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COASTAL CARIBBEAN OILS & MINERALS LTD

Form 10-Q

August 13, 2002

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 June 30, 2002

[] 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)

441-295-1422

(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

The number of shares outstanding of the issuer's single class of common
stock as of August 12, 2002 was 46,211,604.

COASTAL CARIBBEAN OILS & MINERALS, LTD.

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JUNE 30, 2002

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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

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	June 30, ----- 2002 ----- (unaudited)	Dec -----
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 99,282	\$
Interest and accounts receivable	1,373	
Notes receivable	15,000	
Prepaid expenses	229,695	

Total current assets	345,350	

Contingent litigation claim (Note 4)	-	
Deferred financing costs	370,610	

Total assets	\$ 715,960	
	=====	
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 1,157,630	

Minority interests	-	
Shareholders' equity:		
Common stock, par value \$.12 per share:		
Authorized - 250,000,000 shares		
Outstanding - 43,468,329 shares	5,216,199	
Capital in excess of par value	31,497,362	

	36,713,561	
Deficit accumulated during the development stage	(37,155,231)	

Total shareholders' equity	(441,670)	

Total liabilities and shareholders' equity	\$ 715,960	
	=====	

Note: The balance sheet at December 31, 2001 has been derived from the audited consolidated financial statements at that date.

See accompanying notes.

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PART I - FINANCIAL INFORMATION

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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 Jun
	2002	2001	2002
	-----	-----	-----
Interest and other income	\$ 477	\$ 23,466	\$ 4,139
	-----	-----	-----
Expenses:			
Legal fees and costs	363,324	384,262	679,756
Administrative expenses	138,704	130,872	332,459
Salaries	37,950	37,950	75,900
Shareholder communications	7,413	70,582	16,441
Write off of unproved properties	-	-	-
Exploration costs	59,247	-	59,247
Lawsuit judgments	-	-	-
Minority interests	-	-	-
Other	-	-	-
Contractual services	-	-	-
	-----	-----	-----
	606,638	623,666	1,163,803
	-----	-----	-----
Net loss	\$ (606,161)	\$ (600,200)	\$ (1,159,664)
	=====	=====	=====
Deficit accumulated during the development stage			
Average number of shares outstanding (basic & diluted)	43,468,329	43,468,329	43,468,329
	=====	=====	=====
Net loss per share (basic & diluted)	\$ (.01)	\$ (.01)	\$ (.03)
	=====	=====	=====

See accompanying notes.

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COASTAL CARIBBEAN OILS & MINERALS, LTD.
FORM 10-Q
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, -----	
	2002	2001
	-----	-----
Operating activities:		
Net loss	\$(1,159,664)	\$(1,291,7
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:		
Interest and accounts receivable	7,231	22,4
Prepaid expenses	123,901	87,3
Accounts payable and accrued liabilities	799,009	(15,1
Deferred financing costs	(280,219)	27,8
Net cash used in operating activities	(509,742)	(1,169,1
	-----	-----
Investing activities:		
Additions to oil, gas, and mineral properties net of assets acquired for common stock and reimbursements	-	2,1
Proceeds from relinquishment of surface rights	-	
Notes receivable	-	
Purchase of fixed assets	-	
Net cash provided by (used in) investing activities	-	2,1
	-----	-----
Financing activities:		
Sale of common stock net of expenses	-	

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Shares issued upon exercise of options	-	
Sale of shares by subsidiary	-	
Sale of subsidiary shares	-	
	-----	-----
Net cash provided by financing activities	-	
	-----	-----
Net increase (decrease) in cash and cash equivalents	(509,742)	(1,166,9
Cash and cash equivalents at beginning of period	609,024	2,958,6
	-----	-----
Cash and cash equivalents at end of period	\$ 99,282	\$ 1,791,7
	=====	=====

See accompanying notes.

COASTAL CARIBBEAN OILS & MINERALS, LTD.
FORM 10-Q
PART I - FINANCIAL INFORMATION

June 30, 2002

ITEM 1 Financial Statements

Note 1. Basis of Presentation

The accompanying unaudited consolidated financial statements include the Company's 59.25% 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, 2002 are not necessarily indicative of the results that may be expected for the year ending December 31, 2002. For further information, refer to the consolidated financial statements and footnotes thereto included in the Company's Annual Report on Form 10-K/A for the year ended December 31, 2001.

Note 2. Litigation

Florida Litigation

Coastal Petroleum has been involved in various lawsuits for many years. Coastal Petroleum's current litigation (Florida Litigation) now involves one basic claim: whether the State's denial of a permit constitutes 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.

