

ABRAXAS PETROLEUM CORP
Form 10-Q
November 09, 2009

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2009

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: 001-16071

ABRAXAS PETROLEUM CORPORATION
(Exact name of registrant as specified in its charter)

Nevada
(State of Incorporation)

74-2584033
(I.R.S. Employer
Identification No.)

18803 Meisner Drive, San Antonio, TX 78258
(Address of principal executive offices) (Zip Code)

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

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 for such shorter period that the registrant was required to file such reports), and (2) has been subject to the 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 (§

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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 definition of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check One)

Large accelerated filer Accelerated filer
Non-accelerated filer Smaller reporting company
(Do not mark 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 x

The number of shares of the issuer's common stock outstanding as of November 6, 2009 was:

Class	Shares Outstanding
Common Stock, \$.01 Par Value	76,099,117

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,” “s,” “estimate,” “could,” “potentially” or similar expressions), you 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 headings “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 high debt level;
- our success in development, exploitation and exploration activities;
 - our ability to make planned capital expenditures;
 - declines in our production of oil and gas;
 - prices for oil and gas;
- our ability to raise equity capital or incur additional indebtedness;
- political and economic conditions in oil producing countries, especially those in the Middle East;
 - prices and availability of alternative fuels;
 - our restrictive debt covenants;
 - our acquisition and divestiture activities;
 - weather conditions and events;
- the proximity, capacity, cost and availability of pipelines and other transportation facilities;
- results of our hedging activities; and
 - other factors discussed elsewhere in this report.

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, 2008. 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
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PART I
FINANCIAL INFORMATION

Item 1. Financial Statements

Abraxas Petroleum Corporation
Condensed Consolidated Balance Sheets
(in thousands)

	September 30, 2009 (Unaudited)	December 31, 2008 (1)
Assets		
Current assets:		
Cash and cash equivalents	\$474	\$1,924
Accounts receivable, net:		
Joint owners	593	1,740
Oil and gas production	5,978	6,168
Other	22	58
	6,593	7,966
Derivative asset – current	459	22,832
Other current assets	472	572
Total current assets	7,998	33,294
Property and equipment:		
Oil and gas properties, full cost method of accounting:		
Proved	452,734	440,712
Unproved properties excluded from depletion	—	—
Other property and equipment	11,180	10,986
Total	463,914	451,698
Less accumulated depreciation, depletion, and amortization	304,479	291,390
Total property and equipment – net	159,435	160,308
Deferred financing fees, net	3,933	1,443
Derivative asset – long-term	426	16,394
Other assets	2,066	400
Total assets	\$173,858	\$211,839

(1) As adjusted for “Noncontrolling Interest in Consolidated Financial Statements” in accordance with ASC 810. (See Note 1)

See accompanying notes to condensed consolidated financial statements (unaudited)

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Abraxas Petroleum Corporation
Condensed Consolidated Balance Sheets (continued)
(in thousands, except share data)

	September 30, 2009 (Unaudited)	December 31, 2008 (1)
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$ 7,351	\$ 10,748
Oil and gas production payable	2,540	3,176
Accrued interest	615	350
Other accrued expenses	2,228	1,886
Derivative liability – current	4,710	3,000
Current maturities of long-term debt	8,140	40,134
Other current liabilities	19	—
Total current liabilities	25,603	59,294
Long-term debt, excluding current maturities	138,264	130,835
Derivative liability – long-term	7,096	—
Future site restoration	10,301	9,959
Total liabilities	181,264	200,088
Equity (Deficit)		
Abraxas Petroleum stockholders' equity (deficit):		
Preferred Stock, par value \$.01, authorized 1,000,000 shares; -0- issued and outstanding	—	—
Common Stock, par value \$.01, authorized 200,000,000 shares; issued and outstanding 49,899,056 and 49,622,423	499	496
Additional paid-in capital	188,225	187,243
Accumulated deficit	(193,146)	(183,194)
Accumulated other comprehensive income	215	113
Total Abraxas Petroleum stockholders' equity (deficit)	(4,207)	4,658
Non-controlling interest equity (deficit)	(3,199)	7,093
Total stockholders' equity (deficit)	(7,406)	11,751
Total liabilities and stockholders' equity (deficit)	\$ 173,858	\$ 211,839

(1) As adjusted for “Non-controlling Interest in Consolidated Financial Statements” in accordance with ASC 810. (See Note 1)

See accompanying notes to condensed consolidated financial statements (unaudited)

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Abraxas Petroleum Corporation
Condensed Consolidated Statements of Operations
(Unaudited)
(in thousands except per share data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008 (1)	2009	2008 (1)
Revenue:				
Oil and gas production revenues	\$ 13,215	\$ 28,910	\$ 35,930	\$ 84,856
Rig revenues	192	333	692	968
Other	2	3	5	15
	13,409	29,246	36,627	85,839
Operating costs and expenses:				
Lease operating and production taxes	6,802	7,507	18,656	19,879
Depreciation, depletion, and amortization	4,126	5,806	13,120	16,904
Rig operations	178	241	577	644
General and administrative (including stock-based compensation of \$264, \$400, \$860 and \$1,297)	1,746	1,767	5,476	5,439
	12,852	15,321	37,829	42,866
Operating income (loss)	557	13,925	(1,202)	42,973
Other (income) expense:				
Interest income	(2)	(47)	(13)	(174)
Interest expense	3,276	2,720	8,883	7,858
Financing fees	—	—	362	—
Amortization of deferred financing fees	213	281	799	748
Loss (gain) on derivatives (unrealized \$8,217, \$(83,842), \$22,676 and \$16,751)	4,527	(77,756)	6,222	30,337
Other	13	350	2,242	1,084
	8,027	(74,452)	18,495	39,853
Consolidated net income (loss)	(7,470)	88,377	(19,697)	3,120
Less: Net (income) loss attributable to non-controlling interest	3,100	(17,622)	9,745	956
Net income (loss) attributable to Abraxas Petroleum	\$ (4,370)	\$ 70,755	\$ (9,952)	\$ 4,076
Net income (loss) per common share – basic	\$ (0.09)	\$ 1.44	\$ (0.20)	\$ 0.08
Net income (loss) per common share – diluted	\$ (0.09)	\$ 1.43	\$ (0.20)	\$ 0.08

