

ABRAXAS PETROLEUM CORP
Form 10-Q/A
November 14, 2007

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q/A Number 1

(Mark One)

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934**

For the Quarter Ended September 30, 2007

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934**

Commission File Number 0-16701

ABRAXAS PETROLEUM CORPORATION

(Exact name of Registrant as specified in its charter)

Nevada
(State or Other Jurisdiction of
Incorporation or Organization)

74-2584033
(I.R.S. Employer
Identification Number)

500 N. Loop 1604 East, Suite 100, San Antonio, Texas 78232

(Address of Principal Executive Offices) (Zip Code)

Registrant's telephone number, including area code (210)490-4788

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 such shorter period that the restraint was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes or No

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

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Large Accelerated Filer Accelerated Filer Non-Accelerated Filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

The number of shares of the issuer's common stock, par value \$0.01 per share outstanding as of November 7, 2007 was 48,925,064.

EXPLANATORY NOTE

Abraxas Petroleum Corporation is filing this Amendment Number 1 to its Quarterly Report on Form 10-Q for the period ended September 30, 2007, initially filed with the SEC on August 8, 2007, in order to correct the accounting for depletion on oil and gas properties. Due to an error in the estimating of for proved undeveloped reserves our total proved reserves as of December 31, 2006 were revised downward. As a result of the downward adjustment to our proved reserves our depletion expense was understated by approximately \$500,000 for the nine months ended September 30, 2007. Additionally, as a result of the increase in depletion, the gain realized on the transfer of the assets to Abraxas Energy Partners increased by approximately \$837,000. This resulted in a restatement of the Condensed Balance Sheet and the Condensed Statement of Operations for the nine months ended September 30, 2007. Cash flow from operations was not impacted by this restatement. Pursuant to Rule 12b-15 under the Securities Exchange Act of 1934, the complete text of Form 10-Q as revised is included in this filing.

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 heading “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 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;
- economic and business conditions;
- political and economic conditions in oil producing countries, especially those in the Middle East;
- price 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 document.

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, 2006, as amended, which are incorporated by reference herein. 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

FORM 10 – Q/A Number 1

INDEX

PART I

FINANCIAL INFORMATION

| | | |
|----------|---|----|
| ITEM 1 - | Financial Statements | |
| | Condensed Consolidated Balance Sheets - | |
| | September 30, 2007 – (unaudited) and December 31, 2006 | 4 |
| | Condensed Consolidated Statements of Operations – (unaudited) | |
| | Three and Nine Months Ended September 30, 2007 and 2006 | 6 |
| | Condensed Consolidated Statements of Cash Flows – (unaudited) | |
| | Nine Months Ended September 30, 2007 and 2006 | 7 |
| | Notes to Condensed Consolidated Financial Statements – (unaudited) | 8 |
| ITEM 2 - | Management’s Discussion and Analysis of Financial Condition and Results of Operations | 15 |
| ITEM 3 - | Quantitative and Qualitative Disclosure about Market Risks | 25 |
| ITEM 4 - | Controls and Procedures | 26 |

PART II

OTHER INFORMATION

| | | |
|-----------|---|----|
| ITEM 1 - | Legal Proceedings | 27 |
| ITEM 1a - | Risk Factors | 27 |
| ITEM 2 - | Unregistered Sales of Equity Securities and Use of Proceeds | 27 |
| ITEM 3 - | Defaults Upon Senior Securities | 27 |
| ITEM 4 - | Submission of Matters to a Vote of Security Holders | 27 |
| ITEM 5 - | Other Information | 27 |
| ITEM 6 - | Exhibits | 27 |
| | Signatures | 28 |

Abraxas Petroleum Corporation

Condensed Consolidated Balance Sheets

(in thousands)

| | September 30, 2007 (Unaudited) | December 31, 2006 |
|--|--------------------------------------|----------------------|
| Assets: | | |
| Current assets: | | |
| Cash | \$ 13,359 | \$ 43 |
| Accounts receivable, net | | |
| Joint owners | 316 | 556 |
| Oil and gas production | 5,798 | 5,645 |
| Other | 48 | 39 |
| | 6,162 | 6,240 |
| Hedge asset – current | 3,830 | — |
| Other current assets | 419 | 470 |
| Total current assets | 23,770 | 6,753 |
| Property and equipment: | | |
| Oil and gas properties, full cost method of accounting: | | |
| Proved | 251,386 | 347,245 |
| Other property and equipment | 3,608 | 3,519 |
| Total | 254,994 | 350,764 |
| Less accumulated depreciation, depletion, and amortization | 148,271 | 246,353 |
| Total property and equipment – net | 106,723 | 104,411 |
| Deferred financing fees, net | 913 | 4,446 |
| Hedge asset – long-term | 1,327 | — |
| Other assets | 1,079 | 1,330 |
| Total assets | \$ 133,812 | \$ 116,940 |

