

HALCON RESOURCES CORP  
Form 10-Q  
July 31, 2014

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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 June 30, 2014**

**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 6700, 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)

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(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, 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       Smaller Reporting Company

(Do not check if a  
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 July 25, 2014, 421,570,923 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, 2013, 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:

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

the possibility that acquisitions and divestitures may involve unexpected costs or delays, and that acquisitions may not achieve intended benefits and will divert management's time and energy, which could have an adverse effect on our financial position, results of operations, or cash flows;

risks in connection with potential acquisitions and the integration of significant acquisitions;

we have substantial indebtedness and may incur more debt; higher levels of indebtedness make us more vulnerable to economic downturns and adverse developments in our business;

our ability to successfully develop our large inventory of undeveloped acreage in our resource plays;

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

access to adequate gathering systems, processing facilities, transportation take-away capacity to move our production to market and marketing outlets to sell our production at market prices, which is necessary to fully execute our capital program;

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

volatility in commodity prices for oil and natural gas;

our ability to replace our oil and natural gas reserves;

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

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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;

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

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competition, including competition for acreage in resource play holdings;

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, state and tribal regulations and laws, geopolitical and technological factors that may negatively impact our business, operations or oil and natural gas prices;

the insurance coverage maintained by us may not adequately cover all losses that may be sustained in connection with our business activities;

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

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

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

our dependency on the skill, ability and decisions of third party operators of the oil and natural gas properties in which we have a non-operated working interest.

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 June 30,</b>		<b>Six Months Ended June 30,</b>	
	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>
<b>Operating revenues:</b>				
Oil, natural gas and natural gas liquids sales:				
Oil	\$ 304,212	\$ 202,490	\$ 560,241	\$ 383,317
Natural gas	10,308	6,845	19,717	12,514
Natural gas liquids	9,364	4,254	18,123	8,082
Total oil, natural gas and natural gas liquids sales	323,884	213,589	598,081	403,913
Other	3,260	754	4,212	1,284
Total operating revenues	327,144	214,343	602,293	405,197
<b>Operating expenses:</b>				
Production:				
Lease operating	30,968	31,833	67,606	57,137
Workover and other	3,988	623	6,777	2,247
Taxes other than income	30,310	18,567	54,470	36,003
Gathering and other	5,898	2,802	10,659	3,135
Restructuring		(164)	987	507
General and administrative	27,743	33,526	60,541	65,123
Depletion, depreciation and accretion	133,470	95,315	253,378	177,173
Full cost ceiling impairment			61,165	
Other operating property and equipment impairment	3,477		3,789	
Total operating expenses	235,854	182,502	519,372	341,325
<b>Income (loss) from operations</b>	<b>91,290</b>	<b>31,841</b>	<b>82,921</b>	<b>63,872</b>
<b>Other income (expenses):</b>				
Net gain (loss) on derivative contracts	(121,042)	34,100	(154,698)	15,678
Interest expense and other, net	(37,725)	(5,732)	(68,664)	(10,582)
Total other income (expenses)	(158,767)	28,368	(223,362)	5,096

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Income (loss) before income taxes	(67,477)	60,209	(140,441)	68,968
Income tax benefit (provision)		(23,121)		(26,415)

<b>Net income (loss)</b>	(67,477)	37,088	(140,441)	42,553
Series A preferred dividends	(4,960)	(716)	(9,919)	(716)
Preferred dividends on redeemable noncontrolling interest	(896)		(896)	

<b>Net income (loss) available to common stockholders</b>	\$ (73,333)	\$ 36,372	\$ (151,256)	\$ 41,837
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**Net income (loss) per share of common stock:**

Basic	\$ (0.18)	\$ 0.10	\$ (0.37)	\$ 0.12
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Diluted	\$ (0.18)	\$ 0.08	\$ (0.37)	\$ 0.11
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**Weighted average common shares outstanding:**

