

HALCON RESOURCES CORP
Form 10-Q
May 08, 2012
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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 March 31, 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: 001-35467

Halcón Resources Corporation

(Exact name of registrant as specified in its charter)

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Delaware
(State or other jurisdiction of
incorporation or organization)

1311
(Primary Standard Industrial
Classification Code Number)

20-0700684
(I.R.S. Employer
Identification Number)

1000 Louisiana Street, Suite 6700, Houston, TX 77002
(Address of principal executive offices)

(832) 538-0300
(Registrant's telephone number, including area code)

(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 twelve 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.

Large Accelerated Filer Accelerated Filer
Non-Accelerated Filer (Do not check if a 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

At May 7, 2012, 143,825,987 shares of the Registrant's Common Stock were outstanding.

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First Quarter 2012 Form 10-Q Report

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Special note regarding forward-looking statements

This Quarterly Report on Form 10-Q contains, and we may from time to time otherwise make in other public filings, press releases and presentations, forward-looking statements within the meaning of the federal securities laws. All statements, other than statements of historical facts, concerning, among other things, planned capital expenditures, potential increases in oil and natural gas production, the number and location of wells to be drilled in the future, future cash flows and borrowings, pursuit of potential acquisition opportunities, our financial position, business strategy and other plans and objectives for future operations, are forward-looking statements. These forward-looking statements are identified by their use of terms and phrases such as may, expect, estimate, project, plan, believe, intend, achievable, will, continue, potential, should, could and similar terms and phrases. Although we believe that the expectations reflected in these forward-looking statements are reasonable, they do involve certain assumptions, risks and uncertainties. Actual results could differ materially from those anticipated in these forward-looking statements. One should consider carefully the statements under the Risk Factors section of the previously filed Annual Report on Form 10-K for the year ended December 31, 2011, and the other disclosures contained herein and therein, which describe factors that could cause our actual results to differ from those anticipated in the forward-looking statements, including, but not limited to, the following factors:

volatility in commodity prices for oil and natural gas;

our ability to successfully identify and acquire oil and natural gas properties, prospects and leaseholds, including undeveloped acreage in new and emerging resource plays;

our ability to successfully integrate acquired oil and natural gas businesses and operations;

our ability to profitably deploy our capital;

the possibility that our industry may be subject to future regulatory or legislative actions (including any additional taxes and changes in environmental regulation);

the presence or recoverability of estimated oil and natural gas reserves and the actual future production rates and associated costs;

the potential for production decline rates for our wells to be greater than we expect;

our ability to generate sufficient cash flow from operations, borrowings or other sources to enable us to fully develop our undeveloped acreage positions;

our ability to replace oil and natural gas reserves;

environmental risks;

drilling and operating risks;

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exploration and development risks;

competition, including competition for acreage in resource play areas;

management's ability to execute our plans to meet our goals;

our ability to attract and retain key members of senior management and key technical employees;

the cost and availability of goods and services, such as drilling rigs, fracture stimulation services and tubulars;

access to and availability of water and other treatment materials to carry out planned fracture stimulations of our wells;

access to adequate gathering systems and transportation take-away capacity, necessary to fully execute our capital program;

our ability to secure firm transportation and other marketing outlets for the natural gas, natural gas liquids and crude oil and condensate we produce and to sell these products at market prices;

general economic conditions, whether internationally, nationally or in the regional and local market areas in which we do business, may be less favorable than expected, including the possibility that the economic conditions in the United States will worsen and that capital markets are disrupted, which could adversely affect demand for oil and natural gas and make it difficult to access financial markets;

the ability to complete the acquisition of GeoResources, Inc. (GeoResources);

failure to obtain, delays in obtaining or adverse conditions contained in, any required regulatory approvals associated with the GeoResources acquisition;

our ability to successfully integrate GeoResources' operations and to realize the benefits expected from the merger;

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social unrest, political instability, armed conflict, or acts of terrorism or sabotage in oil and natural gas producing regions, such as the Middle East and Africa, or our markets; and

other economic, competitive, governmental, legislative, regulatory, geopolitical and technological factors that may negatively impact our business, operations or pricing.

