CABOT OIL & GAS CORP
Form 10-Q
May 08, 2006
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, 2006

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

Commission file number 1-10447

CABOT OIL & GAS CORPORATION

(Exact name of registrant as specified in its charter)

DELAWARE	**04-3072771**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification Number)**

1200 Enclave Parkway, Houston, Texas 77077

(Address of principal executive offices including Zip Code)

(281) 589-4600

(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 and (2) has been subject to such filing requirements for the past 90 days. Yes x 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 x Accelerated filer ¨ Non-accelerated filer ¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No x

As of April 30, 2006, there were 48,844,732 shares of Common Stock, Par Value $.10 Per Share, outstanding.

Table of Contents

CABOT OIL & GAS CORPORATION

INDEX TO FINANCIAL STATEMENTS

2

Table of Contents

PART I. FINANCIAL INFORMATION

ITEM 1. Financial Statements

CABOT OIL & GAS CORPORATION

CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS (Unaudited)

(In thousands, except per share amounts)	Three Months Ended March 31, 2006	2005
OPERATING REVENUES		
Natural Gas Production	**$ 155,167**	$ 104,272
Brokered Natural Gas	**32,819**	26,492
Crude Oil and Condensate	**24,180**	11,978
Other	**2,602**	1,332
	214,768	144,074
OPERATING EXPENSES		
Brokered Natural Gas Cost	**29,245**	23,298
Direct Operations - Field and Pipeline	**17,630**	14,618
Exploration	**11,614**	19,369
Depreciation, Depletion and Amortization	**31,935**	26,656
Impairment of Unproved Properties	**3,580**	3,411
General and Administrative	**13,849**	8,960
Taxes Other Than Income	**15,495**	9,718
	123,348	106,030
Gain on Sale of Assets	**207**	
INCOME FROM OPERATIONS	**91,627**	38,044
Interest Expense and Other	**6,150**	4,988
Income Before Income Taxes	**85,477**	33,056
Income Tax Expense	**31,909**	12,294
NET INCOME BEFORE CUMULATIVE EFFECT OF ACCOUNTING CHANGE	**53,568**	20,762
CUMULATIVE EFFECT OF ACCOUNTING CHANGE, NET OF TAX (Note 11)	**(403)**	
NET INCOME	**$ 53,165**	$ 20,762
Basic Earnings Per Share - Before Accounting Change	**$ 1.10**	$ 0.43
Diluted Earnings Per Share - Before Accounting Change	**$ 1.09**	$ 0.42
Basic Loss Per Share - Accounting Change	**$ (0.01)**	$
Diluted Loss Per Share - Accounting Change	**$ (0.01)**	$
Basic Earnings Per Share	**$ 1.09**	$ 0.43
Diluted Earnings Per Share	**$ 1.08**	$ 0.42
Weighted Average Common Shares Outstanding	**48,680**	48,724
Diluted Common Shares (Note 5)	**49,373**	49,306

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

3

Table of Contents

CABOT OIL & GAS CORPORATION

CONDENSED CONSOLIDATED BALANCE SHEET (Unaudited)

(In thousands, except share amounts)	**March 31, 2006**	**December 31, 2005**
ASSETS		
Current Assets		
Cash and Cash Equivalents	**$ 8,514**	$ 10,626
Accounts Receivable	**114,268**	168,248
Inventories	**13,786**	24,616
Deferred Income Taxes	**7,734**	15,674
Derivative Contracts	**11,552**	1,736
Other	**8,499**	9,412
Total Current Assets	**164,353**	230,312
Properties and Equipment, Net (Successful Efforts Method)	**1,310,680**	1,238,055
Deferred Income Taxes	**23,843**	19,587
Other Assets	**7,755**	7,416
	$ 1,506,631	$ 1,495,370
LIABILITIES AND STOCKHOLDERS EQUITY		
Current Liabilities		
Accounts Payable	**$ 115,327**	$ 140,006
Current Portion of Long-Term Debt	**20,000**	20,000
Deferred Income Taxes	**4,605**	941
Derivative Contracts	**2,079**	22,478
Accrued Liabilities	**36,796**	35,159
Total Current Liabilities	**178,807**	218,584
Long-Term Debt	**275,000**	320,000
Deferred Income Taxes	**306,125**	289,381
Other Liabilities	**70,962**	67,194
Commitments and Contingencies (Note 6)		
Stockholders Equity		
Common Stock:		
Authorized 80,000,000 Shares of $.10 Par Value Issued 50,308,632 Shares and 50,081,983 Shares in 2006 and 2005, respectively	**5,031**	5,008
Additional Paid-in Capital	**402,959**	397,349
Retained Earnings	**303,386**	252,167
Accumulated Other Comprehensive Income / (Loss)	**3,559**	(15,115)
Less Treasury Stock, at Cost:		
1,513,850 Shares in 2006 and 2005	**(39,198)**	(39,198)
Total Stockholders Equity	**675,737**	600,211
	$ 1,506,631	$ 1,495,370

