

CANO PETROLEUM, INC  
Form 10-Q/A  
December 26, 2006

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**  
Washington, D.C. 20549  
**FORM 10-Q/A**

**Amendment No. 1**

(Mark One)

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

For the quarterly period ended September 30, 2006

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 001-32496

**CANO PETROLEUM, INC.**  
(Exact name of registrant as specified in its charter)

**Delaware**  
(State or other jurisdiction of incorporation or organization)

**77-0635673**  
(IRS Employer Identification No.)

**The Burnett Plaza  
801 Cherry Street, Suite 3200  
Fort Worth, TX 76102**  
(Address of principal executive offices)

**(817) 698-0900**  
(Issuer's telephone number)

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 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

Edgar Filing: CANO PETROLEUM, INC - Form 10-Q/A

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

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date: 32,308,894 shares of common stock, \$.0001 par value per share, as of December 26, 2006.

---

**EXPLANATORY NOTE**

This Amendment No. 1 on Form 10-Q/A is being filed with regard to the Quarterly Report on Form 10-Q for the quarter ended September 30, 2006, filed with the Securities and Exchange Commission on November 14, 2006 for the purposes of amending and restating Part I, Item 4. Controls and Procedures to reflect that due to strengthening our internal controls over recording of deferred income taxes, a change in our internal controls over financial reporting occurred during the fiscal quarter ended September 30, 2006 that materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

This Form 10-Q/A does not reflect events occurring after the filing of the original Form 10-Q, and does not modify or update the disclosure therein other than as required to reflect the amendments described above and set forth below. Accordingly, this Amendment No. 1 on Form 10-Q/A should be read in conjunction with our original Form 10-Q for the quarter ended September 30, 2006. In addition, the filing of this Form 10-Q/A should not be deemed an admission that the original filing, when made, included any untrue statement of a material fact or omitted to state a material fact necessary to make a statement made therein not misleading. This Form 10-Q/A should be read in conjunction with our filings made with the Securities and Exchange Commission subsequent to the filing of the original Form 10-Q for the fiscal year ended September 30, 2006, including any amendments to those filings. In addition, pursuant to the rules of the Securities and Exchange Commission, Exhibits 31.1, 31.2, 31.3, 32.1, 32.2 and 32.3 of the original Form 10-Q have been amended and filed herewith to contain currently dated certifications from our Chief Executive Officer, Chief Financial Officer and Principal Accounting Officer.

**PART I - FINANCIAL INFORMATION****Item 4. Controls and Procedures.**

As discussed in our Form 10-KSB dated June 30, 2006, we did not maintain effective controls over the preparation and review of deferred tax liabilities and the related deferred income tax benefit. Specifically, this pertained to apportioning taxes between states to correctly account for the effect of changes to the state of Texas tax laws in May 2006. Internal controls have been strengthened through increased review and communication between Cano and the third-party tax preparer, which began during the preparation of the income tax accrual for the quarter ended September 30, 2006.

During the course of performing our quarter end closing procedures, as discussed in Note 11, our internal controls detected that a senior executive was involved in fraudulent sales to Cano of equipment and materials. In the opinion of management, failure to set up adequate controls over payments to vendors represents a material weakness in the Company's internal control over financial reporting as of September 30, 2006. We have implemented additional procedures to strengthen our internal controls over accounts payable processing subsequent to September 30, 2006. The additional procedures involve additional procedures to set-up new vendors in our accounts payable system and additional review of vendor invoices prior to payment.

As of the end of the period covered by this report, we conducted an evaluation, under the supervision and with the participation of our chief executive officer, chief financial officer and principal accounting officer of our disclosure controls and procedures as defined in Rule 13a-15(e) and Rule 15d-15(e) of the Securities Exchange Act of 1934 (the Exchange Act). Based upon this evaluation, our chief executive officer, chief financial officer and principal accounting officer concluded that our disclosure controls and procedures were not effective to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is: (1) accumulated and communicated to our management, including our chief executive officer, chief financial officer and principal accounting officer, as appropriate to allow timely decisions regarding required disclosure; and (2) recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission's rules and forms. This specifically pertained to the accounts payable processing, as previously discussed.