All forward-looking statements are expressly qualified in their entirety by the cautionary statements in this paragraph and elsewhere in this document. Other than as required under the securities laws, we do not assume a duty to update these forward-looking statements, whether as a result of new information, subsequent events or circumstances, changes in expectations or otherwise.

Table of Contents**PART I. FINANCIAL INFORMATION****Item 1. Financial Statements (Unaudited)****HALCÓN RESOURCES CORPORATION****CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (Unaudited)****(In thousands, except per share amounts)**

	Three Months Ended March 31,	
	2012	2011
Operating revenues:		
Oil and natural gas sales		
Oil	\$ 22,997	\$ 20,412
Natural gas	1,668	2,892
NGLs	2,169	2,415
Total oil and natural gas sales	26,834	25,719
Other	36	51
Total operating revenues	26,870	25,770
Operating expenses:		
Production:		
Lease operating	8,668	8,375
Taxes	1,570	1,411
Restructuring	104	
General and administrative	20,334	4,547
Depletion, depreciation and accretion	5,979	5,675
Total operating expenses	36,655	20,008
Income (loss) from operations	(9,785)	5,762
Other expenses:		
Net loss on derivative contracts	(4,945)	(14,250)
Interest expense and other, net	(12,997)	(6,502)
Total other expenses	(17,942)	(20,752)
Loss before income taxes	(27,727)	(14,990)
Income tax provision (benefit)	5,595	(5,079)
Net loss	(33,322)	(9,911)
Preferred dividend	(1,102)	
Net loss available to common stockholders	\$ (34,424)	\$ (9,911)
Net loss per common share:		
Basic	\$ (0.50)	\$ (0.38)

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Diluted	\$ (0.50)	\$ (0.38)
Weighted average common shares outstanding:		
Basic	68,816	26,120
Diluted	68,816	26,120

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

Table of Contents**HALCÓN RESOURCES CORPORATION****CONDENSED CONSOLIDATED BALANCE SHEETS (Unaudited)**

(In thousands, except share and per share amounts)

	March 31, 2012	December 31, 2011
Current assets:		
Cash	\$ 685,783	\$ 49
Accounts receivable	10,851	10,288
Receivables from derivative contracts		260
Deferred income taxes	2,316	2,601
Inventory	4,264	4,310
Prepays and other	1,691	2,729
Total current assets	704,905	20,237
Oil and natural gas properties (full cost method):		
Evaluated	723,293	715,666
Unevaluated	16,438	
Gross oil and natural gas properties	739,731	715,666
Less accumulated depletion and impairment	(507,355)	(501,993)
Net oil and natural gas properties	232,376	213,673
Other operating property and equipment:		
Other operating assets	9,890	9,979
Less accumulated depreciation	(6,632)	(7,133)
Net other operating property and equipment	3,258	2,846
Other noncurrent assets:		
Debt issuance costs, net of amortization	5,180	5,966
Deferred income taxes	18,865	24,102
Other	4,828	978
Total assets	\$ 969,412	\$ 267,802
Current liabilities:		
Accounts payable and accrued liabilities	\$ 21,264	\$ 25,061
Liabilities from derivative contracts	1,615	265
Asset retirement obligations	1,000	1,010
Total current liabilities	23,879	26,336
Long-term debt	235,475	202,000
Other noncurrent liabilities:		
Liabilities from derivative contracts	4,046	805
Asset retirement obligations	33,152	32,703
Other	10	10
Commitments and contingencies		
Stockholders' equity:		
	298,209	

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Preferred stock: 1,000,000 shares of \$0.0001 par value authorized, 4,444.4511 shares issued and outstanding at March 31, 2012

