

CONTANGO OIL & GAS CO
Form 10-Q
November 09, 2009
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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, 2009

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)

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DELAWARE
(State or other jurisdiction of
incorporation or organization)

95-4079863
(IRS Employer
Identification No.)

3700 BUFFALO SPEEDWAY, SUITE 960

HOUSTON, TEXAS 77098

(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 has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

Large accelerated filer Accelerated filer

Non-accelerated filer Smaller reporting company

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, 2009 was 15,830,480.

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CONTANGO OIL & GAS COMPANY AND SUBSIDIARIES
QUARTERLY REPORT ON FORM 10-Q
FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2009

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<i>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.</i>	

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

	September 30, 2009 (Unaudited)	June 30, 2009
CURRENT ASSETS:		
Cash and cash equivalents	\$ 64,779,523	\$ 44,371,324
Accounts receivable:		
Trade receivables	24,448,012	32,809,165
Advances to affiliates	5,636,626	5,494,747
Joint interest billings	2,393,004	4,515,660
Severance taxes receivable	4,393,511	3,528,402
Income taxes		4,221,644
Other	1,913,083	1,534,530
Total current assets	103,563,759	96,475,472
PROPERTY, PLANT AND EQUIPMENT:		
Natural gas and oil properties, successful efforts method of accounting:		
Proved properties	460,604,776	460,881,471
Unproved properties	5,982,822	2,911,258
Furniture and equipment	273,185	273,185
Accumulated depreciation, depletion and amortization	(53,814,839)	(44,952,301)
Total property, plant and equipment, net	413,045,944	419,113,613
OTHER ASSETS:		
Cash and other assets held by affiliates	802,929	1,128,110
Other	299,153	324,712
Total other assets	1,102,082	1,452,822
TOTAL ASSETS	\$ 517,711,785	\$ 517,041,907

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, 2009 (Unaudited)	June 30, 2009
CURRENT LIABILITIES:		
Accounts payable	\$ 3,186,316	\$ 8,812,677
Royalties and working interests payable	28,135,005	32,781,712
Accrued liabilities	1,707,400	3,867,579
Joint interest advances	284,392	4,056,991
Accrued exploration and development		120,300
Debt of affiliates	3,697,728	3,604,609
Income tax payable	5,518,527	
Total current liabilities	42,529,368	53,243,868
DEFERRED TAX LIABILITY	109,125,915	110,964,147
ASSET RETIREMENT OBLIGATION	3,100,040	3,469,624
SHAREHOLDERS EQUITY:		
Common stock, \$0.04 par value, 50,000,000 shares authorized, 19,638,334 shares issued and 15,828,980 outstanding at September 30, 2009 and June 30, 2009	785,533	785,533
Additional paid-in capital	76,448,244	76,321,911
Treasury stock at cost (3,809,354 shares at September 30, 2009 and June 30, 2009)	(58,639,644)	(58,639,644)
Retained earnings	344,362,329	330,896,468
Total shareholders equity	362,956,462	349,364,268
TOTAL LIABILITIES AND SHAREHOLDERS EQUITY	\$ 517,711,785	\$ 517,041,907

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,	
	2009	2008
REVENUES:		
Natural gas, oil and liquids sales	\$ 35,602,471	\$ 72,720,807
Total revenues	35,602,471	72,720,807
EXPENSES:		
Operating expenses	3,456,353	4,538,362
Exploration expenses	373,933	8,092,139
Depreciation, depletion and amortization	8,956,941	6,897,414
Impairment of natural gas and oil properties		68,766
General and administrative expenses	1,438,541	1,926,087
Total expenses	14,225,768	21,522,768
NET INCOME BEFORE OTHER INCOME AND INCOME TAXES	21,376,703	51,198,039
OTHER INCOME (EXPENSE):		
Interest expense	(156,133)	(296,157)
Interest income	147,230	424,152
NET INCOME BEFORE INCOME TAXES	21,367,800	51,326,034
Provision for income taxes	(7,901,939)	(20,405,662)
NET INCOME	13,465,861	30,920,372
NET INCOME ATTRIBUTABLE TO COMMON STOCK	\$ 13,465,861	\$ 30,920,372
NET INCOME PER SHARE:		
Basic	\$ 0.85	\$ 1.83
Diluted	\$ 0.83	\$ 1.80
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING:		
Basic	15,827,436	16,857,198
Diluted	16,144,643	17,211,298

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,	
	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 13,465,861	\$ 30,920,372
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, depletion and amortization	8,956,941	6,897,414
Impairment of natural gas and oil properties		68,766
Exploration expenditures	543,168	7,972,904
Deferred income taxes	(1,838,232)	19,492,311
Tax benefit from exercise/cancellation of stock options		(120,540)
Stock-based compensation	126,333	363,679
Changes in operating assets and liabilities:		
Decrease in accounts receivable and other	8,288,007	60,105,834
Increase in prepaid insurance	(361,033)	(170,107)
Increase in interest receivable	(48,763)	
Decrease in accounts payable and advances from joint owners	(9,398,960)	(19,750,156)
Decrease in other accrued liabilities	(7,672,176)	(18,638,479)
Increase (decrease) in income taxes payable	9,740,171	(3,586,569)
Net cash provided by operating activities	21,801,317	83,555,429
CASH FLOWS FROM INVESTING ACTIVITIES:		
Natural gas and oil exploration and development expenditures	(1,718,299)	(2,258,629)
Retirement of assets		32,826
Investment in affiliates	325,181	
Net cash used in investing activities	(1,393,118)	(2,225,803)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayments under credit facility		(15,000,000)
Tax benefit from exercise/cancellation of stock options		120,540
Purchase of common stock		(5,908,694)
Proceeds from exercised options, warrants and others		1,421,795
Net cash used in financing activities		(19,366,359)
NET INCREASE IN CASH AND CASH EQUIVALENTS	20,408,199	61,963,267
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	44,371,324	59,884,574
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 64,779,523	\$ 121,847,841
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid for taxes	\$	\$ 4,500,000
Cash paid for interest	\$ 63,014	\$ 212,816

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

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CONTANGO OIL & GAS COMPANY AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF SHAREHOLDERS EQUITY
(Unaudited)

	Common Stock		Paid-in	Treasury	Retained	Total
	Shares	Amount	Capital	Stock	Earnings	Shareholders
						Equity
Balance at June 30, 2009	15,828,980	\$ 785,533				