

ABRAXAS PETROLEUM CORP
Form 10-Q
August 12, 2008
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, 2008

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
(State of Incorporation)

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

500 N. Loop 1604 East, Suite 100, San Antonio, TX 78232
(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 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
Non-accelerated filer

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

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The number of shares of the issuer's common stock outstanding as of August 8, 2008 was:

<u>Class</u>	<u>Shares Outstanding</u>
Common Stock, \$.01 Par Value	49,203,457

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Forward-Looking Information

We make forward-looking statements throughout this document. Whenever you read a statement that is not simply a statement of historical fact (such as statements including words like “believe”, “expect”, “anticipate”, “intend”, “plan”, “seek”, “estimate”, “could”, “potentially” or similar expressions) 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 document 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:

- our high debt level;
- our success in development, exploitation and exploration activities;
- our ability to make planned capital expenditures;
- declines in our production of natural gas and crude oil;
- prices for natural gas and crude oil;
- our ability to raise equity capital or incur additional indebtedness;
- political and economic conditions in oil producing countries, especially those in the Middle East;
- prices and availability of alternative fuels;
- our restrictive debt covenants;
- our acquisition and divestiture activities;
- results of our hedging activities; and
- other factors discussed elsewhere in this report.

In addition to these factors, important factors that could cause actual results to differ materially from our expectations (“Cautionary Statements”) are disclosed under “Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2007. All subsequent written and oral forward-looking statements attributable to us, or persons acting on our behalf, are expressly qualified in their entirety by the Cautionary Statements.

ABRAXAS PETROLEUM CORPORATION

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PART 1

FINANCIAL INFORMATION

Item 1. Financial Statements

Abraxas Petroleum Corporation**Condensed Consolidated Balance Sheets****(in thousands)**

	June 30, 2008 (Unaudited)	December 31, 2007
Assets:		
Current assets:		
Cash and cash equivalents	\$ 12,710	\$ 18,936
Accounts receivable, net		
Joint owners	1,981	840
Oil and gas production	18,136	5,288
Other	79	—
	20,196	6,128
Derivative asset – current	—	2,658
Other current assets	304	377
Total current assets	33,210	28,099
Property and equipment:		
Oil and gas properties, full cost method of accounting:		
Proved	414,659	265,090
Unproved properties excluded from depletion	—	—
Other property and equipment	9,539	3,633
Total	424,198	268,723
Less accumulated depreciation, depletion, and amortization	162,794	151,696
Total property and equipment – net	261,404	117,027
Deferred financing fees, net	2,004	856
Derivative asset – long-term	—	359
Other assets	988	778
Total assets	\$ 297,606	\$ 147,119

See accompanying notes to condensed consolidated financial statements (unaudited)

Abraxas Petroleum Corporation

Condensed Consolidated Balance Sheets (continued)

(in thousands)

	June 30, 2008 (Unaudited)	December 31, 2007
Liabilities and Stockholders' Equity (Deficit)		
Current liabilities:		
Accounts payable	\$ 8,653	\$ 7,413
Joint interest oil and gas production payable	8,475	2,429
Accrued interest	1,015	241
Other accrued expenses	2,862	1,514
Derivative liability – current	41,983	5,154
Current maturities of long-term debt	50,074	—
Total current liabilities	113,062	16,751
Long-term debt, exclusive of current maturities	120,188	45,900
Derivative liability – long-term	64,133	3,941
Future site restoration	10,090	1,183
Total liabilities	307,473	67,775
Minority interest in partnership	—	23,497
Commitments and contingencies		
Stockholders' equity (deficit):		
Common Stock, par value \$.01 per share-		
Authorized 200,000 shares, issued and outstanding 49,167 and 42,762	492	490
Additional paid-in capital	186,404	185,646
Accumulated deficit	(197,470)	(130,791)
Accumulated other comprehensive income	707	502
Total stockholders' equity (deficit)	(9,867)	55,847
Total liabilities and stockholders' equity (deficit)	\$ 297,606	\$ 147,119
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,	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
Revenue:				
Oil and gas production revenues	\$ 34,083	\$ 12,660	\$ 55,946	\$ 24,192
Rig revenues	329	311	635	639
Other	11	2	12	3
	34,423	12,973	56,593	24,834
Operating costs and expenses:				
Lease operating and production taxes	7,170	3,063	12,372	6,025
Depreciation, depletion, and amortization	6,004	3,601	11,098	7,256
Rig operations	193	202	403	373
General and administrative (including stock based compensation of \$ 650, \$372, \$896, and \$544)	1,873	1,267	3,672	2,583
	15,240	8,133	27,545	16,237
Operating income	19,183	4,840	29,048	8,597
Other (income) expense:				
Interest income	(31)	(53)	(127)	(67)
Interest expense	2,672	2,784	5,138	6,935
Amortization of deferred financing fee	273	149	467	547
Loss (gain) on derivative contracts (unrealized \$74,517, \$(1,900), \$100,592 and \$(1,816))	81,135	(1,900)	108,093	(1,690)
Loss on debt extinguishment	—	6,455	—	6,455
Gain on sale of assets	—	(59,335)	—	(59,335)
Other	734	—	734	—
	84,783	(51,900)	114,305	(47,155)
Income (loss) before income tax and minority interest	(65,600)	56,740	(85,257)	55,752
Income tax expense	—	715	—	715
Income (loss) before minority interest	(65,600)	56,025	(85,257)	55,037
Minority interest in loss of partnership	7,912	1,460	18,578	1,460
Net income (loss)	\$ (57,688)	\$ 57,485	\$ (66,679)	\$ 56,497
Net income (loss) per common share – basic	\$ (1.18)	\$ 1.28	\$ (1.36)	\$ 1.29
Net income (loss) per common share – diluted	\$ (1.18)	\$ 1.26	\$ (1.36)	\$ 1.27

