

VAALCO ENERGY INC /DE/
Form 10-Q
November 09, 2007
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2007

TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission file number 0-20928

VAALCO Energy, Inc.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

4600 Post Oak Place

Suite 309

76-0274813
(I.R.S. Employer

Identification No.)

77027

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Houston, Texas
(Address of principal executive offices)

(713) 623-0801

(Zip code)

(Issuer's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No .

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one)

Large accelerated filer Accelerated filer Non-Accelerated filer

Indicate by a check mark whether the registrant is a shell company (as defined in Exchange Act Rule 12b-2). Yes No .

As of October 31, 2007, there were outstanding 59,024,481 shares of common stock, \$0.10 par value per share, of the registrant.

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VAALCO ENERGY, INC. AND SUBSIDIARIES

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VAALCO ENERGY, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)

(in thousands of dollars, except number of shares and par value amounts)

| | September 30, 2007 | December 31, 2006 |
|--|-----------------------|----------------------|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 70,236 | \$ 60,979 |
| Funds in escrow | 4,764 | 4,764 |
| Receivables: | | |
| Trade | 17,933 | 7,608 |
| Accounts with partners | 2,880 | 5,540 |
| Other | 1,686 | 1,333 |
| Crude oil inventory | 1,003 | 560 |
| Materials and supplies | 324 | 324 |
| Prepayments and other | 1,750 | 3,073 |
| Total current assets | 100,576 | 84,181 |
| Property and equipment successful efforts method: | | |
| Wells, platforms and other production facilities | 79,557 | 77,861 |
| Unproved properties | 12,841 | 12,841 |
| Work in progress | 7,895 | 3,720 |
| Equipment and other | 1,936 | 1,550 |
| | 102,229 | 95,972 |
| Accumulated depreciation, depletion and amortization | (38,674) | (25,465) |
| Net property and equipment | 63,555 | 70,507 |
| Other assets: | | |
| Deferred tax asset | 1,257 | 1,257 |
| Funds in escrow | 10,863 | 10,843 |
| Other long term assets | 418 | 1,154 |
| TOTAL | \$ 176,669 | \$ 167,942 |
| LIABILITIES AND STOCKHOLDERS EQUITY | | |
| Current liabilities: | | |
| Accounts payable and accrued liabilities | \$ 15,810 | \$ 26,686 |
| Total current liabilities | 15,810 | 26,686 |
| Long term debt | 5,000 | 5,000 |
| Asset retirement obligations | 6,626 | 6,029 |
| Total liabilities | 27,436 | 37,715 |

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| | | |
|--|-----------------------|----------------|
| Commitments and contingencies | | |
| Minority interest in consolidated subsidiaries | 7,957 | 7,963 |
| Stockholders' equity: | | |
| Common stock, \$0.10 par value, 100,000,000 authorized shares 60,308,989 and 60,058,155 shares issued with 1,060,342 in treasury at September 30, 2007 and December 31, 2006, respectively | 6,031 | 6,006 |
| Additional paid-in capital | 50,012 | 48,093 |
| Retained earnings | 85,499 | 68,431 |
| Less treasury stock, at cost | (266) | (266) |
| Total stockholders' equity | 141,276 | 122,264 |
| TOTAL | \$ 176,669 | \$ 167,942 |

See notes to unaudited condensed consolidated financial statements.

Table of Contents**VAALCO ENERGY, INC. AND SUBSIDIARIES****CONDENSED STATEMENTS OF CONSOLIDATED OPERATIONS****(unaudited)***(in thousands of dollars, except per share amounts)*

| | Three months ended September 30, | | Nine months ended September 30, | |
|---|---|-------------|--|-------------|
| | 2007 | 2006 | 2007 | 2006 |
| Revenues: | | | | |
| Oil and gas sales | \$ 34,828 | \$ 25,640 | \$ 88,087 | \$ 82,452 |
| Operating costs and expenses: | | | | |
| Production expenses | 3,812 | 3,075 | 11,055 | 9,339 |
| Exploration expense | 651 | 523 | 6,133 | 1,487 |
| Depreciation, depletion and amortization | 4,809 | 1,763 | 13,539 | 5,061 |
| General and administrative expenses | 1,799 | (9) | 6,114 | 1,122 |
| Total operating costs and expenses | 11,071 | 5,352 | 36,841 | 17,009 |
| Operating income | 23,757 | 20,288 | 51,246 | 65,443 |
| Other income (expense): | | | | |
| Interest income | 1,039 | 886 | 2,871 | 2,060 |
| Interest expense | (26) | (256) | (854) | (779) |
| Other, net | (21) | 19 | 115 | (38) |
| Total other income (expense) | 992 | 649 | 2,132 | 1,243 |
| Income from continuing operations before income taxes, and minority interest | 24,749 | 20,937 | 53,378 | 66,686 |
| Income tax expense | 14,747 | 6,280 | 33,268 | 27,077 |
| Minority interest in earnings of subsidiaries | 1,206 | 1,555 | 2,991 | 4,314 |
| Income from continuing operations | 8,796 | 13,102 | 17,119 | 35,295 |
| Discontinued operations: (Note 6) | | | | |
| Income (loss) from discontinued operations | | 488 | (51) | (241) |
| Net income | \$ 8,796 | \$ 13,590 | \$ 17,068 | \$ 35,054 |
| Basic income per share from continuing operations | | | | |
| Income (loss) from discontinued operations | \$ 0.15 | \$ 0.22 | \$ 0.29 | \$ 0.61 |
| Basic income per share | \$ 0.15 | \$ 0.23 | \$ 0.29 | \$ 0.61 |
| Diluted income per share from continuing operations | | | | |
| Income (loss) from discontinued operations | \$ 0.15 | \$ 0.21 | \$ 0.28 | \$ 0.58 |
| Diluted income per share | \$ 0.15 | \$ 0.22 | \$ 0.28 | \$ 0.58 |
| Basic weighted shares outstanding | 59,192 | 58,403 | 58,119 | 57,905 |
| Diluted weighted average shares outstanding | 60,082 | 60,786 | 60,275 | 60,352 |

See notes to unaudited condensed consolidated financial statements.

