GROUP INC. (A Development Stage Company)

## Condensed Consolidated Statements of Cash Flows

| For the nine months ended September 30,  | 2009         | 2008           | For the<br>cumulative<br>period of<br>Development<br>Stage Activity-<br>January 1, 2003<br>through<br>September 30,<br>2009 |
|--|--------------|----------------|---|
| Cash flows from operating activities:  |              |                |   |
| Net loss (development stage)   | \$ (485,355) | \$ (5,713,814) | \$ (14,891,959)   |
| Depreciation and amortization  | 458          | 685            | 104,695   |
| Common stock and warrants issued<br>for professional services, salaries, and geological data | 37,989       | 37,886         | 7,220,470   |
| Gain from entrance into joint venture  | -            | -              | (364,479)   |
| Loss on disposition of office furniture  | -            | -              | 1,029   |
| Loss on sale of investment, including deconsolidation of<br>subsidiary                       | -            | 794,192        | 794,192   |
| Loss on deemed disposition of oil and gas properties, unproved                               | -            | 3,928,000      | 3,928,000   |
| Impairment charge on investment  | -            | 525,947        | 525,947   |
| Changes in other current assets and<br>current liabilities:                                  |              |                |   |
| Management fee receivable  | -            | -              | 110,000   |
| Prepaid expenses and other assets  | (35)         | 3,713          | (263,948)   |
| Accounts payable and accrued expenses  | 461,535      | 444,145        | 3,846,530   |
| Net cash flows from operating activities   | 14,592       | 20,754         | 1,010,477   |
| Cash flows from investing activities:  |              |                |   |
| Expenditures for licenses and related  | -            | -              | (528,961)   |
| Expenditures for oil and gas properties  | -            | -              | (770,750)   |
| Expenditures for property and equipment  | -            | -              | (6,244)   |
| Proceeds of disposition of office furniture  | -            | -              | 107   |
| Loan to affiliate  | -            | (29,500)       | (29,500)  |
| Cash received in acquisition   | -            | -              | 6   |
| Cash received from entrance into joint venture   | -            | -              | 175,000   |
| Net cash flows for investing activities  | -            | (29,500)       | (1,160,342)   |
| Cash flows from financing activities:  |              |                |   |
| Net proceeds from demand loans   | -            | -              | 72,500  |
| Common stock issued for employee stock option plan   | -            | -              | 45,500  |
| Additional paid-in capital   | -            | -              | 34,426  |
| Net cash flows from financing activities   | -            | -              | 152,426   |
| Effect of exchange rates on cash   | (14,573)     | 8,187          | (1,803)   |
| Net increase (decrease) in cash  | 19           | (559)          | 758   |
| Cash - beginning   | 739          | 1,248          | -   |

|               |    |     |    |     |    |     |
|---------------|----|-----|----|-----|----|-----|
| Cash - ending | \$ | 758 | \$ | 689 | \$ | 758 |
|---------------|----|-----|----|-----|----|-----|

See accompanying notes.

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## SIBERIAN ENERGY GROUP INC. (A Development Stage Company)

## Notes to Condensed Consolidated Financial Statements

## 1. Basis of Presentation:

The accompanying unaudited consolidated financial statements of Siberian Energy Group Inc. (the Company) include the accounts of the Company and its 100% owned subsidiaries. These financial statements have been prepared pursuant to the rules of the Securities and Exchange Commission (SEC) interim reporting, and do not include all of the information and note disclosures required by generally accepted accounting principles. These consolidated financial statements and notes herein are unaudited, but in the opinion of management, include all the adjustments (consisting of only normal recurring adjustments) necessary for a fair presentation of the Company's financial positions, results of operations, and cash flows for the periods presented. Accounting policies used in fiscal 2009 are consistent with those used in the cumulative period of Development Stage Activity – January 1, 2003 through December 31, 2008. These financial statements should be read in conjunction with the Company's audited consolidated financial statements and notes thereto. Interim operating results are not necessarily indicative of operating results for any future interim period or the full year.

## 2. The Company and Description of Business:

## Kondaneftegaz

The Company, through its subsidiary Kondaneftegaz, LLC (KNG), has been engaged in the business of exploiting and developing certain oil and gas and other petroleum products licenses issued for a period of five years by Russia's subsurface management authorities in October 2007. The two licensed areas lie in the Karabashsky zone in the Khanty-Mansiysk Autonomous area of the Russian Federation. KNG has its principal place of business in the city of Khanty-Mansiysk, Russia. KNG has prepared and coordinated with Russian authorities the Program of exploration works on the Karabashski 61 and Karabashski 67 license areas. KNG is evaluating the possibility of using prior seismic data in the current exploration program.

KNG was acquired together with the vast collection of geological information data (oil and gas properties, unproved) on the Karabashski zone of Khanty-Mansiysk Autonomous district of the Tuymen region of the Russian Federation through the issuance of shares and warrants as follows:

|   |           |
|---|-----------|
| Restricted common shares issued for oil and gas properties, unproved in 2006          | 1,900,000 |
| Restricted common shares issued in connection with license acquisition by KNG in 2007 | 2,000,000 |
| Restricted common shares issued in 2006   | 200,000   |
| Total restricted common shares issued   | 4,100,000 |
| Stock warrants issued in 2006 for purchase option                                     | 250,000   |

As a result of the purchase, a calculated acquisition value of \$3,928,000 was assigned to the oil and gas properties, unproved that considered the approximate market value of the stock issued (\$1.75) on the transaction date including \$3,675,000 assigned to 2,100,000 shares issued in 2006 and \$253,000 assigned to 250,000 stock warrants issued. A value of \$1,320,000 was assigned to the acquisition of licenses by KNG based on the market value of the 2,000,000 shares on the date of issue.

On September 30, 2008 the Company sold a 51% interest in KNG to a Russian oil and gas company, and a 5% interest to two Russian individuals for \$223. This Russian company has committed to lead the exploration works on the licensed areas by accepting the operator's role and agreeing to provide funding for KNG's activities. Simultaneously with the sale of 56% of KNG, the Company made available all geological data to the operator to be used in the program of geological studies in the region. Since no consideration was received and the Company has no intent to further utilize this geological data, a loss on the deemed disposition of these unproved oil and gas properties of \$3,928,000 has been recorded. Operations of KNG prior to September 30, 2008 are included in the consolidated accounts of the Company in the accompanying financial statements. Effective September 30, 2008, the Company's 44% investment in KNG is recorded on the equity method of accounting. At September 30, 2008, KNG's assets were \$13,572 and liabilities were \$135,740. Since 56% of the Company was sold for a nominal amount, a non-cash impairment charge of \$525,947 has been recorded to reduce the carrying value of the 44% investment in KNG to zero.

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Zauralneftgaz

Zauralneftgaz Limited (ZNG, Ltd) is the Company's 50% owned joint venture with Baltic Petroleum Limited, UK created in 2005, which operates through its Russian subsidiary Zaural Neftegaz (ZNG). ZNG has been involved in oil and gas research activities in the Kurgan region of the Russian Federation. During 2003 through September 30, 2009 it has completed seismic studies and drilling program in the Kurgan region. The Company believes ZNG, Ltd has created value through the geological results of the two exploratory wells and other data gathered in the area and ZNG, Ltd is considering its options with regard to realizing this value by either a farm out or a direct sale of geophysical and seismic data to a third party operating in the area.

Activities of ZNG for the period March 2003 through October 2005 are included in the consolidated accounts of the Company in the accompanying financial statements. Effective October 14, 2005, the Company's investment in Joint Venture has been recorded on the equity method of accounting. Since the cumulative losses of the Joint Venture exceed the Company's investment, the investment asset is carried at zero value as of and through September 30, 2009.

Both equity investments are recorded at zero on the accompanying balance sheets. Although management is hopeful, the Company is uncertain when and if any income will be realized from these investments. On a moving forward basis, the Company anticipates further business expansion. It is currently evaluating new mineral resource producing assets, particularly in the Perm and Orenburg regions of the Russian Federation.

The Company was incorporated in the State of Nevada on August 13, 1997, and previously provided comprehensive outpatient rehabilitation services to patients suffering from work, sports and accident related injuries. All activities related to the Company's previous business ventures were essentially discontinued prior to January 1, 2000. Predecessor names of the Company since its inception include Trans Energy Group, Inc., King Incorporated and Advanced Rehab Technology Corporation.

### 3. Income Taxes:

At September 30, 2009, the Company effectively has U.S. tax net operating loss carryforwards totaling approximately \$13,610,000. These carryforwards may be used to offset future taxable income, and expire in varying amounts through 2029. No tax benefit has been reported in the financial statements, however, because the Company believes there is at least a 50% chance that the carryforwards will expire unused. Accordingly, the \$2,720,000 estimated cumulative tax benefit of the loss carryforwards have been offset by a valuation allowance of the same amount.

### 4. Loss Per Common Share:

Basic and diluted loss per common share is computed using the weighted average number of common shares outstanding during the period. Shares issuable for common stock options and warrants may have had a dilutive effect on earnings per share had the Company generated income during the periods through September 30, 2009.

### 5. Going Concern:

These financial statements have been prepared assuming the Company will continue as a going concern, however, since inception of its current endeavor in 2003, it has not earned substantial revenues and is considered to be in the development stage, which raises substantial doubt about its ability to continue as a going concern.

Management is of the opinion that its current and proposed oil and gas ventures will successfully generate allocable profits to the Company in the near term.

