ST MARY LAND & EXPLORATION CO
Form 8-K
October 05, 2007

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

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Date of Report (Date of earliest event reported)
October 4, 2007 (October 4, 2007)

St. Mary Land & Exploration Company
(Exact name of registrant as specified in its charter)

Delaware	001-31539	41-0518430
(State or other jurisdiction of incorporation)	(Commission File Number)	(I.R.S. Employer Identification No.)

1776 Lincoln Street, Suite 700, Denver, Colorado 80203
(Address of principal executive offices) (Zip Code)

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

Not applicable
(Former name or former address, if changed since last report.)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (see General Instruction A.2.):

[_] Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

[_] Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

[_] Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

[_] Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Item 2.03 Creation of a Direct Financial Obligation or an Obligation under an Off-Balance Sheet Arrangement of a Registrant.

In conjunction with closing the South Texas acquisition reported under Item 8.01 below, St. Mary Land & Exploration Company ("the Company" or "St. Mary") increased the Company's aggregate borrowing base under its existing bank credit facility from $1.10 billion to $1.25 billion. The Company borrowed $135 million against its existing bank credit facility to fund the acquisition. The terms of the facility are discussed in the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2007.

Item 8.01 Other Events.

On October 4, 2007, St. Mary announced that it completed the previously announced $153 million acquisition of certain oil and gas properties located in South Texas from Rockford Energy Partners II, LLC. The acquired properties target natural gas in the Olmos formation. The net cash paid at closing was $151 million as a result of customary closing adjustments to account for activity between the effective date and the closing date. The acquisition was funded with cash on hand and borrowings under the Company's existing credit facility. A copy of the press release announcing the completion of the acquisition is filed as Exhibit 99.1 to this report. The acquisition was consummated pursuant to a Purchase and Sale Agreement dated August 2, 2007, which was previously reported in a Current Report on Form 8-K filed by the Company on August 8, 2007, and is filed as Exhibit 2.1 to this report.

Item 9.01 Financial Statements and Exhibits.

(d) Exhibits. The following exhibits are filed as part of this report:

Exhibit 2.1	Purchase and Sale Agreement dated August 2, 2007, among Rockford Energy Partners II, LLC and St. Mary Land & Exploration Company.
Exhibit 99.1	Press release of St. Mary Land & Exploration Company dated October 4, 2007.

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 hereunto duly authorized.

ST. MARY LAND & EXPLORATION COMPANY

Date: October 4, 2007 By: /s/ MARK T. SOLOMON
Mark T. Solomon
Controller

March 31, 2005 and December 31, 2004, Crown had no outstanding shares of preferred stock. 6. Contingencies The company has certain contingent liabilities resulting from contractual requirements in the United Kingdom in regards to employment contracts acquired in the merger with Royal. Upon termination (but only in the event of redundancy, as defined under the employment laws of the United Kingdom), 11 employees may be entitled to receive severances based upon a formula taking into account years and weekly pay. The company has certain other contingent liabilities resulting from claims incident to the ordinary course of business. Management believes that the probable resolution of such contingencies will not materially affect the consolidated financial statements of the company. 7. Statements of Financial Accounting Standards SFAS No. 141 "Business Combinations" and SFAS No. 142 "Goodwill and Other Intangible Assets" were issued by the Financial Accounting Standards Board in July 2001. SFAS No. 141 requires that purchase method of accounting be used for all business combinations entered into after June 30, 2001. SFAS No. 142 changes the accounting for goodwill from an amortization method to an impairment only approach. Thus, amortization of goodwill, including goodwill recorded in past business combinations ceased upon SFAS No. 142, which for Company was January 1, 2002. The adoption of this standard did not materially impact the Company's financial position, results of operations or cash flows. SFAS No. 123 (revised 2004) "Share-Based Payment" (SFAS No 123R), was issued December 2004, amends SFAS No. 123 and supersedes Accounting Principles Board Opinion No. 23, "Accounting for Stock Issued to Employees," and its related implementation guidance. SFAS No. 123R establishes standards for the accounting for transactions in which an entity exchanges its equity instruments for goods or services. It also addresses transactions in which an entity incurs liabilities in exchange for goods or services that are based on the fair value of the entity's equity instruments or that may be settled by the issuance of such equity instruments. SFAS No. 123R requires a public entity to measure the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award. That costs is to be recognized over the period during which an employee is required to provide services in exchange for the award. SFAS No. 123R is 6 effective as of the beginning of the first interim or annual reporting period that begins after December 15, 2005. The Company does not anticipate that the adoption of this statement will have a material effect on the financial position or results of operations. SFAS No. 153 "Exchanges of Nonmonetary Assets, an amendment of Accounting Principles Board Opinion No. 29" eliminates the exception for nonmonetary exchanges of similar productive assets and replaces it with a general exception of exchanges of nonmonetary assets that do not have commercial substance. A nonmonetary exchange has commercial substance if the future cash flows of the entity are expected to change significantly as a result of the exchange. SFAS No. 153 is effective for nonmonetary asset exchanges occurring in the fiscal period beginning after June 15, 2005. The Company does not anticipate that the adoption of this statement will have a material effect on the financial position or results of operations. In December 2003, the FASB issued a revision to Interpretation No. 46, "Consolidation of Variable Interest Entities, an Interpretation of ARB No. 51" ("FIN 46R") issued in January 2003. FIN 46R clarifies the application of ARB No. 51, "Consolidated Financial Statements," with respect to certain entities in which equity investors do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support. FIN 46R requires the consolidation of these entities, known as variable interest entities ("VIEs"), by the primary beneficiary of the entity. The primary beneficiary is the entity, if any, that will absorb a majority of the entity's expected losses, receive a majority of the entity's expected residual returns, or both. Among other changes, the revisions of FIN 46R clarified some requirements of the original FIN 46 issued in January 2003, eased some implementation problems and added new scope exceptions. FIN 46R deferred the effective date of the interpretation for public companies to the end of the first reporting period after March 15, 2004, except that all public companies must at minimum apply the provisions of the interpretation to entities that were previously considered "special-purpose entities" under the FASB literature prior to the issuance of FIN 46R by the end of the first reporting period ending after December 15, 2003. During the year ended December 31, 2003, adoption of FIN 46R did not have a material impact on the Company's financial statements. 7 Item 2. - Management's Discussion and Analysis THE COMPANY'S BUSINESSES Crown provides comprehensive financial services to the holders of real estate interests in Europe and the United States. Principal business activities include third-party asset management and loan servicing. The company's other businesses include an interest in a company that originates sub-prime residential real estate loans in the United Kingdom. Crown's business lines in Europe and the United States generate revenues in several ways:

