

CONTANGO OIL & GAS CO  
Form PREM14A  
October 08, 2004

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**WASHINGTON, DC 20549**

**SCHEDULE 14A**

**(RULE 14a-101)**

**INFORMATION REQUIRED IN PROXY STATEMENT**

**SCHEDULE 14A INFORMATION**

**Proxy Statement Pursuant to Section 14(A) of The**  
**Securities Exchange Act of 1934**  
**(Amendment No. \_\_)**

Filed by the Registrant  Filed by a Party other than the Registrant

Check the appropriate box:

Preliminary proxy statement

Confidential, for use of the Commission only (as permitted by Rule 14a-6(e)(2)).

- .. Definitive proxy statement.
- .. Definitive additional materials.
- .. Soliciting material pursuant to Rule 14a-11(c) or Rule 14a-12

**CONTANGO OIL & GAS COMPANY**

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(Name of Registrant as Specified in its Charter)

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(Name of Person(s) Filing Proxy Statement if other than the Registrant)

Payment of filing fee (check the appropriate box):

No fee required.

Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:

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(2) Aggregate number of securities to which transaction applies:

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(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

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(4) Proposed maximum aggregate value of transaction:

\$50,000,000

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Fee paid previously with preliminary materials.

Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the form or schedule and the date of its filing.

(1) Amount previously paid:

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(2) Form, schedule or registration statement no.:

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(3) Filing party:

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(4) Date filed:

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**CONTANGO OIL & GAS COMPANY**

**3700 Buffalo Speedway, Suite 960**

**Houston, Texas 77098**

**NOTICE OF SPECIAL MEETING OF STOCKHOLDERS**

**NOVEMBER 12, 2004**

Dear Stockholder,

You are cordially invited to a special meeting of stockholders of Contango Oil & Gas Company, which will be held at 3700 Buffalo Speedway, Suite 960, Houston, Texas 77098, on Friday, November 12, 2004 at 9:00 a.m., Central Time.

We have agreed to sell substantially all of our interests in natural gas and oil properties in south Texas to Edge Petroleum Exploration Company, if our stockholders authorize the proposed sale. Edge's parent, Edge Petroleum Corporation, is a publicly-held independent natural gas and oil company engaged in the exploration, development, acquisition, and production of natural gas and oil properties in the United States. In exchange for the interests, Edge has agreed to pay us a total of \$50 million, subject to specific adjustments. The proposed sale of assets to Edge would take place under an asset purchase agreement, dated as of October 7, 2004. The full text of the asset purchase agreement is included as Annex A to the proxy statement that accompanies this letter. The sale of these assets is subject to rights of first refusal held by the lessor of these interests under various leases. In the event such lessor exercises any of its first refusal rights, the interests subject thereto would be sold to the lessor on substantially the same terms as set forth in the asset purchase agreement between us and Edge.

It is not clear under Delaware law whether the proposed sale of assets to Edge or the lessor requires the authorization of our stockholders. To avoid uncertainty, we are seeking the authorization of our stockholders. The sale will not be completed unless and until it is authorized by the holders of a majority of our outstanding shares of common stock voting together as a single class with holders of our Series C preferred stock, who will vote as if their shares were converted into shares of common stock. We have scheduled a special meeting of our stockholders for this vote on November 12, 2004. **YOUR VOTE IS VERY IMPORTANT.**

**OUR BOARD OF DIRECTORS HAS UNANIMOUSLY DETERMINED THAT THE PROPOSED SALE OF ASSETS IS IN THE BEST INTERESTS OF US AND OUR STOCKHOLDERS. THE BOARD OF DIRECTORS UNANIMOUSLY APPROVED THE PROPOSED SALE AND THE ASSET PURCHASE AGREEMENT AND RECOMMENDS THAT YOU VOTE FOR THE PROPOSED SALE.**

Holders of our common stock and holders of our Series C convertible preferred stock at the close of business on October 15, 2004 are entitled to attend and vote at the meeting. You have two options in submitting your vote prior to the special meeting date:

- (1) You may sign and return the enclosed proxy card in the accompanying envelope; or

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(2) If your shares are held in street name, you can vote over the Internet at the address shown on your proxy card.

**Whether or not you plan to attend the special meeting in person, please date, sign, and return the enclosed proxy card promptly or vote over the Internet.** A postage-paid return envelope is enclosed for your convenience. If you decide to attend the special meeting, you can, if you wish, revoke your proxy and vote in person. If you have any questions, please contact us through our website at [www.contango.com](http://www.contango.com), send us an e-mail at [contango@contango.com](mailto:contango@contango.com) or write us at 3700 Buffalo Speedway, Suite 960, Houston, Texas 77098.

