

COASTAL CARIBBEAN OILS & MINERALS LTD

Form 10-Q

November 18, 2004

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

FORM 10-Q

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

For the quarterly period ended September 30, 2004

[] 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. |X| Yes |_| No

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). |_| Yes |X| No

The number of shares outstanding of the issuer's single class of common stock as of November 5, 2004 was 46,211,604.

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SEPTEMBER 30, 2004

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PART I - FINANCIAL INFORMATION

ITEM 1 - Financial Statements

CONSOLIDATED BALANCE SHEETS
(Expressed in U.S. dollars)

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(A Bermuda Corporation)
A Development Stage Company

Assets
Current assets:
Cash and cash equivalents
Prepaid expenses and other
Total current assets
Contingent litigation claim (Note 4)
Total assets
Liabilities and Shareholders' (Deficit) Equity
Current liabilities:
Accounts payable and accrued liabilities
Amounts due to related parties
Total current liabilities
Minority interests
Shareholders' (deficit) equity Common stock, par value \$.12 per share:
Authorized - 250,000,000 shares
Outstanding - 46,211,604, respectively
Capital in excess of par value
Deficit accumulated during the development stage
Total shareholders' (deficit) equity
Total liabilities and shareholders' (deficit) equity

Note: The balance sheet at December 31, 2003 has been derived from the audited consolidated financial statements at that date.

See accompanying notes.

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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 | | Nine |
|---|--------------------|--------------|--------------|
| | September 30, | | Sep |
| | 2004 | 2003 | 2004 |
| Interest and other income | \$ 1 | \$ 103 | \$ 1 |
| Expenses: | | | |
| Legal fees and costs | 86,888 | 82,383 | 249,167 |
| Administrative expenses | 34,526 | 116,950 | 172,626 |
| Salaries | 24,761 | 17,024 | 74,279 |
| Shareholder communications | 6,000 | 8,996 | 18,565 |
| Write off of unproved properties | - | - | - |
| Exploration costs | - | 39,617 | - |
| Lawsuit judgments | - | - | - |
| Minority interests | - | - | - |
| Other | - | - | - |
| Contractual services | - | - | - |
| | 152,175 | 264,970 | 514,637 |
| Net loss | \$ (152,174) | \$ (264,867) | \$ (514,636) |
| Deficit accumulated during the development stage | | | |
| Weighted Average number of shares outstanding (basic & diluted) | | | |
| | 46,221,604 | 46,221,604 | 46,221,604 |
| Net loss per share (basic & diluted) | \$ (.01) | \$ (.01) | \$ (.01) |

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See accompanying notes.

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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)

| | Nine months ended September 30, | |
|--|------------------------------------|----------|
| | 2004 | ----- |
| Operating activities: | | |
| Net loss | \$ (514,636) | \$ ----- |
| Adjustments to reconcile net loss to net cash used in operating activities: | | |
| Minority interest | - | ----- |
| Write off of unproved properties | - | ----- |
| Common stock issued for services | - | ----- |
| Compensation recognized for stock option grant | - | ----- |
| Recoveries from previously written off properties | - | ----- |
| Net change in: | | |
| Prepaid expenses and other | 71,625 | ----- |
| Accounts payable and accrued liabilities | 376,525 | ----- |
| Net cash used in operating activities | (66,486) | ----- |
| Investing activities: | | |
| Additions to oil, gas, and mineral properties net of assets acquired for common stock and reimbursements | - | ----- |
| Proceeds from relinquishment of surface rights | - | ----- |
| Purchase of fixed assets | - | ----- |
| Net cash used in investing activities | - | ----- |
| Financing activities: | | |
| Loans from officers | 63,851 | ----- |
| Sale of common stock net of expenses | - | ----- |
| Shares issued upon exercise of options | - | ----- |

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| | | |
|--|---------|-------|
| Sale of shares by subsidiary | - | |
| Sale of subsidiary shares | - | |
| | ----- | ----- |
| Net cash provided by financing activities | 63,851 | |
| | ----- | ----- |
| Net (decrease) increase in cash and cash equivalents | (2,635) | |
| Cash and cash equivalents at beginning of period | 2,875 | |
| | ----- | ----- |
| Cash and cash equivalents at end of period | \$ 240 | \$ |
| | ===== | ===== |

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 the Company's 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 nine month periods ended September 30, 2004 are not necessarily indicative of the results that may be expected for the year ending December 31, 2004. 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, 2003.

Note 2. Going Concern

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 and continue to be 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, which requires the Company to continually obtain additional capital.