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

Table of Contents

CABOT OIL & GAS CORPORATION

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (Unaudited)

	Three Months Ended March 31,	
(In thousands)	**2006**	**2005**
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Income	**$ 53,165**	$ 20,762
Adjustments to Reconcile Net Income to Cash Provided by Operating Activities:		
Cumulative Effect of Accounting Change	**403**	
Depreciation, Depletion and Amortization	**31,935**	26,656
Impairment of Unproved Properties	**3,580**	3,411
Deferred Income Tax Expense	**12,893**	3,022
Gain on Sale of Assets	**(207)**	
Exploration Expense	**11,614**	19,369
Unrealized Loss on Derivatives		7,512
Stock-Based Compensation Expense and Other	**4,467**	1,923
Changes in Assets and Liabilities:		
Accounts Receivable	**53,980**	27,089
Inventories	**10,830**	10,957
Other Current Assets	**913**	102
Other Assets	**(79)**	(12)
Accounts Payable and Accrued Liabilities	**(27,663)**	(13,956)
Other Liabilities	**2,130**	1,182
Stock-Based Compensation Tax Benefit	**(2,952)**	
Net Cash Provided by Operating Activities	**155,009**	108,017
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital Expenditures	**(103,116)**	(41,070)
Proceeds from Sale of Assets	**541**	588
Exploration Expense	**(11,614)**	(19,369)
Net Cash Used by Investing Activities	**(114,189)**	(59,851)
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase in Debt	**55,000**	
Decrease in Debt	**(100,000)**	
Sale of Common Stock Proceeds	**1,062**	2,731
Stock-Based Compensation Tax Benefit	**2,952**	
Dividends Paid	**(1,946)**	(1,339)
Net Cash (Used) / Provided by Financing Activities	**(42,932)**	1,392
Net (Decrease) / Increase in Cash and Cash Equivalents	**(2,112)**	49,558
Cash and Cash Equivalents, Beginning of Period	**10,626**	10,026
Cash and Cash Equivalents, End of Period	**$ 8,514**	$ 59,584

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

5

Table of Contents

CABOT OIL & GAS CORPORATION

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

1. FINANCIAL STATEMENT PRESENTATION

During interim periods, Cabot Oil & Gas Corporation (the Company) follows the same accounting policies used in its Annual Report to Stockholders and its Annual Report on Form 10-K for the year ended December 31, 2005 filed with the Securities and Exchange Commission. People using financial information produced for interim periods are encouraged to refer to the footnotes in the Annual Report on Form 10-K for the year ended December 31, 2005 when reviewing interim financial results. In management s opinion, the accompanying interim condensed consolidated financial statements contain all material adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation. The results of operations for any interim period are not necessarily indicative of the results of operations for the entire year.

Our independent registered public accounting firm has performed a review of these condensed consolidated interim financial statements in accordance with standards established by the Public Company Accounting Oversight Board (United States). Pursuant to Rule 436(c) under the Securities Act of 1933, this report should not be considered a part of a registration statement prepared or certified by PricewaterhouseCoopers LLP within the meanings of Sections 7 and 11 of the Act.

Effective January 1, 2006, the Company adopted the provisions of Statement of Financial Accounting Standards (SFAS) No. 123(R), Share Based Payment (revised 2004), which replaces the provisions of Accounting Principles Board Opinion (APB) No. 25, Accounting for Stock Issued to Employees and SFAS No. 123, Accounting for Stock-Based Compensation, as amended. The Company has elected the modified prospective transition method for adoption, and accordingly, no adjustments to prior period financial statements have been made. Upon adoption, the Company recorded a cumulative effect of change in accounting principle totaling $0.4 million, net of tax, in the 2006 Condensed Consolidated Statement of Operations. Further, the impact of adoption of SFAS No. 123(R) increased income from operations and income before income taxes by approximately $0.6 million and increased net income by $0.4 million for the three months ended March 31, 2006 and there was no material impact on the Condensed Consolidated Statement of Cash Flows. See Note 11 of the Notes to the Condensed Consolidated Financial Statements for additional disclosure.

