

CONTANGO OIL & GAS CO  
Form 10-Q  
November 09, 2011  
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**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, 2011

**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

**95-4079863**  
(IRS Employer

incorporation or organization)

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 November 4, 2011 was 15,359,666.

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**CONTANGO OIL & GAS COMPANY AND SUBSIDIARIES**  
**QUARTERLY REPORT ON FORM 10-Q**  
**FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2011**

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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****(Unaudited)****ASSETS**

	<b>September 30, 2011</b>	<b>June 30, 2011</b>
	(thousands)	
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 137,448	\$ 150,007
Accounts receivable:		
Trade receivables	41,682	43,967
Joint interest billings	6,123	6,818
Income taxes		94
Other receivables	361	978
Other	2,375	3,014
<b>Total current assets</b>	<b>187,989</b>	<b>204,878</b>
<b>PROPERTY, PLANT AND EQUIPMENT:</b>		
Natural gas and oil properties, successful efforts method of accounting:		
Proved properties	558,751	552,556
Unproved properties	7,022	7,625
Furniture and equipment	203	227
Accumulated depreciation, depletion and amortization	(140,472)	(129,702)
<b>Total property, plant and equipment, net</b>	<b>425,504</b>	<b>430,706</b>
<b>OTHER ASSETS:</b>		
Other	1,455	1,346
<b>Total other assets</b>	<b>1,455</b>	<b>1,346</b>
<b>TOTAL ASSETS</b>	<b>\$ 614,948</b>	<b>\$ 636,930</b>

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

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

	<b>September 30, 2011</b>	<b>June 30, 2011</b>
	<b>(thousands, except share amounts)</b>	
<b>CURRENT LIABILITIES:</b>		
Accounts payable	\$ 4,262	\$ 11,857
Royalties and revenue payable	35,493	39,222
Accrued liabilities	4,968	9,745
Accrued exploration and development	851	6,002
Income tax payable	8,497	6,942
Other current liabilities	463	4,456
Total current liabilities	54,534	78,224
DEFERRED TAX LIABILITY	123,379	123,472
ASSET RETIREMENT OBLIGATION	9,040	8,611
<b>SHAREHOLDERS EQUITY:</b>		
Common stock, \$0.04 par value, 50,000,000 shares authorized, 20,135,107 shares issued and 15,420,966 outstanding at September 30, 2011, 20,135,107 shares issued and 15,664,666 outstanding at June 30, 2011	805	805
Additional paid-in capital	79,278	79,278
Treasury shares at cost (4,714,141 shares at September 30, 2011 and 4,470,441 shares at June 30, 2011)	(105,320)	(91,788)
Retained earnings	453,232	438,328
Total shareholders equity	427,995	426,623
<b>TOTAL LIABILITIES AND SHAREHOLDERS EQUITY</b>	<b>\$ 614,948</b>	<b>\$ 636,930</b>

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	
	2011	September 30, 2010
	(thousands, except per share amounts)	
<b>REVENUES:</b>		
Natural gas, oil and liquids sales	\$ 44,203	\$ 53,097
<b>Total revenues</b>	<b>44,203</b>	<b>53,097</b>
<b>EXPENSES:</b>		
Operating expenses	5,899	4,604
Exploration expenses	32	73
Depreciation, depletion and amortization	10,956	14,026
Impairment of natural gas and oil properties	1,031	
General and administrative expenses	2,248	2,997
<b>Total expenses</b>	<b>20,166</b>	<b>21,700</b>
<b>OTHER INCOME (EXPENSE):</b>	<b>(77)</b>	<b>(63)</b>
<b>NET INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES</b>	<b>23,960</b>	<b>31,334</b>
Provision for income taxes	(9,056)	(11,516)
<b>NET INCOME FROM CONTINUING OPERATIONS</b>	<b>14,904</b>	<b>19,818</b>
<b>DISCONTINUED OPERATIONS (NOTE 7)</b>		
Discontinued operations, net of income taxes		(877)
<b>NET INCOME ATTRIBUTABLE TO COMMON STOCK</b>	<b>\$ 14,904</b>	<b>\$ 18,941</b>
<b>NET INCOME PER SHARE:</b>		
<b>Basic</b>		
Continuing operations	\$ 0.95	\$ 1.27
Discontinued operations	\$	\$ (0.06)
<b>Total</b>	<b>\$ 0.95</b>	<b>\$ 1.21</b>
<b>Diluted</b>		
Continuing operations	\$ 0.95	\$ 1.26
Discontinued operations	\$	\$ (0.06)
<b>Total</b>	<b>\$ 0.95</b>	<b>\$ 1.20</b>
<b>WEIGHTED AVERAGE COMMON SHARES OUTSTANDING:</b>		
Basic	15,639	15,666
Diluted	15,642	15,780

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)**

	<b>Three Months Ended September 30,</b>	
	<b>2011</b>	<b>2010</b>
	<b>(thousands)</b>	
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Income from continuing operations	\$ 14,904	\$ 19,818
Plus loss from discontinued operations, net of income taxes		(877)
Net income	14,904	18,941
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, depletion and amortization	10,956	15,227
Impairment of natural gas and oil properties	1,031	
Exploration expenses		623
Deferred income taxes	(94)	70
Stock-based compensation	2	221
Changes in operating assets and liabilities:		
Decrease (increase) in accounts receivable and other	2,285	(1,383)
Decrease in prepaids and other receivables	894	
Decrease in accounts payable	(14,625)	(18,176)
Increase (decrease) in other accrued liabilities	(4,777)	2,005
Increase in income taxes payable, net	1,649	6,703
Other	364	533
Net cash provided by operating activities	12,589	24,764
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Natural gas and oil exploration and development expenditures	(11,447)	(12,502)
Additions to furniture and equipment	(29)	(12)
Investment in affiliates	(140)	(100)
Net cash used in investing activities	(11,616)	(12,614)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Purchase of common stock	(13,532)	(866)
Debt issuance costs		(16)
Net cash used in financing activities	(13,532)	(882)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(12,559)	11,268
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	150,007	52,469
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 137,448	\$ 63,737
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:</b>		
Cash paid for taxes, net of cash received	\$ 7,500	\$ 4,679
Cash paid for interest	\$ 37	\$ 63



