

ST MARY LAND & EXPLORATION CO
Form 10-K/A
March 05, 2008

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K/A

- Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the fiscal year ended December 31, 2007
or
 Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Commission file number 001-31539

ST. MARY LAND & EXPLORATION COMPANY
(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction
of incorporation or organization)

41-0518430
(I.R.S. Employer Identification No.)

1776 Lincoln Street, Suite 700, Denver,
Colorado
(Address of principal executive offices)

80203
(Zip Code)

(303) 861-8140
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, \$.01 par value	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the

Edgar Filing: ST MARY LAND & EXPLORATION CO - Form 10-K/A

Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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):

Large accelerated filer Accelerated filer
Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined by Rule 12b-2 of the Exchange Act). Yes No

The aggregate market value of 62,317,450 shares of voting stock held by non-affiliates of the registrant, based upon the closing sale price of the common stock on June 29, 2007, the last business day of the registrant's most recently completed second fiscal quarter, of \$36.62 per share as reported on the New York Stock Exchange was \$2,282,065,019. Shares of common stock held by each director and executive officer and by each person who owns 10 percent or more of the outstanding common stock or who is otherwise believed by the Company to be in a control position have been excluded. This determination of affiliate status is not necessarily a conclusive determination for other purposes.

As of February 15, 2008, the registrant had 63,020,524 shares of common stock outstanding, which is net of 1,009,712 treasury shares held by the Company.

DOCUMENTS INCORPORATED BY REFERENCE

Certain information required by Items 10, 11, 12, 13 and 14 of Part III is incorporated by reference from portions of the registrant's definitive proxy statement relating to its 2008 annual meeting of stockholders to be filed within 120 days after December 31, 2007.

EXPLANATORY NOTE:

This Amendment on Form 10-K/A to the Annual Report on Form 10-K for the fiscal year ended December 31, 2007, by St. Mary Land & Exploration Company (the “Company”) is being filed to (i) include typed conformed signatures of Deloitte & Touche LLP in the Report of Independent Registered Public Accounting Firm appearing on page 72 and the Report of Independent Registered Public Accounting Firm appearing on page F-1 (collectively, the “Reports”), the corresponding manual signatures for which were obtained by the Company prior to the filing of the original Annual Report on Form 10-K (the “Original Form 10-K”) on February 22, 2008, but the typed conformed signatures for which were inadvertently omitted from the electronic versions of the Reports filed with the Original Form 10-K, (ii) file a consent of Deloitte & Touche LLP which refers to the correct date of the Reports of February 21, 2008, and thereby corrects an inadvertent typographical error in the consent of Deloitte & Touche LLP filed with the Original Form 10-K, which consent incorrectly referred to the date of the Reports as February 20, 2008, and (iii) furnish a certification of the Company’s Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 which refers to the correct title of the Company’s Chief Financial Officer as Senior Vice President - Chief Financial Officer and Secretary and thereby corrects an inadvertent error in the corresponding certification furnished with the Original Form 10-K, which certification incorrectly referred to the title of the Company’s Chief Financial Officer as Senior Vice President - Chief Financial Officer and Treasurer.

Pursuant to the rules of the Securities and Exchange Commission, Item 15 of the Original Form 10-K has been amended to contain currently dated certifications of the Company’s Chief Executive Officer and Chief Financial Officer, as required by Sections 302 and 906 of the Sarbanes-Oxley Act of 2002.

All other information contained in the Original Form 10-K remains unchanged, and the entire report with all Items is included in this Form 10-K/A for the convenience of the reader. The Company has not updated the disclosures contained herein to reflect events that occurred after the date of the Original Form 10-K.

TABLE OF CONTENTS

ITEM	PAGE
PART I	
ITEMS 1	
and 2. BUSINESS and PROPERTIES	1
General	1
Strategy	1
Significant Developments in 2007	2
Assets	4
Reserves	9
Production	10
Productive Wells	11
Drilling Activity	11
Acreage	12
Major Customers	12
Employees and Office Space	12
Title to Properties	13
Seasonality	13
Competition	13
Government Regulations	13
	15