By order of the Board of Directors,

/s/ KENNETH R. PEAK

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Kenneth R. Peak  
*Chairman, Chief Executive Officer, Chief Financial  
Officer and Secretary*

Houston, Texas

October [ ], 2004

**CONTANGO OIL & GAS COMPANY**

**3700 Buffalo Speedway, Suite 960**

**Houston, Texas 77098**

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**SPECIAL MEETING OF STOCKHOLDERS**

**NOVEMBER 12, 2004**

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The Board of Directors of Contango Oil & Gas Company, a Delaware corporation, is furnishing you with this proxy statement in connection with its solicitation of your proxy, in the form enclosed, for use at a special meeting of stockholders to be held at 3700 Buffalo Speedway, Suite 960, Houston, Texas 77098, on Friday, November 12, 2004 at 9:00 a.m., Central Time.

The purpose of the special meeting is to:

1. Consider and vote upon a proposal to sell substantially all of our interests in natural gas and oil properties in south Texas to (a) Edge Petroleum Exploration Company pursuant to the terms of an asset purchase agreement, dated as of October 7, 2004 and/or (b) the lessor of these interests on substantially the same terms as set forth in such asset purchase agreement, in the event and to the extent such lessor exercises its rights of first refusal covering the sale of any of these interests. A copy of the asset purchase agreement is attached as Annex A to the accompanying proxy statement.
2. Transact such other business as may properly come before the special meeting and any adjournment thereof. The Board of Directors is not aware of any other business that will be presented for consideration at the special meeting.

**OUR BOARD OF DIRECTORS HAS UNANIMOUSLY DETERMINED THAT THE TERMS OF THE PROPOSED SALE ARE IN THE BEST INTERESTS OF US AND OUR STOCKHOLDERS AND RECOMMENDS THAT YOU VOTE FOR THE PROPOSED SALE.**

Only holders of our common stock and holders of our Series C preferred stock as of the close of business on October 15, 2004 are entitled to notice of and to vote at the special meeting.

The proposed sale will not be completed unless it is authorized by the affirmative vote of a majority of our stockholders entitled to vote at the special meeting.

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We are mailing this proxy statement to you on or about October [ ], 2004, together with the accompanying proxy card.

We cordially invite you to attend the special meeting. Whether or not you plan to attend, please complete, date, and sign the proxy card and return it promptly in the return envelope provided. If your shares are owned in street name and you prefer to vote over the internet, please follow the instructions on the proxy card or other enclosed proxy material.

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### SUMMARY TERM SHEET

This summary term sheet highlights selected information regarding the proposed sale and may not contain all of the information that is important to you. All references in this proxy statement to we, us, or our are to Contango Oil & Gas Company and its subsidiaries. To understand the proposed sale more fully and for a complete description of the legal terms of the proposed sale, you should carefully read this entire document and the documents we refer you to. Also see Where You Can Find More Information on page [ ]. We have included page references parenthetically to direct you to the page of this document where you can find a more complete discussion of the topic.

**THE ASSETS (SEE PAGE \_\_\_).** Through a wholly-owned subsidiary, we own interests in natural gas and oil producing properties in south Texas. The interests are in various natural gas and oil leases, wells, equipment, contracts, and seismic rights. Throughout this proxy statement, we will refer to these assets collectively as our south Texas natural gas and oil interests. We drilled our first successful exploratory well on these properties in June 2000. We subsequently drilled 51 wells, of which 38 were successful. In addition in 2002 and 2003, we increased our working and net revenue interests in our south Texas properties through a series of acquisitions that resulted in the purchase of 14.0 Bcfe. As of June 30, 2004, we held an average 68% net working interest and a 52% net revenue interest in our south Texas natural gas and oil interests and owned approximately 16.0 Bcfe of total proved reserves, all of which were classified as proved developed producing. The pre-tax net present value of these proved reserves using a 10% discount rate as of June 30, 2004 was \$54.3 million. The sale of these assets is subject to rights of first refusal held by the lessor of these interests, a right of the lessor to prohibit assignment of the interests, and the approval of a majority of our stockholders. The interests are leased by us under the terms of a number of leases. The lessor has a right of first refusal to purchase our interests in each of these leased premises on the same terms as contained in any bona fide third party offer for such interests accepted by us. In connection with our proposed sale to Edge, the lessor may exercise its right of first refusal under any or all of these leases. In the event lessor exercises the rights of first refusal under any such lease, such interests would be sold to lessor on substantially the same terms as set forth in the asset purchase agreement with Edge. Subject to the conditions to Edge's obligations under its asset purchase agreement, described below, Edge would purchase the remainder of the interests.