Table of Contents**VAALCO ENERGY, INC. AND SUBSIDIARIES****CONDENSED STATEMENTS OF CONSOLIDATED CASH FLOWS****(Unaudited)***(in thousands of dollars)*

| | Nine Months Ended | |
|--|--------------------------|-------------|
| | September 30, | |
| | 2007 | 2006 |
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Net income | \$ 17,068 | \$ 35,054 |
| Adjustments to reconcile net income to net cash provided by (used in) operating activities | | |
| Depreciation, depletion and amortization | 13,539 | 5,060 |
| Amortization of debt issuance costs | 443 | 482 |
| Stock based compensation | 1,689 | 580 |
| Minority interest in earnings of subsidiaries | 2,991 | 4,314 |
| Change in operating assets and liabilities: | | |
| Trade receivables | (10,325) | (8,639) |
| Accounts with partners | 2,660 | (2,195) |
| Other receivables | (353) | 213 |
| Crude oil inventory | (443) | 221 |
| Materials and supplies | | (39) |
| Deferred tax asset | | (437) |
| Prepayments and other | 1,323 | 1,109 |
| Other long term assets | 231 | |
| Accounts payable and accrued liabilities | (7,157) | 3,946 |
| Income taxes payable | | 200 |
| Net cash provided by operating activities | 21,666 | 39,869 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Funds in escrow, net | (20) | 1,113 |
| Additions to property and equipment | (9,711) | (18,263) |
| Net cash used in investing activities | (9,731) | (17,150) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Proceeds from the issuance of common stock | 300 | 1,898 |
| Debt issuance costs capitalized | 62 | (321) |
| Borrowings | | 5,000 |
| Debt repayment | | (1,500) |
| Distribution to minority interest | (2,997) | (1,998) |
| Other | (43) | |
| Net cash provided by (used in) financing activities | (2,678) | 3,079 |
| NET CHANGE IN CASH AND CASH EQUIVALENTS | 9,257 | 25,798 |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD | 60,979 | 43,880 |

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| | | |
|---|-------------------|-----------|
| CASH AND CASH EQUIVALENTS AT END OF PERIOD | 70,236 | 69,678 |
| Supplemental disclosure of cash flow information | | |
| Income taxes paid | \$ 33,268 | \$ 27,077 |
| Interest paid | \$ 225 | \$ 92 |
| Supplemental disclosure of non cash flow information | | |
| Change in investment in property and equipment not paid | \$ (3,719) | \$ 705 |

See notes to unaudited condensed consolidated financial statements.

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VAALCO ENERGY, INC. AND SUBSIDIARIES

1. UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AND ACCOUNTING POLICIES

The condensed consolidated financial statements of VAALCO Energy, Inc. and subsidiaries (collectively, "VAALCO" or the "Company"), included herein are unaudited, but include all adjustments consisting of normal recurring accruals which the Company deems necessary for a fair presentation of its financial position, results of operations and cash flows for the interim period. Such results are not necessarily indicative of results to be expected for the full year. These financial statements should be read in conjunction with the financial statements and notes thereto included in the Company's Form 10-K for the year ended December 31, 2006, which also contains a summary of the significant accounting policies followed by the Company in the preparation of its consolidated financial statements. These policies were also followed in preparing the quarterly report included herein. The Company follows the successful efforts method of accounting for oil and gas exploration and development costs.

VAALCO is a Houston-based independent energy company, principally engaged in the acquisition, exploration, development and production of crude oil and natural gas. VAALCO owns producing properties and conducts exploration activities as the operator of two production sharing contracts in Gabon, West Africa and conducts exploration activities in one concession in Angola, West Africa. Domestically, the Company has interests in the Texas Gulf Coast area.

VAALCO's subsidiaries holding interests in Gabon are VAALCO Energy (International), Inc., VAALCO Gabon (Etame), Inc. and VAALCO Production (Gabon), Inc. In Angola VAALCO holds its concession interest in VAALCO Angola (Kwanza), Inc. In Great Britain VAALCO holds its North Sea interests in VAALCO UK (North Sea), Ltd. VAALCO Energy (USA), Inc. holds interests in certain properties in the United States.

Reclassifications: Certain immaterial amounts from 2006 have been reclassified in the Condensed Statements of Consolidated Cash Flows to conform to the 2007 presentation.

2. EARNINGS PER SHARE

The Company accounts for earnings per share in accordance with Statement of Financial Accounting Standards (SFAS) No. 128 *Earnings per Share*, (EPS). SFAS No. 128 requires the presentation of basic and diluted EPS on the face of the income statement. Basic EPS is calculated using the average number of shares of common stock outstanding during each period. Diluted EPS assumes the conversion of preferred stock to common stock and the exercise of all stock options and warrants having exercise prices less than the average market price of the common stock using the treasury stock method.

Diluted Shares consist of the following:

| Item | Three months ended | | Nine months ended | |
|--|--------------------|-------------------|-------------------|-------------------|
| | Sept 30, 2007 | Sept 30, 2006 | Sept 30, 2007 | Sept 30, 2006 |
| Basic weighted average common stock issued and outstanding | 59,191,555 | 58,403,727 | 59,118,995 | 57,905,161 |
| Dilutive options | 889,957 | 2,381,936 | 1,156,223 | 2,446,493 |
| Total diluted shares | 60,081,511 | 60,785,663 | 60,275,218 | 60,351,654 |

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VAALCO ENERGY, INC. AND SUBSIDIARIES

Options to purchase 1,797,640 shares were excluded in the three months and nine months periods ending September 30, 2007 because they would be anti-dilutive.