In 1990, the State of Florida enacted legislation that prohibits drilling or exploration for oil or gas on Florida's offshore acreage. Although the law does not apply to areas where Coastal Petroleum is entitled to conduct exploration, the State of Florida has effectively prevented any exploratory drilling by denying the Company's application for drilling permits. In addition, in those areas where Coastal Petroleum has only a royalty interest, the law also

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effectively prohibits production of oil and gas, rendering it impossible for Coastal Petroleum to collect royalties from those areas. During 1998, Coastal Petroleum exhausted its legal remedies in its efforts to obtain compensation for the drilling prohibition on its royalty interest acreage.

Lease Taking Case (Lease 224-A)

On June 26, 2000, the First District Court of Appeal affirmed an earlier ruling that the Florida Department of Environmental Protection (DEP) could deny Coastal Petroleum a permit to drill an exploratory well about nine miles south of St. George Island in the Florida Panhandle. While the appeals court held that the DEP could take such action on the basis of a compelling public purpose in not allowing offshore oil and gas drilling in Florida, the court also found that the DEP's action would be unconstitutional "if just compensation is not paid for what is taken." The appeals court stated that whether the denial of the permit constituted a taking of Coastal Petroleum's property should be determined by the Circuit Court.

On January 16, 2001, Coastal Petroleum Company filed a complaint in the Leon County Circuit Court in Florida against the State of Florida seeking compensation for the State's taking of its property rights to explore for oil and gas within its Lease 224-A.

On February 13, 2001, certain holders of royalties pertaining to Lease 224-A filed a Motion to Intervene as Additional Plaintiffs. On April 24, 2001, the Leon County Circuit trial judge granted certain royalty holders with overriding royalties, which aggregate approximately 4% on State Lease 224-A, the right to intervene on a limited basis in the takings lawsuit. On May 22, 2001, the royalty holders appealed the Circuit Court's order granting them limited intervention to the First District Court of Appeal, claiming the order denied them the right to fully participate in the case until after final judgment and that the court erroneously found that the royalty holders lack an ownership interest in Coastal Petroleum's lease. On June 12, 2001, the Court of Appeal ordered the royalty holders to show cause why the appeal should not be dismissed for lack of jurisdiction. The royalty holders filed a response to the Court of Appeal on June 21, 2001, Coastal Petroleum filed its reply on July 2, 2001 and the State of Florida filed its reply on July 5, 2001. The Court of Appeal is currently considering the matter.

Counsel for the appealing royalty holders has advised Coastal Petroleum that the royalty holders' position is that their interest is worth substantially more than 4% of whatever judgment may be awarded to Coastal Petroleum in the litigation and that they intend to make a claim against any recovery Coastal Petroleum may obtain in the litigation. Coastal Petroleum has informed the Circuit Court and counsel for the royalty holders that Coastal Petroleum is not making any claim in the litigation on behalf of any interest the royalty holders may have.

On March 5, 2001, the State filed a Motion to Dismiss Coastal Petroleum's complaint. After the Motion was denied, discovery, which had been suspended pending the outcome of the Motion to Dismiss, resumed. Some depositions have now been taken, documents have been exchanged and discovery is expected to continue until the court ordered cutoff date of August 25, 2002.

On November 27, 2001, the Leon County Circuit Court set a trial date of September 30, 2002. The Court has set aside two weeks for the trial on the issue of whether the State has taken Coastal Petroleum's lease. If the Court rules in Coastal Petroleum's favor, there will then be a second trial before a jury to determine the amount of compensation to be awarded. Both the decision of the Court and any decision of a jury are subject to appeals by any of the parties to the litigation.

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A motion for summary judgment by the State of Florida in the taking lawsuit (State Lease 224-A) was denied by the Leon County Circuit trial judge on June 13, 2002.

Royalty Taking Case

The offshore areas covered by Coastal Petroleum's original leases (prior to the 1976 Settlement Agreement) are subject to certain other royalty interests held by third parties, including Coastal Caribbean. In 1994, several of those third parties, including Coastal Caribbean which has approximately a 12% interest in any recovery, have instituted a separate lawsuit against the State. That lawsuit claims that the royalty holders' interests have been confiscated as a result of the State's actions discussed above and that they are entitled to compensation for that taking.

The royalty holders were not parties to the 1976 Settlement Agreement, and the royalty holders contend that the terms of the Settlement Agreement do not protect the State from taking claims by those royalty holders. The case is currently pending before the Circuit Court in Tallahassee. On December 2, 1999, the Circuit Court denied the State's motion to dismiss the plaintiffs' claim of inverse condemnation but dismissed several other claims.

On May 10, 2000, the State filed a motion for summary judgment but no hearing date has been set for the motion. Discovery is proceeding.

