

SECURITIES AND EXCHANGE COMMISSION

FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

Filing Date: **1996-11-14** | Period of Report: **1996-09-30**
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FILER

DLB OIL & GAS INC

CIK: **945982** | IRS No.: **731358299** | State of Incorpor.: **OK** | Fiscal Year End: **1231**
Type: **10-Q** | Act: **34** | File No.: **000-26484** | Film No.: **96662604**
SIC: **1311** Crude petroleum & natural gas

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20TH FLOOR
OKLAHOMA CITY OK 73102*

Business Address
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STE 700
OKLAHOMA CITY OK 73118
4058488808*

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, 1996

OR

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

Commission File No 0-26484

DLB OIL & GAS, INC.
(Exact name of registrant as specified in its charter)

OKLAHOMA
(State or other jurisdiction of
incorporation of organization)

73-1358299
(IRS Employer Identification No.)

1601 NORTHWEST EXPRESSWAY, SUITE 700
OKLAHOMA CITY, OKLAHOMA
(Address of principal executive offices)

73118-1401
(Zip Code)

Registrant's telephone number, including area code (405) 848-8808

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 report), and (2) has been subject
to such filing requirements for the past 90 days.

Yes X No
--- ---

The number of shares outstanding of Registrant's common stock, \$.001 par
value, as of October 30, 1996 was 12,975,000.

DLB OIL & GAS, INC.

TABLE OF CONTENTS
FORM 10-Q QUARTERLY REPORT

<TABLE>
<S> <C>
PART I. FINANCIAL INFORMATION

Item 1. Consolidated Financial Statements:

Consolidated Balance Sheets September 30, 1996 (Unaudited) and December 31, 1995	3
Consolidated Statements of Operations (Unaudited) For the Three Months Ended September 30, 1996 and 1995 and Nine Months Ended September 30, 1996 and 1995	4
Statements of Consolidated Shareholders' Equity As of September 30, 1996 (Unaudited) and December 31, 1995	5

Item 2. Management's Discussion and Analysis of
 Results of Operations and Financial Condition

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

Item 6. Exhibits and Reports on Form 8-K

Signatures

</TABLE>

2

3

PART I. FINANCIAL INFORMATION

Item 1.

DLB OIL & GAS, INC.
 CONSOLIDATED BALANCE SHEETS

<TABLE>

<CAPTION>

	SEPTEMBER 30, 1996	DECEMBER 31, 1995
	-----	-----
	(UNAUDITED)	
<S>	<C>	<C>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 4,756,000	\$ 14,313,000
Marketable securities (Note 4)	6,584,000	-
Accounts receivable	7,410,000	4,850,000
Prepaid expenses	265,000	324,000
	-----	-----
Total current assets	19,015,000	19,487,000
	-----	-----
Property and equipment - at cost, based on the full cost method of accounting for oil and natural gas properties (Note 5):		
Oil and natural gas properties subject to amortization	108,369,000	62,275,000
Oil and natural gas properties not subject to amortization	9,058,000	10,037,000
Natural gas processing plants and gathering systems	1,213,000	3,094,000
Saltwater disposal system	1,119,000	1,119,000
Other property and equipment	1,176,000	948,000
	-----	-----
	120,935,000	77,473,000
Accumulated depreciation, depletion and amortization	(24,791,000)	(18,812,000)
	-----	-----
	96,144,000	58,661,000
	-----	-----
Other assets	44,000	59,000
	-----	-----
Total assets	\$ 115,203,000	\$ 78,207,000
	=====	=====

LIABILITIES AND SHAREHOLDERS' EQUITY

Current liabilities:

Trade accounts payable	\$ 5,476,000	\$ 3,853,000
Revenue and royalty distributions payable	792,000	1,527,000
Drilling advances and other liabilities	406,000	190,000
Accrued liabilities	413,000	193,000

Total current liabilities	7,087,000	5,763,000
Long-term debt	32,000,000	-
Deferred income tax liability (Note 6)	14,354,000	12,900,000
Shareholders' equity (Note 7):		
Preferred stock, 5,000,000 shares authorized; no shares issued and outstanding		
Common stock, 130,000,000 shares authorized; 13,000,000 shares issued; 12,975,000 and 13,000,000 outstanding at September 30, 1996 and December 31, 1995, respectively	13,000	13,000
Additional paid in capital	57,910,000	57,910,000
Retained earnings	4,020,000	1,621,000
Treasury stock (25,000 shares at September 30, 1996, at cost)	(181,000)	-
Total shareholders' equity	61,762,000	59,544,000
Total liabilities and shareholders' equity	\$ 115,203,000	\$ 78,207,000

</TABLE>

See accompanying notes to consolidated financial statements

3

4

DLB OIL & GAS, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED)