3. NEW ACCOUNTING PRONOUNCEMENTS

FASB Statement No. 157, Fair Value Measurements In September 2006, the Financial Accounting Standards Board (FASB) issued FASB Statement 157, *Fair Value Measurements*, (SFAS 157), which provides a single definition of fair value, together with a framework for measuring it, and requires additional disclosure about the use of fair value to measure assets and liabilities. SFAS 157 emphasizes that fair value is a market-based measurement, not an entity-specific measurement, and sets out a fair value hierarchy with the highest priority being quoted prices in active markets. Under SFAS 157, fair value measurements are disclosed by level within that hierarchy. While SFAS 157 does not add any new fair value measurements, it does change current practice. Changes to practice include:

A requirement for an entity to include its own credit standing in the measurement of its liabilities;

A modification of the transaction price presumption;

A prohibition on the use of block discounts when valuing large blocks of securities for broker dealers and investment companies; and

A requirement to adjust the value of restricted stock for the effect of the restriction even if the restriction lapses within one year. SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. Earlier application is encouraged, provided that no financial statements have yet been issued within that fiscal year by the reporting entity. SFAS 157 will be applied prospectively as of the beginning of the fiscal year in which SFAS 157 is initially applied. The Company will adopt SFAS 157 on January 1, 2008 and does not expect this standard to have a material impact, if any, on its financial statements.

FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes an Interpretation of FASB Statement No. 109 The Company adopted Financial Interpretation (FIN) No. 48, *Accounting for Uncertainty in Income Taxes an Interpretation of FASB Statement No. 109* (FIN 48) on January 1, 2007. FIN 48 addresses the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with SFAS No. 109, *Accounting for Income Taxes*. FIN 48 prescribes specific criteria for the financial statement recognition and measurement of the tax effects of a position taken or expected to be taken in a tax return. This interpretation also provides guidance on derecognition of previously recognized tax benefits, classification of tax liabilities on the balance sheet, recording interest and penalties on tax underpayments, accounting in interim periods, and disclosure requirements. The adoption of this interpretation did not have a material impact on the Company's financial statements. See Note 9 Income Taxes for disclosures required by FIN 48.

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4. STOCK-BASED COMPENSATION

On January 1, 2006, the Company adopted SFAS 123(R). Prior to the adoption of SFAS 123(R), the Company had adopted the disclosure-only provisions of SFAS No. 123 *Accounting for Stock-Based Compensation* and continued to account for stock-based compensation using the intrinsic value method prescribed in APB Opinion No. 25, *Accounting for Stock Issued to Employees*. Accordingly, no compensation cost had been recognized for the Company's stock-based plans prior to January 1, 2006.

Stock options are granted under the Company's long-term incentive plan and have an exercise price that may not be less than the fair market value of the underlying shares on the date of grant. In general, stock options granted will become exercisable over a period determined by the Compensation Committee. In addition, stock options will become exercisable upon a change in control, unless provided otherwise by the Compensation Committee.

During the nine months ended September 30, 2007, the Company granted no stock options.

For the three months and nine months ended September 30, 2007, the Company recognized non-cash compensation expense related to stock options of \$0.6 million and \$1.7 million, respectively, (or \$0.01 and \$0.03 per basic and diluted share, respectively). For the three months and nine months ended September 30, 2006, the Company recognized non-cash compensation expense of \$0.1 million and \$0.6 million, respectively (or \$0.00 and \$0.01 per basic and diluted share, respectively). These amounts were recorded as general and administrative expense. Because the Company does not pay significant United States taxes, no amounts were recorded for tax benefits related to excess stock based compensation deductions.

A summary of the stock option activity for the nine months ended September 30, 2007 is provided below:

| | Number of Shares Underlying Options (in thousands) | Weighted Average Exercise Price | Weighted Average Remaining Contractual Term | Aggregate Intrinsic Value (in millions) |
|------------------------------------|--|--|---|--|
| Outstanding at beginning of period | 4,369 | \$ 4.87 | 3.65 | |
| Granted | | | | |
| Exercised | (251) | 1.20 | 0.57 | |
| Forfeited | (113) | 7.97 | 4.51 | |
| Outstanding at end of period | 4,005 | \$ 5.02 | 3.04 | \$ 4.1 |
| Exercisable at end of period | 2,433 | \$ 3.11 | 2.29 | \$ 4.1 |

The intrinsic value of a stock option is the amount by which the current market value of the underlying stock exceeds the exercise price of the option. As of September 30, 2007, unrecognized compensation costs totaled \$1.8 million. The expense is expected to be recognized over a weighted average period of 1.25 years. The total fair value of stock options vested during the nine months ended September 30, 2007 was approximately \$0.9 million.

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5. GUARANTEES

In connection with the charter of a Floating Production, Storage and Offloading vessel (FPSO) for the Etame field, the Company as operator of the Etame field guarantees the charter payments through the life of the charter. In October 2007, the Company negotiated an extension of the charter to September 2013. Prior to the extension, the Company was contractually limited to a maximum production rate of 20,000 barrels oil per day of FPSO throughput. The extension provides for a new tariff for oil production in excess of 20,000 of \$2.50 per barrel and outlines responsibilities between the Company and the FPSO owner for debottlenecking the tanker to accommodate higher production rates for Avouma, which is currently producing, and the Ebouri field which is expected to begin producing in late 2008.

The charter continues for two years beyond September 2013 unless one year's prior notice is given to the owner of the FPSO. The Company obtained several guarantees from its partners for their share of the charter payment. The Company's share of the charter payment is 28.1%. The Company believes the need for performance under the charter guarantee is remote. The estimated obligations for the annual charter payment and the Company's share of the charter payments are as follows:

| | | Full Charter Payment | Company Share |
|--------------|------------|----------------------|---------------------|
| | Year | <i>in thousands</i> | <i>in thousands</i> |
| Remainder of | 2007 | \$ 4,333 | \$ 1,217 |
| | 2008 | \$ 16,199 | \$ 4,547 |
| | 2009 | \$ 15,957 | \$ 4,480 |
| | 2010 | \$ 15,809 | \$ 4,438 |
| | 2011 | \$ 15,685 | \$ 4,403 |
| | Thereafter | \$ 27,460 | \$ 7,709 |

The Company has recorded a liability of \$0.5 million at September 30, 2007 representing the guarantee's fair value.