For the cumulative period ended September 30, 2009, the Company has obtained cash financing from organizing stockholders and employees in the form of loans, advances, and deferred salaries. However, there can be no certainty

as to availability of continued financing in the future. Failure to obtain sufficient financing may require the Company to reduce its operating activities. A failure to continue as a going concern would then require stated amounts of assets and liabilities to be reflected on a liquidation basis which could differ from the going concern basis.

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS

CERTAIN STATEMENTS IN THIS QUARTERLY REPORT ON FORM 10-Q (THIS "FORM 10-Q"), CONSTITUTE "FORWARD LOOKING STATEMENTS" WITHIN THE MEANING OF SECTION 27A OF THE SECURITIES ACT OF 1934, AS AMENDED, AND THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995 (COLLECTIVELY, THE "REFORM ACT"). CERTAIN, BUT NOT NECESSARILY ALL, OF SUCH FORWARD-LOOKING STATEMENTS CAN BE IDENTIFIED BY THE USE OF FORWARD-LOOKING TERMINOLOGY SUCH AS "BELIEVES", "EXPECTS", "MAY", "SHOULD", OR "ANTICIPATES", OR THE NEGATIVE THEREOF OR OTHER VARIATIONS THEREON OR COMPARABLE TERMINOLOGY, OR BY DISCUSSIONS OF STRATEGY THAT INVOLVE RISKS AND UNCERTAINTIES. SUCH FORWARD-LOOKING STATEMENTS INVOLVE KNOWN AND UNKNOWN RISKS, UNCERTAINTIES AND OTHER FACTORS WHICH MAY CAUSE THE ACTUAL RESULTS, PERFORMANCE OR ACHIEVEMENTS OF SIBERIAN ENERGY GROUP INC. ("THE COMPANY", "WE", "US" OR "OUR") TO BE MATERIALLY DIFFERENT FROM ANY FUTURE RESULTS, PERFORMANCE OR ACHIEVEMENTS EXPRESSED OR IMPLIED BY SUCH FORWARD-LOOKING STATEMENTS. REFERENCES IN THIS FORM 10-Q, UNLESS ANOTHER DATE IS STATED, ARE TO SEPTEMBER 30, 2009.

Investors should also take note of the fact that some of the more technical terms relating to the Company's operations as described below are explained in greater detail under exhibit 99.1, incorporated by reference hereto.

**BUSINESS DEVELOPMENT:**

Siberian Energy Group Inc. was formed as a Nevada corporation on August 13, 1997, as Advanced Rehab Technology Corporation. Subsequently, on March 9, 2001, the Company changed its name to Talking Cards, Inc.; on February 12, 2002, the Company changed its name to Oysterking Incorporated; on December 3, 2002, the Company changed its name to 17388 Corporation Inc., at which point the controlling interest of the Company was sold and a new board of directors was appointed; on May 5, 2003, the Company changed its name to Trans Energy Group Inc.; and on December 3, 2003, the Company changed its name to Siberian Energy Group Inc.

On September 17, 1999, the Company affected a 1-for-30 reverse stock split. A subsequent 3-for-1 forward split was consummated on October 2, 2000 and a further 1:2 reverse stock split was affected on May 2, 2005 (collectively the "Stock Splits"). All share amounts subsequently listed are retroactively adjusted to reflect these stock splits unless otherwise provided.

In the spring of 2003, a majority of the Company's shares were purchased by new shareholders who stepped into the management of the Company and defined its new business direction as an oil and gas exploration company.

On May 9, 2003, the Company entered into an Acquisition Agreement (the "Acquisition Agreement") by and among the Company, Zaural Neftegaz, a Russian corporation ("ZNG"), the shareholders of ZNG and Oleg Zhuravlev, President of ZNG. Pursuant to the Acquisition Agreement, the Company acquired a 51% interest in ZNG by issuing to ZNG 2,000,000 shares of the Company's common stock. In June 2004, the Company purchased the remaining 49% of ZNG in exchange for 6,900,000 shares of the Company's common stock, making ZNG a wholly-owned subsidiary of the Company. The Company had no affiliation with ZNG prior to the acquisition in May 2003.

Currently, the operating activities of ZNG are carried out through the Joint Venture Shareholders' Agreement ("Joint Venture") entered into on October 14, 2005 with Baltic Petroleum (E&P) Limited ("BP" or "Baltic") and Zauralneftgaz Limited, the joint venture company ("ZNG, Ltd."), as contemplated by the Option Agreement, as amended (the "Option"). The Company closed the Joint Venture and transferred 100% of the outstanding stock of ZNG to ZNG, Ltd. in connection with the terms and conditions of the Joint Venture. As a result of such transfer, the Company holds 50% of the outstanding stock of ZNG, Ltd., which holds 100% of the outstanding stock of the Company's former wholly-owned subsidiary, ZNG. ZNG, Ltd. operates through ZNG and is engaged in the

exploration and development of, production and sale of, oil and gas assets in the Western Siberian region of the Russian Federation and the former Soviet Union.

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On December 13, 2006, we entered into an Interest Purchase Agreement (the "Purchase Agreement") with Key Brokerage LLC ("Key Brokerage"), pursuant to which we purchased 100% of the stock of Kondaneftegaz LLC ("KNG"), a Russian limited liability company, which was created in 2004 for the purpose of oil and gas exploration in the Khanty-Mansiysk district of Western Siberia, Russia. In addition to acquiring 100% of the stock of KNG, we received the geological information package on the Karabashski zone of Khanty-Mansiysk Autonomous district (Tuymen region of Russian Federation) ("Geological Data").

On or about September 30, 2008, we entered into an Agreement of Purchase and Sale with Limited Liability Company Neftebitum, a Russian limited liability company, and two Russian individuals, pursuant to which we sold fifty-six percent (56%) of the ownership interest of KNG, as described in greater detail below.

All dollar amounts used throughout this Report are in United States dollars, unless otherwise stated. All amounts in Canadian dollars used throughout this Report are preceded by CDN, for example CDN \$500, is referring to \$500 Canadian dollars.

#### BUSINESS OPERATIONS:

We are a development stage company which is seeking opportunities for investment in and/or acquisition of small to medium companies in Russia, specifically in the oil and gas industry.

We currently hold investments in ZNG, Ltd. and KNG. Both companies are operating in the Western Siberia region of Russia and are involved in oil and gas exploration, provided however, as described below, ZNG, Ltd. has advised us that it will no longer undertake any further exploration activities in Western Siberia.

Moving forward the Company plans to focus on those assets that involve less exploration risk and is also actively seeking and negotiating the acquisition of production or close-to-production assets in Russia and countries of the former Soviet Union; however, the Company has not entered into any definitive agreements to date, and there can be no assurance that any such agreements will be entered into on favorable terms, if at all.

#### Description of KNG

KNG was created in 2004 for the purpose of oil and gas exploration in the Khanty-Mansiysk district of Western Siberia, Russia. In October 2007, KNG was awarded two oil and gas exploration licenses in Khanty-Mansiysk region in West Siberia, Russia for the Karabashsky-61 and Karabashsky-67 blocks located in the Khanty-Mansiysk Autonomous Region, Russian Federation. The license areas together cover 166,000 acres and are situated in the territory of the Urals oil and gas bearing area. KNG also has eight more outstanding applications for exploration licenses filed with the Russian authorities, which auctions have not occurred to date.

The right to use the subsurface resources of the Karabashsky-61 and Karabashky-67 Fields is granted for the term of validity of the license (five (5) years), from the date of its state registration (October 22, 2007), subject to the completion of certain exploration activities on the license blocks. The term of use of the subsurface resources can be extended to finish exploration and estimation of deposit or for liquidation work, if the terms of usage of the subsurface resources are not breached.

KNG has prepared and coordinated with the Russian authorities an exploration works program on the Karabashki 61 and Karabashki 67 license areas to stay in compliance with the license agreements' requirements described below in further detail:

- o to begin 2D seismic works during the 2009-2010 fieldwork season and to perform not less than 176.26 linear kilometers of seismic profiles on Karabashky-61 and 158 linear kilometers on Karabashky-67 (minimal density of the profile not less than 1 linear kilometer per 1 square kilometer of license area), and
- o no later than 2011, to start drilling an exploratory well and to complete not less than 2 exploratory wells by April 1, 2012.

KNG is currently re-interpreting the existing seismic data from prior studies and is evaluating the possibility of using this data in the current program of seismic studies.

On or about September 30, 2008, we entered into an Agreement of Purchase and Sale with Limited Liability Company Neftebitum, a Russian limited liability company ("Neftebitum"), Sergey V. Prokopiev, an individual and Russian citizen, and Oleg G. Shelepov, an individual and Russian citizen (collectively, the "Purchasers" and the "Sale Agreement"). The Company's Board of Directors approved and ratified the Company's entry into the Sale Agreement and the transactions contemplated therein on or about October 30, 2008. Pursuant to the Sale Agreement, the Company agreed to sell to the Purchasers an aggregate of fifty-six percent (56%) of the registered capital of KNG for aggregate consideration of 5,600 Russian Rubles (approximately \$223). Neftebitum agreed to purchase a 51% interest for total consideration of 5,100 Russian Rubles (approximately \$203) and Mr. Prokopiev and Mr. Shelepov agreed to each purchase a 2.5% interest for consideration of 250 Russian Rubles each (approximately \$10).