<TABLE>
<CAPTION>

	THREE MONTHS ENDED SEPTEMBER 30,		NINE MONTHS ENDED SEPTEMBER 30,	
	1996	1995	1996	1995
<S>	<C>	<C>	<C>	<C>
Revenues:				
Oil and natural gas sales	\$ 7,734,000	\$ 4,417,000	\$ 17,730,000	\$ 13,602,000
Natural gas gathering, processing and transportation, net	196,000	834,000	586,000	2,424,000
Interest	49,000	181,000	312,000	231,000
Other	10,000	43,000	39,000	414,000
	7,989,000	5,475,000	18,667,000	16,671,000
Expenses:				
Lease operating	2,324,000	1,143,000	5,125,000	3,587,000
Depreciation, depletion, and amortization	2,870,000	1,835,000	6,695,000	5,255,000
General and administrative	520,000	376,000	1,985,000	1,023,000
Interest	550,000	84,000	801,000	485,000
Loss on sale of assets (Note 8)	-	-	208,000	-
	6,264,000	3,438,000	14,814,000	10,350,000
Income before income taxes	1,725,000	2,037,000	3,853,000	6,321,000
Deferred income taxes (Note 6)	651,000	12,110,000	1,454,000	12,110,000
Net income (loss)	\$ 1,074,000	\$ (10,073,000)	\$ 2,399,000	\$ (5,789,000)

Net income (loss) per common share	\$ 0.08	\$ (0.84)	\$ 0.18	\$ (0.54)
Weighted average common shares outstanding	12,975,000	12,000,000	12,979,000	10,666,667

</TABLE>

See accompanying notes to consolidated financial statements

4

5

DLB OIL & GAS, INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

<TABLE>
<CAPTION>

	NINE MONTHS ENDED SEPTEMBER 30, 1996	YEAR ENDED DECEMBER 31, 1995
	(UNAUDITED)	
<S>	<C>	<C>
Common stock - shares outstanding:		
Balance, beginning of period	13,000,000	\$ -
Issuance of stock in connection with the Merger	-	10,000,000
Sale of stock in connection with the public offering, net of costs	-	3,000,000
Balance, end of period	13,000,000	13,000,000
Common stock - amount:		
Balance, beginning of period	\$ 13,000	\$ -
Issuance of stock in connection with the Merger	-	10,000
Sale of stock in connection with the public offering, net of costs	-	3,000
Balance, end of period	\$ 13,000	\$ 13,000
Additional paid in capital:		
Balance, beginning of period	\$ 57,910,000	\$ -
Issuance of stock in connection with the Merger	-	31,017,000
Sale of stock in connection with the public offering, net of costs	-	26,893,000
Balance, end of period	\$ 57,910,000	\$ 57,910,000
Retained earnings:		
Balance, beginning of period	\$ 1,621,000	\$ -
Post-public offering net income	-	1,621,000
Net income	2,399,000	-
Balance, end of period	\$ 4,020,000	\$ 1,621,000
Treasury stock:		
Balance, beginning of period	\$ -	\$ -
Repurchase of stock (Note 7)	(181,000)	-
Balance, end of period	\$ (181,000)	\$ -
Total:		
Balance, beginning of period	\$ 59,544,000	\$ -
Issuance of stock in connection with the Merger	-	31,027,000

Sale of stock in connection with the public offering, net of costs	-	26,896,000
Post-public offering net income	-	1,621,000
Repurchase of stock (Note 7)	(181,000)	-
Net income	2,399,000	-
	-----	-----
Balance, end of period	\$ 61,762,000	\$ 59,544,000
	=====	=====
Combined shareholders' equity:		
Balance, beginning of period	\$ -	\$ 39,012,000
Contributed capital	-	4,000
Distributions to stockholders	-	(1,192,000)
Pre-public offering net income (loss)	-	(6,797,000)
Issuance of stock in connection with the Merger	-	(31,027,000)
	-----	-----
Balance, end of period	\$ -	\$ -
	=====	=====

</TABLE>

See accompanying notes to consolidated financial statements.

5

6

DLB OIL & GAS, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

<TABLE>

<CAPTION>

	NINE MONTHS ENDED SEPTEMBER 30,	
	1996	1995
	-----	-----
	<C>	<C>
Cash flows from operating activities:		
Net income (loss)	\$ 2,399,000	\$ (5,789,000)
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, depletion, and amortization	6,695,000	5,255,000
Deferred income taxes	1,454,000	12,110,000
Loss on sale of assets	208,000	-
Increase in accounts receivable	(2,560,000)	(487,000)
Increase (decrease) in prepaid expenses	59,000	(56,000)
Increase (decrease) in accounts payable, distributions payable and accrued liabilities	1,108,000	(2,502,000)
Increase in drilling advances and other liabilities	216,000	-
	-----	-----
Net cash provided by operating activities	9,579,000	8,531,000
	-----	-----
Cash flows from investing activities:		
Expenditures for property and equipment	(45,739,000)	(10,846,000)
Purchase of investments and other assets	(6,596,000)	-
Proceeds from sales of assets	1,380,000	-
	-----	-----
Net cash used in investing activities	(50,955,000)	(10,846,000)
	-----	-----
Cash flows from financing activities:		
Proceeds of long-term debt	32,000,000	3,000,000
Payments of long-term debt	-	(11,231,000)
Contributed capital	-	4,000
Distributions to shareholders	-	(1,192,000)
Proceeds from issuance of stock	-	27,014,000
Purchase of treasury stock	(181,000)	-

