

ABRAXAS PETROLEUM CORP
Form 10-Q
August 09, 2013

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q
(Mark One)

- QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2013
- TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE TRANSITION PERIOD FROM _____ TO _____

COMMISSION FILE NUMBER: 001-16071

ABRAXAS PETROLEUM CORPORATION
(Exact name of registrant as specified in its charter)
Nevada

74-2584033
(I.R.S. Employer Identification
No.)

(State of Incorporation)

18803 Meisner Drive, San Antonio, TX 78258
(Address of principal executive offices) (Zip Code)

210-490-4788
(Registrant's telephone number, including area code)

Not Applicable
(Former name, former address and former fiscal year, if changed since last report)

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 the filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definition of "large accelerated filer," "accelerated filer" and "smaller reporting company"

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in Rule 12b-2 of the Exchange Act. (Check One)

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not mark if a smaller reporting company)

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

The number of shares of the issuer's common stock outstanding as of August 6, 2013 was 92,799,262.

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Forward-Looking Information

We make forward-looking statements throughout this report. Whenever you read a statement that is not simply a statement of historical fact (such as statements including words like “believe,” “expect,” “anticipate,” “intend,” “will,” “plan,” “may,” “estimate,” “could,” “potentially” or similar expressions), you must remember that these are forward-looking statements, and that our expectations may not be correct, even though we believe they are reasonable. The forward-looking information contained in this report is generally located in the material set forth under the headings “Management’s Discussion and Analysis of Financial Condition and Results of Operations” but may be found in other locations as well. These forward-looking statements generally relate to our plans and objectives for future operations and are based upon our management’s reasonable estimates of future results or trends. The factors that may affect our expectations regarding our operations include, among others, the following:

- the availability of capital;
- the prices we receive for our production and the effectiveness of our hedging activities;
- our success in development, exploitation and exploration activities;
- our ability to procure services and equipment for our drilling and completion activities;
- our ability to make planned capital expenditures;
- declines in our production of oil and gas;
- our restrictive debt covenants;
- political and economic conditions in oil producing countries, especially those in the Middle East;
- price and availability of alternative fuels;
- our acquisition and divestiture activities;
- weather conditions and events;
- the proximity, capacity, cost and availability of pipelines and other transportation facilities; and
- other factors discussed elsewhere in this report

GLOSSARY OF TERMS

Unless otherwise indicated in this report, gas volumes are stated at the legal pressure base of the State or area in which the reserves are located at 60 degrees Fahrenheit. Oil and gas equivalents are determined using the ratio of six Mcf of gas to one barrel of oil, condensate or natural gas liquids.

The following definitions shall apply to the technical terms used in this report.

Terms used to describe quantities of oil and gas:

“Bbl” – barrel or barrels.

“Bcf” – billion cubic feet of gas.

“Bcfe” – billion cubic feet of gas equivalent.

“Boe” – barrels of oil equivalent.

“MBbl” – thousand barrels.

“MBoe” – thousand barrels of oil equivalent.

“Mcf” – thousand cubic feet of gas.

“Mcfe” – thousand cubic feet of gas equivalent.

“MMBbl” – million barrels.

“MMBoe” – million barrels of oil equivalent.

“MMBtu” – million British Thermal Units of gas.

“MMcf” – million cubic feet of gas.

“MMcfe” – million cubic feet of gas equivalent.

“NGL” – natural gas liquids measured in barrels.

Terms used to describe our interests in wells and acreage:

“Developed acreage” means acreage which consists of leased acres spaced or assignable to productive wells.

“Development well” is a well drilled within the proved area of an oil or gas reservoir to the depth or stratigraphic horizon (rock layer or formation) noted to be productive for the purpose of extracting reserves.

“Dry hole” is an exploratory or development well found to be incapable of producing either oil or gas in sufficient quantities to justify completion.

“Exploratory well” is a well drilled to find and produce oil or gas in an unproved area, to find a new reservoir in a field previously found to be producing in another reservoir, or to extend a known reservoir.

“Gross acres” are the number of acres in which we own a working interest.

“Gross well” is a well in which we own an interest.