Recently Issued Accounting Pronouncements

In February 2006, the Financial Accounting Standards Board (FASB) issued SFAS No. 155, Accounting for Certain Hybrid Financial Instruments-an amendment of FASB Statements No. 133 and 140. SFAS No. 155 amends SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities and SFAS No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities, and also resolves issues addressed in SFAS No. 133 Implementation Issue No. D1, Application of Statement 133 to Beneficial Interests in Securitized Financial Assets. SFAS No. 155 was issued to eliminate the exemption from applying SFAS No. 133 to interests in securitized financial assets so that similar instruments are accounted for in a similar fashion, regardless of the instrument s form. The Company does not believe that its financial position, results of operations or cash flows will be impacted by SFAS No. 155 as the Company does not currently hold any hybrid financial instruments.

Table of Contents

2. PROPERTIES AND EQUIPMENT

Properties and equipment are comprised of the following:

(In thousands)	March 31, 2006	December 31, 2005
Unproved Oil and Gas Properties	**$ 119,324**	$ 107,787
Proved Oil and Gas Properties	**2,060,741**	1,970,407
Gathering and Pipeline Systems	**182,366**	178,876
Land, Building and Improvements	**4,914**	4,892
Other	**33,447**	33,077
	2,400,792	2,295,039
Accumulated Depreciation, Depletion and Amortization	**(1,090,112)**	(1,056,984)
	$ 1,310,680	$ 1,238,055

As of March 31, 2006, the Company did not have any significant changes from year-end in its amount of capitalized well costs that have been capitalized for greater than one year after drilling was suspended.

Table of Contents

3. ADDITIONAL BALANCE SHEET INFORMATION

Certain balance sheet amounts are comprised of the following:

(In thousands)	March 31, 2006	December 31, 2005
Accounts Receivable		
Trade Accounts	**$ 101,397**	$ 147,016
Joint Interest Accounts	**16,857**	14,319
Current Income Tax Receivable	**389**	12,239
Other Accounts	**1,585**	315
	120,228	173,889
Allowance for Doubtful Accounts	**(5,960)**	(5,641)
	$ 114,268	$ 168,248
Inventories		
Natural Gas and Oil in Storage	**$ 5,559**	$ 18,279
Tubular Goods and Well Equipment	**7,856**	7,161
Pipeline Imbalances	**371**	(824)
	$ 13,786	$ 24,616
Other Current Assets		
Drilling Advances	**$ 1,441**	$ 2,169
Prepaid Balances	**6,754**	6,939
Other Accounts	**304**	304
	$ 8,499	$ 9,412
Accounts Payable		
Trade Accounts	**$ 14,585**	$ 18,227
Natural Gas Purchases	**8,217**	12,208
Royalty and Other Owners	**33,510**	49,312
Capital Costs	**42,758**	37,489
Taxes Other Than Income	**7,148**	10,329
Drilling Advances	**4,009**	5,760
Wellhead Gas Imbalances	**2,160**	2,175
Other Accounts	**2,940**	4,506
	$ 115,327	$ 140,006
Accrued Liabilities		
Employee Benefits	**$ 4,943**	$ 9,020
Taxes Other Than Income	**21,508**	16,188
Interest Payable	**4,748**	6,818
Income Taxes Payable	**3,551**	41
Other Accounts	**2,046**	3,092
	$ 36,796	$ 35,159

Other Liabilities		
Postretirement Benefits Other Than Pension	**$ 7,305**	$ 6,517
Accrued Pension Cost	**6,916**	5,904
Rabbi Trust Deferred Compensation Plan	**5,072**	4,883
Accrued Plugging and Abandonment Liability	**43,587**	42,991
Other Accounts	**8,082**	6,899
	$ 70,962	$ 67,194

Table of Contents

4. LONG-TERM DEBT

At March 31, 2006, the Company had $45 million of debt outstanding under its revolving credit facility. The credit facility provides for an available credit line of $250 million, which can be expanded up to $350 million, either with the existing banks or new banks. The term of the credit facility expires in December 2009. The credit facility is unsecured. The available credit line is subject to adjustment from time to time on the basis of the projected present value (as determined by the banks petroleum engineer) of estimated future net cash flows from certain proved oil and gas reserves and other assets of the Company. While the Company does not expect a reduction in the available credit line, in the event that it is adjusted below the outstanding level of borrowings, the Company has a period of six months to reduce its outstanding debt to the adjusted credit line available with a requirement to provide additional borrowing base assets or pay down one-sixth of the excess during each of the six months.