Pursuant to the Sale Agreement, the Sellers are obligated to maintain KNG's main priority of performing geological studies and exploring for hydrocarbon deposits in the Karabashky-61 and Karabashky-67 blocks (the "Blocks"). Further, the Purchasers are obligated to provide financing, by way of direct financing or third-party loans, in the amounts necessary to comply with the licensing agreements for the Blocks. The Company's and the Purchasers' relationship is to be regulated by the Operating Agreement (as described below), which was entered into in connection with the Sale Agreement. Lastly, the Sale Agreement provides that in connection with Neftebitum obtaining a majority interest in KNG, it is obligated to be a guarantor and accept joint responsibility with KNG for repayment of any financing the Purchasers obtain for KNG.

On or about November 5, 2008, and in connection with their entry into the Sale Agreement, Neftebitum, the Company and KNG entered into an Operating Agreement that defines the rights and responsibilities of the parties (the "Operating Agreement"). Pursuant to the Operating Agreement, Neftebitum is designated the exclusive Operator of KNG and all of its current and future mineral claims and has the right to appoint all members of KNG's management. As Operator, Neftebitum has exclusive control of all technical, management, operational and associated matters involving KNG and the Blocks and any potential hydrocarbon exploration and production licenses (the "Operations"). Neftebitum must manage and conduct the Operations by itself, its agents, independent contractors and/or servants in general accordance with standard oil and gas field practices. Neftebitum must use all reasonable endeavors to:

- Prepare annual programs and budgets pursuant to the Operating Agreement and the licensing agreements for the Blocks;
- Begin 2D seismic works on the Blocks during the 2009-2010 fieldwork season and perform not less than 176.26 linear kilometers of seismic profiles on the Karabashky-61 Block and not less than 158 linear kilometers of seismic works on the Karabashky-67 Block;





- Start drilling an exploratory well no later than 2011, and complete no less than 2 exploratory wells by April 1, 2012;
- Provide adequate financing to carry out KNG's planned activities; and
- Supervise implementation of all programs and budgets and provide written progress reports on a quarterly basis relating to KNG's activities and programs.

Further, as Operator, Neftebitum may enter into and negotiate contracts on behalf of KNG and the Company and represent KNG or the Company in all dealings with governmental and regulatory bodies. Neftebitum must guarantee any financial obligations entered into on KNG's behalf. Neftebitum may be reimbursed for expenses incurred in its role as Operator, and if KNG has inadequate resources to reimburse such expenses, these unreimbursed expenses may be accounted for at the time of the distribution of profits from KNG's operations, if any. Neftebitum, however, will not charge Operator's management fees in connection with its role as Operator. Additionally, the Company made available to the Operator all of the geological data, to be used in the program of geological studies in the region and will not charge fees for the use of geological data it provides. Neftebitum must also use its best efforts to maintain insurance for the Company. Lastly, Neftebitum's responsibilities as Operator under the Operating Agreement may not be assigned or transferred.

As of the date of this filing, Neftebitum has raised approximately \$70,000 through the sale of debt to pay for the first stage of the seismic project and the government fees for the subsoil use.

As of September 30, 2009, the Company owned a 44% interest in KNG. Operating results of KNG were included in the consolidated financial statements contained herein for the three and nine month periods ended September 30, 2008. After September 30, 2008, the Company's investment in KNG is accounted for on the equity method of accounting. Accordingly, the assets, liabilities and equity of KNG are no longer presented on the Company's balance sheet.

After careful consideration of the current financial position of KNG, the Company has applied an impairment charge to the value of investment in KNG which resulted in carrying it at zero value.

#### Description of ZNG

ZNG has been involved in the oil and gas research activities in the Kurgan region of the Russian Federation. During 2003-2008 it has completed seismic studies and a drilling program in the Kurgan region of Siberia, Russia. The Company believes ZNG, Ltd. has created value through the geological results of the two exploratory wells and other data gathered in the area and ZNG, Ltd. is considering its options with regard to realizing this value in connection with a potential direct sale of geophysical and seismic data to a third party operating in the area.

Between 2003 and 2007, ZNG carried out extensive seismic and gas seismotomographic studies on its 4 licensed blocks acquired in 2003 through a government tender (which have since expired): the Privolny, Mokrousovsky, West-Suersky and Orlovo-Pashkovsky blocks, and drilled 2 exploratory wells on the Privolny and Mokrousovsky blocks. Based on the interpretation of seismic and seismotomographic surveys and analysis of samples from the wells, ZNG prepared a comprehensive analysis of geological resources of the Kurgan region. Both the Privolny-1 and Mokrousovsky-1 studies confirmed the presence of hydrocarbons and contributed greatly to the understanding of geological resources in the region. However, a substantial amount of further exploration studies and work is required before a conclusion on the future potential of the blocks can be drawn. Upon the expiration of the license terms of these blocks in March 2008, ZNG kept the preferential right to re-apply for the licenses.

The Company's investment in the Joint Venture is recorded on the equity method of accounting. Since cumulative losses of Joint Venture exceed the Company's investment, the investment asset is carried at zero value as of and through December 31, 2008 and September 30, 2009.

As of the date of this filing, Baltic has advised us that Baltic and as a result, ZNG, has withdrawn from any further exploration activities in the Kurgan region and that they will not expend any further resources on such activities moving forward. Baltic has however advised us that they believe they may be able to sell ZNG's previously prepared seismic and geological studies and data in the future, assuming other exploration companies in the area desire to purchase such information, of which there is no assurance.

#### Joint Venture

The operations of the Joint Venture are funded via loans provided to ZNG, Ltd. and ZNG by Caspian Finance Limited ("Caspian"), a financing company wholly-owned by Baltic. Loans are guaranteed by ZNG, Ltd.'s holdings in ZNG. As of September 30, 2009, the total funding provided to ZNG, Ltd. and ZNG by Baltic was equal to approximately \$23.5 million plus accrued interest of approximately \$5 million. The loans are not dilutive to the Company's ownership in ZNG.

#### Agreement With Alternative Energy Finance, Ltd.

We previously agreed to issue Alternative Energy Finance, Ltd. ("AEF"), of which Tim Peara is the Managing Director as well as a Director of the Company, certain warrants in connection with Mr. Peara introducing the parties who formed the joint venture. Pursuant to an agreement between AEF and the Company, AEF will receive compensation based on the total investment made by Baltic Petroleum Ltd. in the Joint Venture.

In connection with that agreement, the following warrants were granted to AEF: warrants to purchase 17,561 shares of our common stock at \$0.67 per share, which were granted to Mr. Peara on March 31, 2006, and which expired unexercised on March 31, 2009; warrants to purchase 20,412 shares of our common stock at an exercise price of \$2.02 per share, granted effective June 30, 2006, and which expired unexercised on June 30, 2009; warrants to purchase 20,952 shares of our common stock at an exercise price of \$1.53 per share effective September 30, 2006, and which expired unexercised on September 30, 2009; and warrants to purchase 38,648 shares of our common stock at an exercise price of \$1.44 per share effective December 31, 2006. All of the warrants are exercisable for three years from the date of issuance and contain a cashless exercise provision.

From January 1, 2007 to December 31, 2007, we accrued approximately \$108,827 in fees payable to AEF in connection with the AEF agreement, which funds have not been paid to date, and we also granted AEF the following securities pursuant to the agreement: warrants to purchase 48,925 shares of our common stock at an exercise price of \$1.10 per share effective March 31, 2007; warrants to purchase 55,233 shares of our common stock at an exercise price of \$1.14 per share, effective June 30, 2007; warrants to purchase 51,352 shares of our common stock at an exercise price of \$0.74 per share, effective September 30, 2007; and warrants to purchase 78,130 shares of our common stock at an exercise price of \$0.46 per share, effective December 31, 2007. All of the warrants are exercisable for three years from the date of issuance and contain a cashless exercise provision.

On March 13, 2007, Mr. Peara personally, and on behalf of AEF agreed to accept 58,134 shares of our restricted common stock in consideration for the forgiveness of \$45,626 owed personally to Mr. Peara in Director's fees and accrued expenses and \$47,969 owed to AEF in connection with our agreement with AEF for fees due from the period from March 31, 2006 to December 31, 2006, which shares have been issued to date and which debt has been forgiven by Mr. Peara and AEF.

We have not been required to pay AEF any additional consideration and/or grant AEF any additional warrants since December 31, 2007, as Baltic has not invested any additional funds into the Joint Venture since the end of that period.

#### Recent Events:

On or around April 30, 2009, the Company entered into a “One Year Term Extension To The Employment Agreement of August 1, 2004” with David Zaikin, the Company’s Chief Executive Officer and Elena Pochapski, the Company’s Chief Financial Officer (the “Executives” and the “Employment Extension Agreements”). The Employment Extension Agreements extended the term of the Executives previous employment agreements entered into on August 1, 2004 and September 1, 2003, respectively, for an additional year, such that the employment agreements now expire on December 31, 2009. The Executives’ salaries for the year ending December 31, 2009 will be \$180,000 and \$75,000 for Mr. Zaikin and Ms. Pochapski, respectively. Additionally, both of the Executives were granted additional stock options in the Company as described below.

