

CALLON PETROLEUM CO
Form 10-Q
August 07, 2018
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 June 30, 2018

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 of (IRS Employer
Incorporation or Organization) Identification No.)

200 North Canal Street 39120
Natchez, Mississippi (Zip Code)
(Address of Principal Executive Offices)
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, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act (check one):

Large accelerated filer	Accelerated filer	Non-accelerated filer	(Do not check if smaller reporting company)
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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 Section 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 Registrant had 227,567,936 shares of common stock outstanding as of August 1, 2018.

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Glossary of Certain Terms

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.

ASU: accounting standards update.

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.

BOE/d: BOE per day.

BLM: Bureau of Land Management.

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.

Completion: The process of treating a drilled well followed by the installation of permanent equipment for the production of oil or natural gas or, in the case of a dry hole, the reporting of abandonment to the appropriate agency.

Cushing: An oil delivery point that serves as the benchmark oil price for West Texas Intermediate.

DOI: Department of Interior.

EPA: Environmental Protection Agency.

FASB: Financial Accounting Standards Board.

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.

Horizontal drilling: A drilling technique used in certain formations where a well is drilled vertically to a certain depth and then drilled at a right angle within a specified interval.

GHG: greenhouse gases.

LIBOR: London Interbank Offered Rate.

LOE: lease operating expense.

MBbls: thousand barrels of oil.

MBOE: thousand BOE.

Mcf: thousand cubic feet of natural gas.

MMBOE: million BOE.

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.

OPEC: Organization of Petroleum Exporting Countries.

PDPs: proved developed producing reserves.

PDNPs: proved developed non-producing reserves.

PUDs: proved undeveloped reserves.

Realized price: The cash market price less all expected quality, transportation and demand adjustments.

Royalty interest: An interest that gives an owner the right to receive a portion of the resources or revenues without having to carry any costs of development.

RSU: restricted stock units.

SEC: United States Securities and Exchange Commission.

Waha: A natural gas delivery point in West Texas that serves as the benchmark for gas delivered and sold into Pecos County.

Working interest: An operating interest that gives the owner the right to drill, produce and conduct operating activities on the property and receive a share of production and requires the owner to pay a share of the costs of drilling and production operations.

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 data)

	June 30, 2018 Unaudited	December 31, 2017
ASSETS		
Current assets:		
Cash and cash equivalents	\$509,146	\$ 27,995
Accounts receivable	111,964	114,320
Fair value of derivatives	11,569	406
Other current assets	7,689	2,139
Total current assets	640,368	144,860
Oil and natural gas properties, full cost accounting method:		
Evaluated properties	3,814,242	3,429,570
Less accumulated depreciation, depletion, amortization and impairment	(2,158,225)	(2,084,095)
Net evaluated oil and natural gas properties	1,656,017	1,345,475
Unevaluated properties	1,144,138	1,168,016
Total oil and natural gas properties	2,800,155	2,513,491
Other property and equipment, net	21,514	20,361
Restricted investments	3,393	3,372
Deferred tax asset	26	52
Deferred financing costs	5,749	4,863
Fair value of derivatives	2,299	—
Acquisition deposit	28,500	900
Other assets, net	5,322	5,397
Total assets	\$3,507,326	\$ 2,693,296
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	\$193,981	\$ 162,878
Accrued interest	11,351	9,235
Cash-settleable restricted stock unit awards	1,781	4,621
Asset retirement obligations	2,284	1,295
Fair value of derivatives	35,948	27,744
Total current liabilities	245,345	205,773
Senior secured revolving credit facility	—	25,000
6.125% senior unsecured notes due 2024, net of unamortized deferred financing costs	595,552	595,196
6.375% senior unsecured notes due 2026, net of unamortized deferred financing costs	392,907	—
Asset retirement obligations	7,782	4,725
Cash-settleable restricted stock unit awards	1,900	3,490
Deferred tax liability	2,431	1,457
Fair value of derivatives	11,136	1,284
Other long-term liabilities	665	405
Total liabilities	1,257,718	837,330
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, series A cumulative, \$0.01 par value and \$50.00 liquidation preference, 2,500,000 shares authorized; 1,458,948 shares outstanding	15	15

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Common stock, \$0.01 par value, 300,000,000 shares authorized; 227,507,031 and 201,836,172 shares outstanding, respectively	2,275	2,018
Capital in excess of par value	2,472,155	2,181,359
Accumulated deficit	(224,837)	(327,426)
Total stockholders' equity	2,249,608	1,855,966
Total liabilities and stockholders' equity	\$3,507,326	\$2,693,296

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		Six Months Ended	
	June 30,		June 30,	
	2018	2017	2018	2017
Operating revenues:				
Oil sales	\$122,613	\$72,885	\$237,898	\$144,893
Natural gas sales	14,462	9,398	26,617	18,754
Total operating revenues	137,075	82,283	264,515	163,647
Operating expenses:				
Lease operating expenses	13,141	12,145	26,179	25,084
Production taxes	7,539	4,820	16,002	10,723
Depreciation, depletion and amortization	38,733	26,213	74,151	50,646
General and administrative	8,289	6,430	17,057	11,636
Settled share-based awards	—	6,351	—	6,351
Accretion expense	206	208	424	392
Acquisition expense	1,767	2,373	2,315	2,822
Total operating expenses	69,675	58,540	136,128	107,654
Income from operations	67,400	23,743	128,387	55,993
Other (income) expenses:				
Interest expense, net of capitalized amounts	594	589	1,053	1,254
(Gain) loss on derivative contracts	16,554	(10,494)	21,036	(25,797)
Other income	(703)	(64)	(914)	(772)
Total other (income) expense	16,445	(9,969)	21,175	(25,315)
Income before income taxes	50,955	33,712	107,212	81,308
Income tax expense	481	322	976	789
Net income	50,474	33,390	106,236	80,519
Preferred stock dividends	(1,824)	(1,824)	(3,647)	(3,647)
Income available to common stockholders	\$48,650	\$31,566	\$102,589	\$76,872
Income per common share:				
Basic	\$0.23	\$0.16	\$0.50	\$0.38
Diluted	\$0.23	\$0.16	\$0.50	\$0.38
Shares used in computing income per common share:				
Basic	210,698	201,386	206,309	201,220
Diluted	211,465	201,905	207,027	201,823

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)

	Six Months Ended June 30,	
	2018	2017
Cash flows from operating activities:		
Net income	\$ 106,236	\$ 80,519
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation, depletion and amortization	75,453	51,697
Accretion expense	424	392
Amortization of non-cash debt related items	1,041	1,254
Deferred income tax expense	976	789
Net (gain) loss on derivatives, net of settlements	4,594	(28,555)
Loss on sale of other property and equipment	22	62
Non-cash expense related to equity share-based awards	2,758	5,795
Change in the fair value of liability share-based awards	549	1,691
Payments to settle asset retirement obligations	(573)	(1,581)
Changes in current assets and liabilities:		
Accounts receivable	2,380	(7,810)
Other current assets	(5,550)	(298)
Current liabilities	17,061	5,680
Other long-term liabilities	287	120
Other assets, net	(689)	(770)
Payments to settle vested liability share-based awards	(4,990)	(13,173)
Net cash provided by operating activities	199,979	95,812
Cash flows from investing activities:		
Capital expenditures	(298,370)	