

CALLON PETROLEUM CO
Form 10-Q
November 03, 2016

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM
10-Q

Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For The Quarterly Period Ended September 30, 2016

OR

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 001-14039

Callon Petroleum Company

(Exact Name of Registrant as Specified in Its Charter)

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Delaware
64-0844345
(State or Other
Jurisdiction of (IRS
Employer
Incorporation
or Identification
Organization) No.)

200 North
Canal Street

Natchez,
Mississippi

(Address of
Principal 39120
Executive
Offices) (Zip Code)

601-442-1601

(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 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 such 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 the definitions of "large accelerated filer," "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act (check one):

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Large accelerated filer

Accelerated filer

Non-accelerated filer (Do not check if smaller reporting company) 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 Registrant had 161,041,320 shares of common stock outstanding as of October 28, 2016.

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DEFINITIONS

All defined terms under Rule 4-10(a) of Regulation S-X shall have their prescribed meanings when used in this report. As used in this document:

- ARO: asset retirement obligation.
- Bbl or Bbls: barrel or barrels of oil or natural gas liquids.
- BOE: barrel of oil equivalent, determined by using the ratio of one Bbl of oil or NGLs to six Mcf of gas. The ratio of one barrel of oil or NGL to six Mcf of natural gas is commonly used in the industry and represents the approximate energy equivalence of oil or NGLs to natural gas, and does not represent the economic equivalency of oil and NGLs to natural gas. The sales price of a barrel of oil or NGLs is considerably higher than the sales price of six Mcf of natural gas.
- BBtu: billion Btu.
- BOE/d: BOE per day.
- Btu: a British thermal unit, which is a measure of the amount of energy required to raise the temperature of one pound of water one degree Fahrenheit.
- GAAP: Generally Accepted Accounting Principles in the United States.
- Henry Hub: A natural gas pipeline delivery point that serves as the benchmark natural gas price underlying NYMEX natural gas futures contracts.
- LIBOR: London Interbank Offered Rate.
- LOE: lease operating expense.
- MBbls: thousand barrels of oil.
- MBOE: thousand BOE.
- MMBOE: million BOE.
- Mcf: thousand cubic feet of natural gas.
- MMBtu: million Btu.
- MMcf: million cubic feet of natural gas.
- NGL or NGLs: natural gas liquids, such as ethane, propane, butanes and natural gasoline that are extracted from natural gas production streams.
- NYMEX: New York Mercantile Exchange.
- Oil: includes crude oil and condensate.
- SEC: United States Securities and Exchange Commission.
- WTI: West Texas Intermediate grade crude oil, used as a pricing benchmark for sales contracts and NYMEX oil futures contracts.

With respect to information relating to our working interest in wells or acreage, “net” oil and gas wells or acreage is determined by multiplying gross wells or acreage by our working interest therein. Unless otherwise specified, all references to wells and acres are gross.

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Part I. Financial Information

Item I. Financial Statements

Callon Petroleum Company

Consolidated Balance Sheets

(in thousands, except par and per share values and share data)

	September 30, 2016	December 31, 2015
	Unaudited	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 325,885	\$ 1,224
Accounts receivable	56,172	39,624
Fair value of derivatives	3,502	19,943
Other current assets	1,712	1,461
Total current assets	387,271	62,252
Oil and natural gas properties, full cost accounting method:		
Evaluated properties	2,593,798	2,335,223
Less accumulated depreciation, depletion, amortization and impairment	(1,901,102)	(1,756,018)
Net oil and natural gas properties	692,696	579,205
Unevaluated properties	393,875	132,181
Total oil and natural gas properties	1,086,571	711,386
Other property and equipment, net	12,816	7,700
Restricted investments	3,329	3,309
Deferred financing costs	3,431	3,642
Fair value of derivatives	57	—
Acquisition deposit	32,700	—
Other assets, net	1,429	305
Total assets	\$ 1,527,604	\$ 788,594
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 99,026	\$ 70,970
Accrued interest	5,950	5,989
Cash-settleable restricted stock unit awards	8,269	10,128
Asset retirement obligations	3,529	790
Deferred tax liability	42	—
Fair value of derivatives	7,786	—
Total current liabilities	124,602	87,877
Senior secured revolving credit facility	—	40,000
Secured second lien term loan, net of unamortized deferred financing costs	290,085	288,565
Asset retirement obligations	1,934	4,317
Cash-settleable restricted stock unit awards	7,042	4,877

