

CONTANGO OIL & GAS CO
Form 10-Q
November 08, 2007
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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 September 30, 2007

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 001-16317

CONTANGO OIL & GAS COMPANY

(Exact name of registrant as specified in its charter)

DELAWARE
(State or other jurisdiction of
incorporation or organization)

3700 BUFFALO SPEEDWAY, SUITE 960

HOUSTON, TEXAS 77098

95-4079863
(IRS Employer
Identification No.)

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(Address of principal executive offices)

(713) 960-1901

(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant 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

The total number of shares of common stock, par value \$0.04 per share, outstanding as of October 31, 2007 was 16,027,138.

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CONTANGO OIL & GAS COMPANY AND SUBSIDIARIES
QUARTERLY REPORT ON FORM 10-Q
FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2007

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All references in this Form 10-Q to the Company, Contango, we, us or our are to Contango Oil & Gas Company and its wholly-owned Subsidiaries. Unless otherwise noted, all information in this Form 10-Q relating to natural gas and oil reserves and the estimated future net cash flows attributable to those reserves are based on estimates prepared by independent engineers and are net to our interest.

Table of Contents**CONTANGO OIL & GAS COMPANY AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEETS****ASSETS**

	September 30, 2007 (Unaudited)	June 30, 2007
CURRENT ASSETS:		
Cash and cash equivalents	\$ 8,904,550	\$ 6,177,618
Short-term investments		2,200,576
Inventory tubulars	334,797	334,797
Accounts receivable:		
Trade receivables	9,874,489	7,853,080
Advances to affiliates	5,864,042	5,259,191
Joint interest billings receivable	19,182,533	7,894,505
Other receivables	2,264,785	
Prepaid capital costs	8,162,542	5,539,419
Income tax receivable		2,666,884
Other	583,046	255,788
Total current assets	55,170,784	38,181,858
PROPERTY AND EQUIPMENT:		
Natural gas and oil properties, successful efforts method of accounting:		
Proved properties	102,626,294	82,655,848
Unproved properties	22,527,631	22,012,054
Furniture and equipment	244,614	235,512
Accumulated depreciation, depletion and amortization	(6,367,209)	(3,584,618)
Total property and equipment, net	119,031,330	101,318,796
OTHER ASSETS:		
Cash and other assets held by affiliates		1,195,074
Investment in Freeport LNG Project	3,243,585	3,243,585
Investment in Contango Venture Capital Corporation	4,729,909	5,864,558
Deferred income tax asset	663,754	3,377,016
Facility fees and other assets	437,600	754,622
Total other assets	9,074,848	14,434,855
TOTAL ASSETS	\$ 183,276,962	\$ 153,935,509

The accompanying notes are an integral part of these consolidated financial statements.

Table of Contents**CONTANGO OIL & GAS COMPANY AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEETS****LIABILITIES AND SHAREHOLDERS EQUITY**

	September 30, 2007 (Unaudited)	June 30, 2007
CURRENT LIABILITIES:		
Accounts payable	\$ 20,162,437	\$ 14,659,860
Joint interest advances	15,433,177	
Accrued exploration and development	11,757,127	14,235,062
Advances from affiliates	3,504,429	3,417,103
Debt of affiliates	13,237,141	8,540,091
Other liabilities held by affiliates	520,531	
Other accrued liabilities	1,177,913	1,417,279
Total current liabilities	65,792,755	42,269,395
LONG-TERM DEBT	20,000,000	20,000,000
ASSET RETIREMENT OBLIGATION	862,344	862,344
SHAREHOLDERS EQUITY:		
Convertible preferred stock, 6%, Series E, \$0.04 par value, 10,000 shares authorized, 6,000 shares issued and outstanding at September 30, 2007 and June 30, 2007, liquidation preference of \$30,000,000 at \$5,000 per share	240	240
Common stock, \$0.04 par value, 50,000,000 shares authorized, 18,596,138 shares issued and 16,021,138 outstanding at September 30, 2007, 18,539,807 shares issued and 15,964,807 outstanding at June 30, 2007	743,844	741,591
Additional paid-in capital	76,698,259	75,849,506
Accumulated other comprehensive income (loss)	(38,724)	715,659
Treasury stock at cost (2,575,000 shares)	(6,180,000)	(6,180,000)
Retained earnings	25,398,244	19,676,774
Total shareholders equity	96,621,863	90,803,770
TOTAL LIABILITIES AND SHAREHOLDERS EQUITY	\$ 183,276,962	\$ 153,935,509

The accompanying notes are an integral part of these consolidated financial statements.

