

CABOT OIL & GAS CORP  
Form 10-Q  
November 03, 2008

**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, 2008

**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)

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, 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):

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a 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

As of October 27, 2008, there were 103,352,194 shares of Common Stock, Par Value \$.10 Per Share, outstanding.

---

CABOT OIL & GAS CORPORATION

INDEX TO FINANCIAL STATEMENTS

	<b>Page</b>
<u>Part I. Financial Information</u>	
<u>Item 1. Financial Statements</u>	
<u>Condensed Consolidated Statement of Operations for the Three Months and Nine Months Ended September 30, 2008 and 2007</u>	3
<u>Condensed Consolidated Balance Sheet at September 30, 2008 and December 31, 2007</u>	4
<u>Condensed Consolidated Statement of Cash Flows for the Nine Months Ended September 30, 2008 and 2007</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>	27
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	28
<u>Item 3. Quantitative and Qualitative Disclosures about Market Risk</u>	46
<u>Item 4. Controls and Procedures</u>	49
<u>Part II. Other Information</u>	
<u>Item 1A. Risk Factors</u>	49
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	49
<u>Item 6. Exhibits</u>	50
<u>Signatures</u>	51

**PART I. FINANCIAL INFORMATION****ITEM 1. Financial Statements****CABOT OIL & GAS CORPORATION****CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS (Unaudited)**

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
<i>(In thousands, except per share amounts)</i>				
<b>OPERATING REVENUES</b>				
Natural Gas Production	\$ 200,279	\$ 140,300	\$ 569,527	\$ 431,178
Brokered Natural Gas	23,855	15,179	86,663	66,357
Crude Oil and Condensate	20,002	15,084	55,089	39,289
Other	684	285	2,046	1,429
	<b>244,820</b>	170,848	<b>713,325</b>	538,253
<b>OPERATING EXPENSES</b>				
Brokered Natural Gas Cost	20,891	13,223	75,321	57,973
Direct Operations Field and Pipeline	24,974	20,996	65,101	57,131
Exploration	6,413	8,766	18,764	21,243
Depreciation, Depletion and Amortization	48,895	37,744	132,893	105,401
Impairment of Unproved Properties	8,512	5,841	19,182	16,150
Impairment of Oil & Gas Properties (Note 2)		4,614		4,614
General and Administrative	(209)	9,715	60,841	40,960
Taxes Other Than Income	20,627	14,379	56,749	42,123
	<b>130,103</b>	115,278	<b>428,851</b>	345,595
Gain / (Loss) on Sale of Assets		(49)	401	12,293
<b>INCOME FROM OPERATIONS</b>	<b>114,717</b>	55,521	<b>284,875</b>	204,951
Interest Expense and Other	10,486	3,921	22,684	11,464
Income Before Income Taxes	104,231	51,600	262,191	193,487
Income Tax Expense	37,241	16,147	94,601	68,111
<b>NET INCOME</b>	<b>\$ 66,990</b>	\$ 35,453	<b>\$ 167,590</b>	\$ 125,376
Basic Earnings Per Share	\$ 0.65	\$ 0.37	\$ 1.68	\$ 1.29
Diluted Earnings Per Share	\$ 0.64	\$ 0.36	\$ 1.66	\$ 1.28
Weighted Average Common Shares Outstanding	103,351	97,068	99,858	96,899
Diluted Common Shares (Note 5)	104,495	98,439	100,901	98,122

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

## CABOT OIL &amp; GAS CORPORATION

## CONDENSED CONSOLIDATED BALANCE SHEET (Unaudited)

<i>(In thousands, except share amounts)</i>	September 30, 2008	December 31, 2007
<b>ASSETS</b>		
Current Assets		
Cash and Cash Equivalents	\$ 47,374	\$ 18,498
Accounts Receivable, Net	115,027	109,306
Income Taxes Receivable	33,550	3,832
Inventories	52,152	27,353
Deferred Income Taxes	42,228	26,456
Derivative Contracts (Note 7)	124,268	12,655
Other Current Assets	15,895	23,313
Total Current Assets	430,494	221,413
Properties and Equipment, Net (Successful Efforts Method) (Note 2)	2,935,531	1,908,117
Deferred Income Taxes	84,212	47,847
Derivative Contracts (Note 7)	69,447	
Other Assets	18,422	31,217
	\$ 3,538,106	\$ 2,208,594
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
Current Liabilities		
Accounts Payable	\$ 206,037	\$ 173,497
Current Portion of Long-Term Debt	20,000	20,000
Deferred Income Taxes	47,180	3,930
Income Taxes Payable	449	1,391
Derivative Contracts (Note 7)	2,644	5,383
Accrued Liabilities	41,724	48,065
Total Current Liabilities	318,034	252,266
Long-Term Liability for Pension and Postretirement Benefits (Note 10)	26,229	26,947
Long-Term Debt (Note 4)	800,000	330,000
Deferred Income Taxes	674,007	481,770
Other Liabilities	48,818	47,354
Commitments and Contingencies (Note 6)		
Stockholders Equity		
Common Stock:		
Authorized 120,000,000 Shares of \$0.10 Par Value Issued and Outstanding 103,554,260 Shares and 102,681,468 Shares in 2008 and 2007, respectively	10,355	10,268
Additional Paid-in Capital	670,969	424,229
Retained Earnings	880,961	722,344
Accumulated Other Comprehensive Income / (Loss) (Note 8)	112,082	(894)
Less Treasury Stock, at Cost: (Note 12) 202,200 Shares and 5,204,700 Shares in 2008 and 2007, respectively	(3,349)	(85,690)
Total Stockholders Equity	1,671,018	1,070,257
	\$ 3,538,106	\$ 2,208,594

