UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

x **Quarterly Report Pursuant To Section 13 or 15(d) of The Securities Exchange Act of 1934**
For The Quarterly Period Ended March 31, 2006

¨ **Transition Report Pursuant To Section 15(d) of The Securities Exchange Act of 1934**
Commission File Number: 000-51801

ROSETTA RESOURCES INC.

(Exact name of registrant as specified in its charter)

Delaware	**43-2083519**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
717 Texas, Suite 2800, Houston, TX	**77002**
(Address of principal executive offices)	**(Zip Code)**

Registrant s telephone number, including area code: (713) 335-4000

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

Indicate by check mark whether the Registrant is 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 Securities Exchange Act of 1934.

Large accelerated filer ¨ Accelerated filer ¨ Non-Accelerated filer x

Indicate by check mark whether the registrant is a shell company (as defined by Rule 12b-2 of the Securities Exchange Act of 1934). Yes ¨ No x

The number of shares of the registrant s Common Stock, $.001 par value per share, outstanding as of May 5, 2006 was 50,591,819.

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Rule 13a-14(a) Certification executed by B.A. Berilgen		
Rule 13a-14(a) Certification executed by Michael J. Rosinski		
Section 1350 Certification		

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Part I. Financial Information

Item 1. Financial Statements

Rosetta Resources Inc.

Consolidated Balance Sheet

(In thousands, except per share amounts)

	March 31, 2006 (Unaudited)	December 31, 2005
Assets		
Current assets:		
Cash and cash equivalents	$ 103,751	$ 99,724
Accounts receivable	31,839	40,051
Derivative instruments	4,892	1,110
Deferred income taxes		10,962
Current income tax receivable		6,000
Other current assets	13,939	9,411
Total current assets	154,421	167,258
Oil and natural gas properties, full cost method, of which $40 million at March 31, 2006 and $37 million at December 31, 2005 were excluded from amortization	1,011,219	973,185
Other	3,470	2,912
	1,014,689	976,097
Accumulated depreciation, depletion, and amortization	(64,049)	(40,161)
Total property and equipment, net	950,640	935,936
Long-term accounts receivable	1,358	1,726
Deferred loan fees	4,260	4,555
Deferred income taxes		8,594
Other assets	1,025	1,200
Total other assets	6,643	16,075
Total assets	$ 1,111,704	$ 1,119,269
Liabilities and Stockholders Equity		
Current liabilities:		
Accounts payable	$ 13,981	$ 13,442
Royalties payable	12,901	15,511
Derivative instruments	529	29,957
Interest payable	189	133
Prepayment on gas sales	11,057	14,528
Deferred income taxes	1,658	
Other current liabilities	25,298	28,264
Total current liabilities	65,613	101,835

Long-term liabilities:		
Derivative instruments	35,999	52,977
Long-term debt	240,000	240,000
Asset retirement obligation	9,227	9,034
Deferred income taxes	3,776	
Total liabilities	354,615	403,846
Commitments and contingencies (Note 9)		
Stockholders Equity:		
Common stock, $0.001 par value, 150,000,000 shares authorized, 50,288,950 issued	50	50
Additional paid-in capital	750,839	748,569
Treasury stock, at cost; 66,831 and no shares at March 31, 2006 and December 31, 2005, respectively.	(1,246)	
Accumulated other comprehensive loss	(19,615)	(50,731)
Retained Earnings	27,061	17,535
Total stockholders equity	757,089	715,423
Total liabilities and stockholders equity	$ 1,111,704	$ 1,119,269

The accompanying notes to the financial statements are an integral part hereof.

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Rosetta Resources Inc.

Consolidated/Combined Statements of Operations

(In thousands, except share and per share amounts)

(Unaudited)

	Successor-Consolidated	Predecessor-Combined
	Three Months Ended March 31,	
	2006	2005
Revenues:		
Natural gas sales	$ 56,730	$ 6,742
Oil sales	7,809	3,998
Oil and natural gas sales to affiliates		39,776
Other revenue	5	39
Total revenues	64,544	50,555
Operating Costs and Expenses:		
Lease operating expense	9,558	7,537
Depreciation, depletion, and amortization	24,067	15,124
Exploration expense		1,429
Dry hole costs		76
Treating and transportation	895	968
Affiliated marketing fees		439
Marketing fees	624	
Production taxes	1,697	1,188
General and administrative costs	9,251	3,345
Total operating costs and expenses	46,092	30,106
Operating income	18,452	20,449
Other (income) expense		
Interest expense with affiliates, net of interest capitalized		3,617
Interest expense, net of interest capitalized	4,132	
Interest income	(1,137)	(253)
Other expense (income), net	25	(96)
Total other expense	3,020	3,268
Income before provision for income taxes	15,432	17,181
Provision for income taxes	5,906	6,519
Net income	$ 9,526	$ 10,662

Earnings per share:

Basic	$	0.19	$	0.21
Diluted	$	0.19	$	0.21
Weighted average shares outstanding:				
Basic		50,120,907		50,000,000
Diluted		50,355,256		50,160,000

The accompanying notes to the financial statements are an integral part hereof.

