

HALCON RESOURCES CORP  
Form 10-Q  
May 02, 2018

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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

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**FORM 10-Q**

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

**For the quarterly period ended March 31, 2018**

**OR**

o **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**

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**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)  
**1000 Louisiana Street, Suite 1500, Houston, TX 77002**  
(Address of principal executive offices)

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

**(832) 538-0300**  
(Registrant's telephone number, including area code)  
(Former name, former address and former fiscal year, if changed since last report)

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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, a 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.

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company

(Do not check if a  
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

At April 27, 2018, 160,457,918 shares of the Registrant's Common Stock were outstanding.

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**Special note regarding forward-looking statements**

This Quarterly Report on Form 10-Q contains 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," "objective," "believe," "predict," "intend," "achievable," "anticipate," "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. Readers should consider carefully the risks described under the "Risk Factors" section of our previously filed Annual Report on Form 10-K for the fiscal year ended December 31, 2017, as well as 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, natural gas and NGLs;

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

our ability to replace our oil and natural gas reserves and production;

the possibility that acquisitions may involve unexpected costs or delays, and that acquisitions may not achieve intended benefits and may divert management's time and energy;

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

we have historically had substantial indebtedness and we may incur more debt in the future;

higher levels of indebtedness make us more vulnerable to economic downturns and adverse developments in our business;

the presence or recoverability of estimated oil and natural gas reserves attributable to our properties and the actual future production rates and associated costs of producing those oil and natural gas reserves;

our ability to successfully develop our large inventory of undeveloped acreage;

our ability to retain key members of senior management, the board of directors, and key technical employees;

access to and availability of water and other treatment materials to carry out fracture stimulations in our resource play;

access to adequate gathering systems, processing and treating facilities and transportation take-away capacity to move our production to market and marketing outlets to sell our production at market prices;

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



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contractual limitations that affect our management's discretion in managing our business, including covenants that, among other things, limit our ability to incur debt, make investments and pay cash dividends;

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

competition, including competition for acreage in our resource play;

environmental risks;

drilling and operating risks;

exploration and development risks;

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

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 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 capital;

social unrest, political instability or armed conflict in major oil and natural gas producing regions outside the United States, such as the Middle East, and armed conflict or acts of terrorism or sabotage;

other economic, competitive, governmental, regulatory, legislative, including federal and state regulations and laws, geopolitical and technological factors that may negatively impact our business, operations or oil and natural gas prices;

our insurance coverage may not adequately cover all losses that we may sustain;

title to the properties in which we have an interest may be impaired by title defects; and

senior management's ability to execute our plans to meet our goals.

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. Condensed Consolidated Financial Statements (Unaudited)****HALCÓN RESOURCES CORPORATION****CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (Unaudited)****(In thousands, except per share amounts)**

	<b>Three Months Ended March 31,</b>	
	<b>2018</b>	<b>2017</b>
<b>Operating revenues:</b>		
Oil, natural gas and natural gas liquids sales:		
Oil	\$ 43,069	\$ 122,521
Natural gas	2,319	6,219
Natural gas liquids	3,712	6,025
Total oil, natural gas and natural gas liquids sales	49,100	134,765
Other	155	833
Total operating revenues	49,255	135,598
<b>Operating expenses:</b>		
Production:		
Lease operating	4,915	20,644
Workover and other	1,361	11,441
Taxes other than income	3,029	11,576
Gathering and other	6,422	11,942
Restructuring	101	755
General and administrative	15,210	20,849
Depletion, depreciation and accretion	15,991	32,886
(Gain) loss on sale of oil and natural gas properties	3,679	(231,190)
Total operating expenses	50,708	(121,097)
<b>Income (loss) from operations</b>	<b>(1,453)</b>	<b>256,695</b>
<b>Other income (expenses):</b>		
Net gain (loss) on derivative contracts	5,903	26,398
Interest expense and other	(7,048)	(24,843)
Gain (loss) on extinguishment of debt		(56,898)
Total other income (expenses)	(1,145)	(55,343)
Income (loss) before income taxes	(2,598)	201,352
Income tax benefit (provision)		(12,000)
<b>Net income (loss)</b>	<b>(2,598)</b>	<b>189,352</b>
Non-cash preferred dividend		(801)
<b>Net income (loss) available to common stockholders</b>	<b>\$ (2,598)</b>	<b>\$ 188,551</b>

**Net income (loss) per share of common stock:**

Basic	\$	(0.02)	\$	2.07
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Diluted	\$	(0.02)	\$	1.69
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**Weighted average common shares outstanding:**

Basic	153,884	91,274
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Diluted	153,884	112,084
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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 BALANCE SHEETS (Unaudited)****(In thousands, except share and per share amounts)**