6. DISCONTINUED OPERATIONS

On April 30, 2004, the Company closed the sale of all of its assets associated with Service Contract 6 and Service Contract 14 in the Philippines. Terms of the sale included the assumption by the partners of the Company's entire share of any abandonment, environmental or other liabilities associated with the Service Contracts. The Company reclassified the results of the Philippines operations to discontinued operations for prior periods in its financial statements. In the first quarter of 2006, the Company accrued \$0.7 million to settle branch profits remittances taxes in the Philippines associated with the closure of the branches which operated the former Philippines assets. This liability was settled for \$0.2 million in the fourth quarter of 2006 and the balance of the excess liability was reversed at the end of the third quarter of 2006. The branches were officially closed during the second quarter of 2007 and the Company expects no additional financial activity associated with the discontinued operations beyond the second quarter of 2007.

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| | Three Months ended Sept 30, <i>in thousands</i> | | Nine months ended Sept 30, <i>in thousands</i> | |
|---|--|--------|---|----------|
| | 2007 | 2006 | 2007 | 2006 |
| Income/(loss) from discontinued operations | | | | |
| Operating costs and expenses: | | | | |
| General and administrative expenses | | 20 | 56 | 56 |
| Total operating costs and expenses | | 18 | 56 | 56 |
| Other income: | | | | |
| Interest income | | 8 | 5 | 15 |
| Loss from discontinued operations before income taxes | | (12) | (51) | (41) |
| Income tax expense (benefit) | | (500) | | 200 |
| Income (loss) from discontinued operations | \$ | \$ 488 | \$ (51) | \$ (241) |

7. EQUITY TRANSACTIONS

During the nine months ended September 30, 2007, employees and consultants exercised stock options to receive 250,834 shares of common stock, resulting in net proceeds to the Company of \$300,000.

In September 2007, the Company's Board of Directors authorized the purchase up to \$20 million of the Company's common stock. Under the stock buy-back program shares of common stock will be purchased on the open market or through privately negotiated transactions from time-to-time during the 12 month period following the board's authorization. Under the authorization, the timing and amount of purchases will be based upon market conditions, securities law limitations and other factors. The stock buy-back program does not obligate the Company to acquire any specific number of shares in any period, and may be modified, suspended, extended or discontinued at any time without prior notice. There were no shares acquired during the nine months ended September 30, 2007.

On September 14, 2007, the Board of Directors of the Company adopted a Rights Agreement dated as of September 14, 2007 between the Company and the Registrar and Transfer agent of the Company, as Rights Agent. Details of the Rights Agreement are contained in Exhibit 4.1 to this Form 10-Q filing.

8. DEBT

In June 2005, the Company executed a loan agreement for a \$30.0 million revolving credit facility secured by the assets of the Company's Gabon subsidiary. The revolving credit facility extends through June 2008 at which point it can be extended, or converted to a term loan. This revolving credit facility became effective during the first quarter of 2006. Under the revolving credit facility, the International Finance Corporation (IFC) holds a pledge of the Company's interest in the Etame Block and a pledge of the shares of VAALCO Gabon (Etame), Inc., the subsidiary which owns the Company's interest in the Etame Block. The IFC also has a security interest in any crude oil sales contract the Company enters into for the sale of crude oil from the Etame Block.

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9. INCOME TAXES

The Company adopted the provisions of FIN 48 on January 1, 2007. There was no impact related to the cumulative effect of the change in accounting principle. As of the adoption date, the Company had no unrecognized tax benefits.

Our accounting policy is to recognize interest and penalties accrued related to unrecognized tax benefits in income tax expense. The Company has no accruals for the payment of interest and penalties.

The following table summarizes the tax years that remain subject to examination by major tax jurisdictions:

| | |
|---------------|-----------|
| United States | 2003-2006 |
| Gabon | 2004-2006 |

Certain of the Company's U.S. income tax returns are currently under audit by the Internal Revenue Service. While the amounts ultimately agreed upon in resolution of the issues raised may differ from the recorded amount of unrecognized tax benefits, the Company does not expect the outcome to have a material adverse impact on our financial position, results of operations or cash flows.

10. COMMITMENTS

In January 2006 the consortium elected to extend the Etame block for an additional five-year term commencing July 2006. The extension consists of a three-year and a two-year follow-on term. The first term carries a minimum work obligation of one exploration well for a minimum \$7.0 million exploration expenditure commitment (\$2.1 million net to the Company). An additional exploration well is required during the optional two year extension.

In November 2005, the Company signed a production sharing contract for the Mutamba Iroru block onshore Gabon. The five year contract awards the Company exploration rights along the central coast of Gabon. During the first three years of the contract the Company is required to drill one exploration well and spend a minimum of \$4.0 million. During the optional two year extension to the contract, the Company is required to acquire specified levels of seismic data, drill one exploration well and spend a minimum of \$5.0 million. The Company is currently gathering data from past operators of the area for interpretation and prospect delineation.

In November 2006, the Company signed a production sharing contract for Block 5 offshore Angola. The seven year contract awards the Company exploration rights to 1.4 million acres offshore central Angola. The Company's working interest in the Contract is 40%. Additionally, the Company is required to carry the Angolan National Oil Company Sonangol P&P for 10% of the program. During the first four years of the contract, the Company is required to acquire and process 1,000 square kilometers of 3-D seismic, drill two exploration wells and spend a minimum of \$29.5 million (\$14.8 million net to the Company). During the optional three year extension to the contract, the Company is required to acquire 600 square kilometers of 3-D seismic data, drill two exploration wells and spend a minimum of \$27.2 million (\$13.6 million net to the Company). The Company acquired the 1,000 square kilometers of 3-D data called for in the first exploration period at a cost of \$7.5 million (\$3.75 million net to the Company) in January 2007.