In addition to the $45 million of debt outstanding on the credit facility, the Company has the following debt outstanding at March 31, 2006:

- $80 million of 12-year 7.19% Notes, which consisted of $60 million of long-term debt and $20 million of current portion of long-term debt, to be repaid in four remaining annual installments of $20 million in November of each year
- $75 million of 10-year 7.26% Notes due in July 2011
- $75 million of 12-year 7.36% Notes due in July 2013
- $20 million of 15-year 7.46% Notes due in July 2016

5. EARNINGS PER SHARE

Basic Earnings per Share (EPS) is computed by dividing net income (the numerator) by the weighted average number of common shares outstanding for the period (the denominator). Diluted EPS is similarly calculated using the treasury stock method except that the denominator is increased to reflect the potential dilution that could occur if outstanding stock options and stock awards outstanding at the end of the applicable period were exercised for common stock.

The following is a calculation of basic and diluted weighted average shares outstanding for the three months ended March 31, 2006 and 2005.

	Three Months Ended March 31,	
	2006	**2005**
Shares - basic	**48,679,911**	48,724,241
Dilution effect of stock options and awards at end of period	**693,479**	581,543
Shares - diluted	**49,373,390**	49,305,784

Stock awards and shares excluded from diluted earnings per share due to the anti-dilutive effect

Table of Contents

6. COMMITMENTS AND CONTINGENCIES

Contingencies

The Company is a defendant in various legal proceedings arising in the normal course of its business. All known liabilities are accrued based on management s best estimate of the potential loss. While the outcome and impact of such legal proceedings on the Company cannot be predicted with certainty, management believes that the resolution of these proceedings through settlement or adverse judgment will not have a material adverse effect on the Company s consolidated financial position or cash flow. Operating results, however, could be significantly impacted in the reporting periods in which such matters are resolved.

West Virginia Royalty Litigation

In December 2001, the Company was sued by two royalty owners in West Virginia state court for an unspecified amount of damages. The plaintiffs have requested class certification and allege that the Company failed to pay royalty based upon the wholesale market value of the gas, that it had taken improper deductions from the royalty and failed to properly inform royalty owners of the deductions. The plaintiffs also claimed that they are entitled to a 1/8th royalty share of the gas sales contract settlement that the Company reached with Columbia Gas Transmission Corporation in 1995 bankruptcy proceedings.

Discovery and pleadings necessary to place the class certification issue before the state court have been ongoing. The Court entered an order on June 1, 2005 granting the motion for class certification. The parties have negotiated a modification to the order which will result in the dismissal of the claims related to the gas sales contract settlement in connection with the Columbia Gas Transmission bankruptcy proceedings and that will limit the claims to those arising on and after December 17, 1991. The Court has postponed the trial date from April 17, 2006, in light of a case pending before the West Virginia Supreme Court of Appeals which may decide issues of law that may apply to the issue of deductibility of post-production expenses. The Company intends to challenge the class certification order by filing a Petition for Writ of Prohibition with the West Virginia Supreme Court of Appeals.

The Company is vigorously defending the case. A reserve has been established that management believes is adequate based on its estimate of the probable outcome of this case.

Texas Title Litigation

On January 6, 2003, the Company was served with Plaintiffs Second Amended Original Petition in Romeo Longoria, et al. v. Exxon Mobil Corporation, et al. in the 79th Judicial District Court of Brooks County, Texas. Plaintiffs filed their Second Supplemental Original Petition on November 12, 2004 and their Third Supplemental Original Petition on February 22, 2005 (which added Wynn-Crosby 1996, Ltd. and Dominion Oklahoma Texas Exploration & Production, Inc.). Plaintiffs filed their Third Amended Original Petition on February 21, 2006, which incorporated all prior supplemental petitions. Plaintiffs allege that they are the owners of a one-half undivided mineral interest in and to certain lands in Brooks County, Texas. Cody Energy, LLC, a subsidiary of the Company, acquired certain leases and wells in 1997 and 1998.