Table of Contents**CONTANGO OIL & GAS COMPANY AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF OPERATIONS****(Unaudited)**

	Three Months Ended September 30,	
	2007	2006
REVENUES:		
Natural gas and oil sales	\$ 14,128,014	\$ 1,192,306
Total revenues	14,128,014	1,192,306
EXPENSES:		
Operating expenses	1,674,645	132,949
Exploration expenses	411,389	401,347
Depreciation, depletion and amortization	2,869,527	212,191
General and administrative expenses	1,342,461	1,103,342
Total expenses	6,298,022	1,849,829
NET INCOME (LOSS) BEFORE OTHER INCOME AND INCOME TAXES	7,829,992	(657,523)
Interest expense (net of interest capitalized)	(829,860)	(167,471)
Interest income	364,314	251,659
Other income	2,122,660	84,391
NET INCOME (LOSS) BEFORE INCOME TAXES	9,487,106	(488,944)
Benefit (provision) for income taxes	(3,315,636)	233,088
NET INCOME (LOSS)	6,171,470	(255,856)
Preferred stock dividends	450,000	150,000
NET INCOME (LOSS) ATTRIBUTABLE TO COMMON STOCK	\$ 5,721,470	\$ (405,856)
NET INCOME (LOSS) PER SHARE:		
Basic	\$ 0.36	\$ (0.03)
Diluted	\$ 0.35	\$ (0.03)
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING:		
Basic	15,991,762	15,004,548
Diluted	16,419,956	15,004,548

The accompanying notes are an integral part of these consolidated financial statements.

Table of Contents**CONTANGO OIL & GAS COMPANY AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF CASH FLOWS****(Unaudited)**

	Three Months Ended September 30,	
	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	\$ 6,171,470	\$ (255,856)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation, depletion and amortization	2,869,527	212,191
Exploration expenditures	316,392	531,907
Deferred income taxes	3,119,467	(262,120)
Tax benefit from exercise/cancellation of stock options	(60,848)	(29,032)
Stock-based compensation	396,508	229,160
Changes in operating assets and liabilities:		
Increase in accounts receivable and other	(4,251,545)	(289,673)
Increase in prepaid insurance	(399,346)	(188,250)
Increase in interest receivable	(250,000)	(20,599)
Increase in inventory		(139,972)
Increase in accounts payable and advances from joint owners	24,825,056	7,472,889
Decrease in other accrued liabilities	(244,919)	(398,409)
Increase in income taxes payable	2,727,732	29,032
Gain on sale of assets and other	(25,940)	(84,391)
Net cash provided by operating activities	35,193,554	6,806,877
CASH FLOWS FROM INVESTING ACTIVITIES:		
Natural gas and oil exploration and development expenditures	(41,075,249)	(22,281,393)
Increase in net investment in affiliates	1,715,605	292,031
Sale of short-term investments	2,200,576	9,460,677
Additions to furniture and equipment	(9,102)	
Investment in Contango Venture Capital Corporation		(600,000)
Net cash used in investing activities	(37,168,170)	(13,128,685)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Borrowings by affiliates	4,697,050	
Preferred stock dividends	(450,000)	(150,000)
Repurchase/cancellation of stock options and warrants		(181,540)
Tax benefit from exercise/cancellation of stock options	60,848	29,032
Proceeds from exercised options, warrants and others	393,650	
Net cash provided (used) in financing activities	4,701,548	(302,508)
NET INCREASE IN CASH AND CASH EQUIVALENTS	2,726,932	(6,624,316)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	6,177,618	10,274,950
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 8,904,550	\$ 3,650,634
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid for taxes	\$	\$

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Cash paid for interest	\$ 1,065,694	\$ 201,645
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CONTANGO OIL & GAS COMPANY AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF SHAREHOLDERS EQUITY
(Unaudited)

For the Three Months Ended September 30, 2007

		Accumulated			Total		
		Other					
Preferred							
Stock	Common Stock	Paid-in	Comprehensive	Treasury	Retained	Shareholders	Comprehensive
Shares	Amount	Shares	Amount	Capital	Capital	Equity	Income