Any recovery made in the royalty holders' lawsuit would be shared among the various plaintiffs in that lawsuit, including Coastal Caribbean, but not Coastal Petroleum.

Lease Taking Case (Lease 224-B)

On May 21, 2002, Coastal Petroleum filed a complaint in the Leon County Circuit Court, Florida 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-B. The lease encompasses more than 400,000 acres off the West Coast of Florida in the Gulf of Mexico. On July 22, 2002, a motion by the State of Florida to dismiss the case was heard. A decision on the motion is pending.

Note 3. 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 4. Going Concern

The Company has a limited amount of working capital, has incurred recurring losses and has a deficit accumulated during the development stage. Furthermore, on January 16, 2001, Coastal Petroleum Company filed a complaint in the Leon County ITEM 1 Financial Statements

Circuit Court in Florida against the State of Florida seeking compensation for the State's taking of its property rights to explore for oil and gas within its Lease 224-A. On November 27, 2001, the Leon County Circuit Court set a trial date for two weeks beginning September 30, 2002 for Coastal Petroleum's lawsuit against the State of Florida. The cost of that litigation has been substantial and required the Company to obtain additional capital. On June 17, 2002, the

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Company commenced a rights offering for the sale of its common stock to its shareholders. The offering was concluded on July 31, 2002 and the Company realized gross proceeds of approximately \$1,370,000 on the sale of approximately 2,740,000 shares at \$.50 per share.

With the proceeds of rights offering, the Company should be able to fund its operations through June 30, 2003, provided that the Company's directors, officers, legal counsel and administrative consultants agree to continue to defer the payment of all of their salaries and fees. As of June 30, 2002, the amount of salaries and fees being deferred totaled approximately \$922,000. Because the proceeds of the offering of the Company's common stock are inadequate to fund the Company's long term capital needs, the Company intends to explore other possible funding sources, particularly the other shareholders of Coastal Petroleum. 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 that may result from the outcome of these uncertainties.

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

Results of Operations

Liquidity and Capital Resources

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 any decision favorable to Coastal Petroleum in its litigation against the State of Florida; and the substantial cost of continuing the litigation.

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

Results of Operations (Cont'd)

Short Term Liquidity

At June 30, 2002, Coastal Caribbean had approximately \$99,000 of cash and cash equivalents available. On June 17, 2002, the Company commenced a rights offering for the sale of its common stock to its shareholders. The offering was concluded on July 31, 2002 and the Company realized gross proceeds of approximately \$1,370,000 on the sale of 2,740,000 shares at \$.50 per share.

With the proceeds of rights offering, the Company should be able to fund its operations through June 30, 2003, provided that the Company's directors, officers, legal counsel and administrative consultants agree to continue to defer the payment of all of their salaries and fees. As of June 30, 2002, the amount of salaries and fees being deferred totaled approximately \$922,000. Because the proceeds of the offering of the Company's common stock are inadequate to fund the Company's long term capital needs, the Company intends to explore other possible funding sources, particularly the other shareholders of

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Coastal Petroleum. 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 that may result from the outcome of these uncertainties.

Long Term Liquidity

On January 16, 2001, Coastal Petroleum Company filed a complaint in the Leon County Circuit Court, Florida 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.

On May 21, 2002, Coastal Petroleum filed a complaint in the Leon County Circuit Court, Florida 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-B. The lease encompasses more than 400,000 acres off the West Coast of Florida in the Gulf of Mexico.

The Company expects that the cost of the litigation will continue to be substantial. Because the proceeds of the offering of the Company's common stock are inadequate to fund the Company's long term capital needs, the Company intends to explore other possible funding sources, particularly the other shareholders of Coastal Petroleum.

ITEM 2 - Management's Discussion and Analysis of Financial Condition and ----- Results of Operations (Cont'd) -----

Results of Operations

Three months ended June 30, 2002 vs. June 30, 2001

The Company incurred a loss of \$606,000 for the 2002 quarter, compared to a loss of \$600,000 for the comparable 2001 quarter.

Interest income and other income decreased 98% from \$23,000 in the 2001 quarter to \$500 in the 2002 quarter because of the lack of funds to invest.

Legal fees and costs decreased 5% to \$363,000 for the 2002 quarter, compared to \$384,000 in the prior period. Legal fees and costs were higher in the 2001 period as a result of 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. In addition, Coastal Petroleum responded to the State's motions to dismiss the lawsuit. The Company expects that the cost of the litigation will continue to be substantial in the year 2002.

Administrative expenses increased 6% during the 2002 period to \$139,000 compared to \$131,000 in the 2001 period. Accounting and administrative expenses increased during the 2002 period to \$47,000 compared to \$38,300 in the 2001 period because of the costs associated with various filings with the Securities and Exchange Commission.