The plaintiffs allege that they are entitled to be declared the rightful owners of an undivided interest in minerals and all improvements on the lands on which the Company acquired these leases. The plaintiffs also assert claims for trespass to try title, action to remove a cloud on the title, failure to properly account for royalty, fraud, trespass and conversion, all for unspecified actual and exemplary damages. Plaintiffs claim that they acquired title to the property by adverse possession. Plaintiffs also assert the discovery rule and a claim of fraudulent concealment to avoid the affirmative defense of limitations. In August 2005, the case was abated until late February 2006, during which time the parties were allowed to amend pleadings or add additional parties to the litigation. Plaintiffs did not join additional parties by the abatement deadline. Defendants, including the Company, re-urged its motion to dismiss, and on April 5, 2006, the

Table of Contents

Court granted the motion, dismissing the oil company defendants, without prejudice. Because all defendants were not dismissed, the order dismissing the Company is not yet final and can be appealed. A motion to finalize the proceedings in the trial court via severance of the dismissed defendants was filed April 25, 2006. Once final judgment is entered in the trial court, it is anticipated that the Plaintiffs will appeal the dismissal order.

On April 25, 2006, the same day that the oil company defendants, including the Company, filed the motion for severance, Plaintiffs filed a motion to modify the dismissal order. Plaintiffs allege that the dismissal order should not operate to dismiss any defendant that ever had or now has an oil and gas lease with the remaining defendants. It appears that the Company may have at one time had a lease from such defendants under which wells were drilled and produced for a period of time. Therefore, if the Court grants the motion to modify the dismissal order, there is a possibility that the Company would remain in the suit with respect to that lease only. The Company is researching the total production volume from that lease.

The Company estimates that production revenue from this field since Cody Energy, LLC acquired title is approximately $16.1 million, and that the carrying value of this property is approximately $33.5 million.

If the Company is not fully dismissed and receives an adverse ruling in this case, an impairment review would be assessed to determine whether the carrying value of the property is recoverable. Management cannot currently determine the likelihood of an unfavorable outcome or range of any potential loss should the outcome be unfavorable. Accordingly, there has been no reserve established for this matter.

Raymondville Area

In April 2004, the Company s wholly owned subsidiary, Cody Energy, LLC, filed suit in state court in Willacy County, Texas against certain of its co-working interest owners in the Raymondville Area, located in Kenedy and Willacy Counties. In early 2003, Cody had proposed a new prospect under the terms of the Joint Operating Agreement. Some of the co-working interest owners elected not to participate. The initial well was successful and subsequent wells have been drilled to exploit the discovery made in the first well.

The working interest owners who elected not to participate notified Cody that they believed that they had the right to participate in wells drilled after the initial well. Cody contends that the working interest owners that elected not to participate are required to assign their interest in the prospect to those who elected to participate. The defendants have filed a counter claim against the Company, and one of the defendants has filed a lien against Cody s interest in the leases in the Raymondville area.

Cody has signed a settlement agreement with certain of the defendants representing approximately 3% of the interest in the area. Cody and the remaining defendant filed cross motions for summary judgment. In August 2005, the trial judge entered an order granting Cody s Motion for Summary Judgment requiring the remaining defendant to assign to Cody all of its interest in the prospect and to remove the lien filed against Cody s interest. The defendant has filed a Motion for Reconsideration and Opposition to Proposed Order. The Court, on March 24, 2006, denied the Motion. A decision has not been made on the counter claims.

Commitment and Contingency Reserves

The Company has established reserves for certain legal proceedings. The establishment of a reserve involves an estimation process that includes the advice of legal counsel and subjective judgment of management. While management believes these reserves to be adequate, it is reasonably possible that the Company could incur approximately $11.0 million of additional loss with respect to those matters in which reserves have been established. Future changes in the facts and circumstances could result in the actual liability exceeding the estimated ranges of loss and amounts accrued.

While the outcome and impact on the Company cannot be predicted with certainty, management believes that the resolution of these proceedings through settlement or adverse judgment will not have a material adverse effect on the consolidated financial position or cash flow of the Company. Operating results, however, could be significantly impacted in the reporting periods in which such matters are resolved.