On May 4, 2009, the Company’s Board of Directors approved new Stock Option Agreements and a grant of stock options to purchase an aggregate of 1,340,000 shares of the Company’s common stock to the officers and various Directors of the Company in consideration for their services to the Company for the year ending December 31, 2009. David Zaikin, the Company’s Chief Executive Officer and Director was granted stock options to purchase 300,000 shares, Elena Pochapski, the Company’s Chief Financial Officer and Director was granted stock options to purchase 300,000 shares, Helen Teplitskaia, the Company’s President and Director was granted options to purchase 200,000 shares, Timothy Pears, the Company’s Director was granted options to purchase 200,000 shares, Oleg Zhuravlev, the Company’s Director was granted options to purchase 170,000 shares, and Sergey Potapov, the Company’s Director was granted options to purchase 170,000 shares. All of the stock options have an exercise price of \$0.055 per share, the market price of the Company’s common stock on the grant date. Additionally, all of the stock options have the same vesting terms, including the vesting of 1/4th of the stock options on the grant date, and 1/4th of the stock options vesting at the end of each of the Company’s next three fiscal quarters. All of the stock options expire three years from the grant date and include a cashless exercise provision.

#### PLAN OF OPERATIONS FOR THE NEXT TWELVE MONTHS

In coordination with Neftebitum, the Company plans to focus on the exploration activities of KNG in the Khanty-Mansiysk region of Russia, to satisfy the requirements of the licensing agreements and to conduct preparatory work for the seismic surveys on these areas, funding permitting (which funding is the responsibility of Neftebitum), of which there can be no assurance.

Moving forward, we anticipate targeting other potential long term investments in Russia and countries in the former Soviet Union, separate from our involvement in the Joint Venture and KNG, funding permitting, of which there can be no assurance. Additionally, the Company currently plans to change its business focus from targeting early stage exploration projects to acquiring assets in producing fields, funding permitting, of which there can be no assurance, in order to decrease its exploration risks.

Currently we are evaluating different business opportunities in the oil and gas industry, including advanced development stage and revenue-producing enterprises and are in preliminary discussions with a potential partner which owns several oil and gas producing properties in Western Siberia; however, as no definitive agreement has been reached, we can provide no assurances that the discussions will result in any definitive understandings or partnerships, and it is likely that any agreement would be conditioned on us raising substantial additional funding, which we can provide no assurances will be available on favorable terms, if at all.

Historically, we have obtained cash financing from organizing stockholders in the form of loans and advances. Additionally, during the fourth quarter of 2005, we restructured much of our debt through the issuance of shares of our common stock to our creditors and obtained waiver letters, postponing certain of our liabilities until such time as we

have generated sufficient profits to pay such debts. These waiver letters related to the payment of certain trade debts as well as shareholder loans and accrued salaries.

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In connection with the Joint Venture, the Company previously received monthly management fees, which varied from \$25,000 to \$85,000 per month. Due to the “transition period” of the Joint Venture’s exploration activities and subsequent decision of Baltic not to pursue further exploration activities through ZNG, no management fees have been paid since October 2007, and the Joint Venture will not pay any management fees in the future. As the Company will not receive any management fees moving forward, the Company believes that its organizing stockholders will continue to provide financing for the Company, of which there can be no assurance.

In the past, we have obtained cash financing from organizing stockholders in the form of loans and advances, as a result, amounts totaling \$505,211 and \$447,663 were payable to the stockholders as of September 30, 2009 and December 31, 2008, respectively. However, there can be no certainty as to the availability of continued financing in the future. Failure to obtain sufficient financing may require us to reduce our operating activities. A failure to continue as a going concern would then require stated amounts of assets and liabilities to be reflected on a liquidation basis which could differ from the going concern basis.

### COMPARISON OF OPERATING RESULTS

#### RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2009, COMPARED TO THE THREE MONTHS ENDED SEPTEMBER 30, 2008

We had no revenues and other income for the three months ended September 30, 2009 or 2008. Until October 2007, the Company received monthly management fees of between \$25,000 and \$85,000 pursuant to terms of the Joint Venture. However, the Company has not received any management fees since October 2007, and does not anticipate receiving any such fees moving forward.

We have not generated any revenues to date through the sale of oil and/or gas.

We had total expenses of \$159,478 for the three months ended September 30, 2009, compared to total expenses for the three months ended September 30, 2008, of \$220,034, which represented a decrease in total expenses from the prior period of \$60,556 or 27.5%.

The main reasons for the decrease in total expenses for the three months ended September 30, 2009, compared to the three months ended September 30, 2008, were a \$55,234 or 47.2% decrease in professional and consulting fees to \$61,814 for the three months ended September 30, 2009, compared to \$117,048 for the three months ended September 30, 2008, which decrease is largely attributable to the fact that the Company used less third party consultants and advisors during the three months ended September 30, 2009, compared to the same period of 2008; a \$6,359 or 67.3% decrease in marketing and other to \$3,090 for the three months ended September 30, 2009, compared to \$9,449 for the three months ended September 30, 2008; and a \$3,636 decrease in rent and occupancy, to no rent and occupancy expense for the three months ended September 30, 2009, compared to \$3,636 of rent and occupancy for the three months ended September 30, 2008 (as described below); partially offset by a \$4,096 or 4.6% increase in salaries, to \$92,663 for the three months ended September 30, 2009, compared to \$88,567 for the three months ended September 30, 2008. The Company is currently taking steps to move its New York office space, and as such, the Chief Executive Officer has been personally paying the Company’s office space rent and not billing the Company since approximately December 31, 2008, which resulted in the Company having no rent or occupancy expense for the three months ended September 30, 2009.

We had certain one-time additional expenses during the three months ended September 30, 2008, which were not represented during the three months ended September 30, 2009, including \$669,570 of loss from sale of investment (described below), \$3,928,000 of loss on deemed disposition of oil and gas properties, unproved (described below), and \$525,947 of impairment charge on investment. Since 56% of KNG was sold for a nominal amount, a non-cash impairment charge of \$525,947 was recorded to reduce the carrying value of the 44% investment in KNG to zero. The \$669,570 of loss from sale of investment for the three months ended September 30, 2008 can be attributed to our sale of a controlling interest in KNG as described in greater detail above. The \$3,928,000 loss on deemed disposition of oil and gas properties, unproved, for the three months ended September 30, 2008 can be attributed to the fact that the Company no longer has any plans to utilize the geological data associated with KNG, valued at \$3,928,000, other than through KNG's activities, and no consideration was received for the use of such geological data in connection with the sale of the controlling interest in KNG, although the Company has committed to providing such information to Neftebitum.

We had a net loss of \$159,478 for the three months ended September 30, 2009, which represented a decrease in net loss of \$5,184,073 or 97% from a net loss of \$5,343,551 for the three months ended September 30, 2008, which decrease in net loss was mainly due to the certain one-time expenses associated with the Company's accounting for the sale of KNG during the three months ended September 30, 2008, as described above, which were not repeated during the three months ended September 30, 2009.

#### RESULTS OF OPERATIONS FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2009, COMPARED TO THE NINE MONTHS ENDED SEPTEMBER 30, 2008

We had no revenues and other income for the nine months ended September 30, 2009 or 2008. Until October 2007, the Company received monthly management fees of between \$25,000 and \$85,000 pursuant to terms of the Joint Venture. However, the Company has not received any management fees since October 2007, and does not anticipate receiving any such fees moving forward.

We have not generated any revenues to date through the sale of oil and/or gas.

We had total expenses of \$485,355 for the nine months ended September 30, 2009, compared to total expenses for the nine months ended September 30, 2008, of \$590,297, which represented a decrease in total expenses from the prior period of \$104,942 or 17.8%.

The main reasons for the decrease in total expenses for the nine months ended September 30, 2009, compared to the nine months ended September 30, 2008, were an \$81,732 or 31.7% decrease in professional and consulting fees to \$176,174 for the nine months ended September 30, 2009, compared to \$257,906 for the nine months ended September 30, 2008, which decrease is largely attributable to the fact that the Company used less third party consultants and advisors during the nine months ended September 30, 2009, compared to the same period of 2008; an \$18,797 or 41.0% decrease in marketing and other expenses, to \$27,083 for the nine months ended September 30, 2009, compared to \$45,880 for the nine months ended September 30, 2008; and a \$14,101 decrease in rent and occupancy expenses to no rent and occupancy expenses for the nine months ended September 30, 2009, compared to \$14,101 for the nine months ended September 30, 2008, partially offset by a \$10,946 or 4.1% increase in salaries to \$276,189 for the nine months ended September 30, 2009, compared to \$265,243 for the nine months ended September 30, 2008. The Company is currently taking steps to move its New York office space, and as such, the Chief Executive Officer has been personally paying the Company's office space rent and not billing the Company since approximately December 31, 2008, which resulted in the Company having no rent or occupancy expense for the nine months ended September 30, 2009.

As described above under the comparison of operating results for the three months ended September 30, 2009, compared to the three months ended September 30, 2008, we had certain one-time additional expenses during the nine months ended September 30, 2008, which were not represented during the nine months ended September 30, 2009,

including \$669,570 of loss from sale of investment, \$3,928,000 of loss on deemed disposition of oil and gas properties, unproved, and \$525,947 of impairment charge on investment.

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We had a net loss of \$485,355 for the nine months ended September 30, 2009, which represented a decrease in net loss of \$5,228,459 or 91.5% from net loss of \$5,713,814 for the nine months ended September 30, 2008, which decrease in net loss was mainly due to the certain one-time expenses associated with the Company's accounting for the sale of KNG during the nine months ended September 30, 2008, as described above, which were not repeated during the nine months ended September 30, 2009.