Net cash provided by financing activities	31,819,000	17,595,000
Net increase (decrease) in cash and cash equivalents:	(9,557,000)	15,280,000
Cash and cash equivalents beginning of year	14,313,000	3,059,000
Cash and cash equivalents end of year	\$ 4,756,000	\$ 18,339,000
Supplemental cash flow information:		
Cash payments for interest	\$ 643,000	\$ 485,000

</TABLE>

See accompanying notes to consolidated financial statements

6

7

DLB OIL & GAS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 1996

(1) ORGANIZATION AND DESCRIPTION OF BUSINESS

DLB Oil & Gas, Inc. (DLB or the Company) engages primarily in the exploration for and development of crude oil and natural gas fields. The Company focuses its efforts and is an active explorer in Oklahoma and Kansas. The Company also engages to a lesser extent, in the gathering, processing, transportation and marketing of hydrocarbons and conducts secondary oil recovery activities.

The accompanying consolidated financial statements covering periods prior to July 20, 1995, the date of the merger of Davidson Oil and Gas, Inc. (Davidson) into DLB, include each of their accounts and their proportionate share of a venture involved in the production of oil and natural gas and in the gathering, processing and transporting of natural gas. Due to the nature of a joint venture agreement between the Company and Davidson, the Company and Davidson were considered to be under common control prior to the merger.

The accompanying consolidated financial statements covering periods on or after July 20, 1995, include the consolidated accounts of the Company and its wholly owned subsidiaries, and its proportionate share of a venture involved in the production of oil and natural gas and in the gathering, processing and transporting of natural gas. (See Note 8 to Consolidated Financial Statements). All intercompany transactions and balances have been eliminated in consolidation.

(2) INITIAL PUBLIC OFFERING

On July 25, 1995, the Company issued 3,000,000 shares of common stock through a public offering at \$10 per share. Net proceeds to the Company from the offering, after selling and offering costs, were \$26,896,000. The Company used \$11,231,000 of these proceeds to retire then existing indebtedness under its revolving line of credit facilities.

7

DLB OIL & GAS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(CONTINUED)

(3) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying consolidated financial statements and notes thereto have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission. Accordingly, certain footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been omitted pursuant to such rules and regulations. The accompanying consolidated financial statements and notes thereto should be read in conjunction with the consolidated financial statements and notes included in DLB's 1995 annual report on Form 10-K.

In the opinion of DLB's management, all adjustments (all of which are normal and recurring) have been made which are necessary to fairly state the consolidated financial position of the Company and its subsidiaries as of September 30, 1996, and the results of their operations and their cash flows for the three month and nine month periods ended September 30, 1996 and 1995.

(4) MARKETABLE SECURITIES

During the first nine months of 1996, the Company acquired senior unsecured notes with a face value of \$19,519,000 in open market transactions for \$6,584,000. The notes were issued by an oil and gas company that had previously filed for Chapter 11 reorganization.

These notes are being carried at cost which approximates market value.

(5) PROPERTY AND EQUIPMENT

PROPERTIES ACQUIRED

On May 31, 1996, the Company closed the purchase of certain Oklahoma oil and natural gas properties from Amerada Hess Corporation ("Amerada Hess") for approximately \$33,300,000. The purchase price is subject to post-closing price adjustments for assets-related revenues and costs and is being accounted for under the purchase method of accounting. The Company funded the purchase through existing cash funds and borrowings of \$30,000,000 from its existing credit facilities.

DLB OIL & GAS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(CONTINUED)

The acquired properties consist of 44 oil and natural gas fields, nine of which the Company will operate, and 1,196 gross (111.8 net) wells. Total estimated proved reserves as of January 1, 1996, net to the Company, are 7.2 Mmboe, which increases the company's total estimated proved reserves as of that date to 16.6 Mmboe. Proved reserves attributable to the acquired properties are divided approximately 43% oil and 57% natural gas.

The following table for the nine months ended September 30, 1996, has been prepared under the assumption the purchase occurred on January 1, 1996.

<TABLE>
<CAPTION>

<S>	<C>
Revenues:	
Oil and natural gas sales	\$ 22,557,000
Natural gas gathering, processing and transportation, net	586,000
Interest	312,000
Other	39,000

	23,494,000
Expenses:	
Lease operating	6,843,000
Depreciation, depletion, and amortization	7,853,000
General and administrative	1,985,000
Interest	1,490,000
Loss on sale of assets	208,000

	18,379,000

Income before income taxes	5,115,000
Deferred income taxes (Note 6)	1,930,000
	=====
Net income	\$ 3,185,000
	=====
Net income per common share	\$ 0.25
	=====
Weighted average common shares outstanding	12,979,000
	=====

</TABLE>

See accompanying notes to consolidated financial statements

DLB OIL & GAS, INC.
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS- (CONTINUED)

(6) INCOME TAXES

Prior to the merger and initial public offering, the Company and Davidson filed separate income tax returns as Subchapter S corporations under the provisions of the Internal Revenue Code. The Company's S election terminated upon the merger and initial public offering. As a result of the Company's termination of the S election, the Company recognized a charge against operations in the amount of \$11,500,000 for deferred income taxes during the third quarter of 1995. The charge represented the tax effect of the difference between the financial statement carrying values and the income tax basis of the Company's assets and liabilities on the date the S election was terminated.