(1) As adjusted for “Non-controlling Interest in Consolidated Financial Statements” in accordance with ASC 810. (See Note 1)

See accompanying notes to condensed consolidated financial statements (unaudited)

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Abraxas Petroleum Corporation
Condensed Consolidated Statements of Cash Flows
(Unaudited)
(in thousands)

	Nine Months Ended September 30,	
	2009	2008(1)
Operating Activities		
Net income (loss)	\$ (19,697)	\$ 3,120
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Change in derivative fair value	20,411	14,877
Monetization of derivative contracts	26,736	—
Depreciation, depletion, and amortization	13,120	16,904
Amortization of deferred financing fees	799	748
Accretion of future site restoration	420	426
Stock-based compensation	860	1,297
Other non-cash expenses	141	63
Registration fees previously capitalized	2,210	—
Changes in operating assets and liabilities:		
Accounts receivable	1,373	(9,554)
Other	(1,485)	(125)
Accounts payable and accrued expenses	(3,521)	16,621
Net cash provided by operating activities	41,367	44,377
Investing Activities		
Capital expenditures, including purchases and development of properties	(12,214)	(173,568)
Proceeds from the sale of oil and gas properties	—	753
Net cash used in investing activities	(12,214)	(172,815)
Financing Activities		
Proceeds from long-term borrowings	6,137	124,751
Payments on long-term borrowings	(30,702)	—
Deferred financing fees	(3,289)	(1,615)
Proceeds from exercise of stock options	77	61
Partnership distributions to minority interest	(2,257)	(7,622)
Other	(569)	—
Net cash provided by (used in) financing activities	(30,603)	115,575
Decrease in cash	(1,450)	(12,863)
Cash, at beginning of period	1,924	18,936
Cash, at end of period	\$ 474	\$ 6,073
Supplemental disclosure of cash flow information:		
Interest paid	\$ 8,463	\$ 7,470

(1) As adjusted for “Non-controlling Interest in Consolidated Financial Statements” in accordance with ASC 810. (See Note 1)

See accompanying notes to condensed consolidated financial statements (unaudited)

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Abraxas Petroleum Corporation
Notes to Condensed Consolidated Financial Statements
(Unaudited)
(tabular amounts in thousands, except per share data)

Note 1. Basis of Presentation

The accounting policies followed by Abraxas Petroleum Corporation and its subsidiaries (the “Company”) are set forth in the notes to the Company’s audited consolidated financial statements in the Annual Report on Form 10-K filed for the year ended December 31, 2008. Such policies have been continued without change. Also, refer to the notes to those financial statements for additional details of the Company’s financial condition, results of operations, and cash flows. All material items included in those notes have not changed except as a result of normal transactions in the interim, or as disclosed within this report. The accompanying interim consolidated financial statements have not been audited by independent registered public accountants, but in the opinion of management, reflect all adjustments necessary for a fair presentation of the financial position and results of operations. Any and all adjustments are of a normal and recurring nature. Although management believes the unaudited interim related disclosures in these consolidated financial statements are adequate to make the information presented not misleading, certain information and footnote disclosures normally included in annual audited consolidated financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to the rules and regulations of the Securities and Exchange Commission. The results of operations and the cash flows for the periods ended September 30, 2009 are not necessarily indicative of the results to be expected for the full year. The condensed consolidated financial statements included herein should be read in conjunction with the consolidated audited financial statements and the notes thereto included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2008.

Consolidation Principles

The terms “Abraxas” or “Abraxas Petroleum” refer to Abraxas Petroleum Corporation and its subsidiaries other than Abraxas Energy Partners, L.P., which we refer to as “Abraxas Energy Partners” or the “Partnership,” and its subsidiary, Abraxas Operating, LLC, which we refer to as “Abraxas Operating” and the terms “we,” “us,” “our” or the “Company” refer to Abraxas Petroleum Corporation and all of its consolidated subsidiaries including Abraxas Energy Partners and Abraxas Operating effective May 25, 2007. The operations of Abraxas Petroleum and the Partnership are consolidated for financial reporting purposes with the interest of the 51.8% non-controlling owners of the Partnership presented as non-controlling interest. Abraxas owns the remaining 48.2% of the Partnership interests. The Company has determined that based on its control of the general partner of the Partnership, this 48.2% owned entity should be consolidated for financial reporting purposes.