agreements to manage commercial, multifamily and residential real estate and loan assets for the account of others; loan servicing and mortgage management on an active or standby basis of individual loans, loan portfolios and assets in securitized transactions; fees and other income associated with loan origination and the securitization of those loans; risk management, fund management, financial advisory and due diligence services; and administration of the interests of various corporations, partnerships, investments consortiums and special-purpose entities. Crown generated net income in 2004 primarily from asset sales that resulted in very significant returns from the residual interest the company held in a securitization of tax-exempt bonds. A substantial portion of the loss being reported in the first quarter of 2005 is attributable to a charge to earnings to adjust downward the value of the company's servicing rights as a result of a contract termination. Additionally, the company projects that, in the second quarter of 2005, it may achieve very significant financial benefits from the disposition of certain assets managed under contract. Separate and apart from these events, the company continues to sustain losses from operations. Crown is actively deploying its resources, primarily in Europe, to replace expiring or terminating contracts, pursue opportunities in the banking sector and otherwise seek to expand its businesses and attempt to return to operating profitability. These efforts may include the formation of partnerships, business combinations or other arrangements or transactions to leverage the company's liquidity and capital resources, maximize the value of its core businesses, provide opportunities for recurring revenue and improve operating results. FORWARD LOOKING STATEMENTS The statements contained in this report that are not purely historical are forward-looking statements within the meaning of Section 21E of the Exchange Act, including statements regarding the company's expectations, hopes, intentions or strategies regarding the future. Forward-looking statements include terminology such as "anticipate," "believe," "has the opportunity," "seeking to," "attempting," "appear," "would," "contemplated," "believes," "in the future" or comparable language. All forward-looking statements included in this document are based on information available to the company on the date hereof, and the company assumes no obligation to update any such forward-looking statements. It is important to note that the company's actual results could differ materially from those in such forward-looking statements. The factors listed below are among those that could cause actual result to differ materially from those in forward-looking statements. Additional risk 8 factors are listed from time to time in the company's reports on Forms 10-QSB, 8-K and 10-KSB. Among the risk factors that could materially and adversely affect the future operating results of the company are: - Crown continues to sustain losses from operations. Management believes that its core asset management and servicing businesses in Europe will provide significant financial returns that will lead to business growth and operating profitability, but there can be no assurance of these results. - Crown has and will continue to attempt to utilize proceeds from the disposition of assets under management to maintain and expand business volumes, primarily in Europe. There can be no assurance that the company will be able to successfully redeploy these proceeds to generate new business that results in operating profitability. - Crown's capital resources remain limited when compared to virtually all of its competitors. To successfully compete for many business opportunities, the company will need to form partnerships, alliances or other combinations if it cannot increase its capital through profitable operations or other means. - Crown and certain of its subsidiaries operate as rated servicers. If these entities were to no longer be rated, or if those ratings were lowered, there would be an adverse effect on the company's operations. Crown's business volumes may affect its servicer ratings. OUTLOOK The company seeks to realize value from European operations and then to build upon and expand those operations. Most notably, the company anticipates in the near future entering into agreements that could yield very substantial cash returns to Crown in the second quarter of 2005 arising from the disposition of a managed portfolio. The transaction would also provide a platform to possibly expand asset management and servicing opportunities in Europe. The pending transaction involving a managed portfolio is an example of how, in recent years, holders of real estate interests in Europe have increasingly utilized asset securitizations and other complex capital markets transactions to realize value from their investments. Management believes this trend will continue and that Crown is well positioned to benefit from it. The company provides comprehensive, integrated services addressing all phases of the life cycle of an asset from acquisition to disposition. The structuring of these transactions typically requires the involvement of a rated servicer; Crown is the first service in Europe to receive multiple ratings for