

PANHANDLE OIL & GAS INC
Form 10-Q
February 06, 2017

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 period ended December 31, 2016

Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the transition period from _____ to _____

Commission File Number 001-31759

PANHANDLE OIL AND GAS INC.

(Exact name of registrant as specified in its charter)

OKLAHOMA 73-1055775
(State or other jurisdiction of (I.R.S. Employer

incorporation or organization) Identification No.)
Grand Centre Suite 300, 5400 N Grand Blvd., Oklahoma City, Oklahoma 73112

(Address of principal executive offices)

Registrant's telephone number including area code (405) 948-1560

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 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 whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

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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 definition 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 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

Outstanding shares of Class A Common stock (voting) at February 6, 2017: 16,640,048

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The following defined terms are used in this report:

“Bbl” barrel.

“Board” board of directors.

“BTU” British Thermal Units.

“Company” Panhandle Oil and Gas Inc.

“completion” the process of treating a drilled well followed by the installation of permanent equipment for the production of crude oil and/or natural gas.

“DD&A” depreciation, depletion and amortization.

“dry hole” exploratory or development well that does not produce crude oil and/or natural gas in economic quantities.

“EBITDA” earnings before interest, taxes, depreciation and amortization.

“ESOP” the Panhandle Oil and Gas Inc. Employee Stock Ownership and 401(k) Plan, a tax qualified, defined contribution plan.

“exploratory well” a well drilled to find a new field or to find a new reservoir in a field previously found to be productive of crude oil or natural gas in another reservoir.

“FASB” the Financial Accounting Standards Board.

“field” an area consisting of a single reservoir or multiple reservoirs all grouped on, or related to, the same individual geological structural feature or stratigraphic condition. The field name refers to the surface area, although it may refer to both the surface and the underground productive formations.

“G&A” general and administrative costs.

“gross acres” the total acres in which an interest is owned.

“held by production” or “HBP” an oil and gas lease continued into effect into its secondary term for so long as a producing oil and/or gas well is located on any portion of the leased premises or lands pooled therewith.

“horizontal drilling” a drilling technique used in certain formations where a well is drilled vertically to a certain depth and then drilled horizontally within a specified interval.

“IDC” intangible drilling costs.

“Independent Consulting Petroleum Engineer(s)” or “Independent Consulting Petroleum Engineering Firm” DeGolyer and MacNaughton of Dallas, Texas.

“LOE” lease operating expense.

“Mcf” thousand cubic feet.

“Mcf” natural gas stated on an Mcf basis and crude oil and natural gas liquids converted to a thousand cubic feet of natural gas equivalent by using the ratio of one Bbl of crude oil or natural gas liquids to six Mcf of natural gas.

“Mmbtu” million BTU.

“minerals”, “mineral acres” or “mineral interests” fee mineral acreage owned in perpetuity by the Company.

“net acres” the sum of the fractional interests owned in gross acres.

“NGL” natural gas liquids.

“NYMEX” New York Mercantile Exchange.

“Panhandle” Panhandle Oil and Gas Inc.

“play” term applied to identified areas with potential oil and/or natural gas reserves.

“proved reserves” the quantities of crude oil and natural gas, which, by analysis of geoscience and engineering data, can be estimated with reasonable certainty to be economically producible from a given date forward, from known reservoirs and under existing economic conditions, operating methods, and government regulations prior to the time at which contracts providing the right to operate expire, unless evidence indicates renewal is reasonably certain.

“royalty interest” well interests in which the Company does not pay a share of the costs to drill, complete and operate a well, but receives a much smaller proportionate share (as compared to a working interest) of production.

“SEC” the United States Securities and Exchange Commission.

“undeveloped acreage” lease acreage on which wells have not been drilled or completed to a point that would permit the production of commercial quantities of crude oil and/or natural gas.

“working interest” well interests in which the Company pays a share of the costs to drill, complete and operate a well and receives a proportionate share of production.

“WTI” West Texas Intermediate.

Fiscal year references

All references to years in this report, unless otherwise noted, refer to the Company’s fiscal year end of September 30. For example, references to 2017 mean the fiscal year ended September 30, 2017.

Fiscal quarter references

All references to quarters in this report, unless otherwise noted, refer to the Company’s fiscal quarter based on a fiscal year end of September 30. For example, references to first quarter mean the quarter of October 1 through December 31.

References to oil and natural gas properties

References to oil and natural gas properties inherently include natural gas liquids associated with such properties.

PART 1. FINANCIAL INFORMATION

PANHANDLE OIL AND GAS INC.

