

CONTANGO OIL & GAS CO
Form 10-Q
May 07, 2010
[Table of Contents](#)

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, 2010

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)

Edgar Filing: CONTANGO OIL & GAS CO - Form 10-Q

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 April 30, 2010 was 15,777,380.

Table of Contents

CONTANGO OIL & GAS COMPANY AND SUBSIDIARIES

QUARTERLY REPORT ON FORM 10-Q

FOR THE NINE MONTHS ENDED MARCH 31, 2010

TABLE OF CONTENTS

	Page
PART I FINANCIAL INFORMATION	
Item 1. Consolidated Financial Statements	
<u>Consolidated Balance Sheets as of March 31, 2010 and June 30, 2009</u>	3-4
<u>Consolidated Statements of Operations for the three and nine months ended March 31, 2010 and 2009</u>	5
<u>Consolidated Statements of Cash Flows for the nine months ended March 31, 2010 and 2009</u>	6
<u>Consolidated Statement of Shareholders' Equity for the nine months ended March 31, 2010</u>	7
<u>Notes to the Consolidated Financial Statements</u>	8
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	14
<u>Item 3. Quantitative and Qualitative Disclosures about Market Risk</u>	38
<u>Item 4. Controls and Procedures</u>	39
<u>PART II OTHER INFORMATION</u>	
<u>Item 1A. Risk Factors</u>	39
<u>Item 5. Other Information</u>	39
<u>Item 6. Exhibits</u>	40

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**

	March 31, 2010 (Unaudited)	June 30, 2009
CURRENT ASSETS:		
Cash and cash equivalents	\$ 100,430,528	\$ 44,371,324
Accounts receivable:		
Trade receivables	17,131,031	32,809,165
Advances to affiliates	5,849,203	5,494,747
Joint interest billings	5,125,981	4,515,660
Insurance receivable	1,765,561	
Severance taxes receivable		3,528,402
Income taxes		4,221,644
Other	2,256,144	1,534,530
Total current assets	132,558,448	96,475,472
PROPERTY, PLANT AND EQUIPMENT:		
Natural gas and oil properties, successful efforts method of accounting:		
Proved properties	517,230,036	460,881,471
Unproved properties	5,682,136	2,911,258
Furniture and equipment	275,648	273,185
Accumulated depreciation, depletion and amortization	(69,698,244)	(44,952,301)
Total property, plant and equipment, net	453,489,576	419,113,613
OTHER ASSETS:		
Cash and other assets held by affiliates	1,747,139	1,128,110
Other	60,069	324,712
Total other assets	1,807,208	1,452,822
TOTAL ASSETS	\$ 587,855,232	\$ 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**

	March 31, 2010 (Unaudited)	June 30, 2009
CURRENT LIABILITIES:		
Accounts payable	\$ 8,277,350	\$ 8,812,677
Royalties and working interests payable	23,536,349	32,781,712
Accrued liabilities	2,883,026	3,867,579
Joint interest advances		4,056,991
Accrued exploration and development	42,178,157	120,300
Debt of affiliates	3,837,249	3,604,609
Income tax payable	2,710,214	
Total current liabilities	83,422,345	53,243,868
DEFERRED TAX LIABILITY	117,820,525	110,964,147
ASSET RETIREMENT OBLIGATION	3,852,605	3,469,624
SHAREHOLDERS EQUITY:		
Common stock, \$0.04 par value, 50,000,000 shares authorized, 19,681,417 shares issued and 15,842,380 outstanding at March 31, 2010, 19,638,334 shares issued and 15,828,980 outstanding at June 30, 2009,	787,255	785,533
Additional paid-in capital	77,012,556	76,321,911
Treasury stock at cost (3,839,037 shares at March 31, 2010, 3,809,354 shares at June 30, 2009)	(60,255,717)	(58,639,644)
Retained earnings	365,215,663	330,896,468
Total shareholders equity	382,759,757	349,364,268
TOTAL LIABILITIES AND SHAREHOLDERS EQUITY	\$ 587,855,232	\$ 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		Nine Months Ended	
	2010	2009	2010	2009
REVENUES:				
Natural gas, oil and liquids sales	\$ 37,845,738	\$ 36,133,376	\$ 119,528,579	\$ 154,370,771
Total revenues	37,845,738	36,133,376	119,528,579	154,370,771
EXPENSES:				
Operating expenses	3,523,835	4,553,421	11,066,471	14,505,666
Exploration expenses	22,756,325	12,756,737	23,334,283	20,387,619
Depreciation, depletion and amortization	6,837,887	8,919,740	25,182,258	22,167,167
Lease expirations and relinquishments	735,553	3,678,708	735,553	4,125,125
Impairment of natural gas and oil properties		2,709,239		2,709,239
General and administrative expenses	1,199,999	1,490,401	4,379,711	5,993,640
Total expenses	35,053,599	34,108,246	64,698,276	69,888,456
NET INCOME BEFORE OTHER INCOME AND INCOME TAXES	2,792,139	2,025,130	54,830,303	84,482,315
OTHER INCOME (EXPENSE):				
Interest expense	(109,047)	(147,392)	(420,311)	(589,812)
Interest income	535,855	154,058	834,160	757,571
Gain on sale of assets and other	112,868		112,868	
NET INCOME BEFORE INCOME TAXES	3,331,815	2,031,796	55,357,020	84,650,074
Provision for income taxes	(1,589,755)	(1,184,182)	(21,037,825)	(33,965,501)
NET INCOME ATTRIBUTABLE TO COMMON STOCK	\$ 1,742,060	\$ 847,614	\$ 34,319,195	\$ 50,684,573
NET INCOME PER SHARE:				
Basic	\$ 0.11	\$ 0.05	\$ 2.17	\$ 3.06
Diluted	\$ 0.11	\$ 0.05	\$ 2.12	\$ 3.01
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING:				
Basic	15,859,618	16,162,928	15,840,607	16,543,485
Diluted	16,162,989	16,466,988	16,160,215	16,857,136

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)**

	Nine Months Ended	
	March 31,	
	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 34,319,195	\$ 50,684,573
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, depletion and amortization	25,182,258	22,167,167
Lease expirations and relinquishments	735,553	4,125,125
Impairment of natural gas and oil properties		2,709,239
Exploration expenditures	22,261,487	19,361,419
Deferred income taxes	6,856,377	2,475,780
Tax benefit from exercise/cancellation of stock options	(122,025)	(264,187)
Stock-based compensation	447,643	1,096,443
Gain on sale of assets and other	(112,868)	
Changes in operating assets and liabilities:		
Decrease in accounts receivable and other	14,736,771	58,358,818
Increase in prepaid insurance	(491,322)	(225,134)
Decrease (increase) in interest receivable	(874,410)	1,079,107
Decrease in accounts payable and advances from joint owners	(4,592,318)	(29,030,422)
Decrease in other accrued liabilities	(6,701,696)	(57,786,616)
Increase (decrease) in income taxes payable	7,053,887	(4,942,928)
Net cash provided by operating activities	98,698,532	69,808,384
CASH FLOWS FROM INVESTING ACTIVITIES:		
Natural gas and oil exploration and development expenditures		