both commercial and residential servicing from three rating agencies. Additionally, the market knowledge Crown 9 has obtained from operations in several countries is an aid in identifying and pursuing emerging opportunities. The company's loan servicing and mortgage management business in Europe includes a wide range of commercial, multifamily and residential loans. Crown provides servicing on both an active and standby basis. Commercial loan servicing volumes have been affected by the termination of a servicing contract between one of Crown's European subsidiaries and Morgan Stanley Mortgage Servicing ("MSMS"). The company continues to obtain additional commercial servicing business. The residential servicing portfolio continues to grow as a result of loan origination activity. The company, in conjunction with it joint venture partner, is also implementing plans to expand its master servicing business. Crown holds a minority interest in Rooftop Mortgages Limited, which is originating a steadily increasing volume of sub-prime residential loans in the United Kingdom. The company anticipates a continued strong volume of residential originations, although growth may be tempered by a moderation in the increase in housing prices in the United Kingdom. Crown continues to develop the capability to begin originating commercial mortgage loans in the U.K. later this year. Similar to the residential activity, these commercial originations should also increase loan servicing and mortgage management portfolios. The company is also exploring opportunities in the banking sector to further expand lending and servicing opportunities in Europe. The company continues to have discussions with possible strategic partners regarding ongoing operations in the United States. Opportunities under consideration may possibly increase the servicing portfolio in the U.S. through participation in loan origination programs or other means. Presently, operations in the U.S. continue in transition following the disposition in 2004 of a substantial portion of assets under management in the U.S. A small number of assets remain under management in the United States and efforts are under way to resolve these. Crown continues to primarily focus on realizing value from its existing business activities in Europe and then translating that value into expanded operations in Germany, Scandinavia, the United Kingdom and other European markets as well as the United States. As it has done in the past, Crown will continue to explore partnerships and other business structures with existing or new clients that facilitate the development of business both in Europe and the United States. The company is prepared to provide investment capital to such entities to advance growth opportunities that maximize the value of Crown's comprehensive financial services and provide recurring revenue to its business lines. Crown believes that proceeding in this manner is the most effective way of expanding the company's revenues and returning it to operating profitability. RESULTS OF OPERATIONS FOR THE FIRST QUARTER ENDED MARCH 31, 2005 COMPARED TO THE FIRST QUARTER ENDED MARCH 31, 2004 Total revenues increased $588,997 to $1,685,600 for the first three months of 2005 from 10 $1,096,603 during the same period in 2004. The majority of the increase is attributable to servicing fees and management fees generated in Europe as well as partnership income generated from the company's European operations. Management fees increased $133,124 to $260,349 for the three months ended March 31, 2005 from $127,225 for the corresponding period in 2004. This increase can be attributed in large measure to the receipt of approximately $190,000 as part of a final settlement of an early termination of a servicing contract between one of the company's European subsidiaries and MSMS. This increase was offset by a decrease in fees earned in the U.S. of some $76,000 due to a reduction in assets managed. Servicing fees increased to $1,044,852 for the quarter ending March 31, 2005 from $646,189 for the quarter ending March 31, 2004. This $398,663 increase is the result of additional service fees earned from European operations of approximately $374,000 and a one-time prepayment fee collected in the U.S. of some $25,000. The increase in the service fees from European operations is due to a significant increases in the portfolio of serviced loans. Interest income declined to $20,685 for the quarter ended March 31, 2005 from $121,630 for the corresponding period in 2004. This decrease is due almost entirely to the resolution of a substantial portion of a portfolio of interest-bearing notes owned by one of the company's European subsidiaries. Income from partnerships and joint ventures was $188,875 for the three months ended March 31, 2005 as compared to $0 for the corresponding period in 2004. The increase is the result of the company's minority investment in Rooftop Mortgages. Other income declined $30,721 to $170,838 for the quarter ending March 31, 2005 from $210,559 for the quarter ending March 31, 2004. The decline is due primarily to the reduction in income tax refunds to certain of the company's European subsidiaries. Personnel expenses include salaries, related payroll taxes and benefits, travel and living expenses and professional development