“Net acres” are the sum of fractional ownership working interests in gross acres (e.g., a 50% working interest in a lease covering 320 gross acres is equivalent to 160 net acres).

“Net well” is the sum of fractional ownership working interests in gross wells.

“Productive well” is an exploratory or a development well that is not a dry hole.

“Undeveloped acreage” means those leased acres on which wells have not been drilled or completed to a point that would permit the production of economic quantities of oil and gas, regardless of whether or not such acreage contains proved reserves.

Terms used to assign a present value to or to classify our reserves:

“Proved reserves” are those quantities of oil and gas reserves, which, by analysis of geoscience and engineering data, can be estimated with reasonable certainty to be commercially recoverable - from a given date forward, from known

reservoirs, and under defined economic conditions, operating methods, and government regulations.

“Proved developed reserves” are those quantities of oil and gas reserves that can be expected to be recovered through existing wells with existing equipment and operating methods. Additional reserves expected to be obtained through the application of fluid injection or other improved recovery techniques for supplementing the natural forces and mechanisms of primary recovery are included in “proved developed reserves” only after testing by a pilot project or after the operation of an installed program has confirmed through production response that increased recovery will be achieved.

“Proved developed non-producing reserves” are those quantities of oil and gas reserves that are developed behind pipe in an existing well bore, from a shut-in well bore or that can be recovered through improved recovery only after the necessary equipment has been installed, or when the costs to do so are relatively minor. Shut-in reserves are expected to be recovered from (1) completion intervals which are open at the time of the estimate but which have not started producing, (2) wells that were shut-in for market conditions or pipeline connections, or (3) wells not capable of production for mechanical reasons. Behind-pipe reserves are expected to be recovered from zones in existing wells that will require additional completion work or future recompletion prior to the start of production.

“Proved undeveloped reserves” or “PUDs” are those quantities of oil and gas reserves that are expected to be recovered from new wells on undrilled acreage or from existing wells where a relatively major expenditure is required for development. Reserves on undrilled acreage are limited to those drilling units offsetting productive units that are reasonably certain of production when drilled. Proved reserves for other undrilled units are claimed only where it can be demonstrated with reasonable certainty that there is continuity of production from the existing productive formation. Estimates for proved undeveloped reserves are not attributed to any acreage for which an application of fluid injection or other improved recovery technique is contemplated, unless such techniques have been proven effective by actual tests in the area and in the same reservoir.

“Probable reserves” are those additional reserves which analysis of geoscience and engineering data indicate are less likely to be recovered than proved reserves but more certain to be recovered than possible reserves.

“Possible reserves” are those additional reserves which analysis of geoscience and engineering data suggest are less likely to be recoverable than probable reserves.

“PV-10” means estimated future net revenue, discounted at a rate of 10% per annum, before income taxes and with no price or cost escalation or de-escalation, calculated in accordance with guidelines promulgated by the Securities and Exchange Commission (“SEC”).

“Standardized Measure” means estimated future net revenue, discounted at a rate of 10% per annum, after income taxes and with no price or cost escalation or de-escalation, calculated in accordance with Accounting Standards Codification (“ASC”) 932, “Disclosures About Oil and Gas Producing Activities.”

ABRAXAS PETROLEUM CORPORATION
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PART I
FINANCIAL INFORMATION

Item 1. Financial Statements

Abraxas Petroleum Corporation
Condensed Consolidated Balance Sheets
(in thousands)

	June 30, 2013 (Unaudited)	December 31, 2012
Assets		
Current assets:		
Cash and cash equivalents	\$2,432	\$2,061
Accounts receivable, net:		
Joint owners	5,647	8,883
Oil and gas production	16,366	10,887
Other	4,880	661
	26,893	20,431
Derivative asset – current	1,170	41
Assets held for sale	34,800	—
Other current assets	624	488
Total current assets	65,919	23,021
Property and equipment:		
Oil and gas properties, full cost method of accounting:		
Proved	550,407	563,317
Unproved properties excluded from depletion	3,779	2,089
Other property and equipment	38,249	37,833
Total	592,435	603,239
Less accumulated depreciation, depletion, and amortization	(404,088)	(390,407)
Total property and equipment – net	188,347	212,832
Deferred financing fees, net	2,817	3,397
Derivative asset – long-term	2,317	594
Other assets	693	763
Total assets	\$260,093	\$240,607

See accompanying notes to condensed consolidated financial statements (unaudited).