On June 30, 2009, Abraxas Petroleum and Abraxas Energy Partners signed an Agreement and Plan of Merger, which we refer to as the Original Merger Agreement, pursuant to which Abraxas Energy Partners agreed to merge with and into Abraxas Petroleum with Abraxas Petroleum surviving and on July 17, 2009, Abraxas Petroleum and Abraxas Energy Partners signed an Amended and Restated Agreement and Plan of Merger, which we refer to as the Merger Agreement, pursuant to which Abraxas Energy Partners agreed to merge with and into Abraxas Merger Sub, LLC, which we refer to as Merger Sub, with Merger Sub surviving the merger as a wholly-owned subsidiary of Abraxas Petroleum. We refer to this merger as the Merger. Under the terms of the Merger Agreement, at the effective time of the Merger on October 5, 2009, which we refer to as the Effective Time, each common unit of Abraxas Energy Partners not owned by Abraxas Petroleum and its subsidiaries was converted into the right to receive 4.25 shares of Abraxas Petroleum common stock. We issued a total of 26,174,061 shares of our common stock in the Merger, including 420,552 shares of restricted common stock issued in exchange for restricted units and phantom units of Abraxas Energy Partners under the Abraxas Petroleum Corporation 2005 Employee Long-Term Equity Incentive Plan, or LTIP. See Note 2. Recent Events.

The Company consolidates based on the guidance of Accounting Standards Codification (“ASC”) 810. ASC 810 establishes accounting and reporting standards for (1) ownership interests in subsidiaries held by others, (2) the amount of consolidated net income attributable to the controlling and noncontrolling interests, (3) changes in the controlling ownership interest, (4) the valuation of retained noncontrolling equity

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investments when a subsidiary is deconsolidated and (5) disclosures that clearly identify and distinguish between the interests of the controlling and noncontrolling owners. The adoption of ASC 810 resulted in changes to our presentation for noncontrolling interests and did not have a material impact on the Company's results of operations and financial condition. Certain prior period balances have been restated to reflect the changes required by ASC 810.

In accordance with generally accepted accounting principles in effect prior to the adoption of ASC 810, which codifies SFAS 160, when cumulative losses applicable to the non-controlling interest exceed the non-controlling interest equity capital in the entity, such excess and any further losses applicable to the non-controlling interest were charged to the earnings of the controlling interest. Future earnings were recognized by the non-controlling interest and were credited to the controlling interest (Abraxas) to the extent of such losses previously absorbed. For the year ended December 31, 2008, primarily as a result of the ceiling test impairment of the Partnership's oil and gas properties, losses applicable to the non-controlling interest exceeded the non-controlling equity capital by \$9.3 million and, as a result, \$9.3 million of the non-controlling interest loss in excess of equity was charged to earnings and was reflected as a reduction of the loss applicable to the non-controlling interest.

ASC 815, Determining Whether an Instrument (or Embedded Feature) is Indexed to an Entity's Own Stock. ASC 815 is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years. This standard provides a new two-step model to be applied in determining whether a financial instrument or an embedded feature is indexed to an issuer's own stock and thus able to qualify for the ASC 815-10-15 scope exception. The adoption of this standard has not had a significant impact on the Company's consolidated financial position, results of operations or cash flows.

The following table illustrates the changes in stockholders' equity (deficit):

Abraxas Petroleum Corporation Stockholders' Equity (Deficit)
(in thousands)

	Comprehensive Income	Common Stock	Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income	Parent Equity (Deficit)	Non- Controll-ing Equity (Deficit)
December 31, 2008	\$ —	\$496	\$187,243	\$ (183,194)	\$ 113	\$4,658	\$ 7,093
Comprehensive income:							
Net loss	(19,697)	—	—	(9,952)	—	(9,952)	(9,745)
Unrealized gain on securities	102	—	—	—	102	102	—
Equity based compensation	—	1	766	—	—	767	69
Partnership distributions	—	—	—	—	—	—	(2,257)
Registration fees	—	—	—	—	—	—	1,385
Shares issued for compensation	—	—	54	—	—	54	—
Options exercised	—	1	78	—	—	79	—
Other	—	1	84	—	—	85	256
September 30, 2009	\$ (19,595)	\$499	\$188,225	\$ (193,146)	\$ 215	\$ (4,207)	\$ (3,199)

Fair Value of Financial Instruments

The carrying amount of cash and cash equivalents, accounts receivable, accounts payable, accrued liabilities and short-term debt approximate fair value due to the short-term nature of these instruments.

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The fair value of the Company's long-term debt is estimated based on the discounted value of the future cash flows expected to be paid on the loans. The discount rate used to estimate the fair value of the loans is the rate currently available to the Company for loans with similar terms and maturities. The carrying value at September 30, 2009 approximated the fair value.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Equity-based Compensation

Stock Options

The Company currently utilizes a standard option-pricing model (i.e., Black-Scholes) to measure the fair value of stock options granted to employees. For the three and nine months ended September 30, 2009, the Company incurred \$—203,000 and \$653,000, respectively, in equity-based compensation relating to stock options.

The following table summarizes the stock option activities for the nine months ended September 30, 2009. (in thousands, except per share data)

	Shares	Weighted Average Option Exercise Price Per Share	Weighted Average Grant Date Fair Value Per Share	Aggregate Intrinsic Value
Outstanding, December 31, 2008	2,390	\$2.81	\$1.60	\$3,830
Granted	967	\$0.99	\$0.70	679
Exercised	(95)	\$0.82	\$0.60	(57)
Expired or canceled	(75)	\$4.01	\$2.13	(160)
Outstanding, September 30, 2009	3,187	\$2.29	\$1.34	\$4,292

The following table shows the weighted average assumptions used in the Black-Scholes valuation of the fair value of option grants during 2009.