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In September 2007, the Company entered into a farm-out agreement with Bow Valley Ltd. to pay for 37.5% of the cost of a well in the U.K. North Sea in order to earn a 25% interest in the 9-28b Offshore License. The well is expected to be drilled during the fourth quarter of 2007 and the Company's estimated share of the cost of the well is \$12.0 million. The Company has no further well commitments on the block.

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VAALCO ENERGY, INC. AND SUBSIDIARIES

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This report includes forward looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended (Exchange Act). All statements other than statements of historical fact included in this report (and the exhibits hereto), including without limitation, statements regarding the Company's financial position and estimated quantities and net present values of reserves, and statements preceded by, followed by or that otherwise include the word believes, expects, anticipates, intends, projects, target, goal, objective, should, or similar expressions or variations of such are forward looking statements. The Company can give no assurances that the assumptions upon which such statements are based will prove to have been correct. Important factors that could cause actual results to differ materially from the Company's expectations (Cautionary Statements) include volatility of oil and gas prices, future production costs, future production quantities, operating hazards, weather, and statements set forth in the Risk Factors section included in the Company's Forms 10-K. All subsequent written and oral forward looking statements attributable to the Company or persons acting on its behalf are expressly qualified by the Cautionary Statements.

INTRODUCTION

The Company operates the Etame, Avouma and South Tchibala fields on behalf of a consortium of five companies offshore of the Republic of Gabon. The Avouma and South Tchibala fields began producing in January 2007. The Etame, Avouma and South Tchibala fields produce from six wells (four subsea wells and two platform wells) into a 1.1 million barrel FPSO vessel. During the three months ended September 30, 2007, the Etame, Avouma and South Tchibala fields produced 1.8 million barrels (0.5 million barrels net to the Company). The Company sells its Gabon production to the trading company Addax B.V. (Addax) at spot market prices.

The Etame Production Sharing Contract area (the Etame Block) is comprised of approximately 750,000 acres, all of which is offshore Gabon. The Etame Block contains the Etame field, the Avouma field, the South Tchibala field and the Ebouri field. In October 2006, the Company received approval of the development plan for the Ebouri field. The Company began construction of the Ebouri platform during the fourth quarter of 2006. First production is expected in late 2008. During the first quarter of 2007, the Company acquired 400 square kilometers of 3-D seismic data on the Etame Block at a cost of \$1.0 million.

In November 2005, the Company signed a production sharing contract for the Mutamba Iroru block onshore Gabon. The five-year contract awards the Company exploration rights to approximately 270,000 acres along the central coast of Gabon. The Company is currently gathering data from past operators of the area for interpretation and prospect delineation.

On November 2, 2006, the Company entered into a Production Sharing Agreement with the Angolan government for a 40% interest in the 1.4 million acre Block 5 exploration concession, offshore Angola. The Company paid a \$10.5 million dollar signing bonus for its interest during the fourth quarter of 2006. Additionally, the Company paid \$3.8 million for its share of the cost

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VAALCO ENERGY, INC. AND SUBSIDIARIES

to lease 1,000 square kilometers of 3-D seismic data on the block in the first quarter of 2007. The Company is committed to process the 3-D seismic data and to drill two exploration wells during a four year period commencing from December 1, 2006.

In September 2007 the Company entered into a farm-out agreement with Bow Valley Ltd. to pay for 37.5% of the cost of a well in the U.K. North Sea in order to earn a 25% interest in the 9-28b Offshore License. The well is expected to be drilled during the fourth quarter of 2007 and the Company's estimated share of the cost of the well is \$12.0 million. The Company has no further well commitments on the block.

CAPITAL RESOURCES AND LIQUIDITY

Cash Flows

Net cash provided by operating activities for the nine months ended September 30, 2007 was \$21.7 million, as compared to \$39.9 million provided by operations for the nine months ended September 30, 2006. In 2007, net cash provided by operating activities included net income of \$17.1 million, depreciation, depletion and amortization of \$13.5 million, amortization of debt issuance costs of \$0.4 million, stock based compensation of \$1.7 million, minority interest of \$3.0 million and cash used by changes in operating assets and liabilities of \$14.1 million. Net cash provided by operations in the nine months ended September 30, 2006 included net income of \$35.1 million, non-cash depreciation, depletion and amortization of \$5.1 million, \$0.5 million of amortization of debt issuance costs, minority interest of \$4.3 million and cash used for working capital of \$5.6 million.

Net cash used in investing activities for the nine months ended September 30, 2007 was \$9.7 million, as compared to net cash used in investing activities of \$17.2 million for the nine months ended September 30, 2006. In the nine months ended September 30, 2007, the Company spent \$9.7 million of cash associated with the construction of the Avouma and Ebouri platforms. In the nine months ended September 30, 2006, the Company spent \$18.3 million for the construction of the Avouma platform. In the nine months ended September 30, 2006, the Company also had \$1.1 million of funds in escrow released associated with the pay off of the term loan with the IFC.

Net cash used in financing activities in the nine months ended September 30, 2007 was \$2.7 million, consisting of \$3.0 million distributed to a minority interest holder and \$0.3 million of proceeds from stock issuance. In the nine months ended September 30, 2006, net cash provided by financing activities was \$3.1 million, consisting of \$3.5 million of net borrowings, \$1.9 million of proceeds from the issuance of common stock, \$0.3 million of debt issuance costs and \$2.0 million distributed to a minority interest holder. At September 30, 2007, the Company had approximately \$0.3 million of capitalized debt financing costs on the books associated with the \$30.0 million revolving credit facility.

Capital Expenditures

During the nine months ended September 30, 2007, the Company incurred \$9.7 million of capital expenditures, primarily associated with the construction of the Avouma and Ebouri platforms.

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VAALCO ENERGY, INC. AND SUBSIDIARIES

During the remainder of 2007, the Company anticipates continuing construction of the Ebouri platform. Total capital expenditures for the remainder of 2007 are anticipated to be \$21 million, which includes \$12.0 million to fund the exploration well associated with the recent farm-in to the 9-28b offshore lease in the North Sea.