Salaries did not change during the periods and remained at \$38,000 in the 2002 quarter.

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Shareholder communications decreased 90% during the 2002 period to \$7,000 compared to \$71,000 in the 2001 period because the Company has not yet held its 2002 Annual Meeting of Shareholders.

Exploration costs in the 2002 period represent the \$59,000 in lease rentals paid to the State of Florida to maintain Coastal Petroleum's leases. During the year 2001, the Company concluded that its property interests were impaired by the actions taken by the State of Florida and recorded an impairment charge to reflect the write off of these costs. Although these costs have been written off, the Company still has legal title to the leases and will continue to pay annual lease rentals on the leases. All future costs incurred in connection with the Company's Florida leases are being expensed as incurred.

ITEM 2 - Management's Discussion and Analysis of Financial Condition and ----- Results of Operations (Cont'd) -----

Six months ended June 30, 2002 vs. June 30, 2001

The Company incurred a loss of \$1,160,000 for the 2002 period, compared to a loss of \$1,292,000 for the comparable 2001 period.

Interest income and other income decreased 93% from \$61,000 in 2001 to \$4,000 in 2002 because of the lack of funds to invest.

Legal fees and costs decreased 25% to \$680,000 for 2002, compared to \$909,000 in the prior period. Legal fees and costs were higher in the 2001 period as a result of 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. In addition, Coastal Petroleum responded to the State's motions to dismiss the lawsuit. The Company expects that the cost of the litigation will continue to be substantial in the year 2002.

Administrative expenses increased 18% in 2002 to \$332,000 from \$281,000 in the 2001 period. Accounting and administrative expenses increased during the 2002 period to \$107,000 compared to \$79,000 in the 2001 period because of the costs associated with various filings with the Securities and Exchange Commission.

Salaries did not change during the periods and remained at \$76,000 in 2002.

Shareholder communications decreased 81% during the 2002 period to \$16,000 compared to \$86,000 in the 2001 period because the Company has not yet held its 2002 Annual Meeting of Shareholders.

Exploration costs increased from \$500 in the 2001 period to \$59,000 in 2002. The \$59,000 in exploration costs in 2002 represent the lease rentals paid to the State of Florida to maintain Coastal Petroleum Company's offshore leases.

ITEM 3 - Quantitative and Qualitative Disclosure About Market Risk -----

The Company does not have any significant exposure to market risk.

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

June 30, 2002

ITEM 5 - Other Information

A motion for summary judgment by the State of Florida in the taking lawsuit (State Lease 224-A) was denied by the Leon County Circuit trial judge on June 13, 2002.

On May 21, 2002, Coastal Petroleum filed a complaint in the Leon County Circuit Court, Florida 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-B. The lease encompasses more than 400,000 acres off the West Coast of Florida in the Gulf of Mexico. On July 22, 2002, a motion by the State of Florida to dismiss the case was heard. A decision on the motion is pending.

On June 17, 2002, the Company commenced a rights offering for the sale of its common stock to its shareholders. The offering was concluded on July 31, 2002 and the Company realized gross proceeds of approximately \$1,370,000 on the sale of 2,740,000 shares at \$.50 per share.

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 US 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 Code section 1291 (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.

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

June 30, 2002

For further information, refer to the consolidated financial statements

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and footnotes thereto included in the Company's Annual Report on Form 10-K/A for the year ended December 31, 2001.

ITEM 6 - Exhibits and Reports on Form 8-K

(a) Exhibits

- 99 (1) Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley act of 2002 by Benjamin W. Heath
- 99 (2) Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley act of 2002 by James R. Joyce

(b) Reports on Form 8-K

On May 22, 2002, the Company filed a Current Report on Form 8-K to report that Coastal Petroleum filed a complaint in the Leon County Circuit Court, Florida 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-B. The lease encompasses more than 400,000 acres off the West Coast of Florida in the Gulf of Mexico. On May 28, 2002, the Company filed an amendment to the report to correct a typographical error.

On June 18, 2002, the Company filed a Current Report on Form 8-K to report that:

- (1) a motion for summary judgment by the State of Florida in the takings lawsuit (Lease 224-A) was denied by the Leon County Circuit Court trial judge on June 13, 2002.
- (2) on June 17, 2002, the Company announced an offering of approximately 11 million shares of common stock exclusively to the company's shareholders.

COASTAL CARIBBEAN OILS & MINERALS, LTD.

FORM 10-Q

June 30, 2002

SIGNATURES

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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: August 12, 2002

By /s/ James R. Joyce

James R. Joyce
Treasurer and Chief Accounting and
Financial Officer