CONDENSED BALANCE SHEETS

	December 31, 2016 (unaudited)	September 30, 2016
Assets		
Current assets:		
Cash and cash equivalents	\$484,989	\$471,213
Oil, NGL and natural gas sales receivables (net of allowance for uncollectable accounts)	5,526,787	5,287,229
Refundable income taxes	98,040	83,874
Other	273,397	419,037
Total current assets	6,383,213	6,261,353
Properties and equipment at cost, based on successful efforts accounting:		
Producing oil and natural gas properties	437,851,114	434,469,093
Non-producing oil and natural gas properties	7,538,806	7,574,649
Other	1,068,778	1,069,658
	446,458,698	443,113,400
Less accumulated depreciation, depletion and amortization	(256,491,564)	(251,707,749)
Net properties and equipment	189,967,134	191,405,651
Investments	172,352	157,322
Total assets	\$196,522,699	\$197,824,326
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$3,457,200	\$2,351,623
Derivative contracts, net	2,933,947	403,612
Accrued liabilities and other	1,968,967	1,718,558
Total current liabilities	8,360,114	4,473,793
Long-term debt	44,100,000	44,500,000
Deferred income taxes, net	29,569,007	30,676,007
Asset retirement obligations	2,990,823	2,958,048
Derivative contracts, net	10,587	24,659
Stockholders' equity:		
Class A voting common stock, \$.0166 par value; 24,000,000 shares authorized,		
16,863,004 issued at December 31, 2016, and September 30, 2016	280,938	280,938
Capital in excess of par value	2,476,066	3,191,056

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Deferred directors' compensation	3,509,031	3,403,213
Retained earnings	108,903,533	112,482,284
	115,169,568	119,357,491
Less treasury stock, at cost; 223,661 shares at December 31, 2016, and 262,708 shares		
at September 30, 2016	(3,677,400)	(4,165,672)
Total stockholders' equity	111,492,168	115,191,819
Total liabilities and stockholders' equity	\$ 196,522,699	\$ 197,824,326

(See accompanying notes)

(1)

PANHANDLE OIL AND GAS INC.

CONDENSED STATEMENTS OF OPERATIONS

	Three Months Ended December 31,	
	2016	2015
Revenues:	(unaudited)	
Oil, NGL and natural gas sales	\$ 8,899,218	\$ 9,055,288
Lease bonuses and rentals	837,958	2,425,504
Gains (losses) on derivative contracts	(2,700,533)	(34,936)
Income (loss) from partnerships	15,030	16,269
	7,051,673	11,462,125
Costs and expenses:		
Lease operating expenses	3,049,415	3,566,536
Production taxes	367,845	321,841
Exploration costs	(2,243)	27,790
Depreciation, depletion and amortization	4,834,263	6,957,652
Provision for impairment	-	3,733,273
Loss (gain) on asset sales and other	12,934	(269,706)
Interest expense	292,369	360,562
General and administrative	1,842,482	1,912,079
Bad debt expense (recovery)	-	19,216
	10,397,065	16,629,243
Income (loss) before provision (benefit) for income taxes	(3,345,392)	(5,167,118)
Provision (benefit) for income taxes	(1,107,000)	(2,368,000)
Net income (loss)	\$ (2,238,392)	\$ (2,799,118)
Basic and diluted earnings (loss) per common share (Note 3)	\$ (0.13)	\$ (0.17)
Basic and diluted weighted average shares outstanding:		
Common shares	16,604,149	16,563,942
Unissued, directors' deferred compensation shares	274,035	255,060
	16,878,184	16,819,002
Dividends declared per share of common stock and paid in period	\$ 0.04	\$ 0.04
Dividends declared per share of common stock and to be paid in quarter ended March 31	\$ 0.04	\$ 0.04

(See accompanying notes)

(2)

PANHANDLE OIL AND GAS INC.

STATEMENTS OF STOCKHOLDERS' EQUITY

Three Months Ended December 31, 2016

	Class A voting Common Stock Shares	Amount	Capital in Excess of Par Value	Deferred Directors' Compensation	Retained Earnings	Treasury Shares	Treasury Stock	Total
Balances at September 30, 2016	16,863,004	\$280,938	\$3,191,056	\$3,403,213	\$112,482,284	(262,708)	\$(4,165,672)	\$115,191,819
Purchase of treasury stock	-	-	-	-	-	(17,119)	(407,677)	(407,677)
Restricted stock awards	-	-	180,412	-	-	-	-	180,412
Net income (loss)	-	-	-	-	(2,238,392)	-	-	(2,238,392)
Dividends (\$.08 per share)	-	-	-	-	(1,340,359)	-	-	(1,340,359)
Distribution of restricted stock to officers and directors	-	-	(895,402)	-	-	56,166	895,949	547
Increase in deferred directors' compensation charged to expense	-	-	-	105,818	-	-	-	105,818
Balances at December 31, 2016 (unaudited)	16,863,004	\$280,938	\$2,476,066	\$3,509,031	\$108,903,533	(223,661)	\$(3,677,400)	\$111,492,168

Three Months Ended December 31, 2015

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	Class A voting Common Stock Shares	Amount	Capital in Excess of Par Value	Deferred Directors' Compensation	Retained Earnings	Treasury Shares	Treasury Stock	Total
Balances at September 30, 2015	16,863,004	\$280,938	\$2,993,119	\$3,084,289	\$125,446,473	(302,623)	\$(4,800,144)	\$127,004,675
Purchase of treasury stock	-	-	-	-	-	(7,477)	(117,165)	(117,165)
Restricted stock awards	-	-	371,407	-	-	-	-	371,407
Net income (loss)	-	-	-	-	(2,799,118)	-	-	(2,799,118)
Dividends (\$0.08 per share)	-	-	-	-	(1,337,982)	-	-	(1,337,982)
Distribution of restricted stock to officers and directors	-	-	(449,307)	-	-	-	-	-