

CONTANGO OIL & GAS CO
Form 10-Q/A
August 10, 2007

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q/A

(AMENDMENT NO. 1)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2007

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)

DELAWARE
(State or other jurisdiction of
incorporation or organization)

3700 BUFFALO SPEEDWAY, SUITE 960

95-4079863
(IRS Employer
Identification No.)

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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 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 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

The total number of shares of common stock, par value \$0.04 per share, outstanding as of May 4, 2007 was 15,952,807.

EXPLANATORY NOTE

Contango Oil & Gas Company (the Company, Contango, we, our, us) is hereby amending its previously filed Quarterly Report on Form 10-Q for the quarter ended March 31, 2007 (the Original Filing). This Amendment No. 1 (the Amendment) is being filed solely to amend the following items:

Footnote No. 1 to the Consolidated Financial Statements Summary of Significant Accounting Policies, *Principles of Consolidation*, has been revised to more clearly explain the consolidation policy of our non-wholly owned subsidiaries; and

Item 2 *Management's Discussion and Analysis of Financial Condition and Results of Operations*, revised to replace the discussion in the Original Filing that was based on activity of continuing and discontinued operations combined, which was presented without differentiation and was inconsistent with the financial statement presentation. The revised discussion focuses on continuing operations apart from discontinued operations in accordance with generally accepted accounting principles (GAAP) and the provisions of Item 303(a) of Regulation S-K. Since we did not have any newly discontinued operations for the nine months ended March 31, 2007, the revisions restate the analysis comparing our more recent activity to that of the corresponding periods of the prior year. Additionally, we are providing expanded disclosures of Management's Discussion and Analysis covering the first and second quarters of the fiscal year ended June 30, 2007 for the same reason, rather than amending the earlier interim reports for such periods.

Other than as specified above, this Amendment does not modify or affect the financial statements in the Original Filing. As a result of this Amendment, the certifications filed as Exhibit 31.1 and Exhibit 32.1 have been re-executed as of the date of this Amendment. This Amendment does not reflect events occurring after the filing of the Original Filing or modify or update the disclosures therein in any way other than as described above. In accordance with Rule 12b-15 promulgated under the Securities Exchange Act of 1934, the complete text of each affected item, as amended, is included herein. Unaffected items have not been repeated in this Amendment.

CONTANGO OIL & GAS COMPANY AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

ASSETS

	March 31, 2007 (Unaudited)	June 30, 2006
CURRENT ASSETS:		
Cash and cash equivalents	\$ 2,565,459	\$ 10,274,950
Short-term investments		18,472,327
Inventory tubulars	334,797	194,825
Accounts Receivable:		
Trade receivables	5,046,779	481,593
Advances to affiliates	3,884,118	256,180
Joint interest billings receivable	2,252,320	3,422,261
Prepaid capital costs	4,965,752	1,208,299
Other	491,987	202,583
Total current assets	19,541,212	34,513,018
PROPERTY AND EQUIPMENT:		
Natural gas and oil properties, successful efforts method of accounting:		
Proved properties	53,955,718	18,395,015
Unproved properties	30,397,628	23,293,300
Furniture and equipment	231,877	231,877
Accumulated depreciation, depletion and amortization	(2,022,630)	(662,877)
Total property and equipment, net	82,562,593	41,257,315
OTHER ASSETS:		
Cash and other assets held by affiliates	2,516,241	1,054,100
Investment in Freeport LNG Project	3,243,585	3,243,585
Investment in Contango Venture Capital Corporation	6,769,246	4,453,028
Deferred income tax asset	5,625,902	4,455,190
Facility fees and other assets	593,317	408,769
Total other assets	18,748,291	13,614,672
TOTAL ASSETS	\$ 120,852,096	\$ 89,385,005

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

CONTANGO OIL & GAS COMPANY AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

LIABILITIES AND SHAREHOLDERS EQUITY

	March 31, 2007 (Unaudited)	June 30, 2006
CURRENT LIABILITIES:		
Accounts payable	\$ 4,376,365	\$ 1,041,505
Joint interest advances	602,457	5,638,600
Accrued exploration and development	9,878,601	8,278,245
Advances from affiliates	2,357,271	194,862
Debt of affiliates	8,540,091	
Other accrued liabilities	1,750,182	1,026,743
Total current liabilities	27,504,967	16,179,955
LONG-TERM DEBT	30,000,000	10,000,000
ASSET RETIREMENT OBLIGATION	862,344	665,458
SHAREHOLDERS EQUITY:		
Convertible preferred stock, 6%, Series D, \$0.04 par value, 4,000 shares authorized, 2,000 shares issued and outstanding at June 30, 2006, liquidation preference of \$10,000,000 at \$5,000 per share		80
Common stock, \$0.04 par value, 50,000,000 shares authorized, 18,527,807 shares issued and 15,952,807 outstanding at March 31, 2007, 17,574,085 shares issued and 14,999,085 outstanding at June 30, 2006,	741,111	702,961
Additional paid-in capital	46,615,497	45,105,504
Accumulated other comprehensive income	1,105,857	
Treasury stock at cost (2,575,000 shares)	(6,180,000)	(6,180,000)
Retained earnings	20,202,320	22,911,047
Total shareholders equity	62,484,785	62,539,592
TOTAL LIABILITIES AND SHAREHOLDERS EQUITY	\$ 120,852,096	\$ 89,385,005