	<b>March 31, 2018</b>	<b>December 31, 2017</b>
<b>Current assets:</b>		
Cash and cash equivalents	\$ 382,075	\$ 424,071
Accounts receivable	41,608	36,416
Receivables from derivative contracts	13,465	677
Prepays and other	10,520	10,628
Total current assets	447,668	471,792
<b>Oil and natural gas properties (full cost method):</b>		
Evaluated	984,861	877,316
Unevaluated	898,515	765,786
Gross oil and natural gas properties	1,883,376	1,643,102
Less accumulated depletion	(584,616)	(570,155)
Net oil and natural gas properties	1,298,760	1,072,947
<b>Other operating property and equipment:</b>		
Other operating property and equipment	130,820	101,282
Less accumulated depreciation	(5,424)	(4,092)
Net other operating property and equipment	125,396	97,190
<b>Other noncurrent assets:</b>		
Receivables from derivative contracts	4,590	
Funds in escrow and other	21,658	1,691
<b>Total assets</b>	<b>\$ 1,898,072</b>	<b>\$ 1,643,620</b>
<b>Current liabilities:</b>		
Accounts payable and accrued liabilities	\$ 113,606	\$ 131,087
Liabilities from derivative contracts	26,448	19,248
Total current liabilities	140,054	150,335
<b>Long-term debt, net</b>	<b>612,055</b>	<b>409,168</b>
<b>Other noncurrent liabilities:</b>		
Liabilities from derivative contracts	7,097	7,751
Asset retirement obligations	4,641	4,368
<b>Commitments and contingencies (Note 9)</b>		
<b>Stockholders' equity:</b>		
Common stock: 1,000,000,000 shares of \$0.0001 par value authorized; 160,468,799 and 149,379,491 shares issued and outstanding as of March 31, 2018 and December 31, 2017, respectively	16	15
Additional paid-in capital	1,081,105	1,016,281

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Retained earnings (accumulated deficit)	53,104	55,702
Total stockholders' equity	1,134,225	1,071,998
<b>Total liabilities and stockholders' equity</b>	<b>\$ 1,898,072</b>	<b>\$ 1,643,620</b>

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)

	Preferred Stock		Common Stock		Additional Paid-In Capital	Retained Earnings (Accumulated Deficit)	Stockholders' Equity
	Shares	Amount	Shares	Amount			
<b>Balances at December 31, 2016</b>		\$	92,991	\$ 9	\$ 592,663	\$ (479,984)	\$ 112,688
Net income (loss)						535,686	535,686
Sale of preferred stock	6				352,048		352,048
Preferred beneficial conversion feature					48,007		48,007
Conversion of preferred stock	(6)		55,180	6	(6)		
Offering costs					(11,919)		(11,919)
Long-term incentive plan grants			2,022				
Long-term incentive plan forfeitures			(498)				
Reduction in shares to cover individuals' tax withholding			(316)		(1,995)		(1,995)
Stock-based compensation					37,483		37,483
<b>Balances at December 31, 2017</b>			149,379	15	1,016,281	55,702	1,071,998
Net income (loss)						(2,598)	(2,598)
Common stock issuance			9,200	1	63,479		63,480
Offering costs					(3,044)		(3,044)
Stock option exercises			42		322		322
Long-term incentive plan grants			1,922				
Long-term incentive plan forfeitures			(74)				
Stock-based compensation					4,067		4,067
<b>Balances at March 31, 2018</b>		\$	160,469	\$ 16	\$ 1,081,105	\$ 53,104	\$ 1,134,225

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)**

	<b>Three Months Ended March 31,</b>	
	<b>2018</b>	<b>2017</b>
<b>Cash flows from operating activities:</b>		
Net income (loss)	\$ (2,598)	\$ 189,352
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depletion, depreciation and accretion	15,991	32,886
(Gain) loss on sale of oil and natural gas properties	3,679	(231,190)
Stock-based compensation, net	3,581	8,347
Unrealized loss (gain) on derivative contracts	(11,113)	(24,214)
Amortization of deferred loan costs	292	185
Amortization of discount and premium	132	1,644
Loss (gain) on extinguishment of debt		56,898
Accrued settlements on derivative contracts	1,492	(1,265)
Other income (expense)	(1,386)	(883)
Change in assets and liabilities:		
Accounts receivable	(5,213)	30,023
Prepays and other	108	820
Accounts payable and accrued liabilities	(17,547)	(17,043)
Net cash provided by (used in) operating activities	(12,582)	45,560
<b>Cash flows from investing activities:</b>		
Oil and natural gas capital expenditures	(127,885)	(43,803)
Proceeds received from sale of oil and natural gas properties	(4,034)	477,306
Acquisition of oil and natural gas properties	(132,464)	(707,304)
Acquisition of other operating property and equipment		(25,538)
Other operating property and equipment capital expenditures	(30,721)	(502)
Proceeds received from sale of other operating property and equipment	1,899	10,286
Funds held in escrow and other	157	
Net cash provided by (used in) investing activities	(293,048)	(289,555)
<b>Cash flows from financing activities:</b>		
Proceeds from borrowings	206,000	1,029,000
Repayments of borrowings		(1,065,000)
Cash payments to Noteholders		(30,917)
Debt issuance costs	(3,371)	(15,508)
Preferred stock issued		400,055
Common stock issued	63,480	
Offering costs and other	(2,475)	(11,502)
Net cash provided by (used in) financing activities	263,634	306,128
<b>Net increase (decrease) in cash and cash equivalents</b>	(41,996)	62,133
Cash and cash equivalents at beginning of period	424,071	24
Cash and cash equivalents at end of period	\$ 382,075	\$ 62,157