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Rosetta Resources Inc.

Consolidated/Combined Statements of Cash Flows

(In thousands)

(Unaudited)

	Successor-Consolidated	Predecessor-Combined
	Three Months Ended March 31,	
	2006	2005
Cash flows from operating activities		
Net income	$ 9,526	$ 10,662
Adjustments to reconcile net income to net cash from operating activities		
Depreciation, depletion and amortization	24,067	15,124
Affiliate interest expense		3,617
Deferred income taxes	5,906	2,242
Amortization of deferred loan fees recorded as interest expense	295	
Income from unconsolidated investments	25	(396)
Stock compensation expense	1,835	
Other non-cash charges		202
Change in operating assets and liabilities:		
Accounts receivable	8,212	2,406
Accounts receivable from affiliates		3,217
Current income taxes receivable	6,000	4,277
Other Assets	(4,528)	379
Long-term accounts receivable	368	
Royalties payable	(6,081)	(1,603)
Accounts payable	(1,753)	(79)
Interest payable	56	
Other current liabilities	(2,913)	835
Net cash provided by operating activities	41,015	40,883
Cash flows from investing activities		
Purchases of property and equipment	(36,325)	(18,233)
Disposals of property and equipment		636
Deposits	25	
Other	111	365
Net cash used in investing activities	(36,189)	(17,232)
Cash flows from financing activities		
Equity offering transaction fees	267	
Notes payable to affiliates		(23,136)

Proceeds from issuances of common stock	192	
Purchases of treasury stock	(1,246)	
Other	(12)	
Net cash used in financing activities	(799)	(23,136)
Net increase in cash	4,027	515
Cash and cash equivalents, beginning of period	99,724	
Cash and cash equivalents, end of period	$ 103,751	$ 515
Supplemental non-cash disclosures:		
Capital expenditures included in accrued liabilities	$ 2,249	

The accompanying notes to the financial statements are an integral part hereof.

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Rosetta Resources Inc.

Notes to Consolidated/Combined Financial Statements (unaudited)

(1) Organization and Operations of the Company

Nature of Operations. Rosetta Resources Inc. (the Company), formed in June 2005, is comprised of the domestic oil and natural gas business formerly owned by Calpine Corporation and affiliates (predecessor, Calpine). The Company (Successor) is engaged in oil and natural gas exploration, development, production, and acquisition activities in the United States. The Company s operations are primarily concentrated in the Sacramento Basin of California, Lobo and Perdido Trends in South Texas, the State Waters of Texas, the shallow waters of the Gulf of Mexico and the Rocky Mountains.

These interim financial statements have not been audited. However, in the opinion of management, all adjustments, consisting of only normal recurring adjustments, necessary for a fair presentation of the financial statements have been included. Results of operations for interim periods are not necessarily indicative of the results of operations that may be expected for the entire year. In addition, these financial statements have been prepared in accordance with the instructions to Form 10-Q and, therefore, do not include all disclosures required for financial statements prepared in conformity with accounting principles generally accepted in the United States of America.

These financial statements and notes should be read in conjunction with our audited consolidated/combined financial statements and the notes thereto included in our annual report for the year ended December 31, 2005.

Certain reclassifications of prior year balances have been made to conform such amounts to corresponding 2006 classifications. These reclassifications have no impact on net income.

(2) Acquisition of Calpine Oil and Natural Gas Business

On July 7, 2005, the Company acquired the oil and natural gas business of Calpine, excluding certain non-consent properties, for approximately $910 million. This acquisition was funded with the issuance of common stock totaling $725 million and $325 million of debt from our credit facilities. The transaction was accounted for under the purchase method in accordance with SFAS 141. The results of operations were included in the Company s financial statements effective July 1, 2005 as the operating results in the intervening period are not significant. The preliminary purchase price was calculated as follows:

Cash from equity offering	$ 725,000
Proceeds from revolver	225,000
Proceeds from term loan	100,000
Other purchase price costs	(53,389)
Transaction adjustments (purchase price adjustments)	(11,556)
Transaction adjustments (non-consent properties)	(74,991)
Initial purchase price	$ 910,064

Other purchase price costs relate primarily to professional fees of $3.9 million and other direct transaction costs of $49.5 million.