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



## CABOT OIL &amp; GAS CORPORATION

## CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (Unaudited)

<i>(In thousands)</i>	Nine Months Ended September 30,	
	2008	2007
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net Income	\$ 167,590	\$ 125,376
Adjustments to Reconcile Net Income to Cash Provided by Operating Activities:		
Depreciation, Depletion and Amortization	132,893	105,401
Impairment of Unproved Properties	19,182	16,150
Impairment of Oil & Gas Properties		4,614
Deferred Income Tax Expense	96,459	66,930
Gain on Sale of Assets	(401)	(12,293)
Exploration Expense	18,764	21,243
Unrealized Loss on Derivatives	1,649	
Stock-Based Compensation Expense and Other	10,371	13,543
Changes in Assets and Liabilities:		
Accounts Receivable, Net	(9,869)	33,701
Income Taxes Receivable	1,650	251
Inventories	(24,799)	(3,205)
Other Current Assets	7,420	(2,876)
Other Assets	5,694	(24,510)
Accounts Payable and Accrued Liabilities	11,054	(33,570)
Income Taxes Payable	(942)	8,364
Other Liabilities	(976)	16,297
Stock-Based Compensation Tax Benefit	(11,011)	(6,857)
Net Cash Provided by Operating Activities	424,728	328,559
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Capital Expenditures	(558,931)	(416,354)
Acquisitions	(605,408)	(609)
Proceeds from Sale of Assets	1,150	5,826
Exploration Expense	(18,764)	(21,243)
Net Cash Used in Investing Activities	(1,181,953)	(432,380)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Increase in Debt	735,000	85,000
Decrease in Debt	(265,000)	(10,000)
Net Proceeds from Sale of Common Stock	316,229	2,314
Stock-Based Compensation Tax Benefit	11,011	6,857
Dividends Paid	(8,973)	(7,753)
Capitalized Debt Issuance Costs	(2,166)	
Net Cash Provided by Financing Activities	786,101	76,418
Net Increase / (Decrease) in Cash and Cash Equivalents	28,876	(27,403)
Cash and Cash Equivalents, Beginning of Period	18,498	41,854
Cash and Cash Equivalents, End of Period	\$ 47,374	\$ 14,451

The accompanying notes are an integral part of these condensed consolidated 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, 2007 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 2007 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 statement. The results for any interim period are not necessarily indicative of the expected results for the entire year.

With respect to the unaudited financial information of the Company for the three-month and nine-month periods ended September 30, 2008 and 2007, PricewaterhouseCoopers LLP reported that they have applied limited procedures in accordance with professional standards for a review of such information. However, their separate report dated October 31, 2008 appearing herein states that they did not audit and they do not express an opinion on that unaudited financial information. Accordingly, the degree of reliance on their report on such information should be restricted in light of the limited nature of the review procedures applied. PricewaterhouseCoopers LLP is not subject to the liability provisions of Section 11 of the Securities Act of 1933 for their report on the unaudited financial information because that report is not a report or a part of the registration statement prepared or certified by PricewaterhouseCoopers LLP within the meaning of Sections 7 and 11 of the Act.

Effective January 1, 2008, the Company adopted those provisions of Statement of Financial Accounting Standards (SFAS) No. 157, Fair Value Measurements, that were required to be adopted. There was no financial statement impact upon adoption on January 1, 2008. For further information regarding the adoption of SFAS No. 157, please refer to Note 7 of the Notes to the Condensed Consolidated Financial Statements.

SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities, including an amendment of FASB Statement No. 115, became effective on January 1, 2008 and permits companies to choose, at specified dates, to measure certain eligible financial instruments at fair value. The provisions of SFAS No. 159 apply only to entities that elect to use the fair value option and to all entities with available-for-sale and trading securities. 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. Since the Company has not elected to adopt the fair value option for eligible items, SFAS No. 159 has not had an impact on its financial position or results of operations.

***Recently Issued Accounting Pronouncements***

In June 2008, the Financial Accounting Standards Board (FASB) issued FASB Staff Position (FSP) No. Emerging Issues Task Force (EITF) 03-6-1, Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities. Under this FSP, unvested share-based payment awards that contain nonforfeitable rights to dividends or dividend equivalents, whether they are paid or unpaid, are considered participating securities and should be included in the computation of earnings per share pursuant to the two-class method. FSP No. EITF 03-6-1 is effective for financial statements issued for fiscal years beginning after December 15, 2008, and