CARRIZO OIL & GAS INC
Form 10-Q/A
November 16, 2006

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q/A
(Amendment No.1)

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

For the quarterly period ended **September 30, 2006**

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

For the transition period from ________ to _________

Commission File Number 000-29187-87

CARRIZO OIL & GAS, INC.
(Exact name of registrant as specified in its charter)

Texas	**76-0415919**
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)
1000 Louisiana Street, Suite 1500, Houston, TX	**77002**
(Address of principal executive offices)	(Zip Code)

(713) 328-1000
(Registrant's telephone number)

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 Exchange Act (Check one):

Large accelerated filer [ ] Accelerated filer [X] 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 [X]

The number of shares outstanding of the registrant's common stock, par value $0.01 per share, as of October 31, 2006, the latest practicable date, was 25,940,361.

FORM 10-Q/A
FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2006

INDEX

Index

EXPLANATORY NOTE

This Amendment No. 1 to the Form 10-Q of Carrizo Oil & Gas, Inc. (the "Company") for the quarter ended September 30, 2006, which was originally filed on November 9, 2006, is being filed to amend and restate Item 4 of Part I, "Controls and Procedures," in order to clarify that there were no changes in the Company's internal control over financial reporting during the quarter ended September 30, 2006 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting. No other sections were affected.

PART I

ITEM 4 - CONTROLS AND PROCEDURES

Disclosure Controls and Procedures. We maintain disclosure controls and procedures that are designed to provide reasonable assurance that information required to be disclosed by us in the reports that we file or submit to the Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), is recorded, processed, summarized and reported within the time periods specified by the Commission's rules and forms, and that information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

In accordance with Exchange Act Rules 13a-15 and 15d-15, we carried out an evaluation, under the supervision and with the participation of management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of our disclosure controls and procedures as of the end of the period covered by this report. As described in more detail in our Form 10-K/A filed on April 11, 2006 , we identified material weaknesses in the Company's internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) in connection with the work related to Management's Annual Report on Internal Control over Financial Reporting. As a result of these material weaknesses, our Chief Executive Officer and Chief Financial Officer concluded that, as of December 31, 2005, the Company's disclosure controls and procedures were not effective. Additionally, as a result of such material weaknesses, the Company was not able to file its Annual Report on Form 10-K for the year ended December 31, 2005 with the Securities and Exchange Commission in the time required. Because the control deficiencies leading to such material weaknesses were still present as of September 30, 2006, our Chief Executive Officer and Chief Financial Officer have concluded that as of the end of the period covered by this report, the Company's disclosure controls and procedures were not effective. The Company has outlined a number of initiatives, as discussed below, that it believes will remediate these material weaknesses in 2006.

Hedging

For a description of a material weakness related to the accounting for our derivatives and related matters, see Item 9A in our Annual Report on Form 10-K/A for the year ended December 31, 2005.

Year-end Close Process and Other Controls

In the fourth quarter of 2005, we hired a manager of financial reporting, filling the prior vacancy described in our Annual Report on Form 10-K for the year ended December 31, 2004. This manager of financial reporting subsequently left the Company late in the fourth quarter of 2005, creating a new vacancy. Our manager of accounting left the Company in November 2005. In February 2006, our controller and our director of financial planning and analysis also both left the Company. We attempted to fill these vacancies, but were not able to do so as quickly as we would have liked. We subsequently hired a new controller and manager of operations accounting in March 2006, near the end of our year-end closing process. During the second quarter of 2006, we hired a new manager of financial reporting, a manager of financial planning and analysis and a manager of general accounting. During the third quarter of 2006, we continued to build our accounting staff with the addition of two senior accountants.

The accounting and financial staff vacancies described above occurred during the year-end close process. While these vacancies were partially remedied by reliance upon independent financial reporting consultants for review of critical accounting areas and disclosures and material nonstandard transactions, these absences, combined with our complex manual, review intensive accounting system, placed greater burdens of detailed reviews on our remaining middle and upper-level accounting professionals, which in turn compromised the level of their qualitative review of the elements of the year end close, financial statements and disclosures. These review procedures are an important component of our controls surrounding the closing process and in financial

Index

reporting. As a result, we believe that these vacancies resulted in inadequate staffing, supervision and financial reporting expertise in our accounting and financial areas, which constituted a material weakness in our internal control over financial reporting as of December 31, 2005. These deficiencies ultimately affect the accuracy of our financial statement reporting and disclosures.

