

COASTAL CARIBBEAN OILS & MINERALS LTD
Form 10-Q
August 01, 2005

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549**

FORM 10-Q

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

For the quarterly period ended June 30, 2005

☐ **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 1-4668

COASTAL CARIBBEAN OILS & MINERALS, LTD.

(Exact name of registrant as specified in its charter)

BERMUDA

NONE

(State or other jurisdiction of
incorporation or organization)

(I.R.S. Employer
Identification No.)

Clarendon House, Church Street, Hamilton, Bermuda

HM 11

(Address of principal executive offices)

(Zip Code)

(850) 653-9165

(Registrant's telephone number, including area code)

(Former name, former address and former fiscal year, if changed since last report)

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

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The number of shares outstanding of the issuer's single class of common stock as of July 18, 2005 was 46,211,604.

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JUNE 30, 2005

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COASTAL CARIBBEAN OILS & MINERALS, LTD.

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PART I - FINANCIAL INFORMATION

ITEM 1 - Financial Statements**CONSOLIDATED BALANCE SHEETS**

(Expressed in U.S. dollars)

(A Bermuda Corporation)
A Development Stage Company

	June 30, 2005 (Unaudited)	December 31, 2004 (Note)
Assets		
Current assets:		
Cash and cash equivalents	\$ 90	\$ 179
Prepaid expenses and other	2,264	16,322
Total current assets	2,354	16,501
Contingent litigation claim (Note 4)		
Total assets	\$ 2,354	\$ 16,501
Liabilities and Shareholders (Deficit) Equity		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 891,040	\$ 863,127
Amounts due to related parties	1,706,437	1,594,369
Total current liabilities	2,597,477	2,457,496
Minority interests		
Shareholders' (deficit) equity		
Common stock, par value \$.12 per share:		
Authorized - 250,000,000 shares		
Outstanding 46,211,604, respectively	5,545,392	5,545,392
Capital in excess of par value	32,137,811	32,137,811
	37,683,203	37,683,203
Deficit accumulated during the development stage	(40,278,326)	(40,124,198)
Total shareholders' (deficit) equity	(2,595,123)	(2,440,995)
Total liabilities and shareholders' (deficit) equity	\$ 2,354	\$ 16,501

Note: The balance sheet at December 31, 2004 has been derived from
the audited consolidated financial statements at that date.

See accompanying notes.

COASTAL CARIBBEAN OILS & MINERALS, LTD.

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PART I - FINANCIAL INFORMATION

ITEM 1 - Financial Statements**CONSOLIDATED STATEMENTS OF OPERATIONS**

(Expressed in U.S. dollars)

(A Bermuda Corporation)
A Development Stage Company
(unaudited)

	Three months ended June 30,		Six months ended June 30,		For the period from Jan. 31, 1953 (inception) to June 30, 2005
	2005	2004	2005	2004	
Interest and other income	\$ 0	\$ 0	\$ 0	\$ 0	\$ 3,877,570
Expenses:					
Legal fees and costs	5,024	77,890	14,057	162,279	16,913,737
Administrative expenses	30,358	62,183	78,491	138,100	9,814,184
Salaries	24,759	24,758	49,519	49,518	3,805,330
Shareholder communications	6,000	6,000	12,060	12,565	3,985,152
Write off of unproved properties					5,560,494
Exploration costs					247,465
Lawsuit judgments					1,941,916
Minority interests					(632,974)
Other					364,865
Contractual services					2,155,728
	66,141	170,831	154,127	362,462	44,155,896
Net loss	\$ (66,141)	\$ (170,831)	\$ (154,127)	\$ (362,462)	
Deficit accumulated during the development stage					\$ (40,278,325)
Weighted average number of shares outstanding (basic & diluted)	46,221,604	46,221,604	46,221,604	46,221,604	
Net loss per share (basic & diluted)	\$ (.01)	\$ (.01)	\$ (.01)	\$ (.01)	

See accompanying notes.