Tax strategies implemented by the shareholders prior to the merger are not reflective of the results that the Company would have achieved if the Company had been directly subject to income taxes. Subsequent to the offering, the results of operations reflect a deferred provision for income tax expense at a blended rate of approximately 37.7%.

(7) SHAREHOLDERS' EQUITY

Effective with the merger of the Company and Davidson, the capital structure of the Company consisted of 130,000,000 authorized common shares (\$.001 par value) with 10,000,000 shares outstanding along with 5,000,000 authorized preferred shares with no preferred shares outstanding. The former shareholders of DLB and Davidson hold 10,000,000 shares of the Company's common stock. For financial reporting purposes, combined shareholder's equity at the date of the merger was converted into the Company's common stock and additional paid-in-capital.

As detailed in Note 2, the Company issued 3,000,000 shares of common stock through a public offering at \$10 per share.

On February 7, 1996, the Company announced a common stock repurchase plan. Under the terms of the plan, up to \$5,000,000 of common stock can be repurchased from time to time. On February 7, 1996, approximately 25,000 shares were repurchased for \$181,000. Repurchased stock is held as treasury stock by the Company. The repurchase plan expired under its own terms on August 5, 1996.

In connection with the public offering, the Company issued stock options covering 1,625,000 shares of common stock to its employees. Options for 1,300,000 shares vest and are exercisable at \$10 per share in 20 equal quarterly installments which commenced with the quarter ended October 31, 1995. The remaining 325,000 options vest in five

10

11

DLB OIL & GAS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(CONTINUED)

equal annual installments commencing January 1, 1996 and are exercisable at \$10 per share. As of September 30, 1996, 325,000 options have vested and are exercisable.

(8) SETTLEMENT OF CONTINGENCY

In February 1996, the Company settled claims that had been submitted to arbitration against a joint venture partner alleging breach of contract and tortious conduct. The claims arose under the terms of the Carmen Field Joint Venture Agreement dated May 26, 1993, between the Company and Magic Circle Acquisition Corporation ("Magic Circle"). The Company settled its claims by the agreement dated February 9, 1996. The settlement agreement provided for mutual releases of all claims arising out of the Carmen Field Joint Venture ("CFJV"), dissolution of the CFJV, assignment to the Company of its interest in the CFJV oil and natural gas properties, the payment of \$3,349,000 to the Company, the transfer to the Company of its share of a small gathering system in Stephens County, Oklahoma, and the transfer to Magic Circle of gathering, processing and compression facilities in Alfalfa and Woodward Counties, Oklahoma. The Company recognized a net loss of \$208,000, which included \$212,000 of legal and accounting expenses, related to the transfer of the gathering, processing and compression facilities.

(9) OTHER COMMITMENTS AND CONTINGENCIES

An interest owner in the Amerada Hess properties filed a lawsuit against Amerada Hess and the Company for denying the interest owner's election of preferential purchase rights on certain leases included in the Amerada Hess properties. The interest owner is seeking performance of its election of the preferential purchase rights from the Company. Amerada Hess and the Company have asserted that the interest owner's election to exercise its preferential rights was not valid.

If DLB is unsuccessful in defending its position on the claim asserted by

the interest owner, DLB would receive an additional \$1,765,000 from the interest owner for the leases. The Company would also be required to reimburse the interest owner for revenues received on the respective leases, net of production costs. The Company does not anticipate that this legal action would significantly impact its financial position, liquidity, or results of operations.

At the present time, as the Company deems these claims invalid, the Company has recognized the results of the oil and natural gas properties in the accompanying financial statements.

11

12
Item 2.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF
RESULTS OF OPERATIONS AND FINANCIAL CONDITION

The following discussion is intended to assist in an understanding of the Company's financial position as of September 30, 1996, and its results of operations for the three month and nine month periods ended September 30, 1996 and September 30, 1995. The Consolidated Financial Statements and Notes included in this report contain additional information and should be referred to in conjunction with this discussion. It is presumed that the readers have read or have access to DLB's 1995 annual report on Form 10-K.

The information in this report includes forward-looking statements, which are based on assumptions that in the future may prove to be inaccurate. The statements may relate to anticipated financial performance or expenditures, drilling or production activities, oil and gas reserve recoveries or similar future matters. The statements, and the Company's business and prospects, are subject to a number of risks including the volatility of oil and gas prices, environmental risks, operation hazards and risks, risks related to exploration and development drilling, uncertainties about estimates of reserves, competition, government regulation, and the ability of the Company to implement its business strategy. Further explanation of these risks is set forth under the heading "Risk Factors" in the Company's prospectus dated July 25, 1995, which section is incorporated within this report.

12

13
RESULTS OF OPERATIONS

The following table sets forth certain financial and production information of the Company.