#### LIQUIDITY AND CAPITAL RESOURCES

We had current assets of \$1,314 as of September 30, 2009, which included cash of \$758; and prepaid expenses and other current assets of \$556.

We had total assets of \$32,220 as of September 30, 2009, which included current assets of \$1,314 and non-current assets of \$30,906. Non-current assets included a \$29,500 loan receivable from affiliate in connection with amounts previously loaned to KNG, and \$1,406 of property and equipment, net.

We had total liabilities of \$2,206,752 as of September 30, 2009, which were solely current liabilities and which included \$505,211 of accounts payable to related party stockholders in connection with those shareholders paying certain of our expenses from the period between January 1, 2003 to September 30, 2009; \$67,316 of accounts payable to Baltic in connection with a \$29,000 loan advanced to the Company from Baltic and certain other expenses owed to Baltic; \$565,013 of accounts payable to others for advisory and professional services rendered; and \$1,069,212 of accrued payroll, which included \$607,500 payable to our Chief Executive Officer, David Zaikin, of which \$360,000 was accrued in 2007 and 2008, and \$112,500 which was owed to Mr. Zaikin for services rendered prior to September 2005, at which time he agreed to stop accruing salary until January 2007, when he provided us notice of his intent to once again begin accruing salary until such time as we have sufficient funds to pay such accrued salary, \$218,537 payable to our Chief Financial Officer, Elena Pochapski, and \$69,242 of accrued salary payable to our former Chief Executive Officer, Shakeel Adam.

We had negative working capital of \$2,205,438 and a total pre-development and development stage accumulated deficit of \$15,341,744 as of September 30, 2009.

Because our cumulative losses associated with the operations of ZNG exceeded our investment as of the date of the Joint Venture, ZNG, Ltd. is carried on our balance sheet at \$-0- as of September 30, 2009. Our investment in ZNG, Ltd. will exceed \$-0- at such time as ZNG, Ltd. has cumulative earnings sufficient to repay all loans to Baltic as provided in the Joint Venture, if ever.

As of September 30, 2009, the Company owns a 44% interest in KNG. The Company's investment in KNG is recorded on the equity method of accounting effective October 1, 2008. After careful consideration of the current financial position of KNG, the Company applied an impairment charge to the value of the investment in KNG which resulted in carrying it at zero value.

We had \$14,592 of net cash flows from operating activities for the nine months ended September 30, 2009, which was attributable to adjustments to reconcile \$485,355 of net loss, offset by \$461,535 of accounts payable and accrued expenses, \$458 of depreciation and amortization, \$37,989 of common stock and warrants issued for services and increased by \$35 of prepaid expenses and other assets.

In connection with the Joint Venture (described under "Joint Venture," above), the Company historically received management fees, which varied from \$25,000 to \$85,000 per month. Due to the "transition period" of the Joint Venture's exploration activities, no management fees were paid during the year ended December 31, 2008 or the nine months ended September 30, 2009, and the Company does not anticipate receiving any such fees moving forward. If the Company does not receive any management fees moving forward, the Company anticipates that its stockholders and management will continue to provide financing for the Company, of which there can be no assurance.



In connection with the activities of KNG, we are not currently receiving compensation for the use of the Company's geological data. According to the Operating agreement with Neftebitum, such fees may be paid to us in future years depending on the financial position of KNG, of which there can be no assurance.

We are taking steps to raise equity capital and/or to borrow additional funds. There can be no assurance that any new capital will be available to us or that adequate funds for our operations, whether from our financial markets, or other arrangements will be available when needed or on terms satisfactory to us, if at all. We have no commitments from officers, directors or affiliates to provide funding. Our failure to obtain adequate financing may require us to delay, curtail or scale back some or all of our operations. Additionally, any additional financing may involve dilution to our then-existing shareholders.

#### Critical Accounting Policies

##### Use of Estimates:

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

##### Principles of Consolidation:

The accompanying consolidated financial statements include the accounts of the Company and its then wholly-owned subsidiaries, ZNG (through October 14, 2005), Siberian Energy Group (Canada) and KNG (December 31, 2006 through September 30, 2008). All intercompany transactions and balances have been eliminated. After October 14, 2005, the Company's investment in ZNG is accounted for on the equity method of accounting. After September 30, 2008, the Company's investment in KNG is accounted for on the equity method of accounting. Accordingly, the assets, liabilities and equity are no longer presented on the Company's balance sheet.

##### Foreign Currency Translation:

The Russian subsidiaries ZNG and KNG use the Ruble as their functional currency; Siberian Energy Group (Canada) uses the Canadian dollar as its functional currency. The books and records of ZNG, KNG and Siberian Energy Group (Canada) are kept in their functional currencies. The Company translates to U.S. dollars the assets and liabilities of ZNG, KNG, and Siberian Energy Group (Canada) at the year-end exchange rates; and income statement amounts are converted at the average rates of exchange for the year. Translation gains and losses are included within other comprehensive income (loss).

##### Oil and Gas Properties:

The Company follows the full cost method of accounting for oil and gas properties. Accordingly, all costs associated with acquisition, exploration, and development of oil and gas reserves, including directly related overhead costs, are capitalized.

All capitalized costs of oil and gas properties, including the estimated future costs to develop proved reserves, will be amortized on the unit-of production method using estimates of proved reserves. Investments in unproved properties and major development projects are not amortized until proved reserves associated with the projects can be determined or until impairment occurs. When applicable, if the results of an assessment indicate that the properties are impaired, the amount of the impairment is added to the capitalized costs to be amortized.

In addition, the capitalized costs are subject to a "ceiling test," which basically limits such costs to the aggregate of the "estimated present value," discounted at a 10-percent interest rate of future net revenues from proved reserves, based on

current economic and operating conditions, plus the lower of cost or fair market value of unproved properties.

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Sales of proved and unproved properties are accounted for as adjustments of capitalized costs with no gain or loss recognized, unless such adjustments would significantly alter the relationship between capitalized costs and proved reserves of oil and gas, in which case the gain or loss is recognized in income. Abandonments of properties are accounted for as adjustments of capitalized costs with no loss recognized.

#### Property and Equipment:

Property and equipment is stated at cost, net of accumulated depreciation. Depreciation is provided using the straight-line method.

#### Long-Lived Assets:

Long lived assets to be held and used or disposed of other than by sale are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. When required, impairment losses on assets to be held and used or disposed of other than by sale are recognized based on the fair value of the asset. Long-lived assets to be disposed of by sale are reported at the lower of its carrying amount or fair value less cost to sell.

### ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Pursuant to Item 305(e) of Regulation S-K (§ 229.305(e)), the Company is not required to provide the information required by this Item as it is a "smaller reporting company," as defined by Rule 229.10(f)(1).

### ITEM 4. CONTROLS AND PROCEDURES

#### Evaluation of Disclosure Control and Procedures

We conducted an evaluation of the effectiveness of our disclosure controls and procedures as such term is defined in Rule 13a-15(e) of the Securities Exchange Act of 1934, as amended (the "Exchange Act") as of September 30, 2009. This evaluation was carried out under the supervision and with participation of our Chief Executive Officer and Chief Financial Officer. Based upon this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that as of September 30, 2009, our disclosure controls and procedures are not effective as a result of the material weakness in internal control over financial reporting discussed below.

Notwithstanding the assessment that our internal control over financial reporting was not effective and that there were material weaknesses as identified in this report, we believe that our unaudited consolidated financial statements contained in this Report fairly present our financial position, results of operations and cash flows for the periods covered herein in all material respects.

As of December 31, 2008, management assessed the effectiveness of the Company's internal control over financial reporting based on the criteria for effective internal control over financial reporting established in Internal Control--Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") and SEC guidance on conducting such assessments. Based on that evaluation, management concluded that, during the period covered by our Annual Report on Form 10-K, such internal controls and procedures were not effective to detect the inappropriate application of US GAAP rules as more fully described below. This was due to deficiencies that existed in the design or operation of our internal control over financial reporting that adversely affected our internal controls and that taken together may be considered to be a material weakness.

We are committed to improving our financial organization. As part of this commitment, we will, as soon as funds are available to the Company (1) appoint one or more outside directors to our board of directors who shall be appointed to the audit committee of the Company resulting in a fully functioning audit committee who will undertake the oversight in the establishment and monitoring of required internal controls and procedures; (2) create a position to segregate duties consistent with control objectives and will increase our personnel resources; and (3) hire independent third parties to perform expert advice.

We will continue to monitor and evaluate the effectiveness of our internal controls and procedures and our internal controls over financial reporting on an ongoing basis and are committed to taking further action and implementing additional enhancements or improvements, as necessary and as funds allow.

#### Changes in internal control over financial reporting

There were no changes in our internal control over financial reporting during our most recent fiscal quarter that materially affected, or were reasonably likely to materially affect, our internal control over financial reporting.

## PART II - OTHER INFORMATION

### ITEM 1. LEGAL PROCEEDINGS

In January 2007, we learned that certain of our former officers, Directors and shareholders, had attempted to transfer shares of our common stock, which those individuals had agreed to cancel in connection with the purchase of a majority of the Company's outstanding shares from those individuals by our current officers, Directors and majority shareholders in April 2003. In February 2007, we filed for a Temporary Restraining Order and Motion for Preliminary Injunction against those individuals in the District Court of Clark County, Nevada.