Common stock: 336,666,666 shares of \$0.0001 par value authorized; 101,031,946 and 27,694,583 shares issued; 99,381,476 and 26,244,452 outstanding at March 31, 2012 and December 31, 2011, respectively	10	3
Additional paid-in capital	633,561	229,414
Treasury stock: 1,650,470 and 1,450,131 shares at March 31, 2012 and December 31, 2011, respectively, at cost	(9,298)	(7,159)
Accumulated deficit	(249,632)	(216,310)
Total stockholders' equity	672,850	5,948
Total liabilities and stockholders' equity	\$ 969,412	\$ 267,802

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

Table of Contents**HALCÓN RESOURCES CORPORATION****CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY (Unaudited)****(In thousands)**

	Year Ended December 31, 2011 and Three Months Ended March 31, 2012								
	Preferred Stock		Common Stock		Additional	Treasury Stock		Accumulated	Stockholders
	Shares	Amount	Shares	Amount	Paid-In Capital	Shares	Amount	Deficit	Equity
BALANCE, December 31, 2010		\$	27,533	\$ 3	\$ 226,047	1,404	\$ (6,976)	\$ (214,907)	\$ 4,167
Long term incentive plan grants			280						
Long term incentive plan forfeitures			(118)						
Net loss								(1,403)	(1,403)
Repurchase of stock						46	(183)		(183)
Share-based compensation					3,367				3,367
BALANCE, December 31, 2011			27,695	3	229,414	1,450	(7,159)	(216,310)	5,948
Warrants issued					43,590				43,590
Sale of common stock			73,333	7	274,993				275,000
Reverse-stock-split rounding			4						
Sale of preferred stock	4	311,556							311,556
Offering costs		(14,449)			(4,592)				(19,041)
Net loss								(33,322)	(33,322)
Preferred beneficial conversion feature					88,445				88,445
Preferred dividend		1,102			(1,102)				
Repurchase of stock						200	(2,139)		(2,139)
Share-based compensation					2,813				2,813
BALANCE, March 31, 2012	4	\$ 298,209	101,032	\$ 10	\$ 633,561	1,650	\$ (9,298)	\$ (249,632)	\$ 672,850

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

Table of Contents**HALCÓN RESOURCES CORPORATION****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)****(In thousands)**

	Three Months Ended March 31,	
	2012	2011
Cash flows from operating activities:		
Net loss	\$ (33,322)	\$ (9,911)
Adjustments to reconcile net loss to net cash (used in) provided by operating activities:		
Depletion, depreciation and accretion	5,979	5,675
Deferred income tax provision (benefit)	5,522	(5,140)
Stock-based compensation	1,935	669
Unrealized loss on derivatives contracts	4,851	15,992
Amortization and write-off of deferred loan costs	6,087	2,662
Non-cash interest and amortization of discount	4,065	362
Other income	(12)	(17)
Changes in assets and liabilities:		
Accounts receivable	(563)	(841)
Inventory	46	(108)
Prepaid expenses and other	(828)	260
Derivative premiums		(111)
Accounts payable and accrued liabilities	(2,950)	(5,262)
Other	(9)	(26)
Net cash (used in) provided by operating activities	(9,199)	4,204
Cash flows from investing activities:		
Oil and natural gas capital expenditures	(23,986)	(5,620)
Proceeds received from sales of oil and natural gas properties		462
Other operating property and equipment capital expenditures	(629)	(219)
Proceeds received from sales of other property and equipment	13	11
Funds held in escrow	(3,776)	
Net cash used in investing activities	(28,378)	(5,366)
Cash flows from financing activities:		
Proceeds from borrowings	237,410	224,064
Repayments of borrowings	(208,000)	(216,142)
Debt issuance costs	(4,495)	(6,712)
Offering costs	(18,056)	
Common stock repurchased	(2,139)	(43)
Preferred stock issued	311,556	
Preferred beneficial conversion feature	88,445	
Common stock issued	275,000	
Warrants issued	43,590	
Net cash provided by financing activities	723,311	1,167
Net increase in cash	685,734	5
Cash at beginning of period	49	37

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Cash at end of period	\$ 685,783	\$ 42
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The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

Table of Contents**HALCÓN RESOURCES CORPORATION****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited) Continued****(In thousands)**