<TABLE>

<CAPTION>

FINANCIAL DATA (in thousands)

	THREE MONTHS ENDED SEPTEMBER 30,		NINE MONTHS ENDED SEPTEMBER 30,	
	1996	1995	1996	1995
<S>	<C>	<C>	<C>	<C>
Revenues				
Oil	\$ 3,827	\$ 2,987	\$ 9,676	\$ 9,626
Natural gas	3,907	1,430	8,054	3,976
	7,734	4,417	17,730	13,602

Natural gas gathering, processing & trans	196	834	586	2,424
Interest & other income	59	224	351	645
	-----	-----	-----	-----
	7,989	5,475	18,667	16,671
	-----	-----	-----	-----
Expenses				
Lease operating (1)	2,324	1,143	5,125	3,587
General & administrative	520	376	1,985	1,023
Loss on sale of assets	-	-	208	-
	-----	-----	-----	-----
	2,844	1,519	7,318	4,610
EBITDA (2)	5,145	3,956	11,349	12,061
Depreciation, depletion & amortization	2,870	1,835	6,695	5,255
Earnings before interest and taxes	2,275	2,121	4,654	6,806
Interest expense	550	84	801	485
	-----	-----	-----	-----
Earnings before taxes	1,725	2,037	3,853	6,321
Income taxes - deferred	651	12,110	1,454	12,110
	-----	-----	-----	-----
Net income (loss)	\$ 1,074	\$ (10,073)	\$ 2,399	\$ (5,789)
	=====	=====	=====	=====
PER SHARE DATA				
Net income (loss)	\$ 0.08	\$ (0.84)	\$ 0.18	\$ (0.54)
	=====	=====	=====	=====
Average shares outstanding (in thousands)	12,975	12,000	12,979	10,667
	=====	=====	=====	=====
PRODUCTION DATA (in thousands except prices)				
Oil (Mbbbl)	183	181	479	553
Natural gas (Mmcf)	1,663	847	3,606	2,244
Barrel oil equivalent (MBOE)	460	322	1,080	927
Oil (\$/Bbl)	\$ 20.88	\$ 16.50	\$ 20.20	\$ 17.41
Gas (\$/Mcf)	2.35	1.69	2.23	1.77
\$/BOE	16.79	13.72	16.42	14.67
EXPENSE DATA (\$/BOE)				
Lease operating	\$ 5.05	\$ 3.55	\$ 4.74	\$ 3.87
Depreciation, depletion and amortization (3)	5.91	5.18	5.80	5.19
General and administrative	1.13	1.17	1.84	1.10

</TABLE>

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- (1) The components of lease operating expense may vary substantially among wells depending on the methods of recovery employed and other factors, but generally include production taxes, administrative overhead, maintenance and repairs, labor and utilities.
 - (2) EBITDA is defined as earnings before interest, taxes, depreciation, depletion and amortization.
 - (3) The depreciation, depletion and amortization ("DD&A") reflected on a BOE basis excludes DD&A associated with gas plant, salt water disposal system, and other non-oil and gas property and equipment.

THREE MONTHS ENDED SEPTEMBER 30, 1996 COMPARED WITH THE THREE MONTHS ENDED SEPTEMBER 30, 1995

Revenues. Total revenues for the three months ended September 30, 1996 were \$8.0 million, an increase of \$2.5 million from the comparable period in 1995. The \$3.3 million increase in oil and gas sales revenue was slightly offset by the \$0.6 million decrease in revenue related to the dissolution of the CFJV. (See Note 8 to the Consolidated Financial Statements.) The dissolution resulted in the sale of certain gas gathering and compression assets, which reduced gas gathering, processing and transportation revenues to \$0.2 million for the three

months ended September 30, 1996 from \$0.8 million for the three months ended September 30, 1995. The increase in oil and gas sales revenues for the three months ended September 30, 1996, of \$3.3 million was primarily due to the acquisition of the Amerada Hess properties. Production of oil and gas was 183 Mbbl and 1,663 Mmcf, respectively, in the three months ended September 30, 1996, as compared to 181 Mbbl and 847 Mmcf, respectively, in the same period of 1995. On a BOE basis, production increased 43%. The average price received for oil increased to \$20.88 per barrel for the three months ended September 30, 1996 from \$16.50 in the three months ended September 30, 1995. The average price received for natural gas increased to \$2.35 per Mcf in the three months ended September 30, 1996 from \$1.69 per Mcf for the same period in 1995. Management anticipates continuing increases in revenue as a result of the Amerada Hess acquisition.

Lease operating expense. Lease operating expenses increased to \$2.3 million for the three months ended September 30, 1996 from \$1.1 million for the comparable period in 1995 primarily due to an increase in lease operating expenses from the operation of the Amerada Hess properties. On a BOE basis, lease operating expense was \$5.05 per BOE for the three months ended September 30, 1996 as compared to \$3.55 per BOE in the same period in 1995. In the longer term, management anticipates lower lease operating expense per BOE through the implementation of more efficient operations and additional exploitation of the properties.

Depreciation, depletion and amortization expense. Depreciation, depletion and amortization (DD&A) expense was \$2.9 million and \$1.8 million for the three months ended September 30, 1996 and 1995, respectively. The DD&A rate related to oil and gas properties was \$5.91 and \$5.18 per BOE for the three months ended September 30, 1996 and 1995, respectively. The increase in DD&A per BOE resulted primarily from an increased level of capital expenditures for property acquisitions as well as for exploration, development, waterfloods, gas plant and gathering facilities and other property and equipment in the three months ended September 30, 1996 as compared to 1995.