Liquidity

Historically, the Company's primary sources of capital have been cash flows from operations, private sales of equity, borrowings and purchase money debt. At September 30, 2007, the Company had cash of \$70.2 million. The Company believes that this cash combined with cash flow from operations will be sufficient to fund the Company's remaining 2007 capital expenditure budget, required debt service payments and additional investments in working capital resulting from potential growth. As operator of the Etame field, the Company enters into project related activities on behalf of its working interest partners. The Company generally obtains advances from its partners prior to significant funding commitments.

In September 2005, the Company executed a loan agreement with the IFC for a \$30.0 million revolving credit facility which is secured by the assets of the Company's Gabon subsidiary. The facility extends through June 2008 at which point it can be extended, or converted to a term loan. Under the revolving credit facility, the IFC holds a pledge of the Company's interest in the Etame Block, and pledge of the shares of VAALCO Gabon (Etame), Inc., the subsidiary which owns the Company's interest in the Etame Block. The IFC also has a security interest in any crude oil sales contract the Company enters into for the sale of crude oil from the Etame Block.

Substantially all of the Company's crude oil and gas is sold at the well head at posted or index prices under short-term contracts. In Gabon, the Company markets its crude oil under an agreement with Addax. While the loss of Addax as a buyer might have a material adverse effect on the Company in the near term, management believes that the Company would be able to obtain other customers for its crude oil.

Domestically, the Company produces from wells in Brazos County Texas and offshore in the Gulf of Mexico, which contributed \$204,000 to revenues in the first nine months of 2007. Domestic production is sold via separate contracts for oil and gas. The Company has access to several alternative buyers for oil and gas sales domestically.

Oil and Gas Exploration Costs

The Company uses the "successful efforts" method of accounting for its oil and gas exploration and development costs. All expenditures related to exploration, with the exception of costs of drilling exploratory wells are charged as an expense when incurred. The costs of exploratory wells are capitalized pending determination of whether commercially producible oil and gas reserves have been discovered. If the determination is made that a well did not encounter potentially economic oil and gas quantities, the well costs are charged as an expense. During the nine months ended September 30, 2007, the Company expended \$6.1 million on exploration costs to acquire a license to 1,175 square kilometers of 3-D seismic in Angola and to process seismic in Gabon and Angola.

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VAALCO ENERGY, INC. AND SUBSIDIARIES

The Company had \$7.9 million capitalized for the Ebouri field in Gabon which was being carried as work in progress at September 30, 2007. In July 2006, the Company received approval to declare the Ebouri field's reserves commercial from the Gabon government and in October 2006 the Gabon government approved a development plan for the Ebouri field, and assigned a twenty year development area surrounding the field. First production is dependent upon construction and delivery of the platform facilities and rig availability, and is estimated to occur in late 2008.

Contractual Obligations

In January 2006, the consortium elected to extend the production sharing contract for the Etame Block for an additional five-year term commencing July 2006. The extension consists of a three-year and a two-year follow-on term. The first term carries a minimum work obligation of one exploration well for a minimum \$7.0 million exploration expenditure commitment (\$2.1 million net to the Company). An additional exploration well is required during the optional two year extension.

In November 2005, the Company signed a production sharing contract for the Mutamba Iroru block onshore Gabon. The five year contract awards the Company exploration rights along the central coast of Gabon. During the first three years of the contract, the Company is required to drill one exploration well and expend a minimum of \$4.0 million. During the optional two year extension to the contract, the Company is required to acquire specified levels of seismic data, drill one exploration well and expend a minimum of \$5.0 million. The Company is currently gathering data from past operators of the area for interpretation and prospect delineation.

In November 2006, the Company signed a production sharing contract for Block 5 offshore Angola. The seven year contract awards the Company exploration rights to 1.4 million acres offshore central Angola. The Company's working interest in the contract is 40%. Additionally, the Company is required to carry the Angolan National Oil Company Sonangol P&P for 10% of the work program. During the first four years of the contract the Company is required to acquire and process 1,000 square kilometers of 3-D seismic, drill two exploration wells and spend a minimum of \$29.5 million (\$14.8 million net to the Company). During the optional three year extension to the contract, the Company is required to acquire 600 square kilometers of 3-D seismic data, drill two exploration wells and spend a minimum of \$27.2 million (\$13.6 million net to the Company). The Company acquired the 1,000 square kilometers of 3-D data called for in the first exploration period at a cost of \$7.5 million (\$3.75 million net to the Company) in January 2007.

In September 2007, the Company entered into a farm-out agreement with Bow Valley Ltd. to pay for 37.5% of the cost of a well in the U.K. North Sea in order to earn a 25% interest in the 9-28b Offshore License. The well is expected to be drilled during the fourth quarter of 2007 and the Company's estimated share of the cost of the well is \$12.0 million. The company has no further well commitments on the block.

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VAALCO ENERGY, INC. AND SUBSIDIARIES

RESULTS OF OPERATIONS

Three months ended September 30, 2007 compared to three months ended September 30, 2006

Revenues

Total revenues were \$34.8 million for the three months ended September 30, 2007 compared to \$25.6 million for the comparable period in 2006. The Company sold approximately 472,000 net barrels of oil equivalent at an average price of \$73.79 in three months ended September 30, 2007. In the three months ended September 30, 2006, the Company sold approximately 391,000 net barrels of oil equivalent at an average price of \$65.50 per barrel. Crude oil production from the Etame, Avouma and South Tchibala fields averaged approximately 20,000 barrels oil per day (BOPD) during the three months ended September 30, 2007 compared to approximately 16,800 BOPD in the three months ended September 30, 2006. Crude oil sales are a function of the number and size of crude oil liftings in each quarter from the FPSO and thus crude oil sales do not always coincide with volumes produced in any given quarter.

Operating Costs and Expenses

Total production expenses for the three months ended September 30, 2007 were \$3.8 million compared to \$3.1 million in the three months ended September 30, 2006. The Company matches production expenses with crude oil sales. Any production expenses associated with unsold crude oil inventory are capitalized. Expenses in the three months ended September 30, 2007 were higher than in the three months ended September 30, 2006 due in part to higher volumes sold, higher insurance costs, higher boat rental and boat fuel costs, and higher FPSO costs.