COASTAL CARIBBEAN OILS & MINERALS, LTD.
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PART I - FINANCIAL INFORMATION

ITEM 1 - Financial Statements**CONSOLIDATED STATEMENTS OF CASH FLOWS**

(Expressed in U.S. Dollars)

(A Bermuda Corporation)
A Development Stage Company
(Unaudited)

	Six months ended June 30,		For the period from Jan. 31, 1953 (inception) To June 30, 2005
	2005	2004	
Operating activities:			
Net loss	\$ (154,127)	\$ (362,462)	\$ (40,278,326)
Adjustments to reconcile net loss to net cash used in operating activities:			
Minority interest			(632,974)
Write off of unproved properties			5,619,741
Common stock issued for services			119,500
Compensation recognized for stock option grant			75,000
Recoveries from previously written off properties			252,173
Net change in:			
Prepaid expenses and other	14,057	62,821	(2,266)
Accrued liabilities	108,481	256,073	2,485,689
Net cash used in operating activities	(31,589)	(43,568)	(32,361,463)
Investing activities:			
Additions to oil, gas, and mineral properties net of assets acquired for common stock and reimbursements			(3,740,182)
Proceeds from relinquishment of surface rights			246,733
Purchase of fixed assets			(61,649)
Net cash used in investing activities			(3,555,098)
Financing activities:			
Loans from officers	31,500	40,942	111,790
Sale of common stock net of expenses			30,380,612
Shares issued upon exercise of options			884,249
Sale of shares by subsidiary			820,000
Sale of subsidiary shares			3,720,000
Net cash provided by financing activities	31,500	40,942	35,916,651
Net (decrease) increase in cash and cash equivalents	(89)	(2,626)	90
Cash and cash equivalents at beginning of period	179	2,875	
Cash and cash equivalents at end of period	\$ 90	\$ 249	\$ 90

See accompanying notes.

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PART I - FINANCIAL INFORMATION

ITEM 1 **Financial Statements**

Note 1. Basis of Presentation

The accompanying unaudited consolidated financial statements include Coastal Caribbean Oils & Minerals, Ltd. (the Company) and its 58.45% owned subsidiary, Coastal Petroleum Company (Coastal Petroleum) and have been prepared in accordance with generally accepted accounting principles for interim financial information and with the 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 considered necessary for a fair presentation have been included. All such adjustments are of a normal recurring nature. Operating results for the three and six month periods ended June 30, 2005 are not necessarily indicative of the results that may be expected for the year ending December 31, 2005. For further information, refer to the consolidated financial statements and footnotes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2004.

Note 2. Going Concern

As of June 30, 2005, the Company has a working capital deficiency, has a limited amount of cash, has incurred recurring losses and has a deficit accumulated during the development stage. We have been involved in several legal proceedings against the State of Florida (the State) which has limited our ability to commence development activities on our unproven oil and gas properties or obtain compensation for certain property rights we believe have been taken. The cost of that litigation has been substantial. The Company entered into a settlement agreement with the State as described in Note 3 and has received the net proceeds in July 2005 as described in Note 5. Management believes the proceeds to be sufficient to fund the future operations of the Company.

The Company plans to become immediately current with all of its present obligations, to acquire the rights to drill and produce low cost, but highly potential oil and gas prospects, and to partner with others in higher cost prospects. As with any prospective oil and gas well drilled, there is no assurance that such wells will produce, but based upon the low cost to drill these wells and the success of wells drilled nearby these properties, Management believes the potential returns justify the wells.

Note 3. Litigation

Florida Case

In June 2005, the Company and the State of Florida (the State) agreed to a final settlement of all claims and rights between the parties including the Company, its subsidiary Coastal Petroleum, and royalty holders that have intervened in Coastal Petroleum's recent litigation and includes the cancellation of all property lease rights for a lump sum payment by the State of \$12.5 million (the Agreement).