The transaction adjustments (purchase price adjustments) is an amount agreed upon by Calpine Corporation and the Company to cover potential costs and/or revenues that will be adjusted to actual upon the final closing of the transaction.

Transaction adjustments (non-consent properties) relate to properties which required third party consents or waivers of preferential purchase rights necessary in order to effect transfer of title. At July 7, 2005, we withheld $75 million of the purchase price with respect to these non-consent properties. These funds are held by us and, despite Calpine s bankruptcy filing, management believes that it remains likely that conveyance of substantially all of these non-consent properties will occur ($7.4 million being subject to an exercised preference purchase right). Upon conveyance, such additional purchase price will be paid to Calpine and will be incremental to the initial purchase price of $910 million. We have excluded the effects of the operating results for the non-consent properties from our actual results for the three month period ended March 31, 2006. If the assignment of these properties does not occur, the portion of the purchase price we withheld pending obtaining consent

for these properties will be available to us for general corporate purposes or to acquire other properties.

The following is the allocation of the purchase price to specific assets acquired and liabilities assumed based on estimates of the fair values and costs (In thousands). There was no goodwill associated with the transaction.

Current assets	$ 1,794
Non-current assets	5,087
Properties, plant and equipment	925,141
Current liabilities	(14,390)
Long-term liabilities	(7,568)
	$ 910,064

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The purchase price allocation is preliminary in nature and is subject to changes as additional information becomes available and title is obtained for the non-consent properties. Management does not expect the final purchase price allocation to differ materially, with the exception of the conveyance of the non-consent properties discussed above.

The unaudited pro forma information below of operations for the three months ended March 31, 2005 assumes the acquisition of Calpine s domestic oil and natural gas business and the related financings occurred on January 1, 2004. We believe the assumptions used provide a reasonable basis for presenting the significant effects directly attributable to such transactions. The unaudited pro forma financial statements do not purport to represent what our results of operations would have been if such transactions had occurred on such date.

	Three Months Ended March 31, 2005 (In thousands, except per share amounts) (Unaudited)
Revenues	$ 50,555
Net income	7,958
Basic earnings per common share	0.16
Diluted earnings per common share	0.16

(3) Summary of Significant Accounting Policies

The Company has provided discussion of significant accounting policies, estimates and judgments in its annual report for the year ended December 31, 2005.

Principles of Consolidation/Combination and Basis of Presentation. The Company purchased the domestic oil and natural gas business of Calpine which was separately accounted for and managed through direct and indirect subsidiaries of Calpine. As a result, the results of operations for the three month period ended March 31, 2005 of this domestic oil and gas business comprise the predecessor combined financial statements.

The predecessor combined financial statements have been prepared from the historical accounting records of the domestic oil and natural gas business of Calpine and are presented on a carve-out basis to include the historical operations of the domestic oil and gas business. The combined financial information included herein includes certain allocations based on the historical activity levels to reflect the combined financial statements in accordance with accounting principles generally accepted in the United States of America and may not necessarily reflect the financial position, results of operations and cash flows of the Company in the future or as if the Company had existed as a separate, stand-alone business during the period presented. The allocations consist of general and administrative expenses (employee payroll and related benefit costs, building lease expense, among other items) incurred on behalf of Calpine. The allocations have been made on a reasonable basis and have been consistently applied for the period presented.

The accompanying consolidated financial statements as of March 31, 2006 and December 31, 2005 and for the three month period ended March 31, 2006 contain the accounts of Rosetta Resources Inc. and its majority owned subsidiaries after eliminating all significant intercompany balances and transactions.

Property, Plant, and Equipment, Net. In connection with the Company s separation from Calpine, the Company adopted the full cost method of accounting for oil and natural gas properties beginning July 1, 2005. Under the full cost method, all costs incurred in acquiring, exploring, and developing properties within a relatively large geopolitical cost

center are capitalized when incurred and are amortized as mineral reserves in the cost center produced, subject to a limitation that the capitalized costs not to exceed the value of those reserves. In some cases, however, certain significant costs, such as those associated with offshore U.S. operations, are deferred separately without amortization until the specific property to which they relate is found to be either productive or nonproductive, at which time those deferred costs and any reserves attributable to the property are included in the computation of amortization in the cost center. All costs incurred in oil and gas producing activities are regarded as integral to the acquisition, discovery, and development of whatever reserves ultimately result from the efforts as a whole, and are thus associated with the Company s reserves. The Company capitalizes internal costs directly identified with acquisition, exploration and development activities and certain costs related to general corporate overhead or similar activities. The Company capitalized $0.8 million of internal costs for the three months ended March 31, 2006. Unevaluated costs are excluded from the full cost pool and are periodically evaluated for impairment rather than amortized. Upon evaluation, costs associated with productive properties are transferred to the full cost pool and amortized. Gains or losses on the sale of oil and natural gas properties are generally included in the full cost pool unless the entire pool is sold.