Abraxas Petroleum Corporation
Condensed Consolidated Balance Sheets (continued)
(in thousands, except share data)

	June 30, 2013 (Unaudited)	December 31, 2012
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$41,971	\$42,387
Oil and gas production payable	14,006	6,947
Accrued interest	86	75
Other accrued expenses	2,139	962
Derivative liability – current	2,532	3,462
Current maturities of long-term debt	1,634	657
Total current liabilities	62,368	54,490
Long-term debt, excluding current maturities	131,023	124,101
Other liabilities	57	367
Derivative liability – long-term	510	3,568
Future site restoration	10,136	11,381
Total liabilities	204,094	193,907
Stockholders' Equity		
Preferred stock, par value \$0.01 per share, authorized 1,000,000 shares; -0- issued and outstanding	—	—
Common stock, par value \$0.01 per share, authorized 200,000,000 shares; 92,799,762 and 92,733,448 issued and outstanding	928	927
Additional paid-in capital	252,184	250,998
Accumulated deficit	(196,796)	) (205,256)
Accumulated other comprehensive (loss) income	(317)	) 31
Total stockholders' equity	55,999	46,700
Total liabilities and stockholders' equity	\$260,093	\$240,607

See accompanying notes to condensed consolidated financial statements (unaudited).

Abraxas Petroleum Corporation
Condensed Consolidated Statements of Operations
(Unaudited)
(in thousands except per share data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Revenue:				
Oil and gas production revenues	\$21,478	\$15,934	\$42,641	\$32,313
Other	16	4	49	18
	21,494	15,938	42,690	32,331
Operating costs and expenses:				
Lease operating expenses	6,166	5,382	12,628	11,316
Production taxes	1,911	1,489	3,838	2,985
Depreciation, depletion, and amortization	5,776	5,380	12,285	10,218
Impairment	1,977	1,306	1,977	1,306
General and administrative (including stock-based compensation of \$669, \$722, \$1,142 and \$1,199, respectively)	2,797	2,404	5,327	4,305
	18,627	15,961	36,055	30,130
Operating income (loss)	2,867	(23	) 6,635	2,201
Other (income) expense:				
Interest income	—	(1	) (1	) (2
Interest expense	1,259	1,270	2,467	2,465
Amortization of deferred financing fees	343	266	676	296
(Gain) loss on derivative contracts - Realized	783	(914	) 1,708	(866
(Gain) loss on derivative contracts - Unrealized	(7,485	) (10,296	) (6,864	) (9,420
Earnings from equity method investment	—	(1,251	) —	(2,034
Other	14	—	101	42
	(5,086	) (10,926	) (1,913	) (9,519
Net income before income tax	7,953	10,903	8,548	11,720
Income tax expense	87	—	87	—
Net income	\$7,866	\$10,903	\$8,461	\$11,720
Net income per common share – basic	\$0.09	\$0.12	\$0.09	\$0.13
Net income per common share – diluted	\$0.08	\$0.12	\$0.09	\$0.13

See accompanying notes to condensed consolidated financial statements (unaudited).

Abraxas Petroleum Corporation
 Condensed Consolidated Statements of
 Other Comprehensive Income (Loss)
 (Unaudited)
 (in thousands)

	Three Months Ended		Six Months Ended		
	June 30, 2013	2012	June 30, 2013	2012	
Consolidated net income	\$7,866	\$10,903	\$8,461	\$11,720	
Other comprehensive income (loss):					
Change in unrealized value of investments	56	(34) 49	(38)
Foreign currency translation adjustment	(266) (500) (397) (215)
Other comprehensive loss	(210) (534) (348) (253)
Comprehensive income	\$7,656	\$10,369	\$8,113	\$11,467	

See accompanying notes to condensed consolidated financial statements (unaudited).