expenses. Personnel expenses increased $233,068 to $1,253,320 for the first three months of 2005 from $1,020,252 for the same period in 2004. The majority of the increase was due to an increase in payroll and contract labor costs in Europe of approximately $270,000 arising from addition personnel in the company's information technology, compliance and loan servicing areas as well as start up cost incurred for the new office located in Germany. Offsetting this increase were reductions in U.S. payroll and travel of some $35,000. This decrease was brought about by a decrease in staff and contract labor. Occupancy, insurance and other operating expenses increased to $655,517 for the first three months of 2005 from $634,691 for the first three months of 2004. This $20,826 increase in these expenses was attributable to additional rating agency expenses in Europe and increases in consultancy costs for Scandinavian operations totaling approximately $81,000. Other increases of approximately $42,000 relate to activities in the company's new office in Germany. In the United States, the company incurred an increase in legal expense of approximately $30,000. Offsetting these increases was a decrease of approximately $110,000 in Europe on information technology infrastructure upgrades and related expenses and a reduction in bad debt expense of approximately $23,000. The write down of capitalized mortgage servicing rights increased by approximately $1,069,000. This write down was necessitated by the termination of a sub-servicing agreement between one of the company's European subsidiaries and MSMS, which termination MSMS advised was not for cause but rather the result of a business decision to perform the servicing itself.. The termination was effective as of March 31, 2005. In accordance with SFAS No. 5 "Accounting for Contingencies," the company provided for the reduction in the value of its servicing portfolio by making the $1,069,000 charge to current earnings at March 31. 11 Depreciation and amortization increased to $171,703 for the first three months of 2005 from $147,221 for the corresponding period in 2004. The majority of the $24,482 increase is the result of increases in computer equipment and software. LIQUIDITY AND CAPITAL RESOURCES GENERAL Cash and cash equivalents decreased by $1,309,151 to $1,859,424 at March 31, 2005 from $3,287,104 at December 31, 2004. The decrease was due primarily to the funding of ongoing operations. The company's domestic and European operations presently have no bank credit facilities. Crown anticipates significant improvements in liquidity through the disposition of assets under management. The company is also seeking to improve its cash resources by generating new business revenues, raising additional capital and, in selected instances, entering into strategic alliances. Management anticipates that the results of operations for the coming year, including the disposition of certain assets under management, will be sufficient to fund its cash operating obligations. However, the company will continue to seek to expand revenues from its existing client base while endeavoring to develop new sources of revenue and capital. HISTORICAL CASH FLOWS Cash flows from operating activities required the use of $1,010,868 during the first three months of 2005. Operating activities used $546,099 in the corresponding period of 2004. Investing activities used funds of $298,283 during the first three months of 2005. Similar activities used funds of $184,540 in 2004. The funds used in 2005 were a combination of funds used for investments of approximately $20,575 and funds used for the purchase of equipment of approximately $248,000. The use of funds in 2004 was a combination of funds used for the purchase of equipment and an increase in restricted cash. 12 Financing activities provided cash flows of $154,138 during the first three months of 2004. There were no comparable financing activities in 2005. The funds provided in 2004 were the result of an increase in borrowings. Item 3. - Controls and Procedures Crown's principal executive and financial officers have evaluated the company's disclosure controls and procedures in place on March 31, 2005 and have concluded that they are effective. There have been no significant changes in Crown's internal controls or in other factors since that date that could significantly affect these controls. PART II - OTHER INFORMATION Item 1. - Legal Proceedings None Item 2. - Changes in Securities None Item 3. - Defaults Upon Senior Securities None Item 4. - Submission of Matters to a Vote of Security Holders None Item 5. - Other Information None Item 6. - Exhibits and Reports on Form 8-K (a) Exhibits 31.8 Certification of officers of Crown Filed herewith. 32.7 Certification of officers of Crown Filed herewith. (b) Reports on Form 8-K None 13 SIGNATURES In accordance with the requirements of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized. CROWN NORTHCORP, INC. Dated: May 13, 2005 By: /s/ Rick Lewis ---------------------------- Rick Lewis, Vice President, Treasurer and Chief Financial Officer By: /s/ Stephen W. Brown ------------------------ Stephen W. Brown, Secretary 14 INDEX TO EXHIBITS 31.8 Certification of officers of Crown (1) 32.7 Certification of officers of Crown (1) ------------- (1) Filed herewith. 15