Exploration expense was \$0.7 million for the three months ended September 30, 2007 compared to \$0.5 million in the comparable period in 2006. Exploration expense for the three months ended September 30, 2007 were for processing seismic data in Gabon and acquiring 2-D seismic data in Angola. In the three months ended September 30, 2006, exploration expense consisted of approximately \$0.3 million associated with North Sea exploration activities and \$0.2 million for exploration activities on the Mutamba Iroru block onshore Gabon.

Depreciation, depletion and amortization expenses were \$4.8 million in the three months ended September 30, 2007 compared to \$1.8 million in the three months ended September 30, 2006. The higher depreciation, depletion and amortization expenses during the three months ended September 30, 2007 compared to the three months ended September 30, 2006 was due to amounts included in depletable assets for the Avouma and South Tchibala fields, which are higher on a per barrel basis than for the Etame field.

General and administrative expenses for the three months ended September 30, 2007 were \$1.8 million. The Company did not incur general and administrative expenses for the three months ended September 30, 2006. During the three months ended September 30, 2007 and September 30, 2006, the Company incurred stock based compensation expense of \$0.6 million and \$0.3 million, respectively. In both of the three months ended September 30, 2007 and 2006, the Company benefited from overhead reimbursement associated with production and development operations on the Etame Block. Due to high capital costs for the installation of the Avouma platform in the three months ended September 30, 2006 the overhead reimbursements were particularly high for that quarter.

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VAALCO ENERGY, INC. AND SUBSIDIARIES

Other Income (Expense)

Interest income received on amounts on deposit was \$1.0 million in the three months ended September 30, 2007 compared to \$0.9 million in the three months ended September 30, 2006. The increase in interest income received on amounts on deposit reflects higher cash balances and higher interest rates in 2007. Interest expense and financing charges for the IFC loan was \$26,000 for the three months ended September 30, 2007 compared to \$0.3 million for the three months ended September 30, 2006. In the three months ended September 30, 2006, the Company had higher interest on amounts drawn on the IFC revolving credit facility and higher loan commitment fees.

Income Taxes

Income taxes amounted to \$14.7 million and \$6.3 million for the three months ended September 30, 2007 and 2006, respectively. In the three months ended September 30, 2007 and in the three months ended September 30, 2006, the income taxes were all paid in Gabon. Income taxes in the three months ended September 30, 2007 were higher than in the three months ended September 30, 2006 due to lower capital spending compared to the three months ended September 30, 2006, resulting in lower amounts costs recovered in Gabon and therefore higher profit oil tax payments. In particular, the Company incurred \$9.8 million in capital costs related to the installation of the Avouma platform during the three months ended September 30, 2006 and such costs reduced income taxes.

Discontinued Operations

Income from discontinued operations in the Philippines was \$0.5 million in the three months ended September 30, 2006 due to a reversal of a \$0.5 million tax accrual after a settlement was reached on branch profit remittance tax assessments in the Philippines. Discontinued operations activity ceased at the end of the second quarter of 2007 so there were no costs associated with discontinued operations in the three months ended September 30, 2007.

Minority Interest

The Company incurred \$1.2 million and \$1.6 million in minority interest charges in the three months ended September 30, 2007 and 2006, respectively. These minority interest charges were associated with VAALCO Energy (International), Inc., a subsidiary that is 90.01% owned by the Company.

Net Income

Net income for the three months ended September 30, 2007 was \$8.8 million, compared to net income of \$13.6 million for the same period in 2006. Higher income taxes was the primary reason for the lower net income for the three months ended September 30, 2007, although higher production costs, depreciation, depletion and amortization costs and general and administrative costs also contributed to the lower net income in 2007.

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VAALCO ENERGY, INC. AND SUBSIDIARIES

Nine months ended September 30, 2007 compared to nine months ended September 30, 2006

Revenues

Total revenues were \$88.1 million for the nine months ended September 30, 2007 compared to \$82.5 million for the comparable period in 2006. The Company sold approximately 1,334,000 net barrels of oil equivalent at an average price of \$66.05 in the nine months ended September 30, 2007. In the nine months ended September 30, 2006, the Company sold approximately 1,278,000 barrels of oil equivalent at an average price of \$64.54 per barrel. Crude oil sales are a function of the number and size of crude oil liftings in each quarter from the FPSO and thus crude oil sales do not always coincide with volumes produced in any given quarter.

Operating Costs and Expenses

Total production expenses for the nine months ended September 30, 2007 were \$11.1 million compared to \$9.3 million in the nine months ended September 30, 2006. The Company matches production expenses with crude oil sales. Any production expenses associated with unsold crude oil inventory are capitalized. Expenses in the nine months ended September 30, 2007 were higher due to higher sales volumes, higher insurance costs, higher costs of boat rentals and boat fuel and due to higher FPSO costs.

Exploration expense was \$6.1 million for the nine months ended September 30, 2007 compared to \$1.5 million in the comparable period in 2006. Exploration expense for the nine months ended September 30, 2007 included \$3.9 million associated with licensing 1,175 square kilometers of 3-D seismic data for Block 5 in Angola and \$1.3 million for acquisition and processing of 400 square kilometers of 3-D seismic offshore Gabon. In 2006, \$0.8 million of the exploration expense was associated with North Sea exploration activities and \$0.5 million with exploration activities in Gabon.

Depreciation, depletion and amortization expenses were \$13.5 million in the nine months ended September 30, 2007 compared to \$5.1 million in the nine months ended September 30, 2006. The depreciation, depletion and amortization expenses during the nine months ended September 30, 2007 reflect the effects of the increase in amortizable costs due to the addition of the Avouma and South Tchibala fields in January 2007, which are higher on a per barrel basis than for the Etame field.

