

CABOT OIL & GAS CORP  
Form 10-Q  
July 30, 2007  
[Index to Financial Statements](#)

---

**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 June 30, 2007

**.. 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**  
(State or other jurisdiction of  
incorporation or organization)

**04-3072771**  
(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)

## Edgar Filing: CABOT OIL & GAS CORP - Form 10-Q

---

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  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

As of July 25, 2007, there were 97,014,595 shares of Common Stock, Par Value \$.10 Per Share, outstanding.

---

**Index to Financial Statements**

**CABOT OIL & GAS CORPORATION**

**INDEX TO FINANCIAL STATEMENTS**

	<b>Page</b>
<b><u>Part I. Financial Information</u></b>	
Item 1. <u>Financial Statements</u>	
<u>Condensed Consolidated Statement of Operations for the Three Months and Six Months Ended June 30, 2007 and 2006</u>	3
<u>Condensed Consolidated Balance Sheet at June 30, 2007 and December 31, 2006</u>	4
<u>Condensed Consolidated Statement of Cash Flows for the Six Months Ended June 30, 2007 and 2006</u>	5
<u>Notes to the Condensed Consolidated Financial Statements</u>	6
<u>Report of Independent Registered Public Accounting Firm on Review of Interim Financial Information</u>	20
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	21
Item 3. <u>Quantitative and Qualitative Disclosures about Market Risk</u>	36
Item 4. <u>Controls and Procedures</u>	38
<b><u>Part II. Other Information</u></b>	
Item 1. <u>Legal Proceedings</u>	38
Item 1A. <u>Risk Factors</u>	38
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	38
Item 4. <u>Submission of Matters to a Vote of Security Holders</u>	38
Item 6. <u>Exhibits</u>	40
<u>Signatures</u>	41

Index to Financial Statements

## PART I. FINANCIAL INFORMATION

ITEM 1. Financial Statements

## CABOT OIL &amp; GAS CORPORATION

## CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS (Unaudited)

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2007	2006	2007	2006
<i>(In thousands, except per share amounts)</i>				
<b>OPERATING REVENUES</b>				
Natural Gas Production	\$ 144,128	\$ 141,503	\$ 290,878	\$ 296,670
Brokered Natural Gas	18,001	17,495	51,178	50,314
Crude Oil and Condensate	13,263	29,668	24,205	53,848
Other	440	2,128	1,144	4,730
	<b>175,832</b>	190,794	<b>367,405</b>	405,562
<b>OPERATING EXPENSES</b>				
Brokered Natural Gas Cost	16,051	15,397	44,750	44,642
Direct Operations Field and Pipeline	19,004	17,955	36,135	35,585
Exploration	6,825	14,797	12,477	26,411
Depreciation, Depletion and Amortization	34,262	32,792	67,657	64,727
Impairment of Unproved Properties	6,323	3,883	10,309	7,463
General and Administrative	12,965	13,515	31,245	27,767
Taxes Other Than Income	14,579	14,578	27,744	30,073
	<b>110,009</b>	112,917	<b>230,317</b>	236,668
Gain on Sale of Assets	4,422	4	12,342	211
<b>INCOME FROM OPERATIONS</b>	<b>70,245</b>	77,881	<b>149,430</b>	169,105
Interest Expense and Other	3,619	6,023	7,543	12,173
<b>Income Before Income Taxes</b>	<b>66,626</b>	71,858	<b>141,887</b>	156,932
Income Tax Expense	25,250	24,994	51,964	56,903
<b>NET INCOME</b>	<b>\$ 41,376</b>	\$ 46,864	<b>\$ 89,923</b>	\$ 100,029
Basic Earnings Per Share	\$ 0.43	\$ 0.48	\$ 0.93	\$ 1.03
Diluted Earnings Per Share	\$ 0.42	\$ 0.47	\$ 0.92	\$ 1.01
Weighted Average Common Shares Outstanding	96,929	97,482	96,813	97,421
Diluted Common Shares (Note 5)	98,406	99,201	98,077	99,279

