

ST MARY LAND & EXPLORATION CO
Form 10-Q
November 03, 2006

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2006

Commission file number 001-31539

ST. MARY LAND & EXPLORATION COMPANY

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction
of incorporation or organization)

41-0518430

(I.R.S. Employer Identification No.)

1776 Lincoln Street, Suite 700, Denver, Colorado 80203

(Address of principal executive offices)

(Zip Code)

(303) 861-8140

(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.

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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 by Rule 12b-2 of the Exchange Act).

Yes No

Indicate the number of shares outstanding of each of the issuer's classes of common stock as of the latest practicable date.

As of October 23, 2006, the registrant had 54,876,768 shares of common stock, \$0.01 par value, outstanding.

ST. MARY LAND & EXPLORATION COMPANY

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PART I. FINANCIAL INFORMATION**ITEM 1. FINANCIAL STATEMENTS****ST. MARY LAND & EXPLORATION COMPANY AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEETS (UNAUDITED)****(In thousands, except share amounts)**

	September 30, 2006	December 31, 2005
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 1,016	\$ 14,925
Short-term investments	1,450	1,475
Accounts receivable	134,388	165,197
Refundable income taxes	21,495	
Prepaid expenses and other	22,331	7,283
Accrued derivative asset	48,425	6,799
Deferred income taxes		8,252
Total current assets	229,105	203,931
Property and equipment (successful efforts method), at cost:		
Proved oil and gas properties	1,733,187	1,441,959
Less - accumulated depletion, depreciation, and amortization	(595,902)	(497,621)
Unproved oil and gas properties, net of impairment allowance of \$9,798 in 2006 and \$9,862 in 2005	49,623	44,383
Wells in progress	89,056	55,505
Other property and equipment, net of accumulated depreciation of \$9,262 in 2006 and \$8,046 in 2005	6,271	5,340
	1,282,235	1,049,566
Noncurrent assets:		
Goodwill	9,452	9,452
Long-term derivative asset	19,191	575
Other noncurrent assets	4,031	5,223
Total noncurrent assets	32,674	15,250
Total Assets	\$ 1,544,014	\$ 1,268,747
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable and accrued expenses	\$ 169,657	\$ 164,957
Accrued derivative liability	15,113	34,037
Deferred income taxes	17,625	
Total current liabilities	202,395	198,994
Noncurrent liabilities:		
Long-term credit facility	66,000	
Convertible notes	99,956	99,885
Asset retirement obligation	71,208	66,078
Net Profits Plan liability	154,195	136,824
Deferred income taxes	203,837	128,296
Accrued derivative liability	54,206	64,137
Other noncurrent liabilities	5,803	5,213
Total noncurrent liabilities	655,205	500,433
Commitments and contingencies		
Stockholders equity:		

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Common stock, \$0.01 par value: authorized 200,000,000 shares; issued: 55,120,282 shares in 2006 and 57,011,740 shares in 2005; outstanding, net of treasury shares: 54,870,282 shares in 2006 and 56,761,740 shares in 2005

	551	570
Additional paid-in capital	34,367	123,278
Treasury stock, at cost: 250,000 shares in 2006 and 250,000 shares in 2005	(4,784) (5,148
Deferred stock-based compensation) (5,593
Retained earnings	651,693	510,812
Accumulated other comprehensive income (loss)	4,587	(54,599
Total stockholders' equity	686,414	569,320
Total Liabilities and Stockholders' Equity	\$ 1,544,014	\$ 1,268,747

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

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ST. MARY LAND & EXPLORATION COMPANY AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

(In thousands, except per share amounts)

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2006	2005	2006	2005
Operating revenues:				
Oil and gas production revenue	\$ 188,159	\$ 203,144	\$ 550,181	\$ 501,935
Oil and gas hedge gain (loss)	4,828	(8,441)	14,808	(8,967)
Marketed gas and other revenue	4,252	8,355	12,787	18,508
Gain on sale of proved properties	801	246	7,233	220
Total operating revenues	198,040	203,304	585,009	511,696
Operating expenses:				
Oil and gas production expense	44,998	38,071	129,490	100,418
Depletion, depreciation, amortization, and asset retirement obligation accretion	39,817	36,952	110,118	100,933
Exploration	9,766	10,692	35,872	27,474
Impairment of proved properties	5,259		6,548	
Abandonment and impairment of unproved properties	920	817	3,368	4,506
General and administrative	9,725	9,772	30,940	23,239
Change in Net Profits Plan liability	(3,710)	54,857	17,370	71,253
Marketed gas system and other operating expense	3,975	7,620	12,981	17,569
Unrealized derivative loss (gain)	68	(60)	5,329	1,310
Total operating expenses	110,818	158,721	352,016	346,702
Income from operations	87,222	44,583	232,993	164,994
Nonoperating income (expense):				
Interest income	90	83	1,454	263
Interest expense	(2,170)	(2,344)	(5,098)	(6,562)
Income before income taxes	85,142	42,322	229,349	158,695
Income tax expense	(29,265)	(14,988)	(82,866)	(57,997)
Net income	\$ 55,877	\$ 27,334	\$ 146,483	\$ 100,698
Basic weighted-average common shares outstanding	55,398	56,640	56,564	56,941
Diluted weighted-average common shares outstanding	64,926	66,738	66,332	66,847
Basic net income per common share	\$ 1.01	\$ 0.48	\$ 2.59	\$ 1.77
Diluted net income per common share	\$ 0.88	\$ 0.42	\$ 2.25	\$ 1.55