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The Company has received a commitment from some of its Officers to loan the Company funds during 2004 which management believes should be sufficient to fund the Company's operations through December 2004, 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 \$67,000 through November 10, 2004. There can be no assurances that management will continue to make loans to the Company or that these loans will allow the Company to continue operations for any significant length of time. The Company may have to suspend or cease operations and may have to wind up the Company or be forced into insolvent liquidation under the laws of Bermuda unless and until the Company can secure additional financing.

These situations raise substantial doubt about the Company's ability to continue as a going concern. The consolidated financial statements do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or amounts and classification of liabilities, which may result from the outcome of this uncertainty.

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Note 3. Litigation

Florida Litigation

Coastal Petroleum has been involved in various lawsuits for many years. Coastal Petroleum's current litigation now involves one basic claim: whether the State's offshore drilling policy and its denial of a permit constitute a taking of Coastal Petroleum's property. In addition, Coastal Caribbean is a party to another action in which Coastal Caribbean claims that certain of its royalty interests have been confiscated by the State.

Lease Taking Case (Lease 224-A)

There has been no material change in these proceedings during this quarter.

Royalty Taking Case

There has been no material change in these proceedings during this quarter.

Lease Taking Case (Lease 224-B)

Defendants filed a Motion for Summary Judgment in this proceeding and argument on that motion was heard on November 10, 2004, in the Circuit Court, Second Judicial Circuit, in and for Leon County. There was no decision announced as the Judge has taken the matter under advisement.

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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. Stock Options

The Company has elected to follow Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" (APB No. 25) and related interpretations in accounting for its stock options because the alternative fair value accounting provided under FASB Statement No. 123, "Accounting for Stock Based Compensation," requires use of option valuation models that were not developed for use in valuing stock options. Under APB No. 25, because the exercise price of the Company's stock options equals the market price of the underlying stock on the date of grant, no compensation expense is recognized.

Pro forma information regarding net income and earnings per share is required by Statement 123, and has been determined as if the Company had accounted for its stock options under the fair value method of that Statement. The fair value for these options was estimated at the date of grant using a Black-Scholes option pricing model.

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ITEM 1 Financial Statements

Summary of Options Outstanding at September 30, 2004

| Granted ----- | Expiration ----- | Total ----- | Vested ----- | Exercise Prices (\$) ----- |
|---|---------------------|----------------|-----------------|-------------------------------|
| 2000 | March 22, 2010 | 700,000 | 700,000 | .91 |
| | | 700,000 | 700,000 | .91 |
| | | ===== | ===== | |
| Options reserved for ----- future grants ----- | | | | (Weighted Average) |
| | | 75,000 | | |

The assumptions used in the 2000 valuation model were: risk free interest rate - 6.66%, expected life - 10 years, expected volatility - .741, and expected dividend - 0. Because the Company's stock options have characteristics

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significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion, the existing models do not necessarily provide a reliable single measure of the fair value of its stock options.

Had the Company determined stock-based compensation based on the fair value of the options granted at the grant date, consistent with the method prescribed under SFAS No. 123, there would have been no change to the Company's net loss for the nine months ended September 30, 2004 and 2003.

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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 loans from management or others; the uncertainty of securing additional financing through the sale of shares of Coastal Petroleum and/or Coastal Caribbean; the uncertainty of any decision favorable to Coastal Petroleum in its litigation against the State of Florida; and the substantial cost of continuing the litigation.

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.

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PART I - FINANCIAL INFORMATION

ITEM 2 Management's Discussion and Analysis of Financial Condition and

Results of Operation (Cont'd)

Liquidity and Capital Resources

Liquidity

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 and continue to be 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, which requires the Company to continually obtain additional capital.

At September 30, 2004, Coastal Caribbean had approximately \$240 of cash and cash equivalents available. In addition, the Company has received a commitment from some of its Officers to loan the Company funds during 2004 which management believes should be sufficient to fund the Company's operations through December 2004, 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 \$67,000 through November 10, 2004. There can be no assurances that management will continue to make loans to the Company or that these loans will allow the Company to continue operations for any significant length of time.

Certain directors, officers, legal counsel and administrative consultants have agreed to defer the payment of their salaries and fees. At September 30, 2004, the amount of salaries and fees being deferred totaled approximately \$1,471,619. The Company's annual rental payments on its Florida leases of approximately \$59,000 are not due until November 30, 2004. No amounts have been accrued related to these leases in the current year. The Company may have to suspend or cease operations and may have to wind up the company or be forced into insolvent liquidation under the laws of Bermuda unless and until the Company can secure additional funds for operations.