**THE PROPOSED SALE OF THE ASSETS (SEE PAGE \_\_\_).** We have agreed to sell our south Texas natural gas and oil interests to Edge Petroleum Exploration Company. Specifically, we will sell all of the interests to Edge for \$50 million, subject to adjustment to reflect, among other items, title defects, environmental remediation costs, failure to obtain third-party consents, and the net proceeds we derive from the interests between July 1, 2004 and the date on which the proposed sale is completed. Our net proceeds for the month of July were approximately \$1.8 million, and we would anticipate a substantially similar level of proceeds for the months of August through November of 2004. We currently anticipate closing this transaction by December 1, 2004.

**USE OF PROCEEDS (SEE PAGE \_\_\_).** Assuming the sale is completed on December 1, 2004, we will have net after tax and after debt repayment proceeds of approximately \$35 million. Initially, we expect to invest these proceeds in short-term U.S. government securities. These funds will provide working capital for ongoing operations and allow us to continue investing in our existing onshore exploration programs and to maintain our 10% limited partnership interest in the Freeport LNG plant, including a possible expansion in the plant's capacity. As a result of our increased liquidity from this sale, we will consider acquiring direct working interests, on a prospect by prospect basis, of between 5% and 20% in offshore Gulf of Mexico prospects being pursued by our two partially owned subsidiaries.

**OUR REASONS FOR THE PROPOSED SALE (SEE PAGE \_\_\_).** Our core belief and strategy is that the value creation event in the natural gas and oil exploration industry is the drilling and discovery of natural gas and oil reserves. We, thus, routinely review our assets with the objective of maximizing the exploration opportunities and returns available to us. In Contango's five year history, we have attempted to be opportunistic and have previously both purchased and sold reserves. For instance, in fiscal years 2002 and 2003, we purchased 14.0 Bcfe of our south Texas proved reserves for \$26 million. In fiscal year 2003, we offered our south Texas properties for sale but did not receive any acceptable offers and decided not to pursue the sale. In fiscal year 2004, we sold natural gas and oil assets for approximately \$11 million and used the proceeds to reduce debt and invest in our onshore and offshore exploration programs and in our Freeport LNG plant. We believe Edge has offered us a fair and attractive price from a financial perspective for our properties. We believe our increased liquidity as a result of this sale will enable us to expand our offshore exploration opportunities.

**OUR BOARD OF DIRECTORS' RECOMMENDATION (SEE PAGES \_\_\_ TO \_\_\_).** Our Board of Directors believes that the proposed sale is in the best interests of us and our stockholders and unanimously recommends that you vote in favor of the proposed sale.

**THE ASSET PURCHASE AGREEMENT (SEE PAGES \_\_\_ TO \_\_\_).** The asset purchase agreement, dated as of October 7, 2004, is attached as Annex A to this proxy statement. We encourage you to read the agreement as it is the legal document that governs the proposed sale.

**CONDITIONS TO THE ASSET PURCHASE AGREEMENT (SEE PAGE \_\_\_).** The completion of the proposed sale depends upon meeting a number of conditions, including the following:

Lessor's failure to exercise its right of first refusal with respect to the assets,

Consent of the lessor to assignment of the assets,

Authorization by a majority vote of our stockholders,

There being no material adverse change in the value of the assets, and

The transactions contemplated by the asset purchase agreement not having been abandoned, as described below.

**ABANDONMENT OF THE TRANSACTIONS CONTEMPLATED BY THE ASSET PURCHASE AGREEMENT (SEE PAGE \_\_\_).** If net adjustments to the purchase price with respect to title defects and environmental matters exceed \$5 million, either we or Edge may abandon the transactions contemplated by the asset purchase agreement at any time prior to the completion of the sale. In addition, either party may abandon the transactions contemplated by the asset purchase agreement if (1) a court or other governmental authority prohibits the proposed sale, or (2) the proposed sale has not been completed by December 31, 2004 and the closing conditions have not been met.

**BREAK-UP FEES (SEE PAGE \_\_\_).** If the closing conditions set forth in the asset purchase agreement are satisfied and Edge fails to fulfill its obligations necessary to purchase our assets pursuant to the agreement by December 31, 2004, then we may terminate the agreement, and Edge will owe us \$2 million. If the closing conditions set forth in the asset purchase agreement are satisfied and we fail to fulfill our obligations necessary to sell our assets pursuant to the agreement by December 31, 2004 or our Board of Directors amends its recommendation of Edge's offer and recommends a superior proposal, then either we or Edge may terminate the agreement, and we will owe Edge \$2 million. If our stockholders fail to approve the proposed sale, we will owe Edge \$1 million.

**ACCOUNTING TREATMENT (SEE PAGE \_\_\_).** Under accounting principles generally accepted in the United States of America, upon consummation of the proposed transaction, we expect



to reflect the results of operations of the south Texas natural gas and oil interests sold as discontinued operations, including the related gain on the sale, net of any applicable taxes commencing at the end of the quarter during which we closed the proposed sale. For further information, see the pro forma financial information.