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

ST. MARY LAND & EXPLORATION COMPANY AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY AND COMPREHENSIVE INCOME (UNAUDITED)

(In thousands, except share amounts)

	Common Stock Shares	Amount	Additional Paid-in Capital	Treasury Stock Shares	Amount	Deferred Stock-Based Compensation	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Stockholders Equity
Balances, December 31, 2004	57,458,246	\$ 574	\$ 127,374	(500,000)	\$ (5,295)	\$ (5,039)	\$ 364,567	\$ 2,274	\$ 484,455
Comprehensive income, net of tax:									
Net income							151,936		151,936
Change in derivative instrument fair value								(71,522)	(71,522)
Reclassification to earnings								14,366	14,366
Minimum pension liability adjustment								283	283
Total comprehensive income									95,063
Cash dividends declared, \$0.10 per share							(5,691)		(5,691)
Treasury stock purchases				(1,175,282)	(28,902)				(28,902)
Retirement of treasury stock	(1,411,356)	(14)	(28,729)	1,411,356	28,743				
Issuance of common stock under Employee Stock Purchase Plan	28,447		601						601
Sale of common stock, including income tax benefit of stock option exercises	936,403	10	16,619						16,629
Deferred compensation related to issued restricted stock unit awards, net of forfeitures			3,404			(3,404)			
Directors' stock compensation				13,926	306	(306)			
Accrued stock-based compensation			4,009						4,009
Amortization of deferred stock-based compensation						3,156			3,156
Balances, December 31, 2005	57,011,740	\$ 570	\$ 123,278	(250,000)	\$ (5,148)	\$ (5,593)	\$ 510,812	\$ (54,599)	\$ 569,320
Comprehensive income, net of tax:									
Net income							146,483		146,483
Change in derivative instrument fair value								68,644	68,644
Reclassification to earnings								(9,458)	(9,458)
Total comprehensive income									205,669
Cash dividends declared, \$0.10 per share							(5,602)		(5,602)
Treasury stock purchases				(3,319,300)	(123,108)				(123,108)
Retirement of treasury stock	(3,275,689)	(33)	(122,598)	3,275,689	122,631				

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Issuance of Directors shares from treasury			29,827	339				339
Issuance of common stock under Employee Stock Purchase Plan	12,918		404					404
Sale of common stock, including income tax benefit of stock option exercises	1,371,313	14	30,738					30,752
Adoption of Statement of Financial Accounting Standards No. 123R			(5,593)		5,593			
Stock-based compensation expense			8,138	13,784	502			8,640
Balances, September 30, 2006	55,120,282	\$ 551	\$ 34,367	(250,000)	\$ (4,784)	\$ 651,693	\$ 4,587	\$ 686,414

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

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ST. MARY LAND & EXPLORATION COMPANY AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(In thousands)

	For the Nine Months Ended September 30,	
	2006	2005
Reconciliation of net income to net cash provided by operating activities:		
Net income	\$ 146,483	\$ 100,698
Adjustments to reconcile net income to net cash provided by operating activities:		
Gain on sale of proved properties	(7,233)	(220)
Depletion, depreciation, amortization, and asset retirement obligation accretion	110,118	100,933
Exploratory dry hole expense	4,033	2,514
Abandonment and impairment of oil and gas properties	9,915	4,506
Unrealized derivative loss	5,329	1,310
Change in Net Profits Plan liability	17,370	71,253
Stock-based compensation expense	8,979	5,371
Deferred income taxes	64,612	9,485
Other	398	(38)
Changes in current assets and liabilities:		
Accounts receivable	30,810	(31,437)
Refundable income taxes	(21,495)	
Prepaid expenses and other	(15,048)	(2,540)
Accounts payable and accrued expenses	(21,612)	36,320
Income tax benefit from the exercise of stock options*	(15,110)	3,991
Net cash provided by operating activities	317,549	302,146
Cash flows from investing activities:		
Proceeds from sale of oil and gas properties	1,183	1,211
Capital expenditures	(293,977)	(204,835)
Acquisition of oil and gas properties		