Capitalized costs and estimated future development costs are amortized on a unit-of-production method based on proved reserves associated with the applicable cost center. The Company assesses the impairment for oil and natural gas properties for the full cost pool quarterly using a ceiling test to determine if impairment is necessary. Specifically, the net unamortized costs for each full cost pool less related deferred income taxes should not exceed the following: (a) the present value, discounted at 10%, of future net cash flows from estimated production of proved oil and gas reserves plus (b) all costs being excluded from the amortization base plus (c) the lower of cost or estimated fair value of unproved properties included in the amortization base less (d) the income tax effects related to differences between the book and tax basis of the properties involved. The present value of future net revenues should be based on current prices, with consideration of price changes only to the extent provided by contractual arrangements, as of the latest balance sheet presented. The full cost ceiling test must take into account the prices of qualifying cash flow hedges in calculating the current price of the quantities of the future production of oil and gas reserves covered by the hedges as of the balance sheet date. In addition, the use of the hedge-adjusted price should be consistently applied in all reporting periods and the effects of using cash flow hedges in calculating the ceiling test, the portion of future oil and gas production being hedged, and the dollar amount that would have been charged to income had the effects of the cash flow hedges not been considered in calculating the ceiling limitation should be disclosed. Any excess is charged to expense during the period that the excess occurs. Application of the ceiling test is required for quarterly reporting purposes, and any write-downs cannot be reinstated even if the cost ceiling subsequently increases by year-end. No ceiling test write-down was recorded for the three months ended March 31, 2006 (successor).

Calpine followed the successful efforts method of accounting for oil and natural gas activities. Under the successful efforts method, lease acquisition costs and all development costs were capitalized. Exploratory drilling costs were capitalized until the results were determined. If proved reserves were not discovered, the exploratory drilling costs were expensed. Other exploratory costs were expensed as incurred. Interest costs related to financing major oil and natural gas projects in progress were capitalized until the projects were evaluated or until the projects were substantially complete and ready for their intended use if the projects were evaluated as successful. Calpine also capitalized internal costs directly identified with acquisition, exploration and development activities and did not include any costs related to production, general corporate overhead or similar activities. The provision for depreciation, depletion, and amortization was based on the capitalized costs as determined above, plus future abandonment costs net of salvage value, using the unit of production method with lease acquisition costs amortized over total proved reserves and other costs amortized over proved developed reserves.

Calpine assessed the impairment for oil and natural gas properties on a field by field basis periodically (at least annually) to determine if impairment of such properties was necessary. Management utilized its year-end reserve report prepared by the independent petroleum engineering firm, Netherland, Sewell & Associates, Inc., and related market factors to estimate the future cash flows for all proved developed (producing and non-producing) and proved undeveloped reserves. Property impairments occurred if a field discovered lower than anticipated reserves, reservoirs produced at a rate below original estimates or if commodity prices fell below a level that significantly affected anticipated future cash flows on the property. Proved oil and natural gas property values were reviewed when circumstances suggested the need for such a review and, if required, the proved properties were written down to their estimated fair market value based on proved reserves and other market factors. Unproved properties were reviewed quarterly to determine if there was impairment of the carrying value, with any such impairment charged to expense in the period. No impairment charge was recorded for the three months ended March 31, 2005 (predecessor).

Stock-Based Compensation.

On January 1, 2006, the Company adopted SFAS No. 123 (revised 2004) Share-Based Payments (SFAS-123R). This statement applies to all awards granted, modified, repurchased or cancelled after January 1, 2006 and to the unvested portion of all awards granted prior to that date. The Company adopted this statement using the modified version of the

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prospective application (modified prospective application). Under the modified prospective application, compensation cost for the portion of awards for which the employee s requisite service has not been rendered that are outstanding as of January 1, 2006 must be recognized as the requisite service is rendered on or after that date. The compensation cost for that portion of awards shall be based on the original fair market value of those awards on the date of grant as calculated for recognition under SFAS 123. The compensation cost for these earlier awards shall be attributed to periods beginning on or after January 1, 2006 using the attribution method that was used under SFAS 123. The impact of adoption of SFAS-123R decreased income from operations and income before income taxes by approximately $0.5 million and decreased net income by $0.3 million for the three months ended March 31, 2006 and there was no impact on the Consolidated Statement of Cash Flows. The effect on net income per share for basic and diluted is $0.01. See Note 10 of the notes to the Consolidated/Combined Financial Statements for additional disclosure.

