

PETROCORP INC  
Form 10-Q  
November 14, 2003  
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## SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

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### FORM 10-Q

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

For the Quarterly period ended September 30, 2003

OR

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

For the Transition period \_\_\_\_\_ to \_\_\_\_\_

Commission File Number 0-22650

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## PETROCORP INCORPORATED

(Exact name of registrant as specified in its charter)

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<b>Texas</b> (State or Other Jurisdiction of Incorporation or Organization)	<b>76-0380430</b> (I.R.S. Employer Identification No.)
<b>6733 South Yale</b>  <b>Tulsa, Oklahoma</b> (Address of Principal Executive Offices)	<b>74136</b> (Zip Code)

**Registrant's Telephone Number, Including Area Code: (918) 491-4500**

**Not Applicable**

(Former Name, Former Address and Former Fiscal Year, if changed since last report)

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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 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 an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes  No

Indicate the number of shares outstanding of each of the Registrant's classes of stock, as of October 31, 2003:

<b>Common Stock, \$.01 per value</b> (Title of Class)	<b>12,688,046</b> (Number of Shares Outstanding)
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Certain matters discussed in this report, excluding historical information, include forward-looking statements - statements that discuss the Company's expected future results based on current and pending business operations. The Company is making these forward-looking statements in reliance on the safe harbor protections provided under the PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995.

Forward-looking statements can be identified by words such as anticipates, believes, expects, planned, scheduled or similar expressions. Although the Company believes these forward-looking statements are based on reasonable assumptions, statements made regarding future results are subject to numerous assumptions, uncertainties and risks that may cause future results to be materially different from the results stated or implied in this document. Important risk factors (but not necessarily all important factors) that could cause actual results to differ materially from those expressed in any forward-looking statement made by, or on behalf of, the Company would include, but in no way be limited by, the Company's ability to obtain agreements with co-venturers, partners and governments; its ability to engage drilling, construction and other contractors; its ability to obtain economical and timely financing; geological, land, sea or weather conditions; world prices for oil, natural gas and natural gas liquids; adequate and reliable transportation systems; and foreign and United States laws, including tax laws. Additional information about issues that could lead to material changes in performance is contained in the Company's Form 10-K.

**Table of Contents****PART I. FINANCIAL INFORMATION****ITEM 1. Financial Statements****PETROCORP INCORPORATED****CONDENSED CONSOLIDATED BALANCE SHEETS**

(in thousands, except share amounts)

(Unaudited)

	<u>September 30,</u> <u>2003</u>	<u>December 31,</u> <u>2002</u>
<b><u>Assets</u></b>		
Current assets:		
Cash and cash equivalents	\$ 90,283	\$ 3,087
Accounts receivable, net	8,803	11,537
Receivable from sale of Canadian subsidiaries	1,023	
Assets of discontinued operations		72,300
Current portion of deferred taxes	740	
Other current assets	946	1,107
	<u>          </u>	<u>          </u>
Total current assets	<u>101,795</u>	<u>88,031</u>
Property, plant and equipment:		
Oil and gas properties, at cost, full cost method, net of accumulated depreciation, depletion, amortization and impairment	56,088	48,761
Deferred income taxes	4,650	22,066
Other assets, net	2,788	2,723
	<u>          </u>	<u>          </u>
Total assets	<u>\$ 165,321</u>	<u>\$ 161,581</u>
<b><u>Liabilities and Shareholders' Equity</u></b>		
Current liabilities:		
Accounts payable	\$ 5,300	\$ 7,367
Accrued liabilities	2,995	2,758
Current income tax payable	831	
Liabilities of discontinued operations		22,111
	<u>          </u>	<u>          </u>
Total current liabilities	<u>9,126</u>	<u>32,236</u>
Long-term debt		28,750
	<u>          </u>	<u>          </u>
Dismantlement obligation	5,192	
	<u>          </u>	<u>          </u>
Other long-term liabilities	365	
	<u>          </u>	<u>          </u>