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Three Months Ended March 31,	
	2012	2011
Supplemental cash flow information:		
Cash received for income taxes	\$	\$ (23)
Cash paid for interest	3,316	5,355
Disclosure of non-cash investing and financing activities:		
Asset retirement obligations	47	5
Preferred dividend	1,102	
Payment-in-kind interest	3,239	583

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

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HALCÓN RESOURCES CORPORATION

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. FINANCIAL STATEMENT PRESENTATION

Halcón Resources Corporation (Halcón or the Company) is an independent energy company engaged in the exploration, development and production of crude oil and natural gas properties located in the United States. The unaudited condensed consolidated financial statements include the accounts of all subsidiaries. All intercompany accounts and transactions have been eliminated. Certain prior year amounts have been reclassified to conform to the current year presentation. These unaudited condensed consolidated financial statements reflect, in the opinion of the Company's management, all adjustments, consisting only of normal and recurring adjustments, necessary to present fairly the financial position as of, and the results of operations for, the periods presented. During interim periods, Halcón follows the accounting policies disclosed in its 2011 Annual Report on Form 10-K, filed with the United States Securities and Exchange Commission (SEC). Please refer to the footnotes in the 2011 Annual Report on Form 10-K, when reviewing interim financial results.

Use of Estimates

The preparation of the Company's unaudited condensed consolidated financial statements in conformity with accounting principles generally accepted in the United States requires the Company's management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities, if any, at the date of the unaudited condensed consolidated financial statements and the reported amounts of revenues and expenses during the respective reporting periods. Estimates and assumptions that, in the opinion of management of the Company, are significant include oil and natural gas reserves, amortization relating to oil and natural gas properties, asset retirement obligations, fair value estimates, beneficial conversion feature estimates and income taxes. The Company bases its estimates and judgments on historical experience and on various other assumptions and information that are believed to be reasonable under the circumstances. Estimates and assumptions about future events and their effects cannot be perceived with certainty and, accordingly, these estimates may change as new events occur, as more experience is acquired, as additional information is obtained and as the Company's operating environment changes. Actual results may differ from the estimates and assumptions used in the preparation of the Company's unaudited condensed consolidated financial statements.

Interim period results are not necessarily indicative of results of operations or cash flows for the full year and accordingly, certain information normally included in financial statements prepared in accordance with accounting principles, generally accepted in the United States, has been condensed or omitted. The Company has evaluated events or transactions through the date of issuance of these unaudited condensed consolidated financial statements.

Recently Issued Accounting Pronouncements

In May 2011, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2011-04, Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in the U.S. Generally Accepted Accounting Principles (GAAP) and International Financial Accounting Reporting Standards (IFRS) . This pronouncement was issued to provide a consistent definition of fair value and ensure that the fair value measurement and disclosure requirements are similar between GAAP and IFRS. ASU 2011-04 changes certain fair value measurement principles and enhances the disclosure requirements particularly for Level 3 fair value measurements. This update is effective for reporting periods beginning on or after December 15, 2011. The adoption of ASU 2011-04 on January 1, 2012 did not have a material impact on the Company's financial position or results of operations.

In June 2011, the FASB issued ASU No. 2011-05, Presentation of Comprehensive Income . ASU 2011-05 eliminates the option to report other comprehensive income and its components in the statement of changes in stockholders' equity and requires an entity to present the total of comprehensive income, the components of net income and the components of other comprehensive income either in a single continuous statement or in two separate but consecutive statements. This update is effective for fiscal years, and interim periods within those years beginning after December 15, 2011. In December 2011, the FASB issued ASU No. 2011-12, which becomes effective at the same time as ASU 2011-05, to defer the effective date of provisions of ASU 2011-05 that relate to the presentation of reclassification adjustments. Adoption of ASU 2011-05 and ASU 2011-12 did not have an impact on the Company's financial position or results of operations.