On February 20, 2007, our Temporary Restraining Order and Motion for Preliminary Injunction was heard by the District Court of Clark County, Nevada, and we were granted an indefinite injunction without a hearing by the court. As such, those individuals who previously attempted to transfer and sell the shares which they held will be prevented from transferring or selling such shares until they can show good cause with the court why such indefinite injunction should be lifted.

From time to time, we may become party to other litigation or other legal proceedings that we consider to be a part of the ordinary course of our business. We are not currently involved in legal proceedings that could reasonably be expected to have a material adverse effect on our business, prospects, financial condition or results of operations, other than the proceeding described above. We may become involved in material legal proceedings in the future.

### ITEM 1A. RISK FACTORS

Our securities are highly speculative and should only be purchased by persons who can afford to lose their entire investment in our Company. If any of the following risks actually occur, our business and financial results could be negatively affected to a significant extent. The Company's business is subject to many risk factors, including the following:

#### RISK OF CONTINUING OUR BUSINESS PLAN WITHOUT ADDITIONAL FINANCING.

We depend to a great degree on the ability to attract external financing in order to conduct future exploratory and development activities. The Company believes it can satisfy its cash requirements during the next twelve months, estimated at approximately \$300,000, through funding provided by existing stockholders. As of September 30, 2009, the total funding provided to ZNG, Ltd. and ZNG by Baltic was equal to \$23.5 million plus accrued interest of approximately \$5 million, which has been spent on various purposes, including seismic and gas seismotomography surveys, drilling of two exploratory wells, and paying consultants for services performed in connection with surveys performed on the previously licensed area. Our partner in ZNG, Baltic has informed us that they do not plan to move forward with any further exploration activities through ZNG. The Company's partner in KNG, Neftebitum, is responsible for financing the research work of KNG. Neftebitum is currently attempting to raise external funds; however, no significant amounts have been raised to date. If you invest in our Company and we are unable to raise the required funds, your investment could become worthless.

#### KNG WILL NEED SUBSTANTIAL FINANCING AND SUBSTANTIAL TIME BEFORE WE ANTICIPATE GENERATING REVENUES THROUGH KNG, IF ANY.

The Company anticipates the need for approximately \$15,000,000 prior to KNG's expected generation of any revenues. In connection with the Agreement of Purchase and Sale, as described in more detail above, the Company sold a 56% interest in KNG to Neftebitum and various individuals in September 2008. Pursuant to this agreement and the related Operating Agreement, Neftebitum is responsible for providing financing for the operations of KNG. Currently, the Company is aware of Neftebitum raising only a small part of this financing and the Company can make

no assurances that sufficient financing will ever be raised. The Company also does not expect to generate any revenues through the operations of KNG, until such financing can be raised, of which there can be no assurance. Therefore, investors should keep in mind that even if Neftebitum is able to raise the substantial amounts of additional financing that KNG requires for its operations, it could still be years before KNG generates any revenue, if ever. If Neftebitum does not raise the \$15,000,000 which the Company anticipates KNG needs to generate revenues, which, even if generated, will likely not be great enough to sustain KNG if no revenues are generated and hydrocarbon reserves are not discovered, KNG may be forced to abandon its business plan, and the Company could be forced to abandon or curtail its business plan as well, which could cause the value of the Company's common stock to substantially decline or become worthless.

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OUR AUDITORS HAVE EXPRESSED SUBSTANTIAL DOUBT AS TO WHETHER OUR COMPANY CAN CONTINUE AS A GOING CONCERN.

Our Company is in its early development stage, as planned principal activities have not begun. We have generated only minimal revenues since inception and have incurred substantial losses including a net loss of \$485,355 for the nine months ended September 30, 2009, a net loss of \$5,863,560 for the year ended December 31, 2008, and had a total accumulated deficit of \$15,341,744 as of September 30, 2009. These factors among others indicate that the Company may be unable to continue as a going concern, particularly in the event that it cannot generate sufficient cash flow to conduct its operations and/or obtain additional sources of capital and financing.

WE LACK AN OPERATING HISTORY WHICH YOU CAN USE TO EVALUATE US, MAKING ANY INVESTMENT IN OUR COMPANY RISKY.

Our Company lacks a long standing operating history which investors can use to evaluate our Company's previous earnings. Therefore, an investment in our Company is risky because we have no business history and it is hard to predict what the outcome of our business operations will be in the future.

WE MAY CONTINUE TO BE UNPROFITABLE AND MAY NOT GENERATE PROFITS TO CONTINUE OUR BUSINESS PLAN.

As a development stage company, we have had limited revenues and no profits to date and our net cumulative deficit attributable to our development stage as of September 30, 2009, was \$14,891,959, and our total cumulative deficit was \$15,341,744 which included \$449,785 of pre-development stage deficit. We had \$1,069,212 in accrued and unpaid salaries and a working capital deficit of \$2,205,438 as of September 30, 2009. The Company is currently being funded by existing shareholders, but there can be no assurance this amount will be sufficient to continue our planned operations or that we will have enough money to repay our outstanding debts. If throughout KNG's future oil exploration, if any, no viable wells are found, and consequently, we generate only minimal revenues through KNG, we will likely be forced to curtail or abandon our business plan. If this happens, you could lose your investment in our Company. If we are unable to generate profits, we will be forced to rely on external financing, of which there is no guarantee, to continue with our business plan.

LICENSES TO A TOTAL OF FOUR OF ZNG'S LICENSED BLOCKS EXPIRED IN MARCH 2008 AND THREE ADDITIONAL LICENSES HAVE SINCE EXPIRED, AND THERE IS A RISK THAT THE RIGHTS TO SUCH LICENSED BLOCKS MAY NOT BE RENEWED.

In or around March 2008, ZNG's rights to four licensed blocks acquired in 2003, the Privolny, Mokrousovsky, West-Suersky and Orlovo-Pashkovsky blocks, expired and since that time, additional rights to three license blocks have expired. Between 2003 and 2007, ZNG carried out extensive seismic and gas seismotomographic studies on the four licensed blocks, and drilled 2 exploratory wells on the Privolny and Mokrousovsky blocks. Based on the interpretation of seismic and seismotomographic surveys and analysis of samples from the wells, ZNG prepared a comprehensive analysis of geological resources of the Kurgan region. Both the Privolny and Mokrousovsky studies confirmed the presence of hydrocarbons; however, a substantial amount of further exploration studies and work is required before a conclusion on the future potential of the blocks can be drawn. The licenses to four of the blocks expired in March 2008 and an additional three licenses have expired since then, and although ZNG kept the preferential right to re-apply for the licenses to continue exploration works on these blocks in the event it decides to restart exploration activities, there can be no assurance that such blocks will be able to be re-licensed by ZNG and/or that they will not be re-auctioned and awarded to alternative parties. If ZNG were to decide to re-license the blocks and they had already been auctioned off to other parties and/or were not eligible to be re-licensed, all of ZNG's exploration work and studies performed on the previously licensed areas may become worthless and any exploration expenditures made by ZNG for exploration wells and other expenditures will likely not be able to be recouped by ZNG. Additionally, if ZNG were unable to re-license the blocks, the value of the Company's securities could decline in

value and/or become worthless.

WE HAVE A POOR FINANCIAL POSITION AND IF WE DO NOT GENERATE REVENUES, WE MAY BE FORCED TO ABANDON OUR BUSINESS PLAN.

Our Company currently has a poor financial position. We have generated only minimal revenues to date, and we have not discovered any hydrocarbon reserves or begun production on any wells. There is a risk that we will not find enough, or even any, viable wells which we require to generate enough profits for your investment in our Company to appreciate. If we never generate any revenues, our Company may be forced to curtail or abandon its business plan and your shares may become worthless.

OUR BUSINESS IS SPECULATIVE AND RISKY AND IF KNG DOES NOT FIND HYDROCARBON RESERVES, WE MAY BE FORCED TO CURTAIL OUR BUSINESS PLAN.

There is a risk that KNG will not find any hydrocarbon reserves and the cost of exploration will become too high for us to continue KNG's business plan. As our only current operations are through our 44% ownership of KNG, if KNG were to cease operations, your investment in our Company could become devalued or could become worthless.

OUR INDUSTRY IS COMPETITIVE AND AS SUCH, COMPETITIVE PRESSURES COULD PREVENT US FROM OBTAINING PROFITS.

The main factor determining success in the oil exploration and extraction industry is finding viable wells. If our Company, through ZNG, Ltd., KNG or other joint ventures we may enter into in the future, are unable to find producing wells and our competition is, it is likely that our Company will be driven out of business. Additionally, our industry is subject to significant capital requirements and as such, larger companies may have an advantage should they compete with us for exploration licenses, because they may have resources substantially greater than ours. Investors should take into account the above factors and understand that if we are unable to raise additional capital or generate the profits, the Company may be forced to liquidate its assets and an investment in our Company could become worthless.

OUR GROWTH WILL PLACE SIGNIFICANT STRAINS ON OUR RESOURCES.

The Company's growth is expected to place a significant strain on the Company's managerial, operational and financial resources. Furthermore, as the Company receives contracts, the Company will be required to manage multiple relationships with various customers and other third parties. These requirements will be exacerbated in the event of further growth of the Company or in the number of its contracts. There can be no assurance that the Company's systems, procedures or controls will be adequate to support the Company's operations or that the Company will be able to achieve the rapid execution necessary to succeed and implement its business plan. The Company's future operating results will also depend on its ability to add additional personnel commensurate with the growth of its business. If the Company is unable to manage growth effectively, the Company's business, results of operations and financial condition will be adversely affected.