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ITEM 1 Financial Statements

In July 2005, the Company received the net proceeds due it under the Agreement. The royalty holders who intervened in the Coastal Petroleum litigation received \$2.54 million for their interests, and Lykes Minerals Corp. tendered its Coastal Petroleum common shares and transferred any interest in the Florida leases to Coastal Petroleum for \$1.39 million. Under the Agreement with the State, the Company will receive and distribute the following:

Agreement with the State	\$ 12,500,000
To Lykes Mineral Corporation	1,390,000
To Outside Royalty Holders	2,540,000
Purchase of CPC shares	802,000
To Settlement Consultant	465,000
To Company Creditors	2,431,000
Amount to Company and Subsidiary	\$ 4,872,000

Coastal Caribbean now owns 100% of Coastal Petroleum Company.

Lease Taking Case (Lease 224-A)

This proceeding has been dismissed as part of the Agreement with the State.

Royalty Taking Case

This proceeding has been dismissed as part of the Agreement with the State.

Lease Taking Case (Lease 224-B)

This proceeding has been dismissed as part of the Agreement with the State.

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PART I - FINANCIAL INFORMATION

ITEM 1 **Financial Statements**

Note 4. Loss per share

Loss per share is based upon the weighted average number of common and common equivalent shares outstanding during the period. The Company's basic and diluted calculations of EPS are the same because the exercise of options is not assumed in calculating diluted EPS, as the result would be anti-dilutive (the Company has continuing losses).

Note 5. Subsequent Events

On July 21, 2005, the Company announced it had concluded the agreement with the State of Florida surrendering its offshore Florida Leases, ending all litigation with the State of Florida and has, along with Coastal Petroleum, received cash, after payment of all expenses, in the amount of approximately \$4.9 million. The conclusion of the agreement results in the Company owning all of the outstanding stock of Coastal Petroleum Company with its tax loss carry forwards estimated to be approximately \$14 Million.

In July 2005, Coastal Petroleum acquired the rights to drill two 6,500 foot wells to test a Mississippian Lodgepole Reef in Valley County, in northeast Montana for a one time fee of \$50,000 from an entity controlled by one of the Company's Directors. The Company is obligated to drill these test wells before the end of October 2005 and has the option to drill for additional prospects in the Valley County area. The Company estimates the cost to drill each of these test wells to be approximately \$500,000.

Also in July 2005, Coastal Petroleum acquired leases to the deeper rights in 25,000 acres in and near Slope County, North Dakota for a one time fee of \$50,000 from an entity controlled by one of the Company's Directors. The Company is obligated to drill a test well before the end of 2005 and has the option to drill the remaining Lodgepole Reef prospects on these leases. The Company plans to partner with other entities to share the cost of the initial 9,700 foot test well at an estimated drilling cost of approximately \$600,000.

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PART I - FINANCIAL INFORMATION

ITEM 2 **Management's Discussion and Analysis of Financial Condition and Results of Operations**
Forward Looking Statements

Statements included in Management's Discussion and Analysis of Financial Condition and Results of Operations which are not historical in nature are intended to be forward looking statements. The Company cautions readers that forward looking statements are subject to certain risks and uncertainties that could cause actual results to differ materially from those indicated in the forward looking statements. Among the risks and uncertainties are: the uncertainty of securing additional financing through the sale of shares of Coastal Petroleum and/or Coastal Caribbean; changes in the income tax laws relating to tax loss carry forwards; the failure of the Company's test wells to locate oil or gas reserves or the failure to locate oil or gas reserves which are economically feasible to recover; reductions in world wide oil or gas prices; adverse weather conditions; or mechanical failures of equipment used to explore the Company's leases.

Critical Accounting Policies

The Company follows the full cost method of accounting for its oil and gas properties. All costs associated with property acquisition, exploration and development activities whether successful or unsuccessful are capitalized. Since the Company's properties were undeveloped and nonproducing and the subject of litigation, capitalized costs were not being amortized.