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

Index to Financial Statements

## CABOT OIL &amp; GAS CORPORATION

## CONDENSED CONSOLIDATED BALANCE SHEET (Unaudited)

<i>(In thousands, except share amounts)</i>	June 30, 2007	December 31, 2006
<b>ASSETS</b>		
Current Assets		
Cash and Cash Equivalents	\$ 23,591	\$ 41,854
Accounts Receivable, Net	100,547	116,546
Income Taxes Receivable	7,673	24,512
Inventories	23,119	32,997
Deferred Income Taxes	10,173	9,386
Derivative Contracts (Note 7)	36,509	81,982
Other	12,050	8,405
Total Current Assets	213,662	315,682
Properties and Equipment, Net (Successful Efforts Method) (Note 2)	1,691,929	1,480,201
Deferred Income Taxes	34,341	30,912
Other Assets	29,329	7,696
	<b>\$ 1,969,261</b>	<b>\$ 1,834,491</b>
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
Current Liabilities		
Accounts Payable	\$ 153,421	\$ 147,680
Current Portion of Long-Term Debt	20,000	20,000
Deferred Income Taxes	15,005	31,962
Income Taxes Payable	7,343	9,282
Accrued Liabilities	40,342	42,103
Total Current Liabilities	236,111	251,027
Long-Term Liability for Pension Benefits (Note 10)	8,562	7,219
Long-Term Liability for Postretirement Benefits (Note 10)	19,139	18,204
Long-Term Debt (Note 4)	235,000	220,000
Deferred Income Taxes	394,569	347,430
Other Liabilities	57,017	45,413
Commitments and Contingencies (Note 6)		
Stockholders Equity		
Common Stock:		
Authorized 120,000,000 Shares of \$0.10 Par Value in 2007 and 2006, respectively		
Issued and Outstanding 102,219,295 Shares and 101,418,220 Shares in 2007 and 2006, respectively	10,222	10,142
Additional Paid-in Capital	429,607	417,995
Retained Earnings	650,673	565,591
Accumulated Other Comprehensive Income (Note 8)	14,051	37,160
Less Treasury Stock, at Cost:		
5,204,700 Shares in both 2007 and 2006	(85,690)	(85,690)
Total Stockholders Equity	1,018,863	945,198
	<b>\$ 1,969,261</b>	<b>\$ 1,834,491</b>

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



Index to Financial Statements

## CABOT OIL &amp; GAS CORPORATION

## CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (Unaudited)

<i>(In thousands)</i>	Six Months Ended June 30,	
	2007	2006
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net Income	\$ 89,923	\$ 100,029
Adjustments to Reconcile Net Income to Cash Provided by Operating Activities:		
Depreciation, Depletion and Amortization	67,657	64,727
Impairment of Unproved Properties	10,309	7,463
Deferred Income Tax Expense	39,612	22,032
Gain on Sale of Assets	(12,342)	(211)
Exploration Expense	12,477	26,411
Stock-Based Compensation Expense and Other	11,617	9,035
Changes in Assets and Liabilities:		
Accounts Receivable, Net	15,999	58,666
Income Taxes Receivable	10,229	10,030
Inventories	9,878	(1,340)
Other Current Assets	(3,645)	(5,655)
Other Assets	(20,748)	(479)
Accounts Payable and Accrued Liabilities	(9,026)	(25,615)
Income Taxes Payable	10,717	4,593
Other Liabilities	15,196	4,571
Stock-Based Compensation Tax Benefit	(6,046)	(4,897)
Net Cash Provided by Operating Activities	241,807	269,360
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Capital Expenditures	(271,931)	(224,463)
Proceeds from Sale of Assets	5,825	575
Exploration Expense	(12,477)	(26,411)
Net Cash Used in Investing Activities	(278,583)	(250,299)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Increase in Debt	25,000	145,000
Decrease in Debt	(10,000)	(135,000)
Sale of Common Stock Proceeds	2,307	2,564
Stock-Based Compensation Tax Benefit	6,046	4,897
Purchase of Treasury Stock		(27,187)
Dividends Paid	(4,840)	(3,902)
Net Cash Provided by / (Used in) Financing Activities	18,513	(13,628)
Net (Decrease) / Increase in Cash and Cash Equivalents	(18,263)	5,433
Cash and Cash Equivalents, Beginning of Period	41,854	10,626
Cash and Cash Equivalents, End of Period	\$ 23,591	\$ 16,059

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





**Index to Financial Statements**

**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, 2006 filed with the Securities and Exchange Commission (SEC). The interim financial statements should be read in conjunction with the notes to the financial statements and information presented in the Company's 2006 Annual Report to Stockholders and its Annual Report on Form 10-K. 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. Additionally, certain amounts have been reclassified to conform to the fiscal year 2007 presentation. The results for any interim period are not necessarily indicative of the expected results 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.