**UNITED STATES FEDERAL INCOME TAX CONSEQUENCES.** The proposed sale of our south Texas natural gas and oil interests will not result in any United States federal income tax consequences to you. If completed, the proposed sale will, however, be a taxable event to us for United States federal income tax purposes.

**NO APPRAISAL RIGHTS.** Under Delaware law, our stockholders are not entitled to appraisal rights in connection with the proposed sale.

### QUESTIONS AND ANSWERS ABOUT THE PROPOSED SALE

**Q: WHY ARE WE SELLING OUR NATURAL GAS AND OIL INTERESTS IN THE SOUTH TEXAS PROPERTIES?**

A: Throughout Contango's five year history, we have attempted to be both an opportunistic purchaser and seller of reserves. Natural gas and crude oil prices are currently near their historic highs, and we think this is an opportune time to sell. Edge recently submitted an unsolicited offer to purchase substantially all of our south Texas natural gas and oil interests, and we have accepted Edge's offer, subject to conditions contained in the asset purchase agreement, including the approval of our stockholders. Our Board of Directors believes that the price Edge will pay for the interests is both fair and attractive from a financial point of view.

**Q: WHAT ARE THE EXPECTED PROCEEDS FROM THE SALE?**

A: The effective time of the sale will be July 1, 2004. Assuming the sale is completed December 1, 2004, we will have already received approximately \$5 million or approximately \$1.8 million of net revenues for each of the three months of July, August and September. Thus, we anticipate receiving approximately \$45 million in pre-tax proceeds. We are currently estimating our taxes owed as a result of this sale at approximately \$9 million and have approximately \$1 million of outstanding debt, leaving net proceeds after tax and debt repayment of approximately \$35 million.

**Q: WHAT ARE WE PLANNING TO DO WITH THE NET PROCEEDS FROM THE SALE?**

A: Initially, we expect to invest the proceeds from the sale in short-term U.S. government securities. These funds will provide working capital for ongoing operations and allow us to continue investing in our existing onshore exploration programs and to maintain our 10% limited partnership interest in the Freeport LNG plant, including any expansion in the plant's capacity.

The additional liquidity will give us the ability to consider taking a 5% to 20% working interest position in the offshore Gulf of Mexico exploration opportunities being developed by our two partially owned subsidiaries, Republic Exploration, LLC and Contango Offshore Exploration, LLC. Our offshore Gulf of Mexico prospects are focused on the deep shelf portion of the Gulf of Mexico. The deep shelf refers to the depth of the prospect, which is greater than 15,000 feet, not the depth of the water. Deep shelf prospects are expensive, with dry hole costs in the range of \$10 to \$20 million, and costs can be considerably greater if adverse weather conditions or down hole problems develop. Deep shelf prospects are risky, as 3-D seismic data are not as effective an exploration tool as depth increases below 15,000 feet. Deep shelf discoveries, however, are typically considerably larger than onshore discoveries. We can offer no assurances that any deep shelf prospects in which we invest will be successful.

**Q: WHEN DO YOU EXPECT THE PROPOSED SALE TO BE COMPLETED?**

A: We are working to complete the proposed sale as quickly as practicable. If all necessary approvals including stockholder approval and third party consents, have been obtained, we hope to complete the sale shortly after the special meeting scheduled for November 12, 2004.

**Q: WHY ARE WE ASKING FOR A STOCKHOLDER VOTE? WHAT VOTE IS REQUIRED?**

A: The proposed sale may constitute the sale of substantially all of our assets under Delaware corporate law. If so, the proposed sale requires authorization by the holders of a majority of our outstanding common stock voting together as a class with holders of our Series C preferred stock, who will vote as if their shares had been converted into shares of common stock. Because it is not clear whether the proposed sale requires stockholder authorization, we are making the sale subject to a stockholder vote to avoid any uncertainty, and we will not complete the sale unless and until it is authorized by the affirmative vote of holders of a majority of our common stock and Series C preferred stock voting as a single class as described below.

**Q: WHO IS ENTITLED TO VOTE?**

A: Record holders of our capital stock as of October 15, 2004 are entitled to vote at the special meeting.

**Q: HOW MANY SHARES MAY VOTE AT THE SPECIAL MEETING?**

A: Holders of common stock and holders of Series C preferred stock will vote as one class at the special meeting. Each record holder of common stock is entitled to one vote per share of common stock. Each record holder of Series C preferred stock is entitled to one vote for each share of common stock into which each share of Series C preferred stock is convertible. Currently, each holder of Series C preferred stock on the record date is entitled to 833 votes per share of Series C preferred stock owned. As of the record date of October 15, 2004, we had outstanding [13,004,950] shares of common stock and 1,400 shares of Series C preferred stock, which were convertible into 1,166,662 shares of common stock. The total number of shares eligible to vote is thus [14,171,612]. The affirmative vote of a majority of these shares is required for approval.

