

CANO PETROLEUM, INC
Form 8-K
September 12, 2006

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 OR 15(d) of The Securities Exchange Act of 1934

Date of Report (Date of earliest event reported) **September 6, 2006**

Cano Petroleum, Inc.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction
of incorporation)

001-32496
(Commission
File Number)

77-0635673
(IRS Employer
Identification No.)

801 Cherry St. Suite 3200
Fort Worth, Texas
(Address of principal executive offices)

76102
(Zip Code)

Registrant's telephone number, including area code **(817) 698-0900**

Not Applicable

(Former name or former address, if changed since last report.)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Item 1.01. Entry into a Material Definitive Agreement.

As described by Cano Petroleum, Inc. (Cano) in its Current Report on Form 8-K filed with the Securities and Exchange Commission (the Commission) on August 30, 2006 and its Amendment to Current Report on Form 8-K/A filed with the Commission on August 31, 2006, on August 25, 2006, Cano entered into a Securities Purchase Agreement (the Securities Purchase Agreement) with 32 institutional investors (the Investors) pursuant to which the Investors agreed to purchase an aggregate of 49,116 shares of Series D Convertible Preferred Stock (the Preferred Shares) at a price of \$1,000 per share and 6,584,247 shares of Cano common stock (the Common Shares) at a price of \$4.83 per share, reflecting the three day average closing price of Cano's common stock prior to August 25, 2006 and including a \$0.04 warrant value component with accompanying warrants (the Warrants) exercisable into 1,646,062 shares of common stock at an exercise price of \$4.79 per share with the right to exercise beginning on March 5, 2007 and ending on March 6, 2008. On September 6, 2006, Cano completed the transactions and entered into 18 warrant agreements (the Warrant Agreements) setting forth the terms of the Warrants exercisable into an aggregate of 1,642,062 shares of common stock. The specific Investors and the number of shares of common stock each such Investor has the right to obtain upon exercise of such Investor's Warrants is set forth in the Schedule of Buyers included in the Securities Purchase Agreement which was filed as Exhibit 10.1 to the Amendment to Current Report on Form 8-K/A filed with the Commission on August 31, 2006 and incorporated herein.

Certain Investors and affiliates of certain Investors who received Warrants have previously purchased equity from Cano in private placements.

The Form of Warrant Agreement is filed herewith as Exhibit 10.1 and is incorporated herein.

The Preferred Shares, Common Shares and Warrants sold by Cano to the Investors are not registered under the Securities Act or state securities laws and may not be offered or sold in the United States absent registration with the Commission or an applicable exemption from the registration requirements. This notice shall not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of these securities in any state in which such offer, solicitation or sale would be unlawful prior to the registration or qualification under the securities laws of such state.

Item 1.02 Termination of a Material Definitive Agreement

In connection with the closing of the transactions set forth in the Securities Purchase Agreement, on September 6, 2006, Cano paid all amounts owed (approximately \$15.2 million) under the Subordinated Credit Agreement dated as of November 29, 2005, among Cano, the lenders party thereto from time to time, Energy Components SPC EEP Energy Exploration and Production Segregated Portfolio, as administrative agent, and UnionBanCal Equities, Inc. (the Subordinated Credit Agreement) and has retired such agreement. In connection with the termination, Cano paid a 1% prepayment fee of \$150,000.

Item 9.01. Financial Statements and Exhibits.

(d) Exhibits

10.1 Form of Warrant to Purchase Common Stock dated September 6, 2006 by Cano Petroleum, Inc.

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SIGNATURES

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

CANO PETROLEUM, INC.

Date: September 11, 2006

By:

/s/ Morris B. Smith
Morris B. Smith
Senior Vice President and Chief
Financial Officer

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EXHIBIT INDEX

Exhibit

No.	Description
10.1	Form of Warrant to Purchase Common Stock dated September 6, 2006 by Cano Petroleum, Inc.

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