Expected dividend yield	0%
Volatility	81.63%
Risk free interest rate	2.35%
Expected life	6.07
Fair value of options granted (in thousands)	\$ 679
Weighted average grant date fair value of options granted per share	\$ 0.70

Additional information related to options at September 30, 2009 and December 31, 2008 is as follows:

September 30, 2009	December 31, 2008
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Options exercisable (in thousands)	2,113	1,963
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As of September 30, 2009, there was approximately \$867,000 of unamortized compensation expense related to outstanding options that will be recognized in 2009 through 2013.

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Restricted Stock Awards

Restricted stock awards are awards of common stock that are subject to restrictions on transfer and to a risk of forfeiture if the awardee terminates employment with the Company prior to the lapse of the restrictions. The value of such stock is determined using the market price on the grant date. Compensation expense is recorded over the applicable restricted stock vesting periods.

A summary of the Company's restricted stock activity for the nine months ended September 30, 2009 is presented in the following table:

	Number of Shares	Weighted average grant date fair value (per share)
Unvested December 31, 2008	164,280	\$3.35
Granted	42,000	1.38
Vested/Released	(40,648)	3.60
Forfeited	(1,712)	4.24
Unvested September 30, 2009	163,920	\$2.78

For the three and nine months ended September 30, 2009, the Company incurred \$38,000 and \$113,000, respectively, in equity-based compensation expense relating to restricted stock.

Restricted Unit Awards

Restricted unit awards are awards of Partnership units that are subject to restrictions on transfer and to a risk of forfeiture if the awardee terminates employment with the Company prior to the lapse of the restrictions. The value of such unit is determined using the implied market price on the grant date. The implied market price is determined by comparing the average trading yields of comparable publicly-traded master limited partnerships to the most recent quarterly distribution paid or declared by the Partnership. Compensation expense is recorded over the applicable restricted unit vesting periods.

A summary of the Partnership's restricted unit activity for the nine months ended September 30, 2009 is presented in the following table:

	Number of Units	Weighted average grant date fair value (per unit)
Unvested December 31, 2008	—	\$—
Granted	52,000	7.23
Vested/Released	—	—
Forfeited	(300)	7.23
Unvested September 30, 2009	51,700	\$7.23

For the three and nine months ended September 30, 2009, the Partnership incurred \$23,000 and \$70,000, respectively, in equity-based compensation expense relating to restricted units. In connection with the closing of the Merger, the

restricted unit awards were converted into restricted stock awards of the Company. See Note 2. Recent Events

Phantom Units

On January 31, 2008, in connection with the closing of an acquisition of properties from St. Mary Land & Exploration Company, the Board of Directors of the general partner of the Partnership awarded phantom units with distribution equivalency rights under its long-term incentive plan to certain key employees of Abraxas Petroleum.

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The phantom units and associated distribution equivalency rights will vest over four years and their value is based on the price of common units, as determined by the Board of Directors of the general partner of the Partnership, quarterly cash distributions and the percentage increase in cash distributions over time.

For the three and nine months ended September 30, 2009, the Partnership incurred \$0 and \$25,000, respectively, in equity-based compensation expense relating to phantom units. In connection with the closing of the Merger, the phantom unit awards were converted into restricted stock awards of the Company. See Note 2. Recent Events

Oil and Gas Properties

The Company follows the full cost method of accounting for oil and gas properties. Under the full cost accounting rules, the net capitalized cost of oil and gas properties less related deferred taxes, are limited by country, to the lower of the unamortized cost or the cost ceiling, defined as the sum of the present value of estimated unescalated future net revenues from proved reserves, discounted at 10%, plus the cost of properties not being amortized, if any, plus the lower of cost or estimated fair value of unproved properties included in the costs being amortized, if any, less related income taxes. If the net capitalized cost of oil and gas properties exceeds the ceiling limit, we are subject to a ceiling limitation write-down to the extent of such excess. A ceiling limitation write-down is a charge to earnings which does not impact cash flow from operating activities. However, such write-downs do impact the amount of our stockholders' equity. The cost ceiling represents the present value (discounted at 10%) of net cash flows from sales of future production, using commodity prices on the last day of the quarter, or alternatively, if prices subsequent to that date have increased, a price near the periodic filing date of the our financial statements. As of September 30, 2009, our net capitalized costs of oil and gas properties did not exceed the present value of our estimated proved reserves.

Working Capital (Deficit)

At September 30, 2009, our current liabilities of approximately \$25.6 million exceeded our current assets of \$8.0 million resulting in a working capital deficit of \$17.6 million. This compares to a working capital deficit of approximately \$26.0 million at December 31, 2008. Current liabilities at September 30, 2009 primarily consisted of the current portion of long-term debt of \$8.1 million, the current portion of derivative liabilities of \$4.7 million, trade payables of \$7.4 million, revenues due third parties of \$2.5 million, and other accrued liabilities of \$2.8 million. As a result of the Merger which closed on October 5, 2009, the Partnership Credit Facility the Subordinated Credit Agreement and the Credit Facility were refinanced and amended and restated by the new credit facility. See Note 2. Recent Events.