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Shareholders' equity:		
Preferred stock, \$0.01 par value, 1,000,000 shares authorized, none issued		
Common stock, \$0.01 par value, 25,000,000 shares authorized, 12,688,046 and 12,645,309 shares outstanding as of September 30, 2003 and December 31, 2002, respectively		
	<b>130</b>	130
Additional paid-in capital	<b>112,643</b>	111,905
Retained earnings (accumulated deficit)	<b>41,107</b>	(982)
Accumulated other comprehensive loss		(7,746)
Treasury stock, at cost (354,087 and 305,907 shares, respectively)	<b>(3,242)</b>	(2,712)
	<hr/>	<hr/>
Total shareholders' equity	<b>150,638</b>	100,595
	<hr/>	<hr/>
Total liabilities and shareholders' equity	<b>\$ 165,321</b>	\$ 161,581
	<hr/>	<hr/>

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

Table of Contents**PETROCORP INCORPORATED****CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**

(in thousands, except share amounts)

(Unaudited)

	For the three		For the nine	
	months ended		months ended	
	September 30,		September 30,	
	2003	2002	2003	2002
<b>Revenues:</b>				
Oil and gas	\$ 8,577	\$ 7,126	\$ 27,528	\$ 20,369
Other	135	129	351	234
	<u>8,712</u>	<u>7,255</u>	<u>27,879</u>	<u>20,603</u>
<b>Expenses:</b>				
Production costs	2,913	2,787	7,908	7,878
Depreciation, depletion and amortization	1,887	1,803	5,180	6,253
General and administrative	719	506	1,999	1,244
Other operating expenses	29	11	84	75
	<u>5,548</u>	<u>5,107</u>	<u>15,171</u>	<u>15,450</u>
<b>Income from operations</b>	<u>3,164</u>	<u>2,148</u>	<u>12,708</u>	<u>5,153</u>
<b>Other income (expenses):</b>				
Investment income	238	9	468	115
Interest expense	(74)	(376)	(490)	(1,226)
Other income (expenses)	(773)	(247)	2,361	8
	<u>(609)</u>	<u>(614)</u>	<u>2,339</u>	<u>(1,103)</u>
<b>Income from continuing operations before income taxes and accounting change</b>	<u>2,555</u>	<u>1,534</u>	<u>15,047</u>	<u>4,050</u>
Income tax provision:				
Current	653	14	2,304	(13)
Deferred	215	661	3,125	1,425
	<u>868</u>	<u>675</u>	<u>5,429</u>	<u>1,412</u>
<b>Income from continuing operations before accounting change</b>	<u>1,687</u>	<u>859</u>	<u>9,618</u>	<u>2,638</u>
Discontinued operations:				
Income from discontinued Canadian operations (net)		1,314	2,113	2,961

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of applicable taxes of nil, \$780, \$1,530 and \$2,028)

Gain on sale of Canadian subsidiaries (net of taxes

(benefit) of (\$198) and \$19,573)

	(337)	_____	33,327	_____
<b>Income before cumulative effect of a change in accounting principle</b>	<b>1,350</b>	2,173	<b>45,058</b>	5,599
Cumulative effect on prior years of accounting change, less applicable income taxes of \$1,743			(2,969)	
<b>Net income</b>	<b>\$ 1,350</b>	\$ 2,173	<b>\$ 42,089</b>	\$ 5,599

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

Table of Contents**PETROCORP INCORPORATED****CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**

(in thousands, except share amounts)

(Unaudited)

(continued)

Net income per common share - basic:				
Income from continuing operations	\$ 0.13	\$ 0.07	\$ 0.75	\$ 0.21
Income from discontinued operations	(0.02)	0.10	2.80	0.24
Cumulative effect of change in accounting principle			(0.23)	
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Net income	\$ 0.11	\$ 0.17	\$ 3.32	\$ 0.45
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Net income per common share - diluted:				
Income from continuing operations	\$ 0.13	\$ 0.07	\$ 0.75	\$ 0.21
Income from discontinued operations	(0.02)	0.10	2.77	0.23
Cumulative effect of change in accounting principle			(0.23)	
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Net income	\$ 0.11	\$ 0.17	\$ 3.29	\$ 0.44
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Weighted average number of common shares - basic	12,684	12,570	12,661	12,563
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Weighted average number of common shares - diluted	12,847	12,653	12,796	12,670
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>