Recent Accounting Developments

Accounting Changes and Error Corrections. In May 2005 the FASB issued SFAS No. 154, Accounting Changes and Error Corrections a replacement of APB Opinion No. 20 and FASB Statement No. 3 (SFAS 154) , which changes the requirements for the accounting for and the reporting of a change in accounting principle. This Statement applies to all voluntary changes in accounting principles. It also applies to changes required by an accounting pronouncement in the unusual instance that the pronouncement does not include specific transition provisions. When a pronouncement includes specific transition provisions, those provisions should be followed. SFAS 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. The adoption of this Statement did not impact the Company s consolidated financial position or results of operations.

Accounting for Certain Hybrid Financial Instruments. In February 2006 , the FASB issued SFAS No. 155, *Accounting for Certain Hybrid Instruments-an amendment of FASB Statements 133 and 140,* which is effective for all financial instruments acquired or issued after the beginning of an entity s first fiscal year that begins after September 15, 2006. The statement improves financial reporting by eliminating the exemption from applying SFAS No. 133 to interests in securitized financial assets so that similar instruments are accounted for similarly regardless of the form of the instruments. The Statement also improves financial reporting by allowing a preparer to elect fair value measurement at acquisition, at issuance, or when a previously recognized financial instrument is subject to a re-measurement event, on an instrument by instrument basis, in cases in which a derivative would otherwise have to be bifurcated, if the holder elects to account for the whole instrument on a fair value basis. The Company is currently evaluating the impact, if any, of this statement on the consolidated financial position or results of operations.

(4) Property, Plant and Equipment

The Company s total property and equipment consists of the following:

	March 31, 2006	December 31, 2005
	(In thousands)	
Proved properties	$ 988,387	$ 951,968
Unproved properties	22,832	21,217
Other	3,470	2,912
Total	1,014,689	976,097
Less: accumulated depreciation, depletion, and amortization	(64,049)	(40,161)
Net capitalized costs	$ 950,640	$ 935,936

Included in the Company s oil and gas properties are asset retirement obligations of $9.1 million.

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At March 31, 2006 and December 31, 2005, the Company excluded the following capitalized costs from depletion, depreciation and amortization:

	March 31, 2006	December 31, 2005
	(In thousands)	
Onshore:		
Development cost	$ 9,826	$ 4,589
Exploration cost	3,556	6,144
Acquisition cost of undeveloped acreage	21,956	19,684
Capitalized interest	876	555
Total	36,214	30,972
Offshore:		
Exploration cost	206	5,095
Acquisition cost of undeveloped acreage		950
Capitalized interest		27
Total	206	6,072
Total costs excluded from depreciation, depletion, and amortization	$ 36,420	$ 37,044

(5) Commodity Hedging Contracts and Other Derivatives

As of March 31, 2006, the Company had the following financial fixed price swaps outstanding with average underlying prices that represent hedged prices of commodities at various market locations:

Settlement Period	Derivative Instrument	Hedge Strategy	Notional Daily Volume MMBtu	Total of Notional Volume MMBtu	Average Underlying Prices MMBtu	Total of Proved Natural Gas Production Hedged (1)	Fair Market Value Gain/(Loss) (In thousands)
2006	Swap	Cash flow	45,000	12,375,000	$ 7.92	46%	$ 5,592
2007	Swap	Cash flow	36,300	13,249,500	7.62	33%	(17,609)
2008	Swap	Cash flow	30,876	11,300,616	7.30	27%	(14,807)
2009	Swap	Cash flow	26,141	9,541,465	6.99	26%	(9,704)
				46,466,581			$ (36,528)

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(1) Estimated based on net gas reserves presented in the December 31, 2005 Netherland, Sewell & Associates, Inc. reserve report.

As of March 31, 2006, the Company had the following costless collar transactions outstanding with associated notional volumes and contracted ceiling and floor prices that represent hedge prices at various market locations:

Settlement	Derivative Instrument	Hedge Strategy	Notional Daily	Total of Notional	Average Floor Price	Average Ceiling Price	Fair Market Value

Period			Volume MMBtu	Volume MMBtu	MMBtu	MMBtu	Gain/(Loss) (In thousands)
2006	Costless Collar	Cash flow	10,000	2,700,000	$ 8.825	$ 14.000	$ 4,892

The total of proved natural gas production hedged in 2006 for the costless collars is approximately 10% based on the December 31, 2005 reserve report prepared by Netherland, Sewell & Associates, Inc.

The Company s current cash flow hedge positions are with counterparties who are lenders in our credit facilities. This allows us to securitize any margin obligation resulting from a negative change in fair market value of the derivative contracts in connection with our credit obligations and eliminate the need for independent collateral postings. As of March 31, 2006, we had no deposits for collateral.