Recently Issued Accounting Pronouncements

In April 2009, the FASB amended authoritative guidance which addresses the initial recognition, measurement and subsequent accounting for assets and liabilities arising from contingencies in a business combination, and requires that such assets acquired or liabilities assumed be initially recognized at fair value at the acquisition date if fair value can be determined during the measurement period. If the fair value as of the acquisition date cannot be determined, the asset acquired or liability assumed arising from a contingency is recognized only if certain criteria are met. This guidance also requires that a systematic and rational basis for subsequently measuring and accounting for the assets or liabilities be developed depending on their nature. This guidance is effective for assets or liabilities arising from contingencies in business combinations for which the acquisition date is during or after December 15, 2008. The Company does not anticipate the adoption of this guidance to have a material impact on its future consolidated financial statements, absent any material business combinations.

In May 2009, the FASB issued authoritative guidance establishing general standards of accounting and disclosure for events that occur subsequent to the balance sheet date but before financial statements are issued or are available to be

issued, which the Company adopted on a prospective basis beginning April 1, 2009. The guidance requires the disclosure of the date through which an entity has evaluated subsequent events and the basis for selecting that date. The Company has evaluated subsequent events through the time of filing these financial statements with the SEC on November 9, 2009. The events which occurred since September 30, 2009 have been disclosed on Note 2. Recent Events.

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In June 2009, the FASB issued authoritative guidance establishing the Hierarchy of Generally Accepted Accounting Principles. The guidance provides for the FASB Accounting Standards Codification (the “Codification”) to become the single official source of authoritative, nongovernmental GAAP. The Codification did not change GAAP but reorganizes the literature. The Company adopted the guidance for the interim period ended September 30, 2009. The application of this guidance did not have a material impact on the Company’s consolidated financial statements.

In August 2009, the FASB issued authoritative guidance that provides clarification for circumstances in which a quoted price in an active market for an identical liability is not available. The guidance is intended to reduce potential ambiguity in financial reporting when measuring the fair value of liabilities. The guidance is effective for the first interim reporting period beginning after issuance. The Company adopted the guidance for the interim period ended September 30, 2009. The application of this guidance did not have a material impact on the Company’s consolidated financial statements.

In December 2008, the SEC issued Release No. 33-8995, “Modernization of Oil and Gas Reporting,” amending oil and gas reporting requirements under Rule 4-10 of Regulation S-X and Industry Guide 2 in Regulation S-K. The new requirements provide for consideration of new technologies in evaluating reserves, allow companies to disclose their probable and possible reserves to investors, report oil and gas reserves using an average price based on the prior 12-month period rather than year-end prices, and revise the disclosure requirements for oil and gas operations. The final rules are effective for fiscal years ending on or after December 31, 2009.

Note 2. Recent Events

Merger

On June 30, 2009, Abraxas Petroleum and Abraxas Energy Partners signed an Agreement and Plan of Merger, which we refer to as the Original Merger Agreement, pursuant to which Abraxas Energy Partners agreed to merge with and into Abraxas Petroleum with Abraxas Petroleum surviving and on July 17, 2009, Abraxas Petroleum and Abraxas Energy Partners signed an Amended and Restated Agreement and Plan of Merger, which we refer to as the Merger Agreement, pursuant to which Abraxas Energy Partners agreed to merge with and into Merger Sub with Merger Sub surviving the merger as a wholly-owned subsidiary of Abraxas Petroleum. We refer to this merger as the Merger. Under the terms of the Merger Agreement, at the effective time of the Merger on October 5, 2009, which we refer to as the Effective Time, each common unit of Abraxas Energy Partners not owned by Abraxas Petroleum and its subsidiaries was converted into the right to receive 4.25 shares of Abraxas Petroleum common stock. We issued a total of 26,174,061 shares of our common stock in the Merger, including 420,552 shares of restricted common stock issued in exchange for restricted units and phantom units of Abraxas Energy Partners under the Abraxas Petroleum Corporation 2005 Employee Long-Term Equity Incentive Plan, or LTIP.

New Credit Facility

Simultaneous with the closing of the Merger, we entered into an amended and restated senior secured credit facility with Société Générale, as administrative agent and issuing lender, and certain other lenders, which we refer to as the new credit facility. In connection with the Merger, we refinanced and amended and restated the Partnership Credit Facility, the Subordinated Credit Agreement and the Credit Facility and we borrowed approximately \$145.0 million under the new credit facility, of which \$135.0 million was borrowed under the revolving portion of the new credit facility and \$10.0 million was borrowed under the term loan portion of the new credit facility.

The revolving portion of the new credit facility has a maximum commitment of \$300.0 million and availability under the revolving portion of the new credit facility will be subject to a borrowing base. The borrowing base under the new credit facility is currently \$145.0 million and will be determined semi-annually by the lenders based upon our reserve reports, one of which must be prepared by our independent petroleum engineers and one of which may be prepared

internally. The amount of the borrowing base will be calculated by the lenders based upon their valuation of our proved reserves utilizing these reserve reports and their own internal decisions. In addition, the lenders, in their sole discretion, will be able to make one additional borrowing base redetermination during any six-month period between scheduled redeterminations and we will be able to request one redetermination during any six-month period between scheduled redeterminations. The lenders will also be able to make a redetermination in connection with any sales of producing properties with a

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market value of 5% or more of our then-current borrowing base and in connection with any hedge termination which could reduce the collateral value by 5% or more. Our borrowing base of \$145.0 million was determined based upon our reserve report dated June 1, 2009. Our borrowing base can never exceed the \$300.0 million maximum commitment amount. Outstanding amounts under the revolving portion of the new credit facility bear interest at (a) the greater of (1) the reference rate announced from time to time by Société Générale, (2) the Federal Funds Rate plus 0.5%, and (3) a rate determined by Société Générale as the daily one-month LIBOR plus, in each case, (b) 1.5%—2.75%, depending on the utilization of the borrowing base, or, if we elect, at the greater of (1) 2.0% and (2) LIBOR plus, in each case, 2.5%—3.75%, depending on the utilization of the borrowing base. At November 6, 2009, the interest rate on the revolving portion of the new credit facility was 5.75%.