**WE RELY ON KEY PERSONNEL AND IF THEY LEAVE OUR COMPANY OUR BUSINESS PLAN COULD BE ADVERSELY AFFECTED.**

We rely on the Company's Chief Executive Officer and Chief Financial Officer, David Zaikin and Elena Pochapski, for the success of our Company, who are currently employed under extended employment agreements described above. Their experience and input create the foundation for our business and they are responsible for the directorship and control over the Company's development activities. The Company does not hold "key man" insurance on either member of management. Moving forward, should they be lost for any reason, the Company will incur costs associated with recruiting replacement personnel and any potential delays in operations. If we are unable to replace Mr. Zaikin and/or Ms. Pochapski, or if Mr. Zaikin or Ms. Pochapski are unable to spend a sufficient amount of time on Company matters, the Company may be forced to scale back or curtail its business plan. As a result of this, any securities you hold in our Company could become devalued.

**ZNG'S OR KNG'S PROJECTIONS, ESTIMATES AND STATISTICAL ANALYSIS MAY BE INACCURATE OR SUBSTANTIALLY WRONG, WHICH MAY PREVENT ZNG AND/OR KNG FROM EXECUTING THEIR BUSINESS PLANS.**

Projections on future revenues as well as costs and required capital expenditures are based on estimates. Business statistical analysis is used in projection of drilling success ratios, average production costs, world oil price fluctuations and their correspondence to Russian domestic market. If ZNG's or KNG's projections or estimates are wrong or our statistical analysis faulty, ZNG's or KNG's revenues may be adversely affected which could prevent ZNG and/or KNG from executing their business strategy. As an investor, if this happens your securities in our Company could be adversely affected and you could lose your investment in our Company due to the fact that our only current oil and gas operations are through our 50% ownership of ZNG, Ltd., which in turn owns 100% of ZNG and through our 44% ownership of KNG, which has been awarded two exploration oil and gas licenses to date.

**THERE IS UNCERTAINTY AS TO OUR ABILITY TO ENFORCE CIVIL LIABILITIES BOTH IN AND OUTSIDE OF THE UNITED STATES DUE TO THE FACT THAT OUR OFFICERS, DIRECTORS AND ASSETS ARE NOT LOCATED IN THE UNITED STATES.**

Our officers and Directors, our properties and licenses, and the majority of our assets are located in countries other than the United States, including Canada and Russia. As a result, it may be difficult for shareholders to effect service of process within the United States on our officer and Director. In addition, investors may have difficulty enforcing judgments based upon the civil liability provisions of the securities laws of the United States or any state thereof, both in and outside of the United States.

**WE FACE RISKS ASSOCIATED WITH THE FACT THAT THE MAJORITY OF OUR OPERATIONS THROUGH OUR HOLDINGS ARE CONDUCTED IN RUSSIA, AND THE LICENSES OWNED THROUGH OUR HOLDINGS ARE IN RUSSIA.**

Zauralneftegaz, Ltd. which we own 50% of through our Joint Venture, and KNG, which we own 44% of, hold certain licenses and rights to reapply for licenses to certain oil and gas properties in the Kurgan Region of Russia. As a result, we are subject to various risks associated with doing business in Russia relating to Russia's economic and political environment. As is typical of an emerging market, Russia does not possess a well-developed business, legal and regulatory infrastructure that would generally exist in a more mature free market economy and, in recent years, Russia has undergone substantial political, economic and social change. Furthermore, in recent years the Russian government has unilaterally annexed certain oil and gas properties and companies for the government, and there can be no assurance that if commercially exploitable oil and gas reserves are found on our properties, that such properties will not be annexed or otherwise claimed by the Russian government. Our failure to manage the risks associated with doing business in Russia could have a material adverse effect upon our results of operations.



IF WE ARE LATE IN FILING OUR QUARTERLY OR ANNUAL REPORTS WITH THE SEC, WE MAY BE DE-LISTED FROM THE OVER-THE-COUNTER BULLETIN BOARD.

Under Over-The-Counter Bulletin Board ("OTCBB") rules relating to the timely filing of periodic reports with the SEC, any OTCBB issuer who fails to file a periodic report (Form 10-Q's or 10-K's) by the due date of such report (not withstanding any extension granted to the issuer by the filing of a Form 12b-25), three (3) times during any twenty-four (24) month period are de-listed from the OTCBB. Such removed issuer would not be re-eligible to be listed on the OTCBB for a period of one-year, during which time any subsequent late filing would reset the one-year period of de-listing. Therefore, if we are late in filing a periodic report three times in any twenty-four (24) month period and are de-listed from the OTCBB, our securities may become worthless and we may be forced to curtail or abandon our business plan.

WE INCUR SIGNIFICANT COSTS AS A RESULT OF OPERATING AS A FULLY REPORTING COMPANY IN CONNECTION WITH SECTION 404 OF THE SARBANES OXLEY ACT, AND OUR MANAGEMENT IS REQUIRED TO DEVOTE SUBSTANTIAL TIME TO NEW COMPLIANCE INITIATIVES.

We anticipate incurring significant legal, accounting and other expenses in connection with our status as a fully reporting public company. The Sarbanes-Oxley Act of 2002 (the "Sarbanes-Oxley Act") and new rules subsequently implemented by the SEC have imposed various new requirements on public companies, including requiring changes in corporate governance practices. As such, our management and other personnel will need to devote a substantial amount of time to these new compliance initiatives. Moreover, these rules and regulations will increase our legal and financial compliance costs and will make some activities more time-consuming and costly. In addition, the Sarbanes-Oxley Act requires, among other things, that we maintain effective internal controls for financial reporting and disclosure of controls and procedures. In particular, for fiscal year 2010, Section 404 will require us to obtain a report from our independent registered public accounting firm attesting to the assessment made by management. Our testing, or the subsequent testing by our independent registered public accounting firm, may reveal deficiencies in our internal controls over financial reporting that are deemed to be material weaknesses. Our compliance with Section 404 will require that we incur substantial accounting expense and expend significant management efforts. We currently do not have an internal audit group, and we may need to hire additional accounting and financial staff with appropriate public company experience and technical accounting knowledge. Moreover, if we are not able to comply with the requirements of Section 404 in a timely manner, or if we or our independent registered public accounting firm identifies deficiencies in our internal controls over financial reporting that are deemed to be material weaknesses, the market price of our stock could decline, and we could be subject to sanctions or investigations by the SEC or other regulatory authorities, which would require additional financial and management resources.

AS THERE IS CURRENTLY ONLY A LIMITED MARKET FOR OUR COMMON STOCK, THE MARKET FOR OUR COMMON STOCK MAY CONTINUE TO BE ILLIQUID, SPORADIC AND VOLATILE.

There is currently only a limited market for our common stock, and as such, we anticipate that such market will be illiquid, sporadic and subject to wide fluctuations in response to several factors moving forward, including, but not limited to:

- (1) actual or anticipated variations in our results of operations;
- (2) our ability or inability to generate new revenues;
- (3) the number of shares in our public float;
- (4) increased competition;
- (5) the political atmosphere in Russia; and

(6) conditions and trends in the oil, gas, and energy industries in general.

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Furthermore, because our common stock is traded on the Over-The-Counter Bulletin Board, our stock price may be impacted by factors that are unrelated or disproportionate to our operating performance. These market fluctuations, as well as general economic, political and market conditions, such as recessions, interest rates or international currency fluctuations may adversely affect the market price of our common stock. Additionally, at present, we have a limited number of shares in our public float, and as a result, there could be extreme fluctuations in the price of our common stock. Further, due to the limited volume of our shares which trade and our limited public float, we believe that our stock prices (bid, ask and closing prices) are entirely arbitrary, are not related to the actual value of the Company, and do not reflect the actual value of our common stock (and in fact reflect a value that is much higher than the actual value of our common stock). Shareholders and potential investors in our common stock should exercise caution before making an investment in the Company, and should not rely on the publicly quoted or traded stock prices in determining our common stock value, but should instead determine value of our common stock based on the information contained in the Company's public reports, industry information, and those business valuation methods commonly used to value private companies.

**INVESTORS FACE A RISK THAT THE COMPANY WILL NOT BE SUBJECT TO THE REPORTING REQUIREMENTS OR WILL ENTER INTO A TRANSACTION THAT RESULTS IN NEW MANAGEMENT AND A NEW OPERATING BUSINESS OF THE COMPANY.**

Management of the Company is analyzing steps to no longer be subject to the reporting requirements of the Securities and Exchange Commission (the "SEC") and/or considering entering into a reverse merger transaction. In the event that the Company is no longer subject to the reporting requirements of the SEC, the Company's stock would likely trade on the Pinksheets and would likely have less liquidity on such market and may trade at a lower share price than it currently trades. In the event that the Company enters into a reverse merger transaction, new management would run the Company and would likely operate a new business which may result in a loss on your investment.

**STATE SECURITIES LAWS MAY LIMIT SECONDARY TRADING, WHICH MAY RESTRICT THE STATES IN WHICH AND CONDITIONS UNDER WHICH YOU CAN SELL SHARES.**

Secondary trading in our common stock will not be possible in any state until the common stock is qualified for sale under the applicable securities laws of the state or there is confirmation that an exemption, such as listing in certain recognized securities manuals, is available for secondary trading in the state. If we fail to register or qualify, or to obtain or verify an exemption for the secondary trading of, the common stock in any particular state, the common stock cannot be offered or sold to, or purchased by, a resident of that state. In the event that a we do not apply for registration in, there is not a valid exemption for, and/or a significant number of states refuse to permit secondary trading in our common stock, the liquidity for the common stock could be significantly impacted.