	Cautionary Information about Forward-Looking Statements Available Information	17
	Glossary of Oil and Natural Gas Terms	17
ITEM 1A.	RISK FACTORS	20
ITEM 1B.	UNRESOLVED STAFF COMMENTS	29
ITEM 3.	LEGAL PROCEEDINGS	29
ITEM 4.	SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS	29
ITEM 4A.	EXECUTIVE OFFICERS OF THE REGISTRANT	30
PART II		
ITEM 5.	MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES.	32
ITEM 6.	SELECTED FINANCIAL DATA	36
ITEM 7.	MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS	38
	Overview of the Company	38
	Overview of Liquidity and Capital Resources	48
	Critical Accounting Policies and Estimates	59
	Additional Comparative Data in Tabular Format	62
	Comparison of Financial Results and Trends between 2007 and 2006	64
	Comparison of Financial Results and Trends between 2006 and 2005	66
	Other Liquidity and Capital Resource Information	68
	Accounting Matters	69

TABLE OF CONTENTS		
(Continued)		
ITEM	PAGE	
ITEM 7A.	QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK (included with the content of ITEM 7)	70
ITEM 8.	FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA	70
ITEM 9.	CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE	70
ITEM 9A.	CONTROLS AND PROCEDURES	70
ITEM 9B.	OTHER INFORMATION	73
PART III		
ITEM 10.	DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE	73
ITEM 11.	EXECUTIVE COMPENSATION	73
ITEM 12.	SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS	73
ITEM 13.	CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE	73
ITEM 14.	PRINCIPAL ACCOUNTING FEES AND SERVICES	74
PART IV		
ITEM 15.		74

EXHIBITS AND FINANCIAL
STATEMENT SCHEDULES

PART I

When we use the terms “St. Mary,” “the Company,” “we,” “us,” or “our,” we are referring to St. Mary Land & Exploration Company and its subsidiaries, unless the context otherwise requires. We have included technical terms important to an understanding of our business under “Glossary of Oil and Natural Gas Terms”. Throughout this document we make statements that are classified as “forward-looking”. Please refer to the “Cautionary Information about Forward-Looking Statements” section of this document for an explanation of these types of statements.

ITEMS 1 and 2. BUSINESS and PROPERTIES

General

We are an independent oil and gas company engaged in the exploration, exploitation, development, acquisition, and production of natural gas and crude oil. We were founded in 1908 and incorporated in Delaware in 1915. Our initial public offering of common stock took place in December of 1992. The common stock of the Company trades on the New York Stock Exchange under the ticker “SM”.

Our principal offices are located at 1776 Lincoln Street, Suite 700, Denver, Colorado 80203, and our telephone number is (303) 861-8140.

Strategy

Our objective is to build stockholder value through consistent economic growth in reserves and production that increases net asset value per share. We seek to invest in oil and gas producing assets that result in a superior return on equity while preserving underlying capital, resulting in a return on equity to stockholders that reflects capital appreciation as well as the payment of cash dividends.

The majority of our current senior technical managers in each region possess between 20 and 30 years of industry experience and lead fully-staffed regional technical offices that are supported by centralized administration from our corporate office in Denver. We use our comprehensive base of geological, geophysical, land, engineering, and production experience in each of our core operating areas to source prospects for our ongoing low-to-medium-risk development and exploitation programs. We conduct detailed geologic studies and use an array of technologies and tools including 2-D and 3-D seismic imaging, hydraulic fracturing and other reservoir stimulation techniques, horizontal drilling, secondary recovery, and specialized logging tools to enhance the potential of our existing properties. We believe that having fully-staffed technical teams based in each of our operating regions is an advantage in that our regional offices are staffed with personnel that have a deep knowledge of the basins in which they work, participate in the regional deal flow and prefer to live in regional areas, which minimizes personnel attrition.

Acquisitions have been a key element of our business strategy. Historically, we have been most successful in acquiring properties on a negotiated basis, as opposed to participating in widely marketed auctions for properties. In the last two years we have made several large acquisitions. In 2007, we paid \$178.9 million for two acquisitions in South Texas for properties targeting the Olmos shallow gas formation. In 2006, we paid \$243.1 million to acquire assets that target the Wolfberry section in the Permian Basin.

We divest selected non-core assets when market conditions and prices are attractive. We will continue to evaluate such opportunities in the future when we believe it to be appropriate. During 2007, we sold properties with estimated proved reserves of 1.4 BCFE. We actively marketed and contracted to sell a package of non-core assets in 2007. This sale closed on January 31, 2008, for a total adjusted sales price of \$131.1 million before commissions; this sale

represented 40.4 BCFE of our year-end 2007 proved reserves. We utilized a 1031 reverse exchange structure to defer the recognition of income tax on the gain from this sale.