We also borrowed \$10.0 million under the term loan portion of the new credit facility at the closing of the Merger. Outstanding amounts under the term loan portion of the new credit facility bear interest at (a) the greater of (1) the reference rate announced from time to time by Société Générale, (2) the Federal Funds Rate plus 0.5%, and (3) a rate determined by Société Générale as the daily one-month LIBOR plus, in each case, (b) 4.75%, or, if we elect, at the greater of (1) 2.0% and (2) LIBOR plus, in each case, 5.75%. At November 6, 2009, the interest rate on the term loan portion of the new credit facility was 7.75%. The term loan portion of the new credit facility is subject to amortization beginning on January 31, 2010. The first amortization installment of \$1.0 million is due on January 31, 2010 and the second amortization installment of \$3.0 million is due on March 31, 2010; thereafter, a quarterly amortization installment of \$2.0 million is due at the end of each quarter until the term loan is repaid. It is anticipated that the term loan will be repaid on or before December 31, 2010, after which, it may not be redrawn.

Subject to earlier termination rights and events of default, the stated maturity date of the new credit facility is October 5, 2012. Interest is payable quarterly on reference rate advances and not less than quarterly on Eurodollar advances. We are permitted to terminate the new credit facility and are able, from time to time, to permanently reduce the lenders' aggregate commitment under the new credit facility in compliance with certain notice and dollar increment requirements.

Each of our subsidiaries (other than Canadian Abraxas Petroleum Corporation) has guaranteed our obligations under the new credit facility on a senior secured basis. Obligations under the new credit facility are secured by a first priority perfected security interest, subject to certain permitted encumbrances, in all of our and our subsidiary guarantors' material property and assets.

Under the new credit facility, we are subject to customary covenants, including certain financial covenants and reporting requirements. We are required to maintain a current ratio as of the last day of each quarter (beginning September 30, 2009) of not less than 1.00 to 1.00 and an interest coverage ratio as of the last day of each quarter (beginning September 30, 2009), of not less than 2.50 to 1.00. We are also required to maintain a total debt to EBITDAX ratio as of the last day of each quarter of not more than 4.50 to 1.00 for the quarter ending September 30, 2009 through the quarter ending September 30, 2010, and not more than 4.00 to 1.00 thereafter. The current ratio is defined as the ratio of consolidated current assets to consolidated current liabilities. For the purposes of this calculation, current assets include the portion of the borrowing base which is undrawn but excludes any cash deposited with or at the request of a counter-party to a hedging arrangement and any assets representing a valuation account arising from the application of SFAS 133 (which relates to derivative instruments and hedging activities and is now referred to as ASC 815) and SFAS 143 (which relates to asset retirement obligations and is now referred to as ASC 410-20) and current liabilities exclude the current portion of long-term debt and any liabilities representing a valuation account arising from the application of SFAS 133 and SFAS 143. The interest coverage ratio is defined as the ratio of consolidated EBITDAX to consolidated interest expense for the four fiscal quarters ended on the calculation date after giving pro forma effect to the Merger. For the purposes of this calculation, EBITDAX is consolidated net income plus interest expense, oil and gas exploration expenses, taxes, depreciation, amortization, depletion and other non-cash charges including non-cash charges resulting from the application of SFAS 123R (which

relates to stock-based compensation and is now referred to as ASC 718), SFAS 133 and SFAS 143 plus all realized net cash proceeds arising from the settlement or monetization of any hedge contracts or upon the termination of any hedge contract minus all non-cash items of income which were included in determining consolidated net income, including all non-cash items resulting from the application of SFAS 133 and SFAS 143. Interest expense includes total interest, letter of credit fees and other fees and expenses incurred in connection with any debt. The total debt to EBITDAX ratio is defined as the ratio of total debt to consolidated EBITDAX for the four fiscal quarters ended on the calculation date after giving pro forma effect to the Merger. For the purposes of

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this calculation, total debt is the outstanding principal amount of debt, excluding debt associated with the office building, and obligations with respect to surety bonds and hedge arrangements.

The new credit facility also required that we enter into hedging arrangements for specified volumes, which equate to approximately 85% of the estimated oil and gas production from our net proved developed producing reserves through December 31, 2012 and 70% for 2013. We satisfied this requirement by assuming all of the Partnership's derivative contracts in connection with the Merger. See Note 7. Hedging Program and Derivatives.

The following table sets forth our derivative contract position as of November 6, 2009:

Contract Periods	Fixed Price Swap		GAS	
	OIL Daily Volume (Bbl)	Swap Price	Daily Volume (Mmbtu)	Swap Price
Q4 2009	1,355	\$68.90	13,981	\$4.50
2010	1,158	73.28	11,258	5.73
2011	1,035	76.61	9,580	6.52
2012	946	70.89	8,303	6.77
2013	705	80.79	5,962	6.84

In addition to the foregoing and other customary covenants, the new credit facility contains a number of covenants that, among other things, restrict our ability to:

- incur or guarantee additional indebtedness;
- transfer or sell assets;
- create liens on assets;
- engage in transactions with affiliates other than on an “arm’s-length” basis;
- make any change in the principal nature of our business; and
- permit a change of control.