General and administrative expense. General and administrative expense increased to \$0.5 million for the three months ended September 30, 1996, from \$0.4 million in the comparable period in 1995. This increase was primarily attributable to staffing increases and additional corporate expenses to handle higher levels of activity following the July 1995 initial public offering and \$33.3 million acquisition of properties from Amerada Hess on May 31, 1996.

Interest expense. Interest expense increased to \$0.6 million for the three months ended September 30, 1996 as compared to \$0.1 million in the same period of 1995 as a result of an increase in the average debt balance outstanding. The average debt balance outstanding increased to \$30.6 million for the three months ended September 30, 1996 from \$3.8 million in the same period of 1995, due to the acquisition of the Amerada Hess properties.

Income Taxes. Deferred income tax expense for the three months ended September 30, 1995 included a \$11.5 million charge for a required change in tax status from a S Corporation (which is not taxed directly) to a C Corporation (which is taxed directly). (See Note 6 to the Consolidated Financial Statements.)

Net income (loss). On a recurring basis, net income decreased 15% to \$1.1 million for the three months ended September 30, 1996 from \$1.3 million for the three months ended September 30, 1995 primarily as a result of a decrease in gas gathering, processing and transportation revenues due to the dissolution of the CFJV. The Company recognized a nonrecurring charge of \$11.5 million for deferred income tax expense in the three months ended September 30, 1995. As a result of the nonrecurring item, net income increased to \$1.1 million for the three month period ended September 30, 1996 from a loss of \$10.1 million in the comparable period of 1995.

NINE MONTHS ENDED SEPTEMBER 30, 1996 COMPARED WITH THE NINE MONTHS ENDED SEPTEMBER 30, 1995

Revenues. Total revenues for the nine months ended September 30, 1996 were \$18.7 million, an increase of \$2.0 million from the comparable period in 1995. Production of oil and gas was 479 MBbl and 3,606 MMcf, respectively, for the nine months ended September 30, 1996, as compared to 553 MBbl and 2,244 MMcf, respectively, for the same period of 1995. The increase in oil and gas revenues was due to the acquisition of the Amerada Hess properties and an increase in product prices. Gas volumes increased to 3,606 MMcf for the first nine months of 1996 from 2,244 Mmcf for the comparable period in 1995. Increases in gas production offset decreases in oil production on a BOE basis. The average price received for oil increased to \$20.20 per barrel in the first nine months of 1996 from \$17.41 per barrel in the comparable period in 1995. The average price received for natural gas was \$2.23 per Mcf for the nine months ended September 30, 1996 as compared to \$1.77 per Mcf for the same period during 1995. A \$1.8 million decrease in revenues from gathering, dehydration and compression fees, was primarily due to the dissolution of the CFJV. (See Note 8 to the Consolidated Financial Statements.) Management anticipates continuing increases in revenues as a result of the Amerada Hess acquisition.

Lease operating expense. Lease operating expenses increased to \$5.1 million for the nine months ended September 30, 1996, from \$3.6 million in the comparable period of 1995 primarily due to an increase in lease operating expenses from the operation of the Amerada Hess properties. On a BOE basis, lease operating expense was \$4.74 per BOE for the nine months ended September 30, 1996 compared to \$3.87 per BOE in the comparable period of 1995. In the longer term, management anticipates lower lease operating expenses per BOE through the implementation of more efficient operations and additional exploitation of the properties.

Depreciation, depletion and amortization expense. DD&A expense for the first nine months of 1996 totaled \$6.7 million compared with \$5.3 million for the same period in 1995. The DD&A rate increased to \$5.80 per BOE for the nine months ended September 30, 1996, from \$5.19 per BOE for the comparable period of 1995. The increase in DD&A per BOE resulted primarily from an increased level of capital expenditures for property acquisitions as well as for exploration, development, waterfloods, gas gathering facilities and other property and equipment in the nine months ended September 30, 1996 as compared to 1995.

General and administrative expense. General and administrative expense increased to \$2.0 million for the nine months ended September 30, 1996, from \$1.0 million for the comparable period in 1995. This increase was primarily attributable to staffing increases and additional corporate expenses to handle higher levels of activity following the July 1995 initial public offering and \$33.3 million acquisition of properties from Amerada Hess on May 31, 1996.

Interest expense. Interest expense increased to \$0.8 million for the nine months ended September 30, 1996 as compared to \$0.5 million for the same period of 1995 as a result of an increase in the average debt which was partially offset by a decrease in the average annualized interest rate. The average debt balance outstanding increased to \$14.5 million for the nine months ended September 30, 1996 from \$7.6 million in the same period of 1995, due to the acquisition of the Amerada Hess properties. The average annualized interest rate on debt outstanding was 7.4% for the nine months ending September 30, 1996 as compared to 8.6% for the same period in 1995.

Income Taxes. Deferred income tax expense for the nine months ended September 30, 1995 included a \$11.5 million charge for a required change in tax status from a S Corporation (which is not taxed directly) to a C Corporation (which is taxed directly). (See Note 6 to the Consolidated Financial Statements.)