Table of Contents

7. DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITY

The Company periodically enters into derivative commodity instruments to hedge its exposure to price fluctuations on natural gas and crude oil production. Under the Company s revolving credit agreement, the aggregate level of commodity hedging must not exceed 100% of the anticipated future equivalent production during the period covered by these cash flow hedges. At March 31, 2006, the Company had 12 cash flow hedges open: 11 natural gas price collar arrangements and one crude oil collar arrangement. At March 31, 2006, a $9.7 million ($6.0 million net of tax) unrealized gain was recorded to Accumulated Other Comprehensive Income, along with a $2.1 million short-term derivative liability, an $11.6 million short-term derivative receivable, and a $0.2 million long-term derivative receivable, which is shown in Other Assets on the Balance Sheet. The change in the fair value of derivatives designated as hedges that is effective is initially recorded to Accumulated Other Comprehensive Income. The ineffective portion, if any, of the change in the fair value of derivatives designated as hedges, and the change in fair value of all other derivatives, is recorded currently in earnings as a component of Natural Gas Production and Crude Oil and Condensate Revenue, as appropriate.

Assuming no change in commodity prices, after March 31, 2006 the Company would expect to reclassify to the Statement of Operations, over the next 12 months, $5.9 million in after-tax charges associated with commodity hedges. This reclassification represents the net short-term receivable associated with open positions currently not reflected in earnings at March 31, 2006 related to anticipated 2006 and a portion of anticipated 2007 production.

8. COMPREHENSIVE INCOME

Comprehensive Income includes Net Income and certain items recorded directly to Stockholders Equity and classified as Accumulated Other Comprehensive Income. The following table illustrates the calculation of Comprehensive Income for the three month periods ended March 31, 2006 and 2005.

	Three Months Ended March 31,			
(In thousands)	**2006**		**2005**	
Accumulated Other Comprehensive Loss -				
Beginning of Period		**$ (15,115)**		$ (20,351)
Net Income	**$ 53,165**		$ 20,762	
Other Comprehensive Income / (Loss)				
Reclassification Adjustment for Settled Contracts	**(1,437)**		6,180	
Changes in Fair Value of Hedge Positions	**31,910**		(36,791)	
Minimum Pension Liability			2,081	
Foreign Currency Translation Adjustment	**(355)**		(49)	
Deferred Income Tax	**(11,444)**		10,783	
Total Other Comprehensive Income / (Loss)	**18,674**	**18,674**	(17,796)	(17,796)
Comprehensive Income	**$ 71,839**		$ 2,966	
Accumulated Other Comprehensive Income / (Loss) -				
End of Period		**$ 3,559**		$ (38,147)

Deferred income tax of $11.4 million for the three months ended March 31, 2006 represents the net deferred tax liability of $0.6 million on the Reclassification Adjustment for Settled Contracts, ($12.1) million on the Changes in Fair Value of Hedge Positions and $0.1 million on the Foreign Currency Translation Adjustment.

Table of Contents

Deferred income tax of $10.8 million for the three months ended March 31, 2005 represents the net deferred tax liability of ($2.4) million on the Reclassification Adjustment for Settled Contracts, $14.0 million on the Changes in Fair Value of Hedge Positions, ($0.8) million on the Minimum Pension Liability Adjustment and less than $0.1 million on the Foreign Currency Translation Adjustment.

9. ASSET RETIREMENT OBLIGATIONS

The following table reflects the changes of the asset retirement obligations during the three months ended March 31, 2006.

(In thousands)	
Carrying amount of asset retirement obligations at December 31, 2005	$ 42,991
Liabilities added during the current period	248
Liabilities settled during the current period	
Current period accretion expense	348
Carrying amount of asset retirement obligations at March 31, 2006	$ 43,587

Accretion expense was $0.3 million and $0.4 million for the three months ended March 31, 2006 and 2005, respectively, and is included within Depreciation, Depletion and Amortization expense on the Company s Condensed Consolidated Statement of Operations.