The new credit facility also contains customary events of default, including nonpayment of principal or interest, violations of covenants, cross default and cross acceleration to certain other indebtedness, bankruptcy and material judgments and liabilities.

Voting, Registration Rights & Lock-Up Agreement

In connection with the Merger, Abraxas Petroleum agreed within 120 days of the Effective Time, to file a registration statement relating to the resale of the shares of Abraxas Petroleum common stock issued in the Merger, which we refer to as the Registration Statement, pursuant to the Securities Act of 1933, as amended, and to use commercially

reasonable efforts to cause the Registration Statement to become effective and to keep the Registration Statement effective until the earlier of (A) January 3, 2013 and (B) the date that all shares of Abraxas Petroleum common stock covered by the prospectus have been sold or otherwise transferred pursuant to a registration statement or otherwise. As a result of Abraxas' obligations in connection with the Merger, Abraxas filed a Registration Statement for the resale of a total of 25,234,467 shares of its common stock on October 19, 2009 and the Securities and Exchange Commission declared the Registration Statement effective on November 3, 2009.

In connection with the Merger, the former limited partners of Abraxas Energy Partners who are party to a Voting, Registration Rights & Lock-Up Agreement (who beneficially own a total of 24,796,879 of the 26,174,061 shares of Abraxas Petroleum common stock issued in the Merger) agreed not to offer for sale, sell, pledge, or otherwise dispose of the Abraxas Petroleum common stock received in the Merger for the 90-day

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period immediately following the Effective Time, which we refer to as the Lock-Up Period. Upon the expiration of the Lock-Up Period, one-third of the Abraxas Petroleum common stock held by these former Abraxas Energy Partners unitholders will be unrestricted and freely-tradable, subject to applicable securities laws. From and after the date which is 12 months after the end of the Lock-Up Period, an additional one-third (or a total of two-thirds) of the Abraxas Petroleum common stock held by these former Abraxas Energy Partners unitholders will become unrestricted and freely-tradable and after the expiration of a total of 24 months following the end of the Lock-Up Period, all remaining shares of the Abraxas Petroleum common stock held by these former Abraxas Energy Partners unitholders will become unrestricted and freely-tradable.

Note 3. Acquisition

On January 31, 2008, Abraxas Operating, a wholly-owned subsidiary of the Partnership, consummated the acquisition of certain oil and gas properties located in various states from St. Mary Land & Exploration Company (“St. Mary”) and certain other sellers for a purchase price of approximately \$126.0 million. The properties are primarily located in the Rockies and Mid-Continent regions of the United States.

Simultaneously, Abraxas Petroleum announced that it had completed the acquisition of certain oil and gas properties from St. Mary for a purchase price of approximately \$5.6 million. Abraxas paid the purchase price from its internal funds. The right to purchase these properties had been assigned to Abraxas by the Partnership.

Substantially all amounts paid in the acquisition, including acquisition costs of approximately \$1.1 million, were allocated to the oil and gas properties. The following unaudited supplemental information presents pro forma financial results assuming the acquisition had occurred on January 1, 2008. The unaudited pro forma financial results are not necessarily those that would have been attained had the acquisition occurred as of an earlier date, nor are they necessarily representative of the future results that may occur.

Unaudited Pro Forma Financial Information

	Nine months ended September 30, 2008 (i n thousands)
Revenue	\$88,501
Net Income	6,198
Earnings per share - basic	0.125

Note 4. Income Taxes

The Company records income taxes using the liability method. Under this method, deferred tax assets and liabilities are determined based on differences between financial reporting and tax basis of assets and liabilities and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse.

For the three and nine month periods ended September 30, 2009 and 2008, there is no current or deferred income tax expense or benefit due to losses and/or loss carryforwards and valuation allowance which have been recorded against such benefits.

The Company accounts for uncertain tax positions under provisions ASC 740-10. ASC 740-10 did not have any effect on the Company's financial position or results of operations for the nine months ended September 30, 2009 and 2008. The Company recognizes interest and penalties related to uncertain tax positions in income tax expense. As of September 30, 2009, the Company did not have any accrued interest or penalties related to uncertain tax positions. The tax years from 1999 through 2008 remain open to examination by the tax jurisdictions to which the Company is subject.

Note 5. Long-Term Debt

Long-term debt consisted of the following:

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	September 30, 2009	December 31, 2008
	(in thousands)	
Partnership credit facility	\$95,000	\$125,600
Partnership subordinated credit agreement	40,213	40,000
Senior secured credit facility	5,924	—
Real estate lien note	5,267	5,369
	146,404	170,969
Less current maturities	(8,140)	(40,134)
	\$138,264	\$130,835

Abraxas Senior Secured Credit Facility

On June 27, 2007, Abraxas entered into a senior secured revolving credit facility, which we refer to as the Credit Facility, which was amended on February 4, 2009, May 13, 2009 and August 7, 2009. The Credit Facility was refinanced and amended and restated by the new credit facility. See Note 2. Recent Events.

Amended and Restated Partnership Credit Facility

On May 25, 2007, the Partnership entered into a senior secured revolving credit facility which was amended and restated on January 31, 2008 and further amended on January 16, 2009, April 30, 2009, May 7, 2009, June 30, 2009 and July 22, 2009, which we refer to as the Partnership Credit Facility. The Partnership Credit Facility was refinanced and amended and restated by the new credit facility. See Note 2. Recent Events.