Conservative use of financial leverage has long been a critical element of our strategy. We believe that maintaining a strong balance sheet is a significant competitive advantage that enables us to pursue acquisitions and

1

other opportunities, particularly in weaker price environments. It also provides us with the financial resources to weather periods of volatile commodity prices or escalating costs. Our debt to book capitalization ratio was 40 percent at the end of December 2007. The proceeds from the aforementioned property sale in January 2008 were applied to reducing bank borrowings.

In summary, we believe that our dedication to making investment decisions based on net asset value per share, our long-standing geologic and engineering experience in the regions in which we operate, our appropriate application of technology, our established networks of local industry relationships, and our measured approach to acquisitions and divestitures all provide us with competitive advantages that we can use to continue growing the Company.

Significant Developments in 2007

- **Increase in 2007 Year-End Reserves.** Proved reserves increased 17 percent to 1,086.5 BCFE at December 31, 2007, from 927.6 BCFE at December 31, 2006. We added 132.1 BCFE from our drilling program and 94.8 BCFE from acquisitions. We had a positive revision of 40.9 BCFE which consisted of a 6.4 BCFE upward performance revision and an upward revision of 34.5 BCFE due primarily to increased oil prices at the end of 2007. The 2007 acquisition volumes are lower than the initial estimates previously disclosed as a result of the final year-end reservoir engineering estimation. We sold properties with reserves of 1.4 BCFE in 2007.
- **Drilling Results.** Reserve additions from drilling activities of 132.1 BCFE were driven by results in the Mid-Continent, Rocky Mountain, ArkLaTex, and Permian regions, with those regions contributing 37 percent, 21 percent, 20 percent, and 18 percent, respectively. Additions in the Mid-Continent were driven principally by successful drilling by us and others in the horizontal Woodford shale formation in the Arkoma Basin, as well as positive results in two programs in the Anadarko Basin. In the Rocky Mountain region, the largest contribution came from the Hanging Woman Basin where we added 9.9 BCFE of proved reserves. The ArkLaTex region added 26.2 BCFE from successful drilling operations in the James Lime carbonate program and Elm Grove Field. Successful results in the Wolfberry program in 2007 were the principal driver of drilling additions in the Permian Basin.
- **New Basin Entry in 2007.** In 2007 we spent \$182.9 million for acquisitions of proved and unproved oil and gas properties. We entered the greater Maverick Basin with two acquisitions in South Texas totaling \$178.9 million that target the Olmos shallow gas formation. The first was the \$30.0 million Catarina acquisition that closed in June 2007. The more significant transaction was the \$148.9 million Rockford acquisition that closed in October 2007. These properties added a sizeable inventory of lower risk drilling locations to our portfolio. Consistent with prior acquisitions, we hedged several years of the risked production related to these acquisitions at the time of acquisition. The remaining acquisitions in 2007 were small niche transactions throughout the year in the Mid-Continent, ArkLaTex, and Rocky Mountain regions.
- **Senior and Regional Management Changes.** During 2007, the Company underwent or announced personnel changes in the chief executive position and in several regional manager positions. On February 23, 2007, Mark Hellerstein retired as Chief Executive Officer after serving in that role since 1995. Tony Best, President of the Company, was appointed as Chief Executive Officer on that date. Mr. Hellerstein continues to serve as the Chairman of the Board. In June of 2007, Jerry Schuyler, the Senior Vice President responsible for the Gulf Coast and Permian regions, left St. Mary to pursue another professional opportunity. Greg Leyendecker, then Operations Manager for the Gulf Coast region, assumed responsibility for the Gulf Coast and is now Vice President - Regional Manager of the Gulf Coast region. We also made the Midland office a stand-alone regional office headed by Lehman Newton III, Vice President - Regional Manager of our Permian region. Mr. Leyendecker and Mr. Newton joined St. Mary in 2006 and each have over 25 years of management and operational experience in the oil and gas industry. In July 2007, Stephen Pugh joined the Company as Senior Vice President and Regional Manager of the

ArkLaTex region. Mr. Pugh succeeded David Hart, who retired from St. Mary after 15 years in various roles at the Company. Mr. Pugh came to St. Mary with over 25

2

years of engineering, operations, and business development