Abraxas Petroleum Corporation
Condensed Consolidated Statements of Cash Flows
(Unaudited)
(in thousands)

	Six Months Ended	
	June 30,	
	2013	2012
Operating Activities		
Net income	\$8,461	\$11,720
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Equity in gain of joint venture	—	(2,034)
Change in derivative fair value	(6,840)	(10,472)
Monetization of derivative contracts	—	12,364
Depreciation, depletion, and amortization	12,285	10,218
Impairment	1,977	1,306
Amortization of deferred financing fees	676	296
Accretion of future site restoration	335	235
Stock-based compensation	1,142	1,199
Changes in operating assets and liabilities:		
Accounts receivable	(6,474)	1,507
Other	4,941	(79)
Accounts payable and accrued expenses	6,268	(517)
Net cash provided by operating activities	22,771	25,743
Investing Activities		
Capital expenditures, including purchases and development of properties	(33,466)	(35,116)
Proceeds from sale of oil and gas properties	3,192	—
Net cash used in investing activities	(30,274)	(35,116)
Financing Activities		
Proceeds from long-term borrowings	21,000	14,500
Payments on long-term borrowings	(13,101)	(4,089)
Deferred financing fees	(96)	(603)
Exercise of stock options	44	—
Other	(29)	(128)
Net cash provided by financing activities	7,818	9,680
Effect of exchange rate changes on cash	56	1
Increase in cash	371	308
Cash and equivalents, at beginning of period	\$2,061	—
Cash and equivalents, at end of period	\$2,432	\$308
Supplemental disclosure of cash flow information:		
Interest paid	\$2,256	\$2,289

See accompanying notes to condensed consolidated financial statements (unaudited).

Abraxas Petroleum Corporation
Notes to Condensed Consolidated Financial Statements
(Unaudited)
(tabular amounts in thousands, except per unit data)

Note 1. Basis of Presentation

The accounting policies followed by Abraxas Petroleum Corporation and its subsidiaries (the “Company”) are set forth in the notes to the Company’s audited consolidated financial statements in the Annual Report on Form 10-K for the year ended December 31, 2012 filed with the SEC on March 18, 2013. Such policies have been continued without change. Also, refer to the notes to those financial statements for additional details of the Company’s financial condition, results of operations, and cash flows. All material items included in those notes have not changed except as a result of normal transactions in the interim, or as disclosed within this report. The accompanying interim condensed consolidated financial statements have not been audited by our independent registered public accountants, but in the opinion of management, reflect all adjustments necessary for a fair presentation of the financial position and results of operations. Any and all adjustments are of a normal and recurring nature. Although management believes the unaudited interim related disclosures in these condensed consolidated financial statements are adequate to make the information presented not misleading, certain information and footnote disclosures normally included in annual audited consolidated financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to the rules and regulations of the SEC. The results of operations and the cash flows for the period ended June 30, 2013 are not necessarily indicative of the results to be expected for the full year. The condensed consolidated financial statements included herein should be read in conjunction with the consolidated audited financial statements and the notes thereto included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2012.

Consolidation Principles

The terms “Abraxas,” “Abraxas Petroleum,” “we,” “us,” “our” or the “Company” refer to Abraxas Petroleum Corporation and of its subsidiaries, including Raven Drilling, LLC (“Raven Drilling”) and a wholly-owned foreign subsidiary, Canadian Abraxas Petroleum, ULC (“Canadian Abraxas”).

Canadian Abraxas’ assets and liabilities are translated to U.S. dollars at period-end exchange rates. Income and expense items are translated at average rates of exchange prevailing during the period. Translation adjustments are accumulated as a separate component of stockholders’ equity.

Rig Accounting

In accordance with SEC Regulation S-X, no income is to be recognized in connection with contractual drilling services performed in connection with properties in which the Company or its affiliates holds an ownership, or other economic interest. Any income not recognized as a result of this limitation is to be credited to the full cost pool and recognized through lower amortization as reserves are produced.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Stock-based Compensation and Option Plans

Stock Options

The Company currently utilizes a standard option-pricing model (i.e., Black-Scholes) to measure the fair value of stock options granted to employees and directors.

The following table summarizes the Company's stock-based compensation expense related to stock options for the periods presented:

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Three Months Ended		Six Months Ended	
June 30,		June 30,	
2013	2012	2013	2012
\$558	\$599	\$920	\$