As discussed above with respect to strengthening our internal controls over recording of deferred income taxes, a change of our internal control over financial reporting occurred during the fiscal quarter ended September 30, 2006 that materially affected, or is reasonably likely to materially affect, our internal control over financial reporting. As previously stated, we implemented additional procedures to strengthen our internal controls over accounts payable subsequent to September 30, 2006.

**PART II OTHER INFORMATION****Item 6. Exhibits.**

Exhibit Number	Description
3.1	Certificate of Designation for Series D Convertible Preferred Stock incorporated by reference from Exhibit 3.1 to Current Report on Form 8-K, filed on September 7, 2006.
4.1	Registration Rights Agreement dated August 25, 2006 by and among Cano Petroleum, Inc. and the Buyers listed therein, incorporated by reference from Exhibit 4.1 to Amendment to Current Report on Form 8-K/A filed on August 31, 2006.
+10.1	Employment Agreement of Michael J. Ricketts effective July 1, 2006, incorporated by reference from Exhibit 10.1 to Current Report on Form 8-K filed on August 17, 2006.
+10.2	Employee Restricted Stock Award Agreement of Morris B. Smith dated August 11, 2006, incorporated by reference from Exhibit 10.2 to Current Report on Form 8-K filed on August 17, 2006.
+10.3	Stock Option Agreement of Dennis McCuiston dated August 11, 2006, incorporated by reference from Exhibit 10.4 to Current Report on Form 8-K filed on August 17, 2006.
+10.4	Stock Option Agreement of Patrick W. Tolbert dated August 11, 2006, incorporated by reference from Exhibit 10.4 to Current Report on Form 8-K filed on August 17, 2006.
10.5	Securities Purchase Agreement dated August 25, 2006 by and among Cano Petroleum, Inc. and the Buyers listed therein, incorporated by reference from Exhibit 10.1 to Amendment to Current Report on Form 8-K/A filed on August 31, 2006.
10.6	

## Edgar Filing: CANO PETROLEUM, INC - Form 10-Q/A

Form of Warrant to Purchase Common Stock dated September 6, 2006 by Cano Petroleum, Inc., incorporated by reference from Exhibit 10.1 to Current Report on Form 8-K filed on September 11, 2006.

- 31.1\* Certification by Chief Executive Officer, required by Rule 13a-14(a) or Rule 15d-14(a) of the Exchange Act, promulgated pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2\* Certification by Chief Financial Officer, required by Rule 13a-14(a) or Rule 15d-14(a) of the Exchange Act, promulgated pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.3\* Certification by Principal Accounting Officer, required by Rule 13a-14(a) or Rule 15d-14(a) of the Exchange Act, promulgated pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32.1\* Certification by Chief Executive Officer, required by Rule 13a-14(b) or Rule 15d-14(b) of the Exchange Act and Section 1350 of Chapter 63 of Title 18 of the United States Code, promulgated pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 32.2\* Certification by Chief Financial Officer, required by Rule 13a-14(b) or Rule 15d-14(b) of the Exchange Act and Section 1350 of Chapter 63 of Title 18 of the United States Code, promulgated pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 32.3\* Certification by Principal Accounting Officer, required by Rule 13a-14(b) or Rule 15d-14(b) of the Exchange Act and Section 1350 of Chapter 63 of Title 18 of the United States Code, promulgated pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

---

\* Filed herewith

+ Management contract or compensatory plan, contract or arrangement

3

---

**SIGNATURES**

In accordance with the requirements of the Exchange Act, the registrant caused this Form 10-Q/A to be signed on its behalf by the undersigned, thereunto duly authorized.

**CANO PETROLEUM, INC.**

Date: December 26, 2006

By: /s/ S. Jeffrey Johnson  
S. Jeffrey Johnson  
Chief Executive Officer

Date: December 26, 2006

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

Date: December 26, 2006

By: /s/ Michael J. Ricketts  
Michael J. Ricketts  
Vice-President and  
Principal Accounting Officer