

CANO PETROLEUM, INC
Form 8-K
December 28, 2007

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 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) **December 21, 2007**

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 Street, Suite 3200

Fort Worth, Texas

(Address of Principal Executive Offices)

76102

(Zip Code)

(817) 698-0900

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(Registrant's Telephone Number, Including Area Code)

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 (*see* General Instruction A.2. below):

- 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))
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**Item 2.03.
the Registrant**

Creation of a Direct Financial Obligation or an Obligation Under an Off-Balance Sheet Arrangement of

Payments and Drawdown under \$100,000,000 Credit Agreement

On November 8 and 9, 2007, Cano Petroleum, Inc. (Cano) reduced its aggregate borrowings by \$20 million to \$33.5 million under its currently existing \$100,000,000 Credit Agreement (the Credit Agreement) among Cano, as borrower, and Union Bank of California, N.A. and Natixis, as lenders. On December 21, 2007, Cano Petroleum, Inc. (Cano) increased its aggregate borrowings under the Credit Agreement to \$42 million. The interest rate on the amount borrowed fluctuates based on the LIBOR rate plus the applicable margin which ranges from 1.75% - 2.50% based on the utilization level. The average interest rate on December 21, 2007 was approximately 6.8%. No principal is due until November 29, 2009. The interest payment dates are December 31, 2007, January 14, 2008, and January 22, 2008. If the \$42 million principal is not repaid on those dates, the term and the interest rate of the applicable borrowing may be modified with the term being up to 12 months from the aforementioned dates with interest payments being due at least every 90 days thereafter.

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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: December 28, 2007

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