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CALLON PETROLEUM CO

Form 10-K

March 15, 2012

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

Form 10-K

for the year ended

December 31, 2011

Annual report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 For the fiscal year ended December 31, 2011, 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

(State or other jurisdiction of incorporation or organization)

200 North Canal Street

Natchez, Mississippi

(Address of principal executive offices)

601-442-1601

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class:

Common Stock, \$.01 par value

Securities registered pursuant to section 12 (g) of the Act: None

Indicate by check mark whether the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes

No

Indicate by check mark whether the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Yes

No

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrants knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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 definition of "large accelerated filer," "accelerated filer," and "smaller reporting

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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 ]

The aggregate market value of the voting and non-voting common equity stock held by non-affiliates of the registrant was \$260.1 million as of June 30, 2011.

As of March 14, 2012, 39,410,094 shares of the Registrant’s common stock, par value \$.01 per share, were outstanding.

Documents Incorporated by Reference

Portions of the definitive Proxy Statement of Callon Petroleum Company (to be filed no later than 120 days after December 31, 2011) relating to the Annual Meeting of Stockholders to be held on May 10, 2012, which are incorporated into Part III of this Form 10-K.

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## Special Note Regarding Forward Looking Statements

All statements, other than historical fact or present financial information, may be deemed to be forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. All statements that address activities, outcomes and other matters that should or may occur in the future, including, without limitation, statements regarding the financial position, business strategy, production and reserve quantities, present value and growth and other plans and objectives for our future operations, are forward-looking statements. Although we believe the expectations expressed in such forward-looking statements are based on reasonable assumptions, such statements are not guarantees of future performance. We have no obligation and make no undertaking to publicly update or revise any forward-looking statements, except as may be required by law.

Forward-looking statements include the items identified in the preceding paragraph, information concerning possible or assumed future results of operations and other statements in this Form 10-K identified by words such as “anticipate,” “project,” “intend,” “estimate,” “expect,” “believe,” “predict,” “budget,” “projection,” “goal,” “plan,” “forecast,” “target” or similar words.

You should not place undue reliance on forward-looking statements. They are subject to known and unknown risks, uncertainties and other factors that may affect our operations, markets, products, services and prices and cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. In addition to any assumptions and other factors referred to specifically in connection with forward-looking statements, risks, uncertainties and factors that could cause our actual results to differ materially from those indicated in any forward-looking statement include, but are not limited to:

- the timing and extent of changes in market conditions and prices for commodities (including regional basis differentials);
- our ability to transport our production to the most favorable markets or at all;
- the timing and extent of our success in discovering, developing, producing and estimating reserves;
- our ability to respond to low natural gas prices;
- our ability to fund our planned capital investments;
- the impact of government regulation, including any increase in severance or similar taxes, legislation relating to hydraulic fracturing, the climate and over-the-counter derivatives;
- the costs and availability of oilfield personnel services and drilling supplies, raw materials, and equipment and services;
- our future property acquisition or divestiture activities;
- the effects of weather;
- increased competition;
- the financial impact of accounting regulations and critical accounting policies;
- the comparative cost of alternative fuels;
- conditions in capital markets, changes in interest rates and the ability of our lenders to provide us with funds as agreed;
- credit risk relating to the risk of loss as a result of non-performance by our counterparties; and
- any other factors listed in the reports we have filed and may file with the Securities and Exchange Commission (“SEC”).

We caution you that the forward-looking statements contained in this Form 10-K are subject to all of the risks and uncertainties, many of which are beyond our control, incident to the exploration for and development, production and sale of oil and natural gas. These risks include, but are not limited to, the risks described in Item 1A of this Annual Report on Form 10-K for the year ended December 31, 2011 and all quarterly reports on Form 10-Q filed subsequently thereto (“Form 10-Qs”).

Should one or more of the risks or uncertainties described above or elsewhere in this Form 10-K occur, or should underlying assumptions prove incorrect, our actual results and plans could differ materially from those expressed in any forward-looking statements. We specifically disclaim all responsibility to publicly update any information contained in a forward-looking statement or any forward-looking statement in its entirety and therefore disclaim any resulting liability for potentially related damages.

All forward-looking statements attributable to us are expressly qualified in their entirety by this cautionary statement.

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DEFINITIONS

All defined terms under Rule 4-10(a) of Regulation S-X shall have their statutorily prescribed meanings when used in this report. As used in this document:

3-D: three-dimensional.

ARO: Asset Retirement Obligation.

Bbl or Bbls: barrel or barrels of oil or natural gas liquids.

Bcf: billion cubic feet.

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.

BOEM: Bureau of Ocean Energy Management, Regulation and Enforcement; formerly the Minerals Management Service ("MMS").

Btu: a British thermal unit, a measure of heating value. One Mcf of natural gas generally contains one MMBtu of energy.

BSEE: Bureau of Safety and Environmental Enforcement.

EPA: Environmental Protection Agency.

GHG: greenhouse gases.

LIBOR: London Interbank Offered Rate.

Mbbls: thousand barrels of oil.

Mboe: thousand boe.

Mboe/d: Mboe per day.

Mcfe: thousand cubic feet of natural gas equivalents.

Mcf/d: Mcf per day.

MMbbls: million barrels of oil.

MMboe: million boe.

MMBtu: million Btu.

MMcf: million cubic feet of natural gas.

MMcf/d: MMcf per day.

MMS: Minerals Management Service.

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.

OCS: outer continental shelf.

Oil: includes crude oil and condensate.

ONRR: Office of Natural Resources Revenue.

PDPs: proved developed producing reserves.

PDNPs: proved developed non-producing reserves.

PUDs: proved undeveloped reserves.

Reserve life: a measurement of the time it will take to produce our proved reserves calculated by dividing our estimate net equivalent reserves at December 31, 2011 by our production during 2011 on an equivalent basis.

SEC: United States Securities and Exchange Commission.

US 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.



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PART I.

Items 1 and 2 - BUSINESS and PROPERTIES

Overview and Business Strategy

Callon Petroleum Company has been engaged in the exploration, development, acquisition and production of oil and natural gas properties since 1950. The Company was incorporated under the laws of the state of Delaware in 1994 and succeeded to the business of a publicly traded limited partnership, a joint venture with a consortium of European investors and an independent energy company partially owned by a member of current management. As used herein, the “Company,” “Callon,” “we,” “us,” and “our” refer to Callon Petroleum Company and its predecessors and subsidiaries unless the context requires otherwise.

In 2009, the Company began to shift its operational focus from exploration, development and production in the Gulf of Mexico to the acquisition and development of onshore properties located in the Permian Basin in Texas and the Haynesville Shale area in Louisiana. As of December 31, 2011, we had estimated net proved reserves of 10.1 MMbbls and 35.1 Bcf, or 15.9 MMboe. Of these reserves and on an MMboe basis, approximately 61% were located onshore in the Permian Basin and Haynesville Shale plays, compared with approximately 50% located onshore at December 31, 2010.

Well count information is presented gross unless otherwise indicated.

Our Business Strategy

Our goal is to increase stockholder value by:

- increasing reserves and production levels by using cash flows from, or monetization of, our Gulf of Mexico properties to acquire and develop lower risk, long-life onshore oil and natural gas properties;

- increasing our reserve life and predictability of production by focusing on acquisition and development of long-life onshore properties;

- diversifying risk by substantially increasing the number of productive wells we own; and

- strengthening our balance sheet by focusing on maintaining liquidity and a reduction of our average debt per Boe of proved reserves.

Our Strengths

We believe that we are well positioned to achieve our business objectives and to execute our strategy because of the following competitive strengths:

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