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Fair value of derivatives	2,936	—
Other long-term liabilities	286	200
Total liabilities	426,885	425,836
Stockholders' equity:		
Preferred stock, series A cumulative, \$0.01 par value and \$50.00 liquidation preference, 2,500,000 shares authorized: 1,458,948 and 1,578,948 shares outstanding, respectively	15	16
Common stock, \$0.01 par value, 300,000,000 and 150,000,000 shares authorized, respectively; 161,036,233 and 80,087,148 shares outstanding, respectively	1,610	801
Capital in excess of par value	1,535,661	702,970
Accumulated deficit	(436,567)	(341,029)
Total stockholders' equity	1,100,719	362,758
Total liabilities and stockholders' equity	\$ 1,527,604	\$ 788,594

The accompanying notes are an integral part of these consolidated financial statements.

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Callon Petroleum Company

Consolidated Statements of Operations

(Unaudited; in thousands, except per share data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Operating revenues:				
Oil sales	\$ 49,095	\$ 30,582	\$ 117,093	\$ 94,584
Natural gas sales	6,832	3,734	14,677	9,365
Total operating revenues	55,927	34,316	131,770	103,949
Operating expenses:				
Lease operating expenses	9,961	7,194	24,229	20,728
Production taxes	3,478	2,583	8,153	7,800
Depreciation, depletion and amortization	17,303	16,704	49,318	52,395
General and administrative	7,891	4,302	19,755	22,167
Accretion expense	187	142	762	485
Write-down of oil and natural gas properties	—	87,301	95,788	87,301
Rig termination fee	—	—	—	3,641
Acquisition expense	456	—	2,410	—
Total operating expenses	39,276	118,226	200,415	194,517
Income (loss) from operations	16,651	(83,910)	(68,645)	(90,568)
Other (income) expense:				
Interest expense, net of capitalized amounts	831	5,603	10,502	15,567
(Gain) loss on derivative contracts	(5,135)	(23,283)	11,281	(17,463)
Other income, net	(122)	(92)	(299)	(177)
Total other (income) expense	(4,426)	(17,772)	21,484	(2,073)
Income (loss) before income taxes	21,077	(66,138)	(90,129)	(88,495)
Income tax (benefit) expense	(62)	45,667	(62)	38,474
Net income (loss)	21,139	(111,805)	(90,067)	(126,969)
Preferred stock dividends	(1,824)	(1,974)	(5,471)	(5,921)
Income (loss) available to common stockholders	\$ 19,315	\$ (113,779)	\$ (95,538)	\$ (132,890)
Income (loss) per common share:				
Basic	\$ 0.14	\$ (1.72)	\$ (0.85)	\$ (2.10)
Diluted	\$ 0.14	\$ (1.72)	\$ (0.85)	\$ (2.10)
Shares used in computing income (loss) per common share:				
Basic	136,983	66,277	112,925	63,265

Diluted	137,483	66,277	112,925	63,265
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The accompanying notes are an integral part of these consolidated financial statements.

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Callon Petroleum Company

Consolidated Statements of Cash Flows

(Unaudited; in thousands)

	Nine Months Ended September 30,	
	2016	2015
Cash flows from operating activities:		
Net loss	\$ (90,067)	\$ (126,969)
Adjustments to reconcile net loss to cash provided by operating activities:		
Depreciation, depletion and amortization	50,560	52,583
Write-down of oil and natural gas properties	95,788	87,301
Accretion expense	762	485
Amortization of non-cash debt related items	2,371	2,342
Deferred income tax (benefit) expense	(62)	38,474
Net loss on derivatives, net of settlements	27,105	7,635
Non-cash expense related to equity share-based awards	(253)	(300)
Change in the fair value of liability share-based awards	6,045	4,759
Payments to settle asset retirement obligations	(895)	(3,047)
Changes in operating assets and liabilities:		
Accounts receivable	(16,444)	(7,278)
Other current assets	(251)	31
Current liabilities	19,815	6,455
Acquisition deposit	(32,700)	—
Change in other long-term liabilities	86	100
Change in other assets, net	(1,671)	421
Payments to settle vested liability share-based awards related to early retirements	—	(3,538)
Payments to settle vested liability share-based awards	(10,300)	(3,925)
Net cash provided by operating activities	49,889	55,529
Cash flows from investing activities:		
Capital expenditures	(122,698)	(175,699)
Acquisitions	(302,057)	