The capitalized costs are subject to a ceiling test which basically limits such costs to the aggregate of the estimated present value discounted at a 10% rate of future net revenues from proved reserves, based on current economic and operating conditions, plus the lower of cost or fair market value of unproved properties.

The Company assesses whether its unproved properties are impaired on a periodic basis. This assessment is based upon work completed on the properties to date, the expiration date of its leases and technical data from the properties and adjacent areas. These properties are subject to extensive litigation with the State of Florida and all costs to date have been expensed for impairment.

COASTAL CARIBBEAN OILS & MINERALS, LTD.

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PART I - FINANCIAL INFORMATION

ITEM 2 **Management's Discussion and Analysis of Financial Condition and Results of Operation (Continued)**
Liquidity and Capital Resources

Liquidity

The Company currently has a working capital deficiency, has a limited amount of cash, has incurred recurring losses and has a deficit accumulated during the development stage. We have been involved in several legal proceedings against the State of Florida which has limited our ability to commence development activities on our unproven oil and gas properties or obtain compensation for certain property rights we believe have been taken. The cost of that litigation has been substantial. The Company entered into a settlement agreement with the State of Florida on June 1, 2005 in order to resolve the disputes regarding the Company's Florida leases. In July 2005, the Company received the net proceeds due it under the Agreement. Management believes the proceeds to be sufficient to fund the future operations of the Company.

At June 30, 2005, Coastal Caribbean had no cash available. The Company had a commitment from some of its Officers to loan the Company funds until the settlement proceeds are received from the State, provided that payments to the Company's litigation counsel and to the Company's salaried employee are deferred and provided further that payments to other Company counsel are also deferred. These loans totaled approximately \$138,000 through June 30, 2005.

Certain directors, officers, legal counsel and administrative consultants have agreed to defer the payment of their salaries and fees. At June 30, 2005 the amount of salaries and fees being deferred totaled approximately \$1,706,000. The payment due dates for the Company's annual rental payments on its Florida leases of approximately \$59,000 were extended during the time the State and Coastal have been in discussions and no amounts are due under the settlement. No amounts have been accrued related to these leases in the current year.

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PART I - FINANCIAL INFORMATION

ITEM 2 Management's Discussion and Analysis of Financial Condition and Results of Operation (Continued)
Results of Operations

Three months ended June 30, 2005 vs. June 30, 2004

The Company incurred a loss of \$66,000 for the 2005 quarter, compared to a loss of \$171,000 for the comparable 2004 quarter.

Legal fees and costs decreased 94% to \$5,000 for the 2005 quarter, compared to \$78,000 in the prior period. Legal fees and costs decreased in 2005 compared with 2004 due to reduction in expenditures for legal fees and experts related to Coastal Petroleum Company's lawsuit against the State of Florida seeking compensation for the State's taking of its property rights to explore for oil and gas within its state Lease 224-A.

Administrative expenses decreased 51% during the 2005 period to \$30,000 compared to \$62,000 in the 2004 period. This was primarily related to Directors' and Officers' liability insurance which decreased from \$27,000 in 2004 to \$0- in the 2005 quarter.

Salaries remained flat during the 2005 quarter at \$25,000.

Shareholder communications remained flat during the 2005 quarter at \$6,000.

Six months ended June 30, 2005 vs. June 30, 2004

The Company incurred a loss of \$154,000 for the six months ended June 30, 2005 compared to a loss of \$362,000 for the comparable 2004 period.

Legal fees and costs decreased 91% to \$14,000 for the 2005 period, compared to \$162,000 in the 2004 period. Legal fees and costs decreased in 2005 compared with 2004 due to reduction in expenditures for legal fees and experts related to Coastal Petroleum Company's lawsuit against the State of Florida seeking compensation for the State's taking of its property rights to explore for oil and gas within its state Lease 224-A.

Administrative expenses decreased 43% during the 2005 period to \$78,000 compared to \$138,000 in the 2004 period. This was primarily related to Directors' and Officers' liability insurance which decreased from \$54,000 in the 2004 period to \$0- in the 2005 period.