General and administrative expenses for the nine months ended September 30, 2007 and 2006 were \$6.1 million and \$1.1 million for each period, respectively. During the nine months ended September 30, 2007, the Company incurred \$1.7 million of stock based compensation compared to \$0.6 million incurred in the nine months ended September 30, 2006. The Company incurred \$0.4 million of expenses associated with listing on the New York Stock Exchange in the nine months ended September 30, 2007. In both of the three months ended September 30, 2007 and 2006, the Company benefited from overhead reimbursement associated with production and development operations on the Etame Block. Due to high capital costs for the installation of the Avouma platform in the three months ended September 30, 2006 the overhead reimbursements were particularly high for that quarter.

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VAALCO ENERGY, INC. AND SUBSIDIARIES

Other Income (Expense)

Interest income received on amounts on deposit was \$2.9 million in the nine months ended September 30, 2007 compared to \$2.1 million in the nine months ended September 30, 2006. The increase in interest income received on amounts on deposit reflects higher cash balances and higher interest rates in 2007. Interest expense and financing charges for the IFC loan was \$0.9 million for the nine months ended September 30, 2007 compared to \$0.8 million for the nine months ended September 30, 2006, due to higher loan balances and higher commitment fees in the nine months ended September 30, 2007.

Income Taxes

Income taxes amounted to \$33.3 million and \$27.1 million for the nine months ended September 30, 2007 and 2006, respectively. In the nine months ended September 30, 2007 and 2006, the income taxes were all paid in Gabon. The higher income taxes paid in Gabon in nine months ended September 30, 2006 were due to higher oil prices, higher crude volumes sold and lower capital expenditures leading to less cost oil recovery.

Discontinued Operations

Expense from discontinued operations in the Philippines in the nine months ended September 30, 2007 was \$0.1 million compared to \$0.2 million in the nine months ended September 30, 2006. The \$0.2 million of expense in the nine months ended September 30, 2006 consisted primarily of accrued net amounts to settle branch profits remittances taxes in the Philippines associated with the closure of the branches which operated the former Philippines assets of the Company.

Minority Interest

The Company incurred \$3.0 million and \$4.3 million in minority interest charges in the nine months ended September 30, 2007 and 2006, respectively. These minority interest charges were associated with VAALCO Energy (International), Inc., a subsidiary that is 90.01% owned by the Company.

Net Income

Net income for the nine months ended September 30, 2007 was \$17.1 million, compared to net income of \$35.1 million for the same period in 2006. Higher production and exploration expenses, depreciation costs, general and administrative expenses and income taxes in the nine months ended September 30, 2007 contributed to the lower net income for that period.

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VAALCO ENERGY, INC. AND SUBSIDIARIES

ITEM 3. QUANTATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company's results of operations are dependent upon the difference between prices received for its oil and gas production and the costs to find and produce such oil and gas. Oil and gas prices have been and are expected in the future to be volatile and subject to fluctuations based on a number of factors beyond the control of the Company. The Company does not presently have any active hedges in place, but may do so in the future.

ITEM 4. CONTROLS AND PROCEDURES

The Company maintains disclosure controls and procedures that are designed to provide reasonable assurance that information required to be disclosed by the Company in the reports it file or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to the Company's management, including the Chief Executive Officer and Chief Financial Officer to allow timely decisions regarding required disclosure. The Company's management, including the Company's principal executive officer and principal financial officer, has evaluated the effectiveness of the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934) as of the end of the period covered by this Quarterly Report on Form 10-Q. Based on that evaluation, the Company's principal executive officer and principal financial officer have concluded that the Company's disclosure controls and procedures were effective as of the end of the period covered by this Quarterly Report on Form 10-Q. There were no changes in the Company's internal controls over financial reporting that occurred during the Company's last fiscal quarter that have materially affected, or are reasonably likely to materially affect the Company's internal control over financial reporting.

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PART II. OTHER INFORMATION

ITEM 1A. RISK FACTORS

There have been no material changes to the disclosure on this matter in our annual report on Form 10-K for the year ended December 31, 2006.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

In September 2007, the Company authorized a \$20 million open market stock buy back program. This program did not result in the Company repurchasing any common stock through September 30, 2007.

ITEM 6. EXHIBITS

(a) **Exhibits**

3. Articles of Incorporation and Bylaws
 - 3.1 Restated Certificate of Incorporation (incorporated by reference to exhibit 4.1 to the Company's Registration Statement on Form S-3 filed with the Commission on July 15, 1998, Reg. No. 333-59095).
 - 3.2 Certificate of Amendment to Restated Certificate of Incorporation (incorporated by reference to exhibit 4.2 to the Company's Registration Statement on Form S-3 filed with the Commission on July 15, 1998, Reg. No. 333-59095).
 - 3.3 Amended and Restated Bylaws dated March 24, 2005 filed with the Commission on May 2, 2005. (incorporated by reference to the Company's quarterly report on Form 10Q for the quarter ended September 30, 2005).
 - 3.4 Certificate of Designation, Preferences and Rights of Series B Preferred Stock (incorporated by reference to Form 8-K filed with the Commission on September 19, 2007)
4. Instruments Defining the Rights of Security Holders
 - 4.1 Rights Agreement, Dated as of September 14, 2007 (incorporated by reference to Form 8-A12B filed with the Commission on September 19, 2007)

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31. Rule 13a-14(a)/15d-14(a) Certifications

31.1 Certification pursuant to section 302 of the Sarbanes-Oxley Act of 2002

31.2 Certification pursuant to section 302 of the Sarbanes-Oxley Act of 2002

Section 1350 Certificates

32.1 Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act Of 2002.

32.2 Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act Of 2002.

SIGNATURES

In accordance with 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.

VAALCO ENERGY, INC.
(Registrant)

By /s/ W. RUSSELL SCHEIRMAN
W. Russell Scheirman, President,
Chief Financial Officer and Director
(on behalf of the Registrant and as the

principal financial officer)

Dated: November 9, 2007

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EXHIBIT INDEX

Exhibits

- 31.1 Certification pursuant to section 302 of the Sarbanes-Oxley Act of 2002
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- 32.1 Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act Of 2002.
- 32.2 Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act Of 2002.