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

CONTANGO OIL & GAS COMPANY AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

	Three Months Ended		Nine Months Ended	
	March 31, 2007	March 31, 2006	March 31, 2007	March 31, 2006
REVENUES:				
Natural gas and oil sales	\$ 5,416,020	\$ 123,199	\$ 7,458,733	\$ 315,274
Total revenues	5,416,020	123,199	7,458,733	315,274
EXPENSES:				
Operating expenses (credits)	280,302	5,512	557,953	(11,216)
Exploration expenses	253,741	152,011	1,151,211	978,682
Depreciation, depletion and amortization	1,050,200	11,909	1,554,583	99,032
Impairment of natural gas and oil properties		419,918	192,109	419,918
General and administrative expenses	2,371,076	1,061,518	4,900,017	3,083,492
Total expenses	3,955,319	1,650,868	8,355,873	4,569,908
INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE OTHER INCOME (EXPENSES) AND INCOME TAXES				
	1,460,701	(1,527,669)	(897,140)	(4,254,634)
OTHER INCOME (EXPENSE):				
Interest expense (net of interest capitalized)	(739,510)	(93)	(1,297,415)	(285)
Interest income	231,253	165,946	638,395	565,314
Gain (loss) on sale of assets and other	(677,580)	(18,519)	(1,994,265)	223,167
INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE INCOME TAXES				
	274,864	(1,380,335)	(3,550,425)	(3,466,438)
Benefit (provision) for income taxes	(96,152)	524,792	1,156,420	1,326,191
INCOME (LOSS) FROM CONTINUING OPERATIONS DISCONTINUED OPERATIONS (Note 5)				
Discontinued operations, net of income taxes	178,712	(855,543)	(2,394,005)	(2,140,247)
		1,754,965		3,032,583
NET INCOME (LOSS)				
Preferred stock dividends	178,712	899,422	(2,394,005)	892,336
	22,222	150,000	314,722	451,000
NET INCOME (LOSS) ATTRIBUTABLE TO COMMON STOCK				
	\$ 156,490	\$ 749,422	\$ (2,708,727)	\$ 441,336
NET INCOME (LOSS) PER SHARE:				
Basic				
Continuing operations	\$ 0.01	\$ (0.07)	\$ (0.18)	\$ (0.18)
Discontinued operations		0.12		0.21
Total	\$ 0.01	\$ 0.05	\$ (0.18)	\$ 0.03
Diluted				
Continuing operations	\$ 0.01	\$ (0.07)	\$ (0.18)	\$ (0.18)
Discontinued operations		0.12		0.21

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Total	\$	0.01	\$	0.05	\$	(0.18)	\$	0.03
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WEIGHTED AVERAGE COMMON SHARES OUTSTANDING:

Basic	15,759,324	14,865,965	15,262,085	14,675,586
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Diluted	16,068,154	14,865,965	15,262,085	14,675,586
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The accompanying notes are an integral part of these consolidated financial statements.

CONTANGO OIL & GAS COMPANY AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	Nine Months Ended	
	2007	March 31, 2006
CASH FLOWS FROM OPERATING ACTIVITIES:		
Loss from continuing operations	\$ (2,394,005)	\$ (2,140,247)
Plus income from discontinued operations, net of income taxes		3,032,583
Net loss	(2,394,005)	892,336
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation, depletion and amortization	1,554,583	1,065,766
Impairment of natural gas and oil properties	192,109	419,918
Exploration expenditures	665,783	1,759,438
Deferred income taxes	(1,766,174)	538,905
Tax benefit from exercise of stock option	(157,760)	(414,854)
Stock-based compensation	1,158,069	599,695
Loss (gain) on sale of assets and other	2,009,165	(1,081,271)
Changes in operating assets and liabilities:		
Decrease (increase) in accounts receivable and other	(4,565,186)	240,789
Increase in notes receivable	(783,824)	
Increase in prepaid insurance	(290,275)	(59,594)
Increase in interest receivable	(114,282)	
Increase in inventory	(139,972)	
Increase (decrease) in accounts payable and advances from joint owners	(1,701,283)	537,528
Increase in other accrued liabilities	344,088	294,698
Increase (decrease) in income taxes payable	157,760	(1,177,985)
Other	(14,900)	(38,474)
Net cash provided by (used in) operating activities	(5,846,104)	3,576,895
CASH FLOWS FROM INVESTING ACTIVITIES:		
Natural gas and oil exploration and development expenditures	(40,030,977)	(21,783,141)
Decrease (increase) in net investment in affiliates	(14,960,566)	26,634
Investment in Freeport LNG Project		(236,834)
Sale of short-term investments, net	18,472,327	15,587,387
Additions to furniture and equipment	(23,025)	(18,370)
Sale of assets	7,000,000	1,744,215
Decrease in advances to operators		1,802,906
Investment in Contango Venture Capital Corporation	(600,000)	(708,021)
Acquisition of overriding royalty interests		(1,000,000)
Acquisition of Republic Exploration LLC and Contango Offshore Exploration interests		(7,500,000)
Net cash used in investing activities	(30,142,241)	(12,085,224)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Borrowings under credit facility	20,000,000	
Borrowings by affiliates	8,540,091	
Proceeds from preferred equity issuances, net of issuance costs		9,616,438
Preferred stock dividends	(314,722)	(451,000)
Repurchase/cancellation of stock options	(202,521)	