Coastal Caribbean and Coastal Petroleum have attempted to raise funds from the other shareholders of Coastal Petroleum and from others. Since March 2003, Management has been unsuccessful at raising additional funds.

These situations raise substantial doubt about the Company's ability to continue as a going concern. The consolidated financial statements do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or amounts and classification of liabilities, which may result from the outcome of this uncertainty.

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PART I - FINANCIAL INFORMATION

ITEM 2 Management's Discussion and Analysis of Financial Condition and

Results of Operation (Cont'd)

Results of Operations

Three months ended September 30, 2004 vs. September 30, 2003

The Company incurred a loss of \$152,000 for the 2004 quarter, compared to a loss of \$265,000 for the comparable 2003 quarter.

Interest income and other income decreased 100% from \$103 in the 2003 quarter to \$1 in the 2004 quarter because of the decrease in the amount of funds available to invest.

Legal fees and costs increased 5% to \$87,000 for the 2004 quarter, compared to \$82,000 in the prior period. Legal fees and costs increased in 2004 compared with 2003 due to the hiring of a special consultant to help advise the Company related to its 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 70% during the 2004 period to \$35,000 compared to \$117,000 in the 2003 period. Accounting and administrative expenses decreased from \$16,000 in the 2003 period to \$8,000 in the 2004 period. In addition, Directors' and Officers' liability insurance decreased from \$28,000 in 2003 to \$8,000 in the 2004 quarter.

Salaries increased 45% in the 2004 quarter to \$25,000 compared to \$17,000 in the 2003.

Shareholder communications decreased 33% to \$6,000 during the 2004 period compared to \$9,000 in the 2003 period.

Exploration costs decreased 100% to \$-0- during the 2004 period compared to \$40,000 in the 2003 period as the Company has not made any lease payments in the current year and these lease payments are not due until November 30, 2004.

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Nine months ended September 30, 2004 vs. September 30, 2003

The Company incurred a loss of \$515,000 for the nine months ended September 30, 2004, compared to a loss of \$811,000 for the comparable 2003 period.

Interest income and other income decreased 100% from \$640 in the 2003 period to \$1 in the 2004 period because of the decrease in the amount of funds available to invest.

Legal fees and costs decreased 5% to \$249,000 for the 2004 period, compared to \$263,000 in the 2003 period. Legal fees and costs decreased in 2004 compared with 2003 due to the minimal activity during the first and third quarters of 2004 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. This was partially offset by an increase in activity during the second quarter of 2004 related to the filing of Petition for Writ of Certiorari with the United States Supreme Court for this case.

Administrative expenses decreased 58% during the 2004 period to \$173,000 compared to \$408,000 in the 2003 period. Accounting and administrative expenses decreased from \$53,000 in the 2003 period to \$26,000 in the 2004 period. In addition, Directors' and Officers' liability insurance decreased from \$80,500 in 2003 to \$62,000 in the 2004 period.

Salaries decreased 6% in the 2004 period to \$74,000 compared to \$79,000 in the 2003 period.

Shareholder communications decreased 13% to \$19,000 during the 2004 period compared to \$21,000 in the 2003 period.

Exploration costs decreased 100% to \$-0- during the 2004 period compared to \$40,000 in the 2003 period as the Company has not made any lease payments in the current year and these lease payments are not due until November 30, 2004.

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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 September 30, 2004.

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) within the ninety (90) day period prior to the date of this report and have concluded:

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1. That the Company's disclosure controls and procedures are 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.

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PART II - OTHER INFORMATION

September 30, 2004

ITEM 5- Other Information

On April 7, 2004, Coastal filed a Petition for Writ of Certiorari with the United States Supreme Court asking the Court to accept jurisdiction to consider the final judgment of the trial court as affirmed by the appellate court, finding no taking of Coastal's property. On June 15, 2004, Coastal issued a press release announcing the United States Supreme Court denied the Company's Petition for Writ of Certiorari. The Company continues to evaluate its options.

Director Graham B. Collis and Director John D. Monroe resigned effective July 28, 2004. Neither director resigned because of a disagreement with the Company on any matter relating to the Company's operations, policies or practices. Former Director Graham B. Collis has agreed to serve as the resident representative of the Company in Bermuda in order to meet the requirements of registration under Bermuda law.

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

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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, 2003.

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PART II - OTHER INFORMATION

September 30, 2004

ITEM 6 - Exhibits and Reports on Form 8-K

(a) Exhibits

- 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

(b) Reports on Form 8-K

None

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September 30, 2004

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: November 17, 2004

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