Basic	414,722	366,712	414,125	356,482
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Diluted	414,722	441,145	414,125	412,412
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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>June 30, 2014</b>	<b>December 31, 2013</b>
<b>Current assets:</b>		
Cash	\$ 161,272	\$ 2,834
Accounts receivable	308,879	312,518
Receivables from derivative contracts	343	2,028
Current portion of deferred income taxes	7,789	
Restricted cash	16,000	
Inventory	6,091	5,148
Prepays and other	14,179	16,098
<b>Total current assets</b>	<b>514,553</b>	<b>338,626</b>
<b>Oil and natural gas properties (full cost method):</b>		
Evaluated	5,267,835	4,960,467
Unevaluated	2,245,173	2,028,044
<b>Gross oil and natural gas properties</b>	<b>7,513,008</b>	<b>6,988,511</b>
Less accumulated depletion	(2,498,864)	(2,189,515)
<b>Net oil and natural gas properties</b>	<b>5,014,144</b>	<b>4,798,996</b>
<b>Other operating property and equipment:</b>		
Gas gathering and other operating assets	144,795	125,837
Less accumulated depreciation	(11,736)	(8,461)
<b>Net other operating property and equipment</b>	<b>133,059</b>	<b>117,376</b>
<b>Other noncurrent assets:</b>		
Receivables from derivative contracts	351	22,734
Debt issuance costs, net	59,476	64,308
Deferred income taxes		8,474
Equity in oil and natural gas partnership	4,706	4,463
Funds in escrow and other	2,350	1,514
<b>Total assets</b>	<b>\$ 5,728,639</b>	<b>\$ 5,356,491</b>
<b>Current liabilities:</b>		

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Accounts payable and accrued liabilities	\$ 658,634	\$ 636,589
Liabilities from derivative contracts	79,844	17,859
Asset retirement obligations	54	71
Current portion of deferred income taxes		8,474
Current portion of long-term debt	1,389	1,389
<b>Total current liabilities</b>	<b>739,921</b>	<b>664,382</b>
<b>Long-term debt</b>	<b>3,445,638</b>	<b>3,183,823</b>
<b>Other noncurrent liabilities:</b>		
Liabilities from derivative contracts	65,359	19,333
Asset retirement obligations	34,360	39,186
Deferred income taxes	7,789	
Other	8,059	2,157
<b>Commitments and contingencies (Note 8)</b>		
<b>Mezzanine equity:</b>		
Redeemable noncontrolling interest	108,038	
<b>Stockholders' equity:</b>		
Preferred stock: 1,000,000 shares of \$0.0001 par value authorized; 345,000 shares of 5.75% Cumulative Perpetual Convertible Series A, issued and outstanding as of June 30, 2014 and December 31, 2013, respectively		
Common stock: 1,340,000,000 and 670,000,000 shares of \$0.0001 par value authorized; 421,652,565 and 415,729,962 shares issued and outstanding at June 30, 2014 and December 31, 2013, respectively	41	41
Additional paid-in capital	2,976,907	2,953,786
Accumulated deficit	(1,657,473)	(1,506,217)
<b>Total stockholders' equity</b>	<b>1,319,475</b>	<b>1,447,610</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$ 5,728,639</b>	<b>\$ 5,356,491</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	Treasury Stock		Accumulated Deficit	Stockholders' Equity
	Shares	Amount	Shares	Amount		Shares	Amount		
<b>Balances at December 31, 2012</b>		\$	259,802	\$ 26	\$ 1,681,717	1,650	\$ (9,298)	\$ (274,463)	\$ 1,397,982
Net income (loss)								(1,222,662)	(1,222,662)
Dividends on Series A preferred stock			2,045		9,092			(9,092)	
Preferred stock conversion			108,801	11	695,227				695,238
Sale of Series A preferred stock	345				345,000				345,000
Common stock issuance			43,700	4	222,866				222,870
Offering costs					(17,346)				(17,346)
Long-term incentive plan grants			3,267						
Long-term incentive plan forfeitures			(205)						
Reduction in shares to cover individuals' tax withholding			(30)		(148)				(148)
Retirement of shares in treasury			(442)		(2,492)	(442)	2,492		
Long-term incentive plan grants issued out of treasury			(1,208)		(6,806)	(1,208)	6,806		
Share-based compensation					26,676				26,676
<b>Balances at December 31, 2013</b>	345	\$	415,730	\$ 41	\$ 2,953,786				