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In December 2011, the FASB issued ASU No. 2011-11 which will enhance disclosures by requiring an entity to disclose information about netting arrangements, including rights of offset, to enable users of its financial statements to understand the effect of those arrangements on its financial position. This pronouncement was issued to facilitate comparison between financial statements prepared on the basis of GAAP and IFRS. This update is effective for annual and interim reporting periods beginning on or after January 1, 2013 and is to be applied retroactively for all comparative periods presented. The adoption of ASU 2011-11 is not expected to have a significant impact on the Company's financial position or results of operations.

2. RECAPITALIZATION

On December 21, 2011, the Company entered into a Securities Purchase Agreement (the "Purchase Agreement") with HALRES LLC (formerly, Halcón Resources, LLC). Pursuant to the Purchase Agreement, (i) HALRES LLC purchased and the Company sold 73,333,333 shares of the Company's common stock (the "Shares") for a purchase price of \$275,000,000 and (ii) HALRES LLC purchased and the Company issued a senior convertible promissory note in the principal amount of \$275,000,000 (the "Note"), together with five year warrants (the "Warrants") to purchase 36,666,666 shares of the Company's common stock at an exercise price of \$4.50 per share, subject to adjustment under certain circumstances. The Note is convertible after February 8, 2014 into 61,111,111 shares of common stock at a conversion price of \$4.50 per share, subject to adjustment under certain circumstances. The Company and HALRES LLC closed the transaction contemplated by the Purchase Agreement on February 8, 2012 (the "Closing").

During January 2012, shareholders holding a majority of the Company's outstanding shares of common stock approved the issuance of the Shares, the Note and the Warrants pursuant to the terms of the Purchase Agreement. Additionally, the Board of Directors approved, effective upon the Closing (i) the amendment of the Company's certificate of incorporation to (A) increase the Company's authorized shares of common stock from 100,000,000 shares to 1,010,000,000 shares, both of which are before the one-for-three reverse stock split; (B) a one-for-three reverse stock split of the Company's common stock (which reduced the Company's authorized shares of common stock from 1,010,000,000 to 336,666,666 shares); and (C) a name change from RAM Energy Resources, Inc. to Halcón Resources Corporation; (ii) the amendment of the Company's 2006 Long-Term Incentive Plan (the "Plan") to increase the number of shares that may be issued under the Plan from 2,466,666 to 3,700,000 shares; and (iii) on an advisory (non-binding) basis, the payments made to the Company's named executive officers in connection with the transactions contemplated by the Purchase Agreement.

The Closing of the transaction resulted in a change in control of the Company. Material events and items resulting from the transaction include the following:

Completion of transactions contemplated by the Purchase Agreement and shareholder approval as discussed above;

the resignation and termination of the Company's four executive officers and the resignation of certain other officers;

change in control payments of \$4.6 million to the officers of the Company recorded in general and administrative expense;

change in control payment of \$0.8 million pursuant to a retainer agreement with the Company's outside law firm recorded in general and administrative expense;

accelerated vesting of all unvested employee restricted stock shares and accelerated vesting and exercise of all unvested stock appreciation rights resulting in \$4.3 million of share-based compensation expense recorded in general and administrative expense;

payoff and termination of the Company's revolving credit facility of \$133.0 million plus accrued interest, as well as the expensing of the related unamortized debt issue costs of \$2.9 million;

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payoff and termination of the Company's second lien term facility of \$75.0 million plus accrued interest and a prepayment fee of \$1.5 million, as well as the expensing of the related unamortized debt issue costs of \$2.9 million; and

closing costs of \$11.2 million related to engagement fees and various professional fees including \$2.5 million recorded in general and administrative expense related to a termination fee pursuant to a previous engagement.

During January 2012, the Company approved a one-for-three reverse stock split, which was implemented on February 10, 2012. Retroactive application of the reverse stock split is required and all share and per share information included for all periods presented in these financial statements reflect the reverse stock split.

During February 2012, the transaction with HALRES LLC resulted in an ownership change as defined under Section 382 of the Internal Revenue Code. As a consequence, the Company will have additional limitations on its ability to use the net operating losses it accrued before the change-in-control as a deduction against any taxable income the Company realizes after the change-in-control.

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3. RESTRUCTURING