

CALLON PETROLEUM CO
Form 10-Q
November 07, 2012

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q

x Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended: September 30, 2012

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)

Delaware

64-0844345

(State or other jurisdiction

(I.R.S. Employer

of incorporation or organization)

Identification No.)

200 North Canal Street

Natchez, Mississippi

39120

(Address of principal executive offices)

(Zip Code)

601-442-1601

(Registrant's telephone number, including area code)

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 such filing requirements for the past 90 days.

Yes x

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 during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes x

No ..

Indicate by check mark whether the registrant is a larger accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definition of "accelerated filer", "large accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ..

Accelerated filer x

Non-accelerated filer ..

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 x

As of November 1, 2012 there were outstanding 39,799,583 shares of the Registrant's common stock, par value \$0.01 per share.

Table of Contents

Part I. Financial Information

Item 1. Financial Statements (Unaudited)

Consolidated Balance Sheets (Unaudited) 3

Consolidated Statements of Operations (Unaudited) 3

Consolidated Statements of Comprehensive Income (Loss) (Unaudited) 3

Consolidated Statements of Cash Flows (Unaudited) 3

Notes to Consolidated Financial Statements (Unaudited) 4

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations 10

Item 3. Quantitative and Qualitative Disclosures about Market Risk 23

Item 4. Controls and Procedures 24

Part II. Other Information

Item 1. Legal Proceedings 24

Item 1A. Risk Factors 24

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds 24

Item 3. Defaults Upon Senior Securities 24

Item 4. Mine Safety Disclosures 24

Item 5. Other Information 24

Item 6. Exhibits 25

Part I. Financial Information

Item I. Financial Statements

Callon Petroleum Company

Consolidated Balance Sheets

(in thousands, except par value per share data)

	September 30, 2012 Unaudited	December 31, 2011
ASSETS		
Current assets:		
Cash and cash equivalents	\$1,485	\$43,795
Accounts receivable	16,643	15,181
Fair market value of derivatives	2,013	2,499
Other current assets	1,359	1,601
Total current assets	21,500	63,076
Oil and natural gas properties, full-cost accounting method:		
Evaluated properties	1,490,862	1,421,640
Less accumulated depreciation, depletion and amortization	(1,244,329)	(1,208,331)
Net oil and natural gas properties	246,533	213,309
Unevaluated properties excluded from amortization	45,672	2,603
Total oil and natural gas properties	292,205	215,912
Other property and equipment, net	12,374	10,512
Restricted investments	3,796	3,790
Investment in Medusa Spar LLC	8,809	9,956
Deferred tax asset	64,911	65,743
Other assets, net	2,004	718
Total assets	\$405,599	\$369,707
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	\$30,988	\$26,057
Asset retirement obligations	2,340	1,260
Fair market value of derivatives	224	—
Total current liabilities	33,552	27,317
13% Senior Notes:		
Principal outstanding	96,961	106,961
Deferred credit, net of accumulated amortization of \$17,018 and \$13,123, respectively	14,489	18,384
Total 13% Senior Notes	111,450	125,345
Senior secured revolving credit facility	40,000	—
Asset retirement obligations	11,664	12,678
Other long-term liabilities	3,471	3,165
Total liabilities	200,137	168,505
Stockholders' equity:		
Preferred Stock, \$0.01 par value, 2,500 shares authorized;	—	—
Common stock, \$0.01 par value, 60,000 shares authorized; 39,780 and 39,398 shares outstanding at September 30, 2012 and December 31, 2011,	398	394

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respectively

Capital in excess of par value	326,892	324,474
Other comprehensive income	279	1,624
Retained deficit	(122,107	) (125,290
Total stockholders' equity	205,462	201,202
Total liabilities and stockholders' equity	\$405,599	\$369,707

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

Callon Petroleum Company
Consolidated Statements of Operations (Unaudited)
(in thousands, except per share data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Operating revenues:				
Crude oil revenues	\$24,061	\$26,537	\$71,883	\$74,428
Natural gas revenues	3,341	7,013	10,174	21,404
Total oil and natural gas revenues	27,402	33,550	82,057	95,832
Operating expenses:				
Lease operating expenses	5,859	5,980	20,465	16,324
Depreciation, depletion and amortization	11,965	13,013	35,998	35,741
General and administrative	6,441	3,464	15,846	11,487
Accretion expense	574	569	1,709	1,767
Total operating expenses	24,839	23,026	74,018	65,319
Income from operations	2,563	10,524	8,039	30,513
Other (income) expenses:				
Interest expense	2,135	2,722	7,096	8,912
Gain on early extinguishment of debt	—	—	(1,366	) (1,942
Gain on acquired assets	—	(46	) —	(5,025
Unrealized loss (gain) on mark-to-market derivative instruments, net	1,598	—	(1,977) —
Other (income) expense	237	(347	) (224	) (599
Total other (income) expenses	3,970	2,329	3,529	1,346
Income (loss) before income taxes	(1,407	) 8,195	4,510	29,167
Income tax expense (benefit)	(246	) —	1,508	(2,681
Income (loss) before equity in earnings of Medusa Spar LLC	(1,161	) 8,195	3,002	31,848
Equity in earnings of Medusa Spar LLC	56	211	180	597
Net income (loss) available to common shares	\$(1,105	) \$8,406	\$3,182	\$32,445
Net income (loss) per common share:				
Basic	\$(0.03	) \$0.21	\$0.08	\$0.87
Diluted	\$(0.03	) \$0.21	\$0.08	\$0.85
Shares used in computing net income (loss) per common share:				
Basic	39,575	39,322	39,441	37,431
Diluted	39,575	39,976	40,243	38,120

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

Callon Petroleum Company
Consolidated Statements of Comprehensive Income (Loss)
(Unaudited, in thousands)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Net income (loss)	\$(1,105	) \$8,406	\$3,182	\$32,445
Other comprehensive (loss) income:				
Change in fair value of derivatives designated as hedges, net of tax	(1,268	) 8,337	(1,345	) 11,587
Total comprehensive income (loss)	\$(2,373	) \$16,743	\$1,837	\$44,032

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

Callon Petroleum Company
Consolidated Statements of Cash Flows
(Unaudited; in thousands)

	Nine Months Ended September 30,	
	2012	2011
Cash flows from operating activities:		
Net income	\$3,182	\$32,445
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation, depletion and amortization	37,005	36,501
Accretion expense	1,709	1,767
Non-cash gain on acquired assets	—	(4,979
Amortization of non-cash debt related items	293	338
Amortization of deferred credit	(2,304	) (2,361
Non-cash gain on early extinguishment of debt	(1,366	) (1,942
Equity in earnings of Medusa Spar LLC	(180	) (597
Deferred income tax expense	1,508	11,987
Valuation allowance	—	(14,668
Non-cash derivative income due to hedge ineffectiveness	(40	) (189
Non-cash unrealized gain on mark-to-market derivative instruments, net	(1,977) —
Non-cash charge related to compensation plans	1,901	1,122
Payments to settle asset retirement obligations	(1,136	) (2,428
Changes in current assets and liabilities:		
Accounts receivable	(1,260	) (5,280
Other current assets	244	37
Current liabilities	4,965	6,334
Change in natural gas balancing receivable	(96	) 198
Change in natural gas balancing payable	(152	) (29
Change in other long-term liabilities	—	100