**INVESTORS MAY FACE SIGNIFICANT RESTRICTIONS ON THE RESALE OF OUR COMMON STOCK DUE TO FEDERAL REGULATIONS OF PENNY STOCKS.**

Our common stock will be subject to the requirements of Rule 15(g)9, promulgated under the Securities Exchange Act as long as the price of our common stock is below \$5.00 per share. Under such rule, broker-dealers who recommend low-priced securities to persons other than established customers and accredited investors must satisfy special sales practice requirements, including a requirement that they make an individualized written suitability determination for the purchaser and receive the purchaser's consent prior to the transaction. The Securities Enforcement Remedies and Penny Stock Reform Act of 1990, also requires additional disclosure in connection with any trades involving a stock defined as a penny stock.



Generally, the Commission defines a penny stock as any equity security not traded on an exchange or quoted on NASDAQ that has a market price of less than \$5.00 per share. The required penny stock disclosures include the delivery, prior to any transaction, of a disclosure schedule explaining the penny stock market and the risks associated with it. Such requirements could severely limit the market liquidity of the securities and the ability of purchasers to sell their securities in the secondary market.

In addition, various state securities laws impose restrictions on transferring "penny stocks" and as a result, investors in the common stock may have their ability to sell their shares of the common stock impaired.

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

The Company has previously agreed to pay its President, Helen Teplitskaia, 10,000 shares of common stock per month for her service to the Company. As such, in June 2009, the Company issued Ms. Teplitskaia an aggregate of 60,000 shares, 10,000 shares per month from January 2009 to June 2009. The Company also owes Ms. Teplitskaia an additional 40,000 shares for services rendered during the months of July, August, September, October 2009, which shares have not been issued to date and have not been included in the number of issued and outstanding shares disclosed throughout this report.

The Company claims an exemption from registration afforded by Section 4(2) of the Securities Act of 1933, as amended, since the foregoing issuance did not involve a public offering, the recipient took the securities for investment and not resale and the Company took appropriate measures to restrict transfer.

## 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

Exhibit Description of Exhibit

No.

10.1(1) Option Agreement with Baltic Petroleum Limited dated April 28, 2005

10.2(1) License Agreement between OOO Zauralneftegaz and Baltic Petroleum Limited dated April 28, 2005

10.3(1) Loan Agreement between OOO Zauralneftegaz and Baltic Petroleum Limited dated April 28, 2005

10.4(1) Guarantee by Siberian Energy Group, Inc. dated April 28, 2005

10.5(1) Pledge and Security Agreement between Siberian Energy Group, Inc. and Baltic Petroleum Limited dated April 28, 2005



- 10.6(2) Option Agreement with Baltic Petroleum Limited dated April 28, 2005
- 10.7(2) License Agreement between OOO Zauralneftegaz and Baltic Petroleum Limited dated April 28, 2005
- 10.8(2) Loan Agreement between OOO Zauralneftegaz and Baltic Petroleum Limited dated April 28, 2005
- 10.9(2) Guarantee by Siberian Energy Group, Inc. dated April 28, 2005
- 10.10(2) Pledge and Security Agreement between Siberian Energy Group, Inc. and Baltic Petroleum Limited dated April 28, 2005
- 10.11(3) Clarification to the Contract of Purchase and Sale of the Share in Charter Capital of LLC "Zauralneftegaz" dated 15 May 2004
- 10.12(3) Agreement with Business - Standard (translated from Russian version)
- 10.13(3) Supplementary Agreement to Business - Standard Agreement (translated from Russian version)
- 10.14(3) Supplementary Agreement No. 2 to Business - Standard Agreement (translated from Russian version)
- 10.15(3) Deed of Amendment between ZNG and BP
- 10.16(3) Deed of Amendment between the Company and BP
- 10.17(4) Joint Venture Shareholders' Agreement with Baltic Petroleum (E&P) Limited and Zauralneftegaz Limited dated October 14, 2005
- 10.18(5) Amendment to the Employment Agreement Dated August 1, 2003, with Elena Pochapski
- 10.19(5) Form of Waiver Agreement
- 10.20(6) Loan Agreement between OOO Zauralneftegaz and Caspian Finance Limited
- 10.21(6) Deed of Novation between Baltic Petroleum Limited, Caspian Finance Limited and OOO Zauralneftegaz
- 10.22(6) Deed of Release
- 10.23(6) Release of Pledge
- 10.24(6) Guarantee
- 10.25(6) Debenture
- 10.26(6)

Agreement for the Pledge of the Participatory Interest in OOO  
Zauralneftegaz (Russian translation removed)

10.27(6) Sale and Purchase Agreement

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- 10.28(8) Option Agreement with Key Brokerage
- 10.29(8) Warrant Agreement with Key Brokerage
- 10.30(9) July 26, 2006 Deed of Agreement
- 10.31(10) Consulting Agreement with Business Standard
- 10.32(11) Addition to the Loan Agreement of November 9, 2005
- 10.33(11) Gross Overriding Royalty Agreement
- 10.34(12) Amendment No. 2 to the Employment Agreement Dated August 1, 2003  
with Elena Pochapski
- 10.35(13) Deed of Variation to the Loan Agreement Dated 9th of November 2005,  
Entered into in June 2007
- 10.36(15) Agreement of Purchase and Sale with Limited Liability Company  
Neftebitum, Sergey V. Prokopiev, and Oleg G. Shelepov
- 10.37(15) Operating Agreement with Limited Liability Company Neftebitum
- 10.38(16) One Year Extension to the Employment Agreement of August 1, 2004 with  
David Zaikin
- 10.39(16) One Year Extension to the Employment Agreement of August 1, 2004 with  
Elena Pochapski
- 10.40(16) Stock Option Agreement for David Zaikin
- 10.41(16) Stock Option Agreement for Elena Pochapski
- 21.1(14) Subsidiaries
- 31.1\* Certificate of the Chief Executive Officer pursuant Section 302 of the  
Sarbanes-Oxley Act of 2002
- 31.2\* Certificate of the Chief Financial Officer pursuant Section 302 of the  
Sarbanes-Oxley Act of 2002
- 32.1\* Certificate of the Chief Executive Officer pursuant to Section 906 of the  
Sarbanes-Oxley Act of 2002
- 32.2\* Certificate of the Chief Financial Officer pursuant to Section 906 of the  
Sarbanes-Oxley Act of 2002
- 99.1(7) Glossary

\* Filed herein.

Edgar Filing: MKS INSTRUMENTS INC - Form 10-K

(1) Filed as Exhibit 10.1, 10.2, 10.3, 10.4 and 10.5 to the Company's Form 8-K filed with the Commission on May 20, 2005, and incorporated herein by reference.

(2) Filed as Exhibits to the Company's Form 8-K filed with the Commission on May 20, 2005, and incorporated herein by reference.

(3) Filed as Exhibits to the Company's Report on Form 10-QSB, filed with the Commission on August 22, 2005, and incorporated herein by reference.

(4) Filed as Exhibits to the Company's Report on Form 8-K, filed with the Commission on October 28, 2005, and incorporated herein by reference.

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## Edgar Filing: MKS INSTRUMENTS INC - Form 10-K

- (5) Filed as Exhibits to our Report on Form 10-QSB for the period ending September 31, 2005, which was filed with the Commission on November 21, 2005, and is incorporated herein by reference.
- (6) Filed as Exhibits to our Report on Form 8-K, filed with the Commission on December 2, 2005, and incorporated herein by reference.
- (7) Filed as Exhibit 99.1 to our Report on Form 10-KSB for the year ended December 31, 2005, and incorporated herein by reference.
- (8) Filed as Exhibits to our Report on Form 8-K, filed with the Commission on September 19, 2006, and incorporated herein by reference.
- (9) Filed as an Exhibit to our Report on Form 10-QSB, filed with the Commission on November 14, 2006, and incorporated herein by reference.
- (10) Filed as an Exhibit to our Form 8-K filed with the Commission on February 20, 2007, and incorporated herein by reference.
- (11) Filed as Exhibits to our Report on Form 10-KSB filed with the Commission on February 2, 2007, and incorporated herein by reference.
- (12) Filed as an Exhibit to our Report on Form 10-QSB filed with the Commission on May 15, 2007, and incorporated herein by reference.
- (13) Filed as an Exhibit to our Report on Form 10-QSB filed with the Commission on August 14, 2007, and incorporated herein by reference.
- (14) Filed as an Exhibit to our Report on Form 10-K filed with the Commission on April 14, 2009, and incorporated herein by reference.
- (15) Filed as an Exhibit to our Report on Form 8-K filed with the Commission on November 14, 2008, and incorporated herein by reference.
- (16) Filed as an Exhibit to our Report on Form 10-Q filed with the Commission on May 19, 2009, and incorporated herein by reference.

### SIGNATURES

In accordance with Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

SIBERIAN ENERGY GROUP INC.

DATED: November 13, 2009

By: /s/ David Zaikin  
David Zaikin  
Chief Executive Officer  
(Principal Executive Officer)

DATED: November 13, 2009

By: /s/ Elena Pochapski  
Elena Pochapski  
Chief Financial Officer