**Q: WHAT WILL HAPPEN IF THE PROPOSED ASSET SALE IS NOT APPROVED?**

A: If our stockholders fail to approve the proposed sale, then either we or Edge may terminate the agreement, and we will owe Edge \$1 million as liquidated damages.

We would continue to invest in our onshore exploration programs and invest as necessary to maintain our 10% limited partnership interest in our Freeport LNG plant. We would have to increase our debt or sell equity to have the liquidity needed to invest in as many or take as large a working interest in Republic Exploration's and Contango Offshore Exploration's prospects if this sale were not to occur.

**Q: WHAT DO I NEED TO DO NOW?**

A: Just complete, sign, and mail your signed proxy card in the enclosed return envelope as soon as possible so that your shares may be represented at the special meeting. The meeting will take place on November 12, 2004. Our Board of Directors unanimously recommends that you vote in favor of the proposed sale.

**Q: CAN I CHANGE MY VOTE AFTER I HAVE MAILED IN MY SIGNED PROXY CARD?**

A: Yes. You can change your vote at any time before we vote your proxy at the special meeting. You can do so in one of three ways. First, you can send a written notice stating that you would like to revoke your proxy to our Secretary at the address given below. Second, you can request a new proxy card and complete and send it to our Secretary at the address given below. Third, you can attend the special meeting and vote in person.

You should send any written notice or request for a new proxy card to the attention of the Secretary, Contango Oil & Gas Company, 3700 Buffalo Speedway, Suite 960, Houston, Texas 77098.

**Q: IF MY SHARES ARE HELD IN STREET NAME BY MY BROKER, WILL MY BROKER VOTE MY SHARES FOR ME?**

A: Your broker will vote your shares only if you provide instructions on how to vote. Following the directions provided by your broker, you should instruct your broker to vote your shares. Without your instructions, your shares will not be voted, which will have the same effect as a vote against the proposed sale.

**Q: WHAT IS THE EFFECT OF AN ABSTENTION OR A BROKER NON-VOTE?**

A: Abstentions and broker non-votes are counted for purposes of determining the presence or absence of a quorum for the transaction of business. A broker non-vote occurs when a nominee holding shares of our common stock for a beneficial owner does not vote on a particular proposal because the nominee does not have discretionary voting power with respect to that item and has not received instructions from the beneficial owner. Abstentions are counted in tabulations of the votes cast on proposals presented to stockholders as a vote against, whereas broker non-votes are not counted for purposes of determining whether a proposal has been approved.

**Q: HOW WILL WE SOLICIT PROXIES?**

A: Proxies may be solicited in person, by telephone, facsimile, mail or e-mail by our directors, officers and employees without additional compensation. Brokers, nominees, fiduciaries, and other custodians have been requested to forward soliciting material to the beneficial owners of shares of our common stock held of record by them, and we will reimburse such custodians for their reasonable expenses.

**Q: WHO CAN ANSWER FURTHER QUESTIONS?**

A: If you have more questions about the proposed sale, you should contact:

Contango Oil & Gas Company

3700 Buffalo Speedway, Suite 960

Houston, Texas 77098

(713) 960-1901

Attention: Kenneth R. Peak, Chairman and Chief Executive Officer

**CAUTIONARY STATEMENT ABOUT FORWARD-LOOKING STATEMENTS**

Some of the statements made in this proxy statement may contain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, and Section 21E of the Securities Exchange Act of 1934, as amended. The words and phrases should be , will be , believe , expect , anticipate , estimate , forecast , goal , and similar expressions identify forward-looking statements and express our expectations about future events. These include such matters as:

The closing of the proposed asset sale;

Our use of proceeds from the proposed asset sale;

Our financial position;

Business strategy and budgets;

Anticipated capital expenditures;

Drilling of wells;

Natural gas and oil reserves;

Timing and amount of future production of natural gas and oil;

Operating costs and other expenses;

Cash flow and anticipated liquidity;

Prospect development;

Property acquisitions and sales; and

Development and financing of our LNG receiving terminal.

