

CONTANGO OIL & GAS CO
Form 10-Q
November 09, 2010
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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, 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)

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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, 2010 was 15,664,666.

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CONTANGO OIL & GAS COMPANY AND SUBSIDIARIES
QUARTERLY REPORT ON FORM 10-Q
FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2010

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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**

	September 30, 2010	June 30, 2010
CURRENT ASSETS:		
Cash and cash equivalents	\$ 63,737,221	\$ 52,469,144
Accounts receivable:		
Trade receivables	43,321,739	41,938,567
Joint interest billings	13,399,617	11,758,980
Income taxes	4,266,617	5,410,577
Other receivable	3,169,392	3,164,604
Notes receivable	2,027,590	2,027,590
Other	2,205,526	3,103,927
Total current assets	132,127,702	119,873,389
PROPERTY, PLANT AND EQUIPMENT:		
Natural gas and oil properties, successful efforts method of accounting:		
Proved properties	545,767,540	540,215,841
Unproved properties	13,059,621	10,825,074
Furniture and equipment	284,706	276,817
Accumulated depreciation, depletion and amortization	(94,112,935)	(78,998,049)
Total property, plant and equipment, net	464,998,932	472,319,683
OTHER ASSETS:		
Cash and other assets held by affiliates	45,369	39,731
Other	121,527	32,944
Total other assets	166,896	72,675
TOTAL ASSETS	\$ 597,293,530	\$ 592,265,747

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**

	September 30, 2010	June 30, 2010
CURRENT LIABILITIES:		
Accounts payable	\$ 12,523,124	\$ 34,219,769
Royalties and working interests payable	34,986,037	30,774,444
Accrued liabilities	4,652,850	2,647,435
Joint interest advances	1,333,980	739,464
Accrued exploration and development	5,020,513	9,263,438
Income tax payable	6,402,332	843,755
Total current liabilities	64,918,836	78,488,305
DEFERRED TAX LIABILITY	131,361,058	131,290,992
ASSET RETIREMENT OBLIGATION	5,387,421	5,156,642
SHAREHOLDERS' EQUITY:		
Common stock, \$0.04 par value, 50,000,000 shares authorized, 19,982,563 shares issued and 15,664,666 outstanding at September 30, 2010, 19,982,563 shares issued and 15,684,666 outstanding at June 30, 2010	799,300	799,300
Additional paid-in capital	78,188,905	77,967,702
Treasury stock at cost (4,317,897 and 4,297,897 shares at September 30, 2010 and June 30, 2010, respectively)	(82,885,245)	(82,019,429)
Retained earnings	399,523,255	380,582,235
Total shareholders' equity	395,626,215	377,329,808
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 597,293,530	\$ 592,265,747

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,	
	2010	2009
REVENUES:		
Natural gas, oil and liquids sales	\$ 55,084,215	\$ 35,602,471
Total revenues	55,084,215	35,602,471
EXPENSES:		
Operating expenses	4,940,795	3,456,353
Exploration expenses	1,377,939	373,933
Depreciation, depletion and amortization	15,226,744	8,956,941
General and administrative expenses	3,083,553	1,438,541
Total expenses	24,629,031	14,225,768
NET INCOME FROM CONTINUING OPERATIONS BEFORE OTHER INCOME AND INCOME TAXES	30,455,184	21,376,703
OTHER INCOME (EXPENSE):		
Interest expense	(63,014)	(156,133)
Interest income	350	147,230
NET INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	30,392,520	21,367,800
Provision for income taxes	(11,451,500)	(7,901,939)
NET INCOME FROM CONTINUING OPERATIONS	18,941,020	13,465,861
NET INCOME ATTRIBUTABLE TO COMMON STOCK	\$ 18,941,020	\$ 13,465,861
NET INCOME PER SHARE:		
Basic	\$ 1.21	\$ 0.85
Diluted	\$ 1.20	\$ 0.83
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING:		
Basic	15,666,079	15,827,436
Diluted	15,780,318	16,144,643

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,	
	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 18,941,020	\$ 13,465,861
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, depletion and amortization	15,226,744	8,956,941
Exploration expenditures	622,856	543,168
Deferred income taxes	70,066	(1,838,232)
Stock-based compensation	221,203	126,333
Changes in operating assets and liabilities:		
Decrease (increase) in accounts receivable and other	(1,383,172)	8,239,244
Decrease in accounts payable and advances from joint owners	(18,176,388)	(9,398,960)
Increase (decrease) in other accrued liabilities	2,005,415	(7,672,176)
Increase in income taxes payable	6,702,537	9,740,171
Other	533,190	(361,033)
Net cash provided by operating activities	24,763,471	21,801,317
CASH FLOWS FROM INVESTING ACTIVITIES:		
Natural gas and oil exploration and development expenditures	(12,502,350)	(1,718,299)
Additions to furniture and equipment	(11,520)	
Investment in affiliates	(99,996)	325,181
Net cash used in investing activities	(12,613,866)	(1,393,118)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Purchase of common stock	(865,816)	
Debt issuance costs	(15,712)	
Net cash used in financing activities	(881,528)	
NET INCREASE IN CASH AND CASH EQUIVALENTS	11,268,077	20,408,199
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	52,469,144	44,371,324
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 63,737,221	\$ 64,779,523
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid for taxes, net	\$ 4,678,897	\$
Cash paid for interest	\$ 63,014	\$ 63,014

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 Capital	Treasury Stock	Retained Earnings	Total Shareholders Equity
	Shares	Amount				
Balance at June 30, 2010	15,684,666	\$ 799,300	\$ 77,967,702	\$ (82,019,429)	\$ 380,582,235	\$ 377,329,808
Exercise of stock options						\$
Tax benefit of exercising stock options						