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



Table of ContentsPETROCORP INCORPORATEDCONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

(Unaudited)

	<u>For the nine months ended September 30,</u>	
	<u>2003</u>	<u>2002</u>
<b>Cash flows from operating activities:</b>		
Net income	\$ 42,089	\$ 5,599
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, depletion and amortization	5,180	6,253
Deferred income tax expense	3,125	1,425
Gain on sale of Canadian subsidiaries	(33,327)	
Cumulative effect of change in accounting principle	2,969	
Other	244	97
Changes in operating assets and liabilities:		
Accounts receivable	2,734	(3,050)
Other current assets	161	310
Accounts payable	(2,067)	3,145
Accrued liabilities	392	2,573
Income tax payable	831	
Net cash provided (used) by discontinued operations	(355)	4,792
<b>Net cash provided by operating activities</b>	<b>21,976</b>	<b>21,144</b>
<b>Cash flows from investing activities:</b>		
Additions to oil and gas properties	(11,952)	(3,615)
Proceeds received on sale of Canadian subsidiaries (SEE NOTE 3)	107,635	
Net investing activities of discontinued operations	(1,596)	(3,763)
Other	146	
<b>Net cash provided by (used in) investing activities</b>	<b>94,233</b>	<b>(7,378)</b>
<b>Cash flows from financing activities:</b>		
Proceeds from long-term debt		800
Repayment of long-term debt	(28,750)	(4,300)
Other	208	314
Net financing activities of discontinued operations	(471)	(7,789)
<b>Net cash used in financing activities</b>	<b>(29,013)</b>	<b>(10,975)</b>
Effect of exchange rate changes on cash		(112)
Net increase (decrease) in cash and cash equivalents	87,196	2,679
<b>Cash and cash equivalents at beginning of period</b>	<b>3,087</b>	<b>1,265</b>

<b>Cash and cash equivalents at end of period</b>	<b>\$ 90,283</b>	<b>\$ 3,944</b>
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The accompanying notes are an integral part of these financial statements.

Table of ContentsPETROCORP INCORPORATEDNOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

**NOTE 1 - BASIS OF PRESENTATION:**

The unaudited consolidated financial statements of PetroCorp Incorporated (the Company or PetroCorp) have been prepared in accordance with generally accepted accounting principles for interim financial information and with instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments, consisting of normal and recurring adjustments necessary for a fair presentation, have been included. For further information, refer to the consolidated financial statements and footnotes thereto for the year ended December 31, 2002, included in the Company's 2002 Annual Report on Form 10-K pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934. Interim period results are not necessarily indicative of results of operations or cash flows for a full-year period.

*Accounting for Stock-Based Compensation*

At September 30, 2003, the Company has a stock-based compensation plan, which is more fully described in Notes 1 and 9 of the Company's Annual Report on Form 10-K. The Company accounts for this plan under the recognition and measurement principles of APB Opinion No. 25, Accounting for Stock Issued to Employees, and related Interpretations. The following table illustrates the effect on net income and earnings per share if the Company had applied the fair value recognition provisions of FASB Statement No. 123, Accounting for Stock-Based Compensation, (in thousands, except per share amounts):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2003	2002	2003	2002
Net income, as reported	\$ 1,350	\$ 2,173	\$ 42,089	\$ 5,599
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	58	133	177	299
Pro forma net income	\$ 1,292	\$ 2,040	\$ 41,912	\$ 5,300
Earnings per share:				
Basic - as reported	\$ 0.11	\$ 0.17	\$ 3.32	\$ 0.45
Basic - pro forma	\$ 0.10	\$ 0.16	\$ 3.31	\$ 0.42
Diluted - as reported	\$ 0.11	\$ 0.17	\$ 3.29	\$ 0.44
Diluted - pro forma	\$ 0.10	\$ 0.16	\$ 3.28	\$ 0.42