See accompanying notes to condensed consolidated financial statements

Abraxas Petroleum Corporation

Condensed Consolidated Balance Sheets (continued)

(in thousands)

| | September 30, 2007 (Unaudited) | December 31, 2006 |
|---|--------------------------------------|----------------------|
| Liabilities and Stockholders' Equity (Deficit) | | |
| Current liabilities: | | |
| Accounts payable | \$ 2,714 | \$ 5,268 |
| Joint interest oil and gas production payable | 2,129 | 2,621 |
| Accrued interest | 849 | 1,427 |
| Other accrued expenses | 2,501 | 1,156 |
| Hedge liability – current | 822 | — |
| Total current liabilities | 9,015 | 10,472 |
| Long-term debt | 35,000 | 127,614 |
| Hedge liability – long-term | 988 | — |
| Future site restoration | 1,107 | 1,019 |
| Total liabilities | 46,110 | 139,015 |
| Minority interest in partnership | 28,827 | — |
| Commitments and contingencies | | |
| Stockholders' equity (deficit): | | |
| Common Stock, par value \$.01 per share- | | |
| Authorized 200,000 shares; issued, 48,919 and 42,762 | 489 | 428 |
| Additional paid-in capital | 187,248 | 164,210 |
| Accumulated deficit | (129,878 |) (187,493) |
| Treasury stock, at cost, -0- and 35,552 shares | — | (285) |
| Accumulated other comprehensive income | 1,016 | 975 |
| Total stockholders' equity (deficit) | 58,875 | (21,165) |
| Total liabilities and stockholders' equity | \$ 133,812 | \$ 116,940 |

See accompanying notes to condensed consolidated financial statements

Abraxas Petroleum Corporation

Consolidated Statements of Operations

(Unaudited)

(in thousands except per share data)

| | Three Months Ended | | Nine Months Ended | |
|--|--------------------|-----------|-------------------|-----------|
| | September 30, | | September 30, | |
| | 2007 | 2006 | 2007 | 2006 |
| Revenue: | | | | |
| Oil and gas production revenues | \$ 10,959 | \$ 12,711 | \$ 35,151 | \$ 37,860 |
| Rig revenues | 443 | 363 | 1,082 | 1,168 |
| Realized hedge income | 1,573 | 183 | 1,447 | 466 |
| Unrealized hedge income (loss) | 690 | (47) | 2,506 | 316 |
| Other | 2 | 6 | 5 | 15 |
| | 13,667 | 13,216 | 40,191 | 39,825 |
| Operating costs and expenses: | | | | |
| Lease operating and production taxes | 2,790 | 2,929 | 8,815 | 8,467 |
| Depreciation, depletion, and amortization | 3,611 | 3,631 | 10,867 | 10,767 |
| Rig operations | 199 | 178 | 572 | 608 |
| General and administrative (including stock-based compensation of \$204, \$208, \$748 and \$578) | 1,156 | 1,052 | 3,739 | 3,474 |
| | 7,756 | 7,790 | 23,993 | 23,316 |
| Operating income | 5,911 | 5,426 | 16,198 | 16,509 |
| Other (income) expense: | | | | |
| Interest income | (167) | (1) | (234) | (2) |
| Interest expense | 699 | 4,440 | 7,634 | 12,526 |
| Amortization of deferred financing fees | 62 | 398 | 609 | 1,193 |
| Loss on debt extinguishment | — | — | 6,455 | — |
| Gain on sale of assets | — | — | (59,335) | — |
| | 594 | 4,837 | (44,871) | 13,717 |
| Income before income tax and minority interest | 5,317 | 589 | 61,069 | 2,792 |
| Income tax expense | — | — | 715 | — |
| Income before minority interest | 5,317 | 589 | 60,354 | 2,792 |
| Minority interest in income of partnership | (2,319) | — | (859) | — |
| Net income | \$ | | | |