10. PENSION AND OTHER POSTRETIREMENT BENEFITS

The components of net periodic benefit costs for the three months ended March 31, 2006 and 2005 are as follows:

	For the Three Months Ended March 31,	
(In thousands)	**2006**	**2005**
Qualified and Non-Qualified Pension Plans		
Current Period Service Cost	**$ 680**	$ 545
Interest Cost	**583**	471
Expected Return on Plan Assets	**(476)**	(356)
Amortization of Prior Service Cost	**44**	41
Amortization of Net Loss	**303**	187
Net Periodic Benefit Cost	**$ 1,134**	$ 888
Postretirement Benefits Other than Pension Plans		
Current Period Service Cost	**$ 197**	$ 169
Interest Cost	**219**	151
Plan Termination (Gain) / Loss	**(85)**	80
Recognized Net Actuarial Loss / (Gain)	**8**	(20)
Amortization of Prior Service Cost	**238**	227
Amortization of Net Obligation at Transition	**158**	162
Total Postretirement Benefit Cost	**$ 735**	$ 769

Employer Contributions

The funding levels of the pension and postretirement plans are in compliance with standards set by applicable law or regulation. The Company previously disclosed in its financial statements for the year ended December 31, 2005 that it expected to contribute less than $0.1 million to its non-qualified pension plan and approximately $0.6 million to the postretirement benefit plan during 2006. It is anticipated that these

Table of Contents

contributions will be made prior to December 31, 2006. The Company does not have any required minimum funding obligations for its qualified pension plan in 2006. Management has not determined if any discretionary funding will be made to the qualified pension plan during the last three quarters of 2006.

11. STOCK-BASED COMPENSATION

Incentive Plans

Under the Company s 2004 Incentive Plan, incentive and non-statutory stock options, stock appreciation rights (SARs), stock awards, cash awards and performance awards may be granted to key employees, consultants and officers of the Company. Non-employee directors of the Company may be granted discretionary awards under the 2004 Incentive Plan consisting of stock options or stock awards, in addition to the automatic award of an option to purchase 15,000 shares of common stock on the date the non-employee directors first join the board of directors. A total of 2,550,000 shares of common stock may be issued under the 2004 Incentive Plan. Under the 2004 Incentive Plan, no more than 900,000 shares may be used for stock awards that are not subject to the achievement of performance based goals, and no more than 1,500,000 shares may be issued pursuant to incentive stock options.

Adoption of SFAS No. 123(R)

Prior to January 1, 2006, the Company accounted for stock-based compensation in accordance with the intrinsic value based method prescribed by APB No. 25. Under the intrinsic value based method, no compensation expense was recorded for stock options granted when the exercise price for options granted was equal to or greater than the fair value of the Company s common stock on the date of the grant.

Beginning January 1, 2006, the Company began accounting for stock-based compensation under SFAS No. 123(R), which applies to new awards and to awards modified, repurchased or cancelled after December 31, 2005. The Company records compensation expense based on the fair value of awards as described below. Additionally, compensation expense for the portion of the awards for which the requisite service period has not been rendered that are outstanding at December 31, 2005 is recognized as the requisite service is rendered on or after January 1, 2006.

Compensation expense that has been charged against income for stock-based awards in the first quarter of 2006 and 2005 is $4.5 million and $1.0 million, pre-tax, respectively, and is included in the General and Administrative Expense line of the Condensed Consolidated Statement of Operations. In the first quarter of 2006, compensation expense includes fair value amortization on restricted stock grants, stock options, SARs and performance shares. Compensation expense in the first quarter of 2005 only includes amortization on restricted stock grants and expense related to performance shares.

Prior to the adoption of SFAS No. 123(R), the Company presented tax savings resulting from tax deductions related to stock-based compensation as an operating cash flow. Under SFAS No. 123(R), the tax savings resulting from tax deductions in excess of expense is reported as an operating cash outflow and a financing cash inflow. For the first quarter of 2006, $3.0 million is reported in these two separate line items in the Condensed Consolidated Statement of Cash Flows.

The cumulative effect of adoption was due primarily to the recording of the liability component of the Company s performance share awards at fair value, rather than intrinsic value.

Table of Contents

The following table illustrates the effect on Net Income and Earnings per Share if the Company had applied the fair value recognition provisions of SFAS No. 123(R) to stock-based employee compensation during the three months ended March 31, 2005:

(In thousands, except per share amounts)	
Net Income, as reported	$ 20,762
Add: Employee stock-based compensation expense, net of related tax effects, included in net income, as reported	640
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of tax, previously not included in Net Income	(932)
Pro forma Net Income	$ 20,470
Earnings per Share:	
Basic - as reported	$ 0.43
Basic - pro forma	$ 0.42
Diluted - as reported	$ 0.42
Diluted - pro forma	$ 0.42
Share Count	48,724
Diluted Share Count	49,306

Restricted Stock Awards

Restricted stock awards vest either at the end of a three year service period, or on a graded-vesting basis for awards that vest one-third at each anniversary date over a three year service period. Under the graded-vesting approach, the Company recognizes compensation cost over the three year requisite service period for each separately vesting tranche as though the awards are, in substance, multiple awards. For awards that vest at the end of the three year service period, expense is recognized ratably using a straight-line expensing approach over three years. For all restricted stock awards, vesting is dependant upon the employees continued service with the Company.