Salaries remained flat during the 2005 period at \$50,000.

Shareholder communications remained constant at \$12,000 during the 2005 period.

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PART I - FINANCIAL INFORMATION

ITEM 3 Quantitative and Qualitative Disclosure About Market Risk

The Company does not have any significant exposure to market risk as there were no investments in marketable securities at June 30, 2005.

ITEM 4 Controls and Procedures

We, Phillip W. Ware, the principal executive officer and Kenneth M. Cornell, the principal financial officer, have evaluated the Company's disclosure controls and procedures (as defined in Rules 13a-14(c) and 15d-14(c) adopted under the Securities Act of 1934) as of the end of the period covered by this report and have concluded:

1. That the Company's disclosure controls and procedures are effective and adequately designed to ensure that material information relating to the Company, including its consolidated subsidiary, is timely made known to such officers by others within the Company and its subsidiary, particularly during the period in which this quarterly report is being prepared; and
2. That there were no significant changes in the Company's internal controls or in other factors that could materially affect or are reasonably likely to materially affect these controls subsequent to the date of their evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

COASTAL CARIBBEAN OILS & MINERALS, LTD.
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PART II - OTHER INFORMATION

June 30, 2005

ITEM 5 - Other Information

Coastal Caribbean is currently a passive foreign investment company, or PFIC, for United States federal income tax purposes, which could result in negative tax consequences to a shareholder. If, for any taxable year, the Company's passive income or assets that produce passive income exceed levels provided by U.S. law, the Company would be a passive foreign investment company, or PFIC, for U.S. federal income tax purposes. For the years 1987 through 2001, Coastal Caribbean's passive income and assets that produce passive income exceeded those levels and for those years Coastal Caribbean constituted a PFIC. If Coastal Caribbean is a PFIC for any taxable year, then the Company's U.S. shareholders potentially would be subject to adverse U.S. tax consequences of holding and disposing of shares of our common stock for that year and for future tax years. Any gain from the sale of, and certain distributions with respect to, shares of the Company's common stock, would cause a U.S. holder to become liable for U.S. federal income tax under section 1291 of the Internal Revenue Code (the interest charge regime). The tax is computed by allocating the amount of the gain on the sale or the amount of the distribution, as the case may be, to each day in the U.S. shareholder's holding period. To the extent that the amount is allocated to a year, other than the year of the disposition or distribution, in which the corporation was treated as a PFIC with respect to the U.S. holder, the income will be taxed as ordinary income at the highest rate in effect for that year, plus an interest charge.

For further information, refer to the consolidated financial statements and footnotes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2004.

COASTAL CARIBBEAN OILS & MINERALS, LTD.
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PART II - OTHER INFORMATION

June 30, 2005

ITEM 6 - Exhibits

- 10(i) Agreement with Oil For America assigning Oil For America's interest in 25,000 acres of its Slope County North Dakota Assembly acreage to Coastal Petroleum Company
- 10(j) Agreement with Oil For America to provide two Lodgepole Reef drilling locations in Valley County, Montana.
- 31.1 Certification pursuant to Rule 13a-14 by Phillip W. Ware
- 31.2 Certification pursuant to Rule 13a-14 by Kenneth M. Cornell
- 32.1 Certification pursuant to Section 906 by Phillip W. Ware
- 32.2 Certification pursuant to Section 906 by Kenneth M. Cornell

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COASTAL CARIBBEAN OILS & MINERALS, LTD.

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June 30, 2005

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

COASTAL CARIBBEAN OILS & MINERALS, LTD.

Registrant

Date: July 29, 2005

By /s/ Phillip W. Ware

Phillip W. Ware
Chief Executive Officer,
President and Treasurer

By /s/ Kenneth M. Cornell

Kenneth M. Cornell
Chief Financial Officer
and Principal Financial Officer