**Table of Contents****NOTE 2 - COMPREHENSIVE INCOME:**

The Company follows SFAS No. 130, Reporting Comprehensive Income. This Statement establishes requirements for reporting comprehensive income and its components which includes the Company's foreign currency translation adjustments. The Company's comprehensive income for the three and nine months ended September 30, 2003 and 2002 is as follows (in thousands):

	For the three		For the nine	
	months ended		months ended	
	September 30,		September 30,	
	2003	2002	2003	2002
Net income	\$ 1,350	\$ 2,173	\$ 42,089	\$ 5,599
Derivative hedging gain/(loss) (net of taxes of \$266 and (\$24))		409		(36)
Reclassification of hedging loss to income (net of taxes of \$181 and \$361)		300		583
Reclassification of translation loss to income			4,939	
Foreign currency translation gain (loss) (2003 gain covers period from January 1 through March 5)		(1,826)	2,807	84
		(1,117)	7,746	631
Comprehensive income	\$ 1,350	\$ 1,056	\$ 49,835	\$ 6,230

As of December 31, 2002, accumulated other comprehensive loss consisted of \$7,746 of foreign currency translation losses.

**NOTE 3 - SALE OF CANADIAN SUBSIDIARIES:**

On December 24, 2002, PetroCorp signed an agreement to sell its two Canadian subsidiaries, PCC Energy Inc. and PCC Energy Corp. for C\$167.6 million (approximately US\$112 million), with an economically effective date of October 1, 2002. This is subject to post closing adjustments for certain working capital items. On March 5, 2003, PetroCorp received approximately 75% of the sale proceeds. Additionally, \$27.5 million of the receivable recorded at the time of sale was received in September 2003 upon completion of certain tax documentation with the government of Canada and the remainder is expected to be received in the fourth quarter of 2003. The financial statements reflect the results of the Canadian operations and the sale of Canadian subsidiaries as discontinued operations. Prior year statements of operations have been restated to conform to the current year presentation. The sale was recorded as follows (amounts in thousands):

Cash proceeds received, net of \$4,350 Canadian taxes withheld	\$ 80,135
Receivable recorded (A)	28,523
	<u>108,658</u>

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Net proceeds received	108,658
Net assets sold	55,168
Translation loss reclassified from comprehensive income	4,939
Deferred income taxes	15,224
	<u>75,331</u>
Gain on sale of Canadian subsidiaries	<u>\$ 33,327</u>

(A) Receivable does not include subsequent translation gain and escrow interest, which are recorded in other income (expense).

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Net sales and income of the discontinued operations are as follows (amounts in thousands):

	Nine months ended September 30,	
	2003	2002
Net sales	<b>\$ 5,937</b>	\$ 16,275
Pre-tax income from discontinued operations	<b>\$ 3,643</b>	\$ 4,988
Income tax expense	<b>1,530</b>	2,028
Income from discontinued operations, net of tax	<b>\$ 2,113</b>	\$ 2,960

Assets and liabilities of the discontinued operations were as follows (amounts in thousands):

	March 5, 2003
Cash	\$ 5,961
Accounts receivable	11,332
Property, plant and equipment	66,205
Other Assets	64
Accounts Payable	(9,388)
Accrued liabilities	(1,759)
Deferred tax liability	(17,247)
	<b>\$ 55,168</b>

**Table of Contents****NOTE 4 - EARNINGS PER SHARE:**

The following is a reconciliation of the numerators and denominators of the basic and diluted per share computations for the periods presented (in thousands, except per share amounts).

	Per Share Amounts					
	Income	Shares	Income (Loss) from Continuing Operations	Income (Loss) from Discontinued Operations	Cumulative Effect of Accounting Change	Net Income
Three months ended September 30, 2003						
Basic EPS:						
Net income	\$ 1,350	12,684	\$ 0.13	\$ (0.02)	\$	\$ 0.11
Effect of dilutive securities:						
Options		163				
Diluted EPS:						
Net income	\$ 1,350	12,847	\$ 0.13	\$ (0.02)	\$	\$ 0.11
Three months ended September 30, 2002						
Basic EPS:						
Net income	\$ 2,173	12,570	\$ 0.07	\$ 0.10	\$	\$ 0.17
Effect of dilutive securities:						
Options		83				