Accordingly, in connection with the audit of our 2005 financial statements, Pannell Kerr Forster of Texas, P.C. ("PKF"), our independent registered public accounting firm, detected a number of errors and/or omissions that were an indication that the aforementioned material weaknesses were present at December 31, 2005, increasing the likelihood to more than remote that a material misstatement of the Company's annual or interim financial statements will not be prevented or detected. The most notable of these errors included (1) our accounting for our derivatives as cash flow hedges rather than on a mark-to-market basis, (2) corrections for certain computational errors in the fair value of our derivatives previously reported in other comprehensive income in 2004 and 2005, (3) errors related to our capital expenditures accrual, (4) errors in the evaluation of our unproved property pool and (5) errors related to the evaluation of our asset retirement obligation. These errors came to management's attention in connection with the preparation of our consolidated financial statements for the year ended December 31, 2005. The controls in place related to items (3), (4) and (5) ("Other Controls") were not properly designed and/or operating to provide reasonable assurance that amounts would be properly recorded in the Company's consolidated financial statements. The failure of the Other Controls constituted a third material weakness in our internal controls as of December 31, 2005. Management determined that the restatement of our consolidated financial statements discussed in Note 3 to our consolidated financial statements included in Item 8 of our Annual Report on Form 10-K/A for the year ended December 31, 2005 was an additional effect of the year-end close process material weakness. All correcting adjustments were recorded by the Company prior to the finalization of its 2005 financial statements. The Company has implemented procedures to prevent these specific errors from occurring in the future. However, the additional initiatives (outlined below) are needed to remediate the material weaknesses in our internal controls, and thus lower the risk level to remote of other potential material errors or omissions.

Management identified each of the three material weaknesses referred to above in March of 2006 in connection with the preparation of the Company's financial statements and the work related to management's annual report on internal control over financial reporting. The material weakness in the Company's 2005 year-end close process resulted from accounting and financial staff vacancies beginning in the fourth quarter of 2005. Other similar vacancies existed during the 2004 year-end close process, which resulted in a material weakness as of December 31, 2004. The second material weakness, relating to the Company's hedging practices, was identified in March 2006 by management of the Company in connection with the preparation of the Company's annual financial statements and the work related to management's annual report on internal control over financial reporting. The underlying hedge accounting issues were identified and brought to management's attention by PKF and led management to identify a material weakness and therefore conclude that such material weakness was present as of December 31, 2005 and December 31, 2004. Management's identification of this material weakness ultimately led to the restatement of the Company's 2004 financial statements and the Company's quarterly financial statements for the first nine months of 2005. Management determined that this financial restatement was an additional effect of the year-end close process material weakness. Management also determined that the cumulative impact of the deficiencies associated with hedging practices was not material prior to 2004. The third material weakness related to various errors and omissions made during the 2005 year-end close process that were identified by PKF in March 2006 and led management to identify these errors as a material weakness and therefore conclude that such material weakness was present as of December 31, 2005. The material weakness began in the fourth quarter of 2005 and was related to the Company's accounting and financial staff vacancies.

As a result of these three material weaknesses, our management concluded in our Annual Report on Form 10-K/A for the year ended December 31, 2005 that our internal control over financial reporting was not effective as of December 31, 2005.

While there can be no assurance in this regard, we expect that the following initiatives will eliminate the material weaknesses relating to our year-end close process and other controls in 2006: (1) increasing the level of our professional accounting staff, including the successful placement of a new manager of financial reporting, new controller, new manager of operations accounting, new manager of general accounting and new manager of financial planning and analysis and other senior level positions, and (2) completing our transition to a new fully-integrated accounting software system (phase one was completed in the fourth quarter of 2005) to automate processes and improve qualitative reviews. Until these initiatives are fully implemented, we will continue to rely on manual processes and require additional commitment of resources to the closing process to produce our financial records and reports. Given our limited internal resources, we have currently elected to account for all new derivative contracts as non-designated derivatives. Our project team has made significant progress towards completing the transition to a new fully-integrated accounting software system described in the second initiative. We have discussed these material weaknesses and our remediation steps with our Audit Committee.

Index

Changes in Internal Control over Financial Reporting. There have not been any changes in the Company's internal control over financial reporting during the fiscal quarter ended September 30, 2006 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting. As described above, the Company identified material weaknesses in the Company's internal control over financial reporting and has described a number of planned changes to its internal control over financial reporting during 2006 designed to remediate these weaknesses. Some of these changes were effected in the first nine months of 2006, including some changes in staffing and changes in hedge accounting. This Item 4 should be read in conjunction with Item 9A included in our Annual Report on Form 10-K/A for the year ended December 31, 2005.

Index

PART II

ITEM 6 - EXHIBITS

Exhibit Number	Description
31.1	—CEO Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	—CFO Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

Index

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized.

	Carrizo Oil & Gas, Inc. (Registrant)
Date: November 16, 2006	By: /s/S. P. Johnson, IV President and Chief Executive Officer (Principal Executive Officer)
Date: November 16, 2006	By: /s/Paul F. Boling Chief Financial Officer (Principal Financial and Accounting Officer)