The fair value of restricted stock grants is based on the average of the high and low stock price on grant date. The maximum contractual term is three years. In accordance with SFAS No. 123(R), the Company accelerates the vesting period for retirement-eligible employees for purposes of recognizing compensation expense in accordance with the vesting provisions of the Company s stock-based compensation programs for awards issued after the adoption of SFAS No. 123(R). The Company used an annual forfeiture rate ranging from 0% to 3.3% based on the Company s ten year history for this type of award to various employee groups.

There were 46,850 restricted stock awards granted to employees in the first quarter of 2006. These awards will vest over a three year service period on a graded-vesting schedule. Compensation expense recorded for restricted stock awards for the first quarter of 2006 and 2005 is $2.4 million and $0.6 million, respectively. Included in the 2006 expense is $0.5 million related to the immediate expensing of shares granted to retirement-eligible employees. Unamortized expense as of March 31, 2006 for all outstanding restricted stock awards is $8.2 million.

Table of Contents

The following table is a summary of activity of restricted stock awards as of March 31, 2006:

Restricted Stock Awards	Shares	Weighted-Average Grant Date Fair Value per share	Weighted-Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value (in thousands)
Non-vested shares outstanding at December 31, 2005	588,465	$ 26.68		
Granted	46,850	47.60		
Vested	197,221	20.27		
Forfeited	200	30.43		
Non-vested shares outstanding at March 31, 2006	437,894	$ 31.80	0.9	$ 20,988

Restricted Stock Units

Restricted stock units are granted from time to time to non-employee directors of the Company. The fair value of these units is measured at the average of the high and low stock price on grant date and compensation expense is recorded immediately. These units immediately vest and are paid out when the director ceases to be a director of the Company.

No restricted stock units were issued in the first quarter of 2006. Total shares granted and fully vested, but not yet issued, are 30,100 as of March 31, 2006. The weighted-average grant date fair value per share is $31.30. The aggregate intrinsic value of these awards is $1.4 million.

Stock Options

During the first quarter of 2006, 30,000 stock options were granted to two incoming non-employee directors of the Company. The grant date fair value of a stock option is calculated by using a Black-Scholes model. Compensation cost is recorded based on a graded-vesting schedule as the options vest over a service period of three years, with one-third of the award becoming exercisable each year on the anniversary date of the grant. Stock options have a maximum contractual term of five years. No forfeiture rate is assumed for stock options granted to directors due to the forfeiture rate history for these types of awards for this group of individuals. Option awards are generally granted with an exercise price equal to the fair market price of the Company s stock at the date of grant. No stock options were issued in the first quarter of 2005.

Compensation expense recorded during the first quarter of 2006 for these stock options is $0.1 million. Since the Company had not yet adopted SFAS No. 123(R) in the first quarter of 2005, stock options were not expensed through the income statement during 2005 and no compensation expense was recorded. Unamortized expense as of March 31, 2006 for all outstanding stock options is $0.4 million. The weighted average period over which this compensation will be recognized is one year.

Table of Contents

The assumptions used in the Black-Scholes fair value method calculation for stock options are disclosed in the following table:

		Three Months Ended March 31, 2006
Weighted Average Value per Option Granted During the Period [1]	$	**14.65**
Assumptions		
Stock Price Volatility		**31.5%**
Risk Free Rate of Return		**4.6%**
Expected Dividend		**0.3%**
Expected Term (in years)		**4.0**

[1] *Calculated using the Black-Scholes fair value based method.*

The following table is a summary of activity of stock options for the three months ended March 31, 2006:

Stock Options	Shares		Weighted-Average Grant Date Fair Value	Weighted-Average Remaining Contractual Term		Aggregate Intrinsic Value (in thousands) [1]
Outstanding at December 31, 2005	913,348	$	15.32			
Granted	30,000		47.60			
Exercised	65,748		15.91			
Forfeited or Expired						
Outstanding at March 31, 2006	877,600	$	16.38	1.6	$	27,784
Options Exercisable at March 31, 2006	830,100	$	15.25	1.5	$	27,224