Although we believe the expectations reflected in such forward-looking statements are reasonable, we cannot assure you that such expectations will occur. These forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause our actual results, performance or achievements to be materially different from actual future results expressed or implied by the forward-looking statements. These factors include among others:

The satisfaction of closing conditions to the asset purchase agreement, including approval of the sale by our stockholders;

Receipt of required third party consents;

Potential adjustments to the purchase price we may receive for the sale of the assets;

Our indemnification obligations to the purchaser of the assets;

Risks associated with our use of the proceeds from the proposed asset sale, including the drilling of dry holes and the attendant higher costs and risks associated with taking a working interest position in deep shelf prospects;

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Low and/or declining prices for natural gas and oil;

Natural gas and oil price volatility;

The risks associated with exploration, including cost overruns and the drilling of non-economic wells or dry holes;

Availability of capital and the ability to repay indebtedness when due;

Ability to raise capital to fund capital expenditures;

The ability to find, acquire, market, develop and produce new natural gas and oil properties;

Uncertainties in the estimation of proved reserves and in the projection of future rates of production and timing of development expenditures;

Operating hazards attendant to the natural gas and oil business;

Downhole drilling and completion risks that are generally not recoverable from third parties or insurance;

Potential mechanical failure or under-performance of significant wells or pipeline mishaps;

Weather;

Availability and cost of material and equipment;

Delays in anticipated start-up dates;

Actions or inactions of third-party operators of our properties;

Ability to find and retain skilled personnel;

Strength and financial resources of competitors;

Federal and state regulatory developments and approvals;

Environmental risks;

Worldwide economic conditions;

Operational and financial risks associated with foreign exploration and production;

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Ability of LNG to become a competitive energy supply in the United States; and

Ability to fund our LNG project, cost overruns, and third party performance.

You should not unduly rely on these forward-looking statements in this proxy statement, as they speak only as of the date of this proxy statement. Except as required by law, we undertake no obligation to publicly release any revisions to these forward-looking statements to reflect events or circumstances occurring after the date of this proxy statement or to reflect the occurrence of unanticipated events. All references in this proxy statement to we , us , or our are to Contango Oil & Gas Company and its subsidiaries. Unless otherwise noted, all information in this proxy statement relating to natural gas and oil reserves and the estimated future net cash flows attributable to those reserves are based on estimates prepared by independent engineers and are net to our interest.

## RISK FACTORS

In considering whether to authorize the proposed sale, you should consider, in addition to the other information contained in this document, the following risks:

*The sale of the natural gas and oil interests will reduce revenue and income from operations by approximately 80%.*

The south Texas natural gas and oil interests we are selling constitute 80% of our estimated revenues and 80% of estimated income for our July, August and September operations. Following the sale, we will have remaining production of approximately 3.0 MMcfe per day. Based on current prices and production rates, this level of production will result in monthly net production revenues prior to interest, income taxes, depreciation, depletion and amortization, impairment, expenses, exploration expenses, including gains (losses) from hedging activities and sales of assets of \$400,000 to \$500,000 per month, a level believed to be sufficient to pay our on-going cash general and administrative expenses of \$175,000 to \$200,000 per month. Our stockholders will be exposed to the reinvestment risk of the sales proceeds. To the extent we are unsuccessful in our onshore and offshore exploration programs or our Freeport LNG receiving terminal is not successfully developed, your investment in us will suffer.

*There is no plan to distribute any of the proceeds of the asset sale to our stockholders, and exploration drilling involves significant risks.*

We do not intend to distribute any portion of the proceeds from the asset sale to our stockholders. Our intention is to use the net proceeds of the sale to attempt to maximize shareholder value. Initially, the net proceeds will be invested in short-term U.S. government securities. We intend to continue to pursue natural gas and oil exploration, both onshore and offshore. These opportunities involve significant risks. Our future investments may be illiquid and could result in a total loss to us and our stockholders if our exploration efforts prove unsuccessful.

**You should also consider the risk factors set forth in our Form 10-K for the year ended June 30, 2004 that relate to our intended use of proceeds, particularly those regarding the risks involved in natural gas and oil exploration. A copy of Form 10-K for the year ended June 30, 2004 is included as part of the materials mailed with this proxy statement.**

## THE PROPOSED SALE

### General

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Pursuant to the terms of the asset purchase agreement, we propose to sell to Edge all of our south Texas natural gas and oil interests located in south Texas. The purchase price is \$50 million, subject to adjustment as described below.

### **Description of the Assets to be Sold**

We are selling our working and net revenue interests in natural gas and oil leases, wells, equipment, contracts, and seismic rights related to properties located in south Texas. Current net

production from the south Texas properties is approximately 11 million cubic feet of natural gas per day and 150 barrels of condensate per day. Total proved producing reserves attributable to the properties as of June 30, 2004 totaled approximately 14.4 Bcf of natural gas and 266,000 barrels of oil. Based on relevant spot prices at June 30, 2004 of \$5.90 per MMBtu for natural gas at the Houston Ship Channel (which equates to a NYMEX price of \$6.16 per MMBtu) and to a NYMEX oil price of \$37.05 per barrel, in each case before adjusting for basis, transportation, and BTU content, the proved producing reserves had a present value of approximately \$54.3 million, assuming a 10% discount rate. The south Texas natural gas and oil interests represent 93% of our proved onshore reserves and 80% of our current estimated production. The interests are held by a limited partnership. Two of our wholly-owned subsidiaries are the sole general partner and sole limited partner of the limited partnership.