Net income (loss). On a recurring basis, net income decreased 34% to \$2.5 million for the nine months ended September 30, 1996 from \$3.8 million for the nine months ended September 30, 1995 primarily from a \$1.8 million decrease in natural gas gathering, processing and transportation revenues. The Company incurred a nonrecurring charge of \$11.5 million for deferred income tax expense in the nine months ended September 30, 1995. As a result of this item, net income increased to \$2.4 million for the nine month period ended September 30, 1996 from a loss of \$5.8 million in the comparable period of 1995.

17

18

CAPITAL EXPENDITURES, CAPITAL RESOURCES AND LIQUIDITY

The following table presents comparative cash flows of the Company for the nine months ended September 30, 1996 and September 30, 1995.

<TABLE>
<CAPTION>

	NINE MONTHS ENDED SEPTEMBER 30	
	1996	1995
	(IN THOUSANDS)	
	<C>	<C>
Net cash provided by operating activities	\$ 9,579	\$ 8,531
Net cash used in investing activities	(50,955)	(10,846)
Net cash provided by financing activities	31,819	17,595

</TABLE>

Net cash provided from operating activities increased to \$9.6 million for the nine months ended September 30, 1996 from \$8.5 million from the same period of 1995. This increase of \$1.1 million relates primarily to changes in components of working capital (accounts receivable and accounts payable increases associated with increased operations).

Net cash used in investing activities was \$51.0 million for the first nine months of 1996, as compared to \$10.8 million in the first nine months of 1995. The increase of \$40.2 million is primarily attributable to the \$31.9 million Amerada Hess properties acquisition. (See Notes 4 and 5 to the Consolidated Financial Statements.)

Net cash provided by financing activities was \$31.8 million for the first nine months of 1996 as compared to \$17.6 million in 1995. The increase of \$14.2 million is due to the \$30.0 million of long term borrowing related to the funding of the Amerada Hess properties acquisition.

As of September 30, 1996, the Company had cash balances of \$4.8 million and working capital of \$11.9 million. The decrease in working capital of \$7.2 million as of September 30, 1996 from \$19.1 million as of December 31, 1995, is a result of capital expenditures made during the first nine months of 1996, as the Company has utilized the proceeds from the July, 1995 equity offering.

Capital expenditures. The following table sets forth the Company's expenditures for exploration, development, waterfloods and property acquisition, gas plant and gathering facilities and other property and equipment for the nine months ended September 30, 1996 and 1995.

<TABLE>
<CAPTION>

	NINE MONTHS ENDED SEPTEMBER 30,	
	1996	1995

	(IN THOUSANDS)	
<S>	<C>	<C>
Exploration costs	\$ 7,727	\$ 4,061
Development costs	3,437	5,240
Waterflood costs	819	627
Property acquisition costs	33,133	13
Gas plant and gathering facilities	396	745
Other property and equipment	227	160
	-----	-----
	\$ 45,739	\$ 10,846
	=====	=====

</TABLE>

The Company finances its capital expenditures with cash flows provided by operations and borrowings under the credit facility. The Company expects to spend a total of \$60.0 million on capital expenditures in 1996. Of this amount, \$45.7 million had been expended as of September 30, 1996, which includes \$1.0 million related to the Osage Tribe of Indians Exploration and Development Agreement, \$31.9 million related to the Amerada Hess properties acquisition, and \$12.8 million related to seismic surveys and other drilling activity. In addition, the Company has expended \$6.6 million for senior unsecured notes issued by an unrelated oil and gas company. (See Note 4 to Consolidated Financial Statements.) The remaining budget of \$7.7 million will be used for 2-D and 3-D seismic surveys, drilling activity and the acquisition of other mineral interests and leasehold properties. The aggregate level of capital expenditures in 1996 and the allocation thereof is highly dependent upon the Company's success rate on exploration drilling and prevailing conditions in the oil and gas industry. Accordingly, the actual level of capital expenditures may vary materially from the above estimates.

DLB acquired the Amerada Hess properties on May 31, 1996, for \$31.9 million, which represents the largest capital expenditure in 1996. The Company's operational plan to maximize these asset values commenced in August of 1996. Therefore, only a few months of activity related to this acquisition are reflected in results of operations for the nine months ended September 30, 1996. Management's plan should result in increased operational activity and cash flow. The Company also invested \$6.6 million for senior unsecured notes that do not currently generate cash flow. Management believes the cash flow effect of this expenditure will begin to be reflected in 1997.

Capital resources. From DLB's commencement of operations in 1991 until mid-1995, the Company's cash requirements were met primarily through capital contributions from shareholders, cash generated from operations and borrowings under its credit facilities. By mid-1995, these sources were inadequate to fund the Company's desired level of activities, and the Company undertook an initial public offering of its common stock, which was closed in July 1995. Net proceeds from the offering were \$26.9 million. Since its initial public offering and prior to the Amerada Hess acquisition, the Company used offering proceeds along with cash flows from operations to fund its cash requirements. In anticipation of the acquisition of properties from Amerada Hess, the Company increased the borrowing base under its credit facility to \$30.0 million from a borrowing base of \$20.0 million and used the increased base to partially fund the acquisition. (See Note 5 to Consolidated Financial Statements.) In addition, the proved oil and gas reserves added by this acquisition increased the Company's borrowing base under its credit facility to provide another \$20.0 million of borrowing capacity for a total of \$50.0 million of borrowing capacity. The Company expects that internal cash sources and borrowing capacity to be sufficient to meet its capital expenditure plans. Ultimately, capital needs will depend substantially on the Company's success in employing working capital in exploration and development activities and the level of future activities as well as factors affecting the oil and gas industry generally.

