

ABRAXAS PETROLEUM CORP
Form 10-Q
May 10, 2016

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 March 31, 2016

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
(State of Incorporation) (I.R.S. Employer Identification No.)
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" in Rule 12b-2 of the Exchange Act. (Check One)

Edgar Filing: ABRAXAS PETROLEUM CORP - Form 10-Q

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 May 5, 2016 was 106,387,103.

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 prices we receive for our production and the effectiveness of our hedging activities;
- the availability of capital including under our credit facility;
- our success in development, exploitation and exploration activities;
- 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 ability to procure services and equipment for our drilling and completion activities;
- 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.

Table of Contents

“Mcf” – 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 and 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:

“Developed oil and gas reserves*” Developed oil and gas reserves are reserves of any category that can be expected to be recovered:

(i) Through existing wells with existing equipment and operating methods or in which the cost of the required equipment is relatively minor compared to the cost of a new well; and

(ii) Through installed extraction equipment and infrastructure operational at the time of the reserves estimate if the extraction is by means not involving a well.

“Possible reserves*” Possible reserves are those additional reserves that are less certain to be recovered than probable reserves

“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

3

Table of Contents

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 developed reserves*” Reserves that can be expected to be recovered through existing wells with existing equipment and operating methods.

“Proved reserves*” Reserves that geological and engineering data demonstrate with reasonable certainty to be recoverable in future years from known reservoirs under existing economic and operating conditions.

“Proved undeveloped reserves” or “PUDs*” Reserves that are expected to be recovered from new wells on undrilled acreage or from existing wells, in each case where a relatively major expenditure is required.

“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.”

“Undeveloped oil and gas reserves*” Undeveloped oil and gas reserves are reserves of any category that are expected to be recovered from new wells on undrilled acreage, or from existing wells where a relatively major expenditure is required for recompletion.

* This definition is an abbreviated version of the complete definition set forth in Rule 4-10(a) of Regulation S-X. For the complete definition, see:

<http://www.ecfr.gov/cgi-bin/retrieveECFR?gp=1&SID=7aa25d3cede06103c0ecec861362497d&ty=HTML&h=L&n=pt17.3.21>

ABRAXAS PETROLEUM CORPORATION
 FORM 10 – Q
 INDEX

PART I

ITEM 1 - <u>Financial Statements</u>	
<u>Condensed Consolidated Balance Sheets - March 31, 2016</u> <u>(unaudited) and December 31, 2015</u>	<u>6</u>
<u>Condensed Consolidated Statements of Operations –</u> <u>(unaudited)</u>	<u>8</u>
<u>Three Months Ended March 31, 2016 and 2015</u>	
<u>Condensed Consolidated Statements of Cash Flows –</u> <u>(unaudited)</u>	<u>9</u>
<u>Three Months Ended March 31, 2016 and 2015</u>	
<u>Notes to Condensed Consolidated Financial Statements -</u> <u>(unaudited)</u>	<u>11</u>
<u>Management's Discussion and Analysis of Financial</u>	
ITEM 2 - <u>Condition and</u> <u>Results of Operations</u>	<u>21</u>
ITEM 3 - <u>Quantitative and Qualitative Disclosures about Market Risk</u>	<u>33</u>
ITEM 4 - <u>Controls and Procedures</u>	<u>33</u>

PART II

OTHER INFORMATION

ITEM 1 - <u>Legal Proceedings</u>	<u>34</u>
ITEM 1A <u>Risk Factors</u>	<u>34</u>
-	
ITEM 2 - <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>34</u>
ITEM 3 - <u>Defaults Upon Senior Securities</u>	<u>34</u>
ITEM 4 - <u>Mine Safety Disclosure</u>	<u>34</u>
ITEM 5 - <u>Other Information</u>	<u>34</u>
ITEM 6 - <u>Exhibits</u>	<u>34</u>
<u>Signatures</u>	<u>35</u>

Table of ContentsPart I
FINANCIAL STATEMENTS

Item 1. Financial Statements

ABRAXAS PETROLEUM CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS
(in thousands)

	March 31, 2016 (Unaudited)	December 31, 2015
Assets		
Current assets:		
Cash and cash equivalents	\$ 483	\$3,540
Accounts receivable:		
Joint owners, net	507	1,552
Oil and gas production sales	5,551	6,713
Other	389	1,241
	6,447	9,506
Derivative asset	13,091	18,902
Other current assets	699	726
Total current assets	20,720	32,674
Property and equipment:		
Oil and gas properties, full cost method of accounting:		
Proved	788,037	787,683
Other property and equipment	41,466	41,444
Total	829,503	829,127
Less accumulated depreciation, depletion, amortization and impairment	(645,652)	(604,289)
Total property and equipment, net	183,851	224,838
Deferred financing fees, net	1,477	1,642
Derivative asset	5,892	8,463
Other assets	255	255
Total assets	\$ 212,195	\$267,872

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

Table of Contents

ABRAXAS PETROLEUM CORPORATION
 CONDENSED CONSOLIDATED BALANCE SHEETS (CONTINUED)
 (in thousands, except share data)

	March 31, 2016 (Unaudited)	December 31, 2015
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$ 9,651	\$ 24,825
Joint interest oil and gas production payable	6,711	7,177
Accrued interest	107	