On a consolidated basis, revenues attributable to the south Texas natural gas and oil interests equaled 95% of our total revenues and 100% of our operating income as of June 30, 2004. The south Texas natural gas and oil interests constituted approximately 55% of our assets as of June 30, 2004.

Historical financial information is set forth in our consolidated financial statements, which are included in our annual report on Form 10-K for the year ended June 30, 2004, a copy of which is included as part of the materials mailed with this proxy statement.

### **Background of the Proposed Sale**

On an ongoing basis our management reviews various alternatives to enhance stockholder value. As part of this process, in late 2002, we began to look at the feasibility of selling our south Texas natural gas and oil interests. We believed that we would receive a better return on our capital by engaging in a more active prospect generation and exploration effort.

In October 2002, we engaged Randall & Dewey Inc. to assist us in conducting a possible sale. Randall & Dewey contacted numerous potential buyers regarding their possible interest in acquiring those interests. In December of 2002, prior to receiving any indications of interest from prospective buyers, we determined that it was in the best interests of our stockholders not to proceed with a proposed sale at that time, and we ended our efforts to sell the south Texas natural gas and oil interests.

On August 26, 2004, we received an indication of interest in our natural gas and oil properties in south Texas at a meeting between Edge's Chief Financial Officer and its Senior Vice President of Business Development and Planning and Kenneth R. Peak, our Chairman and Chief Executive Officer. Mr. Peak stated that Contango was continually reviewing its assets and would be interested in selling its south Texas properties at a price of \$50 million. After the initial meeting, Edge indicated that it would be interested in performing due diligence with respect to our south Texas natural gas and oil interests.

On September 1, 2004 through September 3, 2004, our Board of Directors held its annual retreat. Mr. Peak advised the Board of Directors of his meeting with Edge's officers. The Board of Directors directed Mr. Peak to pursue the potential asset sale. On September 21, 2004, after receiving additional confirmation of Edge's interest, Mr. Peak advised our Board of Directors of Edge's continued interest, and after further discussing the possible consequences of the asset sale, our Board of Directors recommended that Mr. Peak continue to pursue the potential asset sale.

On September 8, 2004, we entered into a confidentiality agreement with Edge. On September 9, 2004 and again on September 14, 2004, senior executives of Edge visited our offices to perform due diligence. On September 23, 2004, Edge's Chief Financial Officer and Senior Vice President advised Mr. Peak that Edge was prepared to offer \$50 million for all of our south Texas natural gas and oil interests, subject to negotiation of definitive documentation and receipt of required third party consents and approvals. Mr. Peak discussed the proposal with each

other member of our Board of Directors, and each member encouraged Mr. Peak to negotiate the terms of an asset purchase agreement on our behalf.

Over the course of the next two weeks, we negotiated the terms and conditions of the asset purchase agreement with Edge, including terms relating to purchase price adjustments, representations and warranties, indemnification for breaches of the agreement and related indemnification threshold and liquidated damage amounts. Our Board of Directors unanimously approved the proposed sale on October 6, 2004 and directed our officers to conclude the negotiation of, and execute, a definitive version of the asset purchase agreement. Contango, Edge, and our limited partnership that directly owns the assets executed the definitive asset purchase agreement on October 7, 2004.

### Reasons for the Proposed Sale

In reaching its decision to recommend and approve the proposed sale and the asset purchase agreement, our Board of Directors considered the following material factors:

Our strategy for maximizing stockholder value is based on our core belief that the value creation event in our industry is the drilling of successful exploration wells. The increased liquidity and financial flexibility provided by this sale will allow us to drill more exploration wells.

Natural gas and crude oil prices are currently near their historic highs, and we think this is an opportune time to sell.

In the last several years, we have invested approximately \$20 million in offshore Gulf of Mexico 3-D seismic data, a sophisticated 3-D seismic reprocessing center, and 42 offshore leases through our two partially owned subsidiaries, Republic Exploration, LLC and Contango Offshore Exploration, LLC. Through Republic Exploration and Contango Offshore Exploration, we now own 3-D seismic data in over 4,000 blocks and 42 leases. Our strategy to date has been to farm-out our prospects to others and keep an overriding royalty interest or carried back-in working interest. As a result of our increased liquidity, we intend to consider investing, on a prospect by prospect basis, a 5% to 20% working interest position in our deep shelf offshore prospects. Deep shelf prospects are risky and expensive, but typically have potential for greater reserves and production than the onshore prospects available to us.