Liquidity. The ability of the Company to satisfy its obligations will depend upon its future performance, which will be subject to prevailing economic conditions and to financial and business conditions and other factors, many of which are beyond its control, supplemented, if necessary, with existing cash balances and borrowings under the credit facilities. The Company believes its capital resources are adequate to fund the capital expenditure programs.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

Reference is made to the disclosure in Note 9 to the Notes to Consolidated Financial Statements regarding the Samson Resources Company, et al. v. Amerada Hess Corporation and DLB Oil & Gas, Inc. (Case No. CJ-96-38, D.Ct. Ellis Cnty, Okla.)

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits required by item 601 of Regulation S-K are as follows:

- 2.0 Agreement for Purchase and Sale dated April 16, 1996, between Amerada Hess Corporation and DLB Oil & Gas, Inc. (the "Agreement for Purchase and Sale"). (3)
- 2.1 Letter agreement amending Agreement for Purchase and Sale dated May 7, 1996.
- 2.2 Letter agreement amending Agreement for Purchase and Sale dated May 31, 1996.
- 3.1 Amended and Restated Certificate of Incorporation (1)
- 3.2 Amended and Restated Bylaws (1)
- 10.1 Lease of office space, Oklahoma City, Oklahoma (1)
- 10.2 Credit Agreement dated December 28, 1995, between Registrant and First Union National Bank of North Carolina (2)
- 10.3 Stock Option Agreement by and between Registrant and Mike Liddell (1)
- 10.4 Stock Option Agreement by and between Registrant and Mark Liddell (1)
- 10.5 Employment Agreement by and between Registrant and Mike Liddell (1)
- 10.6 Employment Agreement by and between Registrant and Mark Liddell (1)
- 10.7 DLB Oil & Gas Stock Option Plan (1)
- 10.8 DLB Oil & Gas Omnibus Equity Compensation Plan (1)
- 10.9 Shareholder's Agreement by and among Charles E. Davidson, Mike Liddell and Mark Liddell dated May 25,

10.10 Agreement for Dissolution of Joint Venture dated February 9, 1996, between DLB Oil & Gas, Inc., Magic Circle Acquisition Corporation and Magic Circle Energy Corporation, Carmen Field Limited Partnership, and Carmen Field Joint Venture (2)

10.11 First Amendment to the Credit Agreement dated September 30, 1996, between Registrant and First Union National Bank of North Carolina

27 Financial Data Schedule

(1) Previously filed as an exhibit to Registration No. 33-92786 on Form S-1 and incorporated herein by reference.

(2) Previously filed as an exhibit to Form 10-K for the year ended December 31, 1995, and incorporated herein by reference.

(3) Pursuant to Item 601(b)(2) of Regulation S-K, the exhibits and schedules to Exhibit 2 are omitted. Exhibit 2 contains a list identifying the contents of its exhibits and schedules, and registrant agrees to furnish supplemental copies of such exhibits and schedules to the Securities and Exchange Commission upon request.

Copies of the foregoing exhibits filed with this report or incorporated by reference are available from the Company upon written request and payment of a reasonable copying fee.

(b) Registrant filed the following reports on Form 8-K's filed the quarter ended September 30, 1996:

Form 8-K Amendment filed on August 12, 1996 disclosing pro forma financial information related to acquisition of oil and gas properties from Amerada Hess Corporation and audited financial statements of the purchased properties.

Form 8-K filed on August 14, 1996 disclosing the Company's second quarter activity and financial information.

SIGNATURES

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

DLB OIL & GAS, INC.

Date: November 13, 1996

/s/ Mark Liddell

Date: November 13, 1996

/s/ Ronald D. Youtsey

Ronald D. Youtsey, Chief Financial Officer

INDEX TO EXHIBITS

<TABLE>
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EXHIBIT NUMBER -----	DESCRIPTION -----
<S>	<C>
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</TABLE>

- (1) Previously filed as an exhibit to Registration No. 33-92786 on Form S-1 and incorporated herein by reference.
- (2) Previously filed as an exhibit to Form 10-K for the year ended December 31, 1995, and incorporated herein by reference.
- (3) Previously filed as an exhibit to Form 8-K on May 12, 1996, and incorporated herein by reference.
- (4) Previously filed as an exhibit to Form 10-Q filed on August 14, 1996
- (5) Pursuant to Item 601(b)(2) of Regulation S-K, the exhibits and schedules to Exhibit 2 are omitted. Exhibit 2 contains a list identifying the contents of its exhibits and schedules, and registrant agrees to furnish supplemental copies of such exhibits and schedules to the Securities and Exchange Commission upon request.

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