On February 23, 2007, the Board of Directors declared a 2-for-1 split of the Company's common stock in the form of a stock distribution. The stock dividend was distributed on March 30, 2007 to stockholders of record on March 16, 2007. All common stock accounts and per share data have been retroactively adjusted to give effect to the 2-for-1 split of the Company's common stock. The pro forma effect on the December 31, 2006 Balance Sheet was a reduction to Additional Paid-in Capital and an increase to Common Stock of \$5.1 million.

Effective January 1, 2007, the Company adopted the provisions of Financial Accounting Standards Board (FASB) Interpretation (FIN) No. 48, Accounting for Uncertainty in Income Taxes—an interpretation of FASB Statement No. 109. The Company recorded a charge of \$0.2 million during the first six months of 2007 for incremental interest expense that is more likely than not payable. For further information regarding the adoption of FIN 48, please refer to Note 12 of the Notes to the Condensed Consolidated Financial Statements.

***Recently Issued Accounting Pronouncements***

In May 2007, the FASB issued Staff Position (FSP) No. FIN 48-1, Definition of *Settlement* in FASB Interpretation No. 48, which amends FIN 48 and provides guidance concerning how an entity should determine whether a tax position is effectively, rather than the previously required ultimately, settled for the purpose of recognizing previously unrecognized tax benefits. In addition, FSP No. FIN 48-1 provides guidance on determining whether a tax position has been effectively settled. The guidance in FSP No. FIN 48-1 is effective upon the initial January 1, 2007 adoption of FIN 48. Companies that have not applied this guidance must retroactively apply the provisions of this FSP to the date of the initial adoption of FIN 48. The Company has adopted FSP No. FIN 48-1 and no retroactive adjustments are necessary.

In April 2007, the FASB issued FSP No. FIN 39-1, Amendment of FASB Interpretation No. 39, to amend FIN 39, Offsetting of Amounts Related to Certain Contracts. The terms conditional contracts and exchange contracts used in FIN 39 have been replaced with the more general term derivative contracts. In addition, FSP No. FIN 39-1 permits the offsetting of recognized fair values for the right to reclaim cash collateral or the obligation to return cash collateral against fair values of derivatives under certain circumstances, such as under master netting arrangements. Additional disclosure is also required regarding a Company's accounting policy with respect to offsetting fair value amounts. The guidance in FSP No. FIN 39-1 is effective for fiscal years beginning after November 15, 2007, with early application allowed. The effects of initial adoption should be recognized as a change in accounting principle through retrospective application for all periods presented. The Company does not believe that the adoption of FSP No. FIN 39-1 will have a material impact on its financial position, results of operations or cash flows.

**Index to Financial Statements**

In February 2007, the FASB issued Statement of Financial Accounting Standards (SFAS) No. 159, The Fair Value Option for Financial Assets and Financial Liabilities, including an amendment of FASB Statement No. 115, which permits companies to choose, at specified dates, to measure certain eligible financial instruments at fair value. The objective of this Statement is to reduce volatility in preparer reporting that may be caused as a result of measuring related financial assets and liabilities differently and to expand the use of fair value measurements. The provisions of the Statement apply only to entities that elect to use the fair value option and to all entities with available-for-sale and trading securities. Additional disclosures are also required for instruments for which the fair value option is elected. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007. No retrospective application is allowed, except for companies that choose to adopt early. At the effective date, companies may elect the fair value option for eligible items that exist at that date, and the effect of the first remeasurement to fair value must be reported as a cumulative-effect adjustment to the opening balance of retained earnings. The Company is currently evaluating what impact, if adopted, SFAS No. 159 may have on its financial position or results of operations.

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements, which establishes a formal framework for measuring fair values of assets and liabilities in financial statements that are already required by United States generally accepted accounting principles (GAAP) to be measured at fair value. SFAS No. 157 clarifies guidance in FASB Concepts Statement (CON) No. 7 which discusses present value techniques in measuring fair value. Additional disclosures are also required for transactions measured at fair value. No new fair value measurements are prescribed, and SFAS No. 157 is intended to codify the several definitions of fair value included in various accounting standards. However, the application of this Statement may change current practices for certain companies. SFAS No. 157 is effective for fiscal years beginning after November 15, 2007. The Company is currently evaluating what impact SFAS No. 157 may have on its financial position or results of operations.

**2. PROPERTIES AND EQUIPMENT, NET**

Properties and equipment, net are comprised of the following:

<i>(In thousands)</i>	<b>June 30, 2007</b>	<b>December 31, 2006</b>
Unproved Oil and Gas Properties	<b>\$ 113,657</b>	