Based on a reserve report prepared by our independent third-party reservoir engineers, our south Texas natural gas and oil interests, using relevant spot prices at June 30, 2004 of \$5.90 per MMBtu for natural gas at the Houston Ship Channel (which equates to a NYMEX price of \$6.16 per MMBtu) and to a NYMEX oil price of \$37.05 per barrel, in each case before adjusting for basis, transportation, and BTU content, the proved producing reserves had a present value of approximately \$54.3 million, assuming a 10% discount rate. Our reserves are 90% natural gas. Natural gas prices are both cyclical and volatile, and we believe this is an attractive price.

The consideration to be paid by Edge consists entirely of cash.

The asset purchase agreement does not contain a financing condition and, accordingly, we are not assuming the risk that Edge will be unable to obtain financing.

Other terms of the asset purchase agreement, which is the product of extensive arm's-length negotiations are believed to be reasonable and commercially attractive.

Its determination that the consideration to be received for the south Texas natural gas and oil interests is fair based on an assessment of our business and financial results.

The risk and uncertainty associated with our south Texas natural gas and oil interests being concentrated in one area.

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Our south Texas properties included in the proposed sale constitute the bulk of the collateral used to secure our existing bank line, which recently was reviewed and approved at \$21 million. The amount of borrowings under the existing line is limited to a hydrocarbon borrowing base. The revolving line of credit currently available to us declines at approximately \$600,000 per month and at December 1, 2004 is projected to be \$19.8 million. After completion of the proposed transaction, we will have sold almost all of our hydrocarbon assets used to collateralize our bank revolver, and our remaining bank credit line, if any, will be less than \$2 million.

We will pay federal income taxes as a result of this sale. The increased liquidity provided by this sale, however, gives us the ability to acquire 5% to 20% working interests in available Gulf of Mexico prospects. Drilling these prospects can provide us with significant intangible drilling costs (IDC), which are immediately deductible for income tax purposes.

Our Board of Directors did not find it practical to and did not quantify or attempt to attach relative weight to any of the specific factors considered by it. Our Board of Directors, however, did find that the positive factors listed above outweighed the potential risks of the proposed sale and found the opportunity to generate increased stockholder value through completion of the proposed sale compelling from a financial perspective. Notwithstanding expectations of our management regarding the benefits to be realized from the proposed sale, no assurance can be given that we will be able to realize such benefits.

#### **Recommendation of Our Board of Directors**

At a special meeting held on October 6, 2004 to consider the asset purchase agreement, our Board of Directors unanimously approved the proposed sale as being in the best interests of us and our stockholders. FOR THE REASONS DISCUSSED ABOVE, OUR BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS THAT OUR STOCKHOLDERS VOTE FOR THE PROPOSED SALE.

#### **Use of Proceeds**

*Background.* Natural gas and oil prices have been exceptionally strong over the past year. While oil prices are expected to continue to remain strong, they will also likely remain volatile, with large swings due to supply tightness stemming from strong world demand combined with political unrest in major crude producing regions. Natural gas prices will likely be subject to wide swings due to weather, growing demand and the industry's overall difficulty in replacing and growing reserves and production. In the current macro-industry environment, we believe this is an excellent time to harvest our existing cash flow and direct the proceeds into drilling an increased number of wells in which we have exposure in the offshore Gulf of Mexico. While we have ample borrowing capacity under our bank line, we do not think it is prudent to drill deep shelf exploration wells with increased debt. The price we expect to receive for substantially all of our interests in natural gas and oil properties in south Texas is considered fair from a financial perspective.

Assuming our sale is completed on December 1, 2004, we will have net after tax and after debt repayment proceeds of approximately \$35 million. Initially, we expect to invest these proceeds in short-term U.S. government securities. These funds will provide working capital for ongoing operations and allow us to continue investing in our existing onshore exploration programs and to maintain our 10% limited partnership interest in the Freeport LNG plant, including any possible expansion in the plant's capacity. As a result of our increased liquidity from this sale, we will consider acquiring direct working interests, on a prospect by prospect basis, of between 5% and 20% in Republic Exploration's and Contango Offshore Exploration's Gulf of Mexico prospects.

*Onshore Exploration Efforts.* We will use the proceeds from the proposed sale of our south Texas natural gas and oil interests to continue to fund our onshore exploration efforts. Our onshore exploration efforts are primarily conducted through our three onshore alliance partners. We and one of our partners completed a 3-D seismic shoot covering approximately 40 square miles in southern Duval County, Texas. The shoot identified two prospects, both of which commenced production in September of 2004. We expect to drill two additional shallow prospects in December of 2004 at the latest. We are also participating in an exploratory Qu