

CALLON PETROLEUM CO
Form 10-Q
November 05, 2015

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, 2015

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)

Edgar Filing: CALLON PETROLEUM CO - Form 10-Q

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):

Edgar Filing: CALLON PETROLEUM CO - Form 10-Q

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 66,287,148 shares of common stock outstanding as of October 30, 2015.

Table of Contents

Part I. Financial Information

Item 1. Financial Statements (Unaudited)

Consolidated Balance Sheets 4

Consolidated Statements of Operations 5

Consolidated Statements of Cash Flows 6

Notes to Consolidated Financial Statements 7

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations 16

Item 3. Quantitative and Qualitative Disclosures about Market Risk 27

Item 4. Controls and Procedures 28

Part II. Other Information

Item 1. Legal Proceedings 29

Item 1A. Risk Factors 29

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds 29

Item 3. Defaults Upon Senior Securities 29

Item 4. Mine Safety Disclosures 29

Item 5. Other Information 29

Item 6. Exhibits 30

Table of Contents

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.
- LIBOR: London Interbank Offered Rate.
- LOE: lease operating expense.
- MBbls: thousand barrels of oil.
- MBOE: thousand 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.
- GAAP: Generally Accepted Accounting Principles in the United States.

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.

Table of Contents

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, 2015	December 31, 2014
	Unaudited	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 1,922	\$ 968
Accounts receivable	39,385	30,198
Fair value of derivatives	16,763	27,850
Other current assets	1,410	1,441
Total current assets	59,480	60,457
Oil and natural gas properties, full cost accounting method:		
Evaluated properties	2,251,993	2,077,985
Less accumulated depreciation, depletion and amortization	(1,618,027)	(1,478,355)
Net oil and natural gas properties	633,966	599,630
Unevaluated properties	141,581	142,525
Total oil and natural gas properties	775,547	742,155
Other property and equipment, net	7,905	7,118
Restricted investments	3,305	3,810
Deferred tax asset	—	44,688
Deferred financing costs	15,858	18,200
Fair value of derivatives	2,203	—
Other assets, net	426	342
Total assets	\$ 864,724	\$ 876,770
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 76,162	\$ 76,753
Accrued interest	6,066	5,993
Cash-settled restricted stock unit awards	8,025	3,856
Asset retirement obligations	827	4,747
Deferred tax liability	—	6,214
Fair value of derivatives	—	1,249
Total current liabilities	91,080	98,812
Senior secured revolving credit facility	99,000	35,000
Secured second lien term loan	300,000	300,000
Asset retirement obligations	3,856	1,927
Cash-settled restricted stock unit awards	3,487	7,175

Edgar Filing: CALLON PETROLEUM CO - Form 10-Q

Other long-term liabilities	220	121
Total liabilities	497,643	443,035
Stockholders' equity:		
Preferred stock, series A cumulative, \$0.01 par value and \$50.00 liquidation preference, 2,500,000 shares authorized: 1,578,948 and 1,578,948 shares outstanding, respectively	16	16
Common stock, \$0.01 par value, 110,000,000 shares authorized; 66,279,074 and 55,225,288 shares outstanding, respectively	663	552
Capital in excess of par value	592,287	526,162
Accumulated deficit	(225,885)	(92,995)
Total stockholders' equity	367,081	433,735
Total liabilities and stockholders' equity	\$ 864,724	\$ 876,770

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

Table of Contents

Callon Petroleum Company

Consolidated Statements of Operations

(Unaudited; in thousands, except per share data)

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2015	2014	2015	2014
Operating revenues:				
Oil sales	\$ 30,582	\$ 36,346	\$ 94,584	\$ 104,965
Natural gas sales	3,734	3,311	9,365	8,479
Total operating revenues	34,316	39,657	103,949	113,444
Operating expenses:				
Lease operating expenses	7,194	6,270	20,728	14,863
Production taxes	2,583	2,247	7,800	6,429
Depreciation, depletion and amortization	16,704	16,115	52,395	38,635
General and administrative	4,302	3,261	22,167	23,707
Accretion expense	142	202	485	603
Write-down of oil and natural gas properties	87,301	—	87,301	—
Rig termination fee	—	—	3,641	—
Gain on sale of other property and equipment	—	—	—	(1,080)
Total operating expenses	118,226	28,095	194,517	83,157
Income (loss) from operations	(83,910)	11,562	(90,568)	30,287
Other income:				