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The following table sets forth the results of third party hedging transactions for the respective period for the statement of operations:

	Successor Three Months Ended March 31, 2006
Natural Gas	
Quantity settled (MMBtu)	4,950,000
Increase in natural gas sales revenue	$ 1,562,914

The Company expects to reclassify gains of $2.7 million to earnings from the balance in Accumulated Other Comprehensive Loss during the next twelve months.

At March 31, 2006, the Company had derivative liabilities of $36.5 million of which $0.5 million is included in Derivative instruments under current liabilities on the Consolidated Balance Sheet. The Company also had a derivative instrument current asset of $4.9 million on the Consolidated Balance Sheet at March 31, 2006. The derivative instrument assets and liabilities related to commodities represent the difference between hedged prices and market prices on hedged volumes of the commodities as of March 31, 2006. Hedging activities related to cash settlements on commodities increased revenues by $ 1.6 million for the three months ended March 31, 2006 (successor).

Gains and losses related to ineffectiveness and derivative instruments not designated as hedging instruments are included in Other income (expense). There was no ineffectiveness related to cash-flow hedges recorded for the three months ended March 31, 2006 (successor). There were no gains related to derivative instruments not designated as hedged instruments for the three months ended March 31, 2005 (predecessor) as no derivative instruments existed.

The Company did not enter into any new derivative instruments during the first quarter of 2006.

(6) Comprehensive Income

For the three months ended March 31, 2006, comprehensive income consisted of the amounts listed below. For 2005, the predecessor did not have transactions affecting comprehensive income.

	March 31, 2006 (In thousands)
Net income	$ 9,526
Change in fair value of derivative hedging instruments	51,750
Hedge settlement reclassified to income	(1,563)
Tax provision related to hedges	(19,071)
Comprehensive Income	$ 40,642

(7) Senior Credit Facility

Our credit facilities consist of a four-year senior secured revolving line of credit of up to $400 million with a borrowing base of $325 million and a five-year $75 million senior second lien term loan. All amounts drawn under the revolver are due and payable on July 7, 2009. The principal balance associated with the senior secured lien term loan is due and payable on July 7, 2010.

On March 31, 2006, we had outstanding borrowings and letters of credit under our credit facility of $240.0 million and $1.0 million, respectively. Net borrowing availability was $159.0 million at March 31, 2006. We were in compliance with all covenants at March 31, 2006.

(8) Asset Retirement Obligation

Activity related to the Company s asset retirement obligation (ARO) as of March 31, 2006 is as follows:

	Three months ended March 31, 2006 (In thousands)
ARO as of beginning of period	$ 9,467
Liabilities incurred during period	21
Liabilities settled during period	(14)
Accretion expense	180
Other Adjustments	(4)
ARO as of end of period	$ 9,650

Of the total ARO, approximately $0.4 million is classified as a current liability at March 31, 2006.

(9) Commitment and Contingencies

The Company is party to various litigation matters arising out of the normal course of business. Although the ultimate outcome of each of these matters cannot be absolutely determined, and the liability the Company may ultimately incur with respect to any one of these matters in the event of a negative outcome may be in excess of amounts currently accrued with respect to such matters, management does not believe any such matters will have a material adverse effect on the Company s financial position, results of operation or cash flows. As of March 31, 2006 and December 31, 2005, a reserve for legal fees was recorded in other current liabilities on the Consolidated Balance Sheets in the amount of $0.3 million and $0.4 million, respectively.

Calpine Bankruptcy

Calpine and certain of its subsidiaries filed for protection under the federal bankruptcy laws in the Southern district of New York on December 20, 2005. The Company is not presently a party to any pending litigation in connection with this bankruptcy, although counsel has filed a notice of appearance on our behalf so we may effectively monitor the proceedings. Calpine Energy Services, L.P. has continued to make the required deposits into Rosetta s margin account and to timely pay for production it purchases from the Company s subsidiaries under various natural gas supply agreements. Calpine and certain of its subsidiaries have generally continued to provide services desired by the Company under the Transition Services Agreement and Calpine Producer Services, L.P. generally is performing its obligations under the Marketing and Services Agreement with us.

There remains the possibility, however, that there will be issues between the Company and Calpine that could amount to material contingencies in relation to the Purchase and Sale Agreement, dated July 7, 2005, by and among Calpine, the Company, and various other parties signatories thereto (the Purchase Agreement) including unasserted claims and assessments with respect to (i) the still pending final closing under the Purchase Agreement and the amounts that will be payable in connection therewith, (ii) whether or not Calpine and its affiliated debtors will, in fact, perform their remaining obligations in connection with the final closing and (iii) the ultimate disposition of certain properties (and related royalty revenues) for which third party consents to transfer had not been obtained at the time of the original closing under the Purchase Agreement. While the Company remains hopeful that it will be able to work cooperatively with Calpine as to accomplish the delivery by Calpine of legal record title including all ancillary ministerial and administrative corrections for all non-consent properties, as well as the curative corrections for all properties which the Company paid for, all of the same being covered by the further assurances provision of the parties definitive agreements, the timing and exact details of how, when, and if this will be able to be accomplished continue to remain uncertain at this early stage of Calpine s bankruptcy. The Company s management continues to believe that it is unlikely that any challenges by the Calpine debtors or their creditors to the fairness of the acquisition would be successful. At the present time, there is no pending or overtly threatened litigation in this regard. However, in the future there may be possible unasserted claims and assessments, seeking to challenge some aspects of the acquisition.