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,	
	2008	2007
Operating Activities		
Net income (loss)	\$ (66,679) \$ 56,497
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Minority interest in partnership loss	(18,578) (1,460
Change in derivative fair value	100,038	—
Gain on sale of assets	—	(59,335
Depreciation, depletion, and amortization	11,098	7,256
Amortization of deferred financing fees	467	547
Accretion of future site restoration	263	55
Stock-based compensation	896	544
Other non-cash expenses	42	149
Changes in operating assets and liabilities:		
Accounts receivable	(14,068) (346
Other	68	(1,422
Accounts payable and accrued expenses	16,940	(2,160
Net cash provided by operating activities	30,487	325
Investing Activities		
Capital expenditures, including purchases and development of properties	(155,475) (8,775
Net cash used in investing activities	(155,475) (8,775
Financing Activities		
Proceeds from long-term borrowings	124,362	35,790
Payments on long-term borrowings	—	(128,404
Partnership distributions	(4,029) —
Deferred financing fees	(1,615) (880
Exercise of stock options	44	1
Net proceeds from issuance of common stock	—	20,641
Net proceeds from sale of assets	—	92,747
Net cash provided by financing activities	118,762	19,895
Increase (decrease) in cash	(6,226) 11,445
Cash, at beginning of period	18,936	43
Cash, at end of period	\$ 12,710	\$ 11,488
Supplemental disclosure of cash flow information:		
Interest paid	\$ 3,975	\$ 8,085
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 share 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 filed for the year ended December 31, 2007. Such policies have been continued without change, except for the adoption of SFAS No. 157. 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 the 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 consolidated financial statements have not been audited by 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. The results of operations for the three and six months ended June 30, 2008 are not necessarily indicative of results to be expected for the full year.

The terms “Abraxas” or “Abraxas Petroleum” refer to Abraxas Petroleum Corporation and its subsidiaries other than Abraxas Energy Partners, L.P., which we refer to as “Abraxas Energy Partners” or the “Partnership”, and its subsidiary, Abraxas Operating, LLC, which we refer to as “Abraxas Operating” and the terms “we”, “us”, “our” or the “Company” refer to Abraxas Petroleum Corporation and all of its consolidated subsidiaries including Abraxas Energy Partners and Abraxas Operating effective May 25, 2007. The operations of Abraxas Petroleum and the Partnership are consolidated for financial reporting purposes with the interest of the 52.8% minority owners of the Partnership presented as minority interest. Abraxas owns the remaining 47.2% of the partnership interests. The Company has determined that based on its control of the general partner of the Partnership, this 47.2% owned entity should be consolidated for financial reporting purposes.

The condensed consolidated financial statements included herein have been prepared by Abraxas and are unaudited, except for the balance sheet at December 31, 2007, which has been derived from the audited consolidated financial statements at that date. In the opinion of management, the unaudited condensed consolidated financial statements include all recurring adjustments necessary for a fair presentation of the financial position as of June 30, 2008 and 2007, and the cash flows for each of the six-month periods ended June 30, 2008 and 2007. Although management believes the unaudited interim related disclosures in these 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 Securities and Exchange Commission. The results of operations and the cash flows for the six-month period ended June 30, 2008 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, 2007.

Use of Estimates

The preparation of financial statements in conformity with generally accepted 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

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The Company currently utilizes a standard option-pricing model (i.e., Black-Scholes) to measure the fair value of stock options granted to employees. The Company uses the Black-Scholes model for option valuation as of the current time.

The following table summarizes the stock option activities for the six months ended June 30, 2008.

	Shares (thousands)	Weighted Average Option Exercise Price Per Share	Weighted Average Grant Date Fair Value Per Share	Aggregate Intrinsic Value (thousands)
Outstanding, December 31, 2007	2,526	\$2.65	\$1.52	\$3,847
Granted	86	\$4.37	\$2.47	211
Exercised	(121)	\$1.74	\$1.08	(130)
Expired or canceled	(3)	\$4.39	\$3.35	(9)
Outstanding, June 30, 2008	2,488			