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Tax benefit from exercise/cancellation of stock option	157,760	414,854
Proceeds from exercised options, warrants and others	434,755	1,535,880
Debt issuance costs	(336,509)	
Net cash provided by financing activities	28,278,854	11,116,172
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(7,709,491)	2,607,843
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	10,274,950	3,985,775
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 2,565,459	\$ 6,593,618
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid for taxes	\$ 451,993	\$ 945,816
Cash paid for interest	\$ 1,657,488	\$ 285

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

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

(Unaudited)

	Preferred Stock		Common Stock		For the Nine Months Ended March 31, 2007			Total Shareholders Equity	Comprehensive Income
	Shares	Amount	Shares	Amount	Paid-in Capital	Accumulated Other Comprehensive Income	Treasury Stock		
Balance at June 30, 2006	2,000	\$ 80	14,999,085	\$ 702,961	\$ 45,105,504	\$	\$ (6,180,000)	\$ 22,911,047	\$ 62,539,592
Issuance of common stock			16,750	670	81,268				81,938
Expense of stock options					147,222				147,222
Repurchase/cancellation of stock options, net of tax benefit					(152,508)				(152,508)
Net loss								(255,856)	(255,856)
Preferred stock dividends								(150,000)	(150,000)
Comprehensive income									\$
Balance at September 30, 2006	2,000	80	15,015,835	703,631	45,181,486		(6,180,000)	22,505,191	62,210,388
Conversion of Series D preferred shares	(100)	(4)	41,666	1,667	(1,663)				
Exercise of stock options			4,000	160	50,170				50,330
Tax benefit from exercise of stock options					2,825				2,825
Issuance of common stock			8,416	337	71,704				72,041
Cashless exercise of stock options			726	29	(29)				
Expense of stock options					147,222				147,222
Net loss								(2,316,861)	(2,316,861)
Preferred stock dividends								(142,500)	(142,500)
Comprehensive income									\$
Balance at December 31, 2006	1,900	76	15,070,643	705,824	45,451,715		(6,180,000)	20,045,830	60,023,445
Conversion of Series D preferred shares	(1,900)	(76)	791,664	31,667	(31,591)				
Exercise of stock options			90,500	3,620	380,805				384,425
Tax benefit from exercise of stock options					121,041				121,041

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Cancellation of options and warrants	(16,119)		(16,119)	
Expense of stock options	709,646		709,646	
Net income		178,712	178,712	178,712
Preferred stock dividends		(22,222)	(22,222)	
Unrealized gain on available-for-sale securities	1,105,857		1,105,857	1,105,857
Comprehensive income				\$ 1,284,569

Balance at March 31, 2007

\$ 15,952,807 \$ 741,111 \$ 46,615,497 \$ 1,105,857 \$ (6,180,000) \$ 20,202,320 \$ 62,484,785

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

CONTANGO OIL & GAS COMPANY AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The accompanying unaudited consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America for interim financial information, pursuant to the rules and regulations of the Securities and Exchange Commission, including instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all the information and footnotes required by accounting principles generally accepted in the United States of America for complete annual financial statements. In the opinion of management, all adjustments considered necessary for a fair presentation have been included. All such adjustments are of a normal recurring nature. Certain prior year amounts have been reclassified to conform to the current year presentation. The financial statements should be read in conjunction with the audited financial statements and notes included in the Company's Form 10-K for the fiscal year ended June 30, 2006. The results of operations for the three and nine months ended March 31, 2007 are not necessarily indicative of the results that may be expected for the fiscal year ending June 30, 2007.

1. Summary of Significant Accounting Policies

The application of generally accepted accounting principles involves certain assumptions, judgments, choices and estimates that affect reported amounts of assets, liabilities, revenues and expenses. Thus, the application of these principles can result in varying results from company to company. Contango's significant accounting policies are described below.

Successful Efforts Method of Accounting. The Company follows the successful efforts method of accounting for its natural gas and oil activities. Under the successful efforts method, lease acquisition costs and all development costs are capitalized. Unproved properties are reviewed quarterly to determine if there has been impairment of the carrying value, and any such impairment is charged to expense in the period. Exploratory drilling costs are capitalized until the results are determined. If proved reserves are not discovered, the exploratory drilling costs are expensed. Other exploratory costs, such as seismic costs and other geological and geophysical expenses, are expensed as incurred. The provision for depreciation, depletion and amortization is based on the capitalized costs as determined above. Depreciation, depletion and amortization is on a cost center by cost center basis using the unit of production method, with lease acquisition costs amortized over total proved reserves.