

ABRAXAS PETROLEUM CORP
Form 10-Q
May 10, 2018

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, 2018

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)

Large accelerated filer Accelerated filer
Non-accelerated filer Smaller reporting company
(Do not mark if a smaller reporting company) Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Sec

13(a) of the Exchange Act.

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 7, 2018 was 166,572,157.

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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 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 indebtedness and the significant amount of cash required to service our indebtedness;
- limits on our growth and our ability to finance our operations, fund our capital needs and respond to changing conditions imposed by our bank credit facility and restrictive debt covenants;
- our ability to make planned capital expenditures;
- ceiling test write-downs resulting, and that could result in the future, from lower oil and natural gas prices;
- 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.

Initial production, or IP, rates, for both our wells and for those wells that are located near our properties, are limited data points in each well’s productive history. These rates are sometimes actual rates and sometimes extrapolated or normalized rates. As such, the rates for a particular well may change as additional data becomes available. Peak production rates are not necessarily indicative or predictive of future production rates, expected ultimate recovery, or EUR, or economic rates of return from such wells and should not be relied upon for such purpose. Equally, the way we calculate and report peak IP rates and the methodologies employed by others may not be consistent, and thus the

values reported may not be directly and meaningfully comparable. Lateral lengths described are indicative only. Actual completed lateral lengths depend on various considerations such as lease-line offsets. Abraxas' standard length laterals, sometimes referred to as 5,000 foot laterals, are laterals with completed length generally between 4,000 feet and 5,500 feet. Mid-length laterals, sometimes referred to as 7,500 foot laterals, are laterals with completed length generally between 6,500 feet and 8,000 feet. Long laterals, sometimes referred to as 10,000 foot laterals, are laterals with completed length generally longer than 8,000 feet.

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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.

“Boed or Boepd” – barrels of oil equivalent per day.

“MBbl” – thousand barrels.

“MBoe” – thousand barrels of oil equivalent.

“Mcf” – thousand cubic feet of gas.

“Mcfе” – 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.

“MMcfе” – 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 a working 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.

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“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.

“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 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”). PV-10 is considered a non-GAAP financial measure under SEC regulations because it does not include the effects of future income taxes, as is required in computing the standardized measure of discounted future net cash flows. We believe that PV-10 is an important measure that can be used to evaluate the relative significance of our oil and gas properties and that PV-10 is widely used by securities analysts and investors when evaluating oil and gas companies. Because many factors that are unique to each individual company impact the amount of future income taxes to be paid, the use of a pre-tax measure provides greater comparability of assets when evaluating companies. We believe that most other companies in the oil and gas industry calculate PV-10 on the same basis. PV-10 is computed on the same basis as the standardized measure of discounted future net cash flows but without deducting income taxes.

“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=pt17.3.2>

ABRAXAS PETROLEUM CORPORATION
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FINANCIAL STATEMENTS

Item 1. Financial Statements

ABRAXAS PETROLEUM CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS
(in thousands)

	March 31, 2018 (Unaudited)	December 31, 2017
Assets		
Current assets:		
Cash and cash equivalents	\$ 5,645	\$ 1,618
Accounts receivable:		
Joint owners, net	6,816	14,218
Oil and gas production sales	17,873	17,789
Other	937	86
	25,626	32,093
Derivative asset	7	—
Other current assets	719	778
Total current assets	31,997	34,489
Property and equipment:		
Oil and gas properties, full cost method of accounting:		
Proved	954,762	923,237
Other property and equipment	39,292	39,136
Total	994,054	962,373
Less accumulated depreciation, depletion, amortization and impairment	(735,066)	(724,606)
Total property and equipment, net	258,988	237,767
Deferred financing fees, net	1,380	1,285
Derivative asset	19	—
Other assets	265	265
Total assets	\$ 292,649	\$ 273,806
See accompanying notes to condensed consolidated financial statements (unaudited).		

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

	March 31, 2018 (Unaudited)	December 31, 2017
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$ 24,257	\$ 45,570
Joint interest oil and gas production payable	14,890	11,502
Accrued interest	187	140
Other accrued expenses	752	539
Derivative liability	14,221	10,837
Current maturities of long-term debt	264	262
Total current liabilities	54,571	68,850
Long-term debt – less current maturities	107,287	87,354
Other liabilities	132	132
Derivative liability long-term	3,750	2,387
Future site restoration	9,225	8,775
Total liabilities	174,965	167,498
Commitments and contingencies (Note 9)		
Stockholders' Equity:		
Preferred stock, par value \$0.01 per share – authorized 1,000,000 shares; -0- shares issued and outstanding	—	—
Common stock, par value \$0.01 per share, authorized 400,000,000 shares; 165,881,694 and 165,889,901 issued and outstanding at March 31, 2018 and December 31, 2017, respectively	1,659	1,659
Additional paid-in capital	416,068	415,471
Accumulated deficit	(300,043)	(310,822)
Total stockholders' equity	117,684	106,308
Total liabilities and stockholders' equity	\$ 292,649	\$ 273,806

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

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ABRAXAS PETROLEUM CORPORATION
 CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
 (Unaudited)
 (in thousands except per share data)

	Three Months Ended March 31,	
	2018	2017
Revenues:		
Oil and gas production revenues		
Oil	\$35,994	\$15,502
Gas	2,377	1,982
Natural gas liquids	2,223	1,303
	40,594	18,787
Other	36	15
	40,630	18,802
Operating costs and expenses:		
Lease operating	4,569	4,118
Production and ad valorem taxes	3,113	1,620
Depreciation, depletion, and amortization	10,130	5,374
General and administrative (including stock-based compensation of \$586 and \$770, respectively)	2,728	2,737
	20,540	13,849
Operating income	20,090	4,953
Other (income) expense:		
Interest expense	1,329	507
Amortization of deferred financing fees	96	137
Loss (gain) on derivative contracts	7,883	(9,381)
Loss on sale of non-oil and gas assets	3	—
	9,311	(8,737)
Income before income tax	10,779	13,690
Income tax (expense) benefit	—	—
Net income	\$10,779	\$13,690
Net income per common share - basic	\$0.07	\$0.09
Net income per common share - diluted	\$0.06	\$0.09
Weighted average shares outstanding:		
Basic	165,133	154,118
Diluted	167,243	156,813

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

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ABRAXAS PETROLEUM CORPORATION
 CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
 (Unaudited)
 (in thousands)

	Three Months Ended March 31,	
	2018	2017
Operating Activities		
Net income	\$ 10,779	\$ 13,690
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Loss on sale of non-oil and gas assets	3	—
Net loss (gain) on derivative contracts	7,883	(9,381)
Derivative contract settlements	(3,789)	621
Depreciation, depletion, and amortization	10,130	5,374
Amortization of deferred financing fees	96	137
Accretion of future site restoration	130	112
Stock-based compensation	586	770
Changes in operating assets and liabilities:		
Accounts receivable	6,467	4,216
Other assets	686	