Environmental

Environmental expenditures are expensed or capitalized, as appropriate, depending on their future economic benefit. Expenditures that relate to an existing condition caused by past operations, and that do not have future economic benefit, are expensed. Liabilities related to future costs are recorded on an undiscounted basis when environmental assessments and/or remediation activities are probable and the cost can be reasonably estimated. The Company performed an environmental remediation study for three sites in California and correspondingly, recorded a liability, which at March 31, 2006 and December 31, 2005 was $0.7 million. We do not expect that the outcome of our environmental matters discussed above will have a material adverse effect on the Company s financial position, results of operations or cash flows.

Participation in a Regional Carbon Sequestration Partnership

In accordance with its obligations to Calpine under the parties transition services agreement, the Company has made preliminary preparations in connection with its cooperating with Calpine to participate in a joint study in connection with the U.S. Department of Energy s (DOE) Regional Carbon Sequestration Partnership program (WESTCARB) with the California Energy Commission and the University of California, Lawrence Berkeley Laboratory. The Company has been selected by the DOE for this project. Under WESTCARB, the Company would be required to drill a carbon injection well, recondition an idle well for use as an observation well and provide WESTCARB with certain proprietary well data and technical assistance related to the evaluation and injection of carbon dioxide into a suitable natural gas reservoir in the Sacramento Basin. The Company s maximum contribution to WESTCARB is $1.0 million and will be limited to 20% of the total contributions to the project. The Company will not have any obligation under the WESTCARB project until it has

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entered into an acceptable contract and the project has obtained proper and necessary local, state and federal regulatory approvals, land use authorizations, and third party property rights. No accrual was recorded at March 31, 2006 as the study is still in the preliminary stage.

(10) Stock-Based Compensation

Successor

2005 Long-Term Incentive Plan

In July 2005, the Board of Directors adopted the Rosetta 2005 Long-Term Incentive Plan whereby stock is granted to employees, officers and directors of the Company. The Plan allows for the grant of stock options, stock awards, restricted stock, restricted stock units, stock appreciation rights, performance awards and other incentive awards. Employees, non-employee directors and other service providers of Rosetta and our affiliates who, in the opinion of the Committee, are in a position to make a significant contribution to the success of Rosetta and our affiliates are eligible to participate in the Plan. The Plan provides for administration by the Compensation Committee or another committee of our Board of Directors (the Committee), which determines the type and size of award and sets the terms, conditions, restrictions and limitations applicable to the award within the confines of the Plan s terms. The maximum number of shares available for grant under the plan is 3,000,000 shares of common stock plus any shares of common stock that become available under the Plan for any reason other than exercise, such as shares traded for the related tax liabilities of employees. The maximum number of shares of common stock available for grant of awards under the Plan to any one participant is (i) 300,000 shares during any fiscal year in which the participant begins work for Rosetta and (ii) 200,000 shares during each fiscal year thereafter.

Adoption of SFAS-123R

On January 1, 2003, Calpine prospectively adopted the fair market value method of accounting for stock-based employee compensation pursuant to SFAS No. 123, Accounting for Stock-Based Compensation , as amended by SFAS No. 148, Accounting for Stock-Based Compensation-Transition and Disclosure (SFAS No. 123). Expense amounts included in the combined historical financial statements for the three-months ended March 31, 2005 are based on stock based compensation granted to employees by Calpine. Stock options were granted at an option price equal to the quoted market price at the date of the grant or award.

In determining the Company s accounting policies, the Company chose to apply the intrinsic value method pursuant to Accounting Standards Board (APB) No. 25, Stock Issued to Employees (APB No. 25), effective July 1, 2005. Under APB No. 25, no compensation is recognized when the exercise price for options granted equals the fair value of the Company s common stock on the date of the grant. Accordingly, the provisions of SFAS No. 123 permit the continued use of the method prescribed by APB No. 25 but require additional disclosures, including pro forma calculations of net income (loss) per share as if the fair value method of accounting prescribed by SFAS No. 123 had been applied.

Effective January 1, 2006, the Company began accounting for stock-based compensation under SFAS-123R, whereby the Company records compensation expense based on the fair value of awards described below. Compensation expense for the three months ended March 31, 2006 (successor) and 2005 (predecessor) was $1.8 million and $0.1 million with a tax benefit of $0.7 million and $0.01 million , respectively. The remaining compensation expense associated with total unvested awards as of March 31, 2006 was $10.6 million and will be recognized over a weighted average period of 1.5 years.

Stock Options

The Company has granted stock options under its 2005 Long-Term Incentive Plan. Options generally expire ten years from the date of grant. The exercise price of the options can not be less than the fair market value per share of the Company s common stock on the grant date.

The weighted average fair value at date of grant for options granted during the three month periods ended March 31, 2006 and 2005 was $10.82 and $1.27 per share, respectively. The fair value of options granted is estimated on the date of grant using the Black-Scholes option-pricing model with the following assumptions:

	Successor Three Months Ended March 31, 2006	Predecessor Three Months Ended March 31, 2005

Expected option term (years)	6.5	2.5
Expected volatility	56.65%	58.00%
Expected dividend rate	0.00%	0.00%
Risk free interest rate	4.03% - 4.60%	3.62%

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The Company has assumed an annual forfeiture rate of 5 % for the awards granted in 2006 based on the Company s history for this type of award to various employee groups. Compensation expense is recognized ratably over the requisite service period and immediately for retirement-eligible employees.

The following table summarizes information concerning outstanding and exercisable options held by the Company s employees at March 31, 2006:

	Shares	Weighted Average Exercise Price Share	Weighted Average Remaining Contractual Term (In years)	Aggregate Intrinsic Value (In thousands)
Outstanding at the December 31, 2005	706,550	$ 16.28		
Granted	156,950	18.22		
Exercised	(11,950)	16.03		
Cancelled	(21,750)	16.22		
Outstanding at March 31, 2006	829,800	$ 16.66	9.41	$ 1,151
Options Exercisable at March 31, 2006	187,062	$ 16.27	9.30	$ 324

Compensation expense recorded for stock option awards for the first quarter of 2006 (successor) and 2005 (predecessor) is $0.5 million and $0.1million, respectively. Unrecognized expense as of March 31, 2006 for all outstanding stock options is $6.1 million.

The total intrinsic value of options exercised during the three month periods ended March 31, 2006 was $0.1 million. For the three months ended March 31, 2005, the predecessor did not have any options exercised. The fair value of awards vested for the three month period ended March 31, 2006 was $5.1 million.

Restricted Stock

The Company has granted stock under its 2005 Long-Term incentive Plan with a maximum contractual life of three years. The fair value of restricted stock grants is based on the value of the Company s common stock on the date of grant. Compensation expense is recognized ratably over the requisite service period. The Company also assumes an annual forfeiture rate of 5 % for these awards based on the Company s history for this type of award to various employee groups.

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The following table summarizes information concerning restricted stock held by the Company s employees at March 31, 2006:

	Shares	Weighted Average Grant Date Fair Value
Non-vested shares outstanding at December 31, 2005	581,900	$ 16.27
Granted	63,000	18.21
Vested	(273,500)	16.07
Forfeited	(15,000)	16.21
Non-vested shares outstanding at March 31, 2006	356,400	$ 16.77

The non-vested restricted stock outstanding at March 31, 2006 vests at a rate of 25% on the first anniversary, 25% on the second anniversary and 50% on the third anniversary. The restrictions on 270,000 shares lapsed on the day after the Company s effective date of its recently completed initial public offering in February 2006 and therefore vested in the first quarter of 2006.

Compensation expense recorded for restricted stock awards for the first quarter of 2006 is $1.3 million. Unrecognized expense as of March 31, 2006 for all outstanding restricted stock awards is $4.5 million.

Predecessor

Retirement Savings Plan

Calpine had a defined contribution savings plan, under Section 401(a) and 501(a) of the Internal Revenue Code, in which Calpine s employees were eligible to participate. The plan provided for tax deferred salary deductions and after-tax employee contributions. Employees were immediately eligible upon hire. Contributions included employee salary deferral contributions and employer profit-sharing contributions made entirely in cash of 4% of employees salaries, with employer contributions capped at $8,400 per year for 2005. There were no employer profit-sharing contributions for the three months ended March 31, 2005.

2000 Employee Stock Purchase Plan

Calpine adopted the 2000 Employee Stock Purchase Plan (ESPP) in May 2000. Calpine s eligible employees could, in the aggregate, purchase up to 28,000,000 shares of common stock at semi-annual intervals through periodic payroll deductions. Purchases were limited to either a maximum value of $25,000 per calendar year based on the IRS Code Section 423 limitation or limited to 2