Subordinated Credit Agreement

On January 31, 2008, the Partnership entered into a subordinated credit agreement which was amended on January 16, 2009 and further amended on April 30, 2009, May 7, 2009, June 30, 2009, July 22, 2009, August 13, 2009 and August 31, 2009, which we refer to as the Subordinated Credit Agreement. The Subordinated Credit Agreement was refinanced and amended and restated by the new credit facility. See Note 2. Recent Events.

New Credit Facility

On October 5, 2009, in connection with the closing of the Merger, we entered into an amended and restated senior secured credit facility with Société Générale, as administrative agent and issuing lender, and certain other lenders, which we refer to as the new credit facility. In connection with the Merger, we refinanced and amended and restated the Partnership Credit Facility, the Subordinated Credit Agreement and the Credit Facility and we borrowed approximately \$145.0 million under the new credit facility, of which \$135.0 million was borrowed under the revolving portion of the new credit facility and \$10.0 million was borrowed under the term loan portion of the new credit facility.

The revolving portion of the new credit facility has a maximum commitment of \$300.0 million and availability under the revolving portion of the new credit facility will be subject to a borrowing base. The borrowing base under the new credit facility is currently \$145.0 million and will be determined semi-annually by the lenders based upon our reserve reports, one of which must be prepared by our independent petroleum engineers and one of which may be prepared internally. The amount of the borrowing base will be calculated by the lenders based upon their valuation of our proved reserves utilizing these reserve reports and their own internal decisions. In addition, the lenders, in their sole discretion, will be able to make one additional borrowing base redetermination during any six-month period between scheduled redeterminations and we will be able to request one redetermination during any six-month period between

scheduled redeterminations. The lenders will also be able to make a redetermination in connection with any sales of producing properties with a market value of 5% or more of our then-current borrowing base and in connection with any hedge termination which could reduce the collateral value by 5% or more. Our borrowing base of \$145.0 million was determined based upon our reserve report dated June 1, 2009. Our borrowing base can never exceed the \$300.0 million maximum commitment amount. Outstanding amounts under the revolving portion of the new credit facility bear interest at (a) the greater of (1) the reference rate announced from time to time by Société Générale, (2) the Federal Funds Rate plus 0.5%, and (3) a rate determined by Société Générale as the daily one-month LIBOR plus, in each case, (b) 1.5%—2.75%, depending on the utilization of the borrowing base, or, if we elect, at the greater of (1) 2.0% and (2) LIBOR plus, in each case, 2.5%—3.75%, depending on the utilization

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of the borrowing base. At November 6, 2009, the interest rate on the revolving portion of the new credit facility was 5.75%.

We also borrowed \$10.0 million under the term loan portion of the new credit facility at the closing of the Merger. Outstanding amounts under the term loan portion of the new credit facility bear interest at (a) the greater of (1) the reference rate announced from time to time by Société Générale, (2) the Federal Funds Rate plus 0.5%, and (3) a rate determined by Société Générale as the daily one-month LIBOR plus, in each case, (b) 4.75%, or, if we elect, at the greater of (1) 2.0% and (2) LIBOR plus, in each case, 5.75%. At November 6, 2009, the interest rate on the term loan portion of the new credit facility was 7.75%. The term loan portion of the new credit facility is subject to amortization beginning on January 31, 2010. The first amortization installment of \$1.0 million is due on January 31, 2010 and the second amortization installment of \$3.0 million is due on March 31, 2010; thereafter, a quarterly amortization installment of \$2.0 million is due at the end of each quarter until the term loan is repaid. It is anticipated that the term loan will be repaid on or before December 31, 2010, after which, it may not be redrawn.

Subject to earlier termination rights and events of default, the stated maturity date of the new credit facility is October 5, 2012. Interest is payable quarterly on reference rate advances and not less than quarterly on Eurodollar advances. We are permitted to terminate the new credit facility and are able, from time to time, to permanently reduce the lenders' aggregate commitment under the new credit facility in compliance with certain notice and dollar increment requirements.

Each of our subsidiaries (other than Canadian Abraxas Petroleum Corporation) has guaranteed our obligations under the new credit facility on a senior secured basis. Obligations under the new credit facility are secured by a first priority perfected security interest, subject to certain permitted encumbrances, in all of our and our subsidiary guarantors' material property and assets.

Under the new credit facility, we are subject to customary covenants, including certain financial covenants and reporting requirements. We are required to maintain a current ratio as of the last day of each quarter (beginning September 30, 2009) of not less than 1.00 to 1.00 and an interest coverage ratio as of the last day of each quarter (beginning September 30, 2009), of not less than 2.50 to 1.00. We are also required to maintain a total debt to EBITDAX ratio as of the last day of each quarter of not more than 4.50 to 1.00 for the quarter ending September 30, 2009 through the quarter ending September 30, 2010, and not more than 4.00 to 1.00 thereafter. The current ratio is defined as the ratio of consolidated current assets to consolidated current liabilities. For the purposes of this calculation, current assets include the portion of the borrowing base which is undrawn but excludes any cash deposited with or at the request of a counter-party to a hedging arrangement and any assets representing a valuation account arising from the application of SFAS 133 (which relates to derivative instruments and hedging activities and is now referred to as ASC 815) and SFAS 143 (which relates to asset retirement obligations and is now referred to as ASC 410-20) and current liabilities exclude the current portion of long-term debt and any liabilities representing a valuation account arising from the application of SFAS 133 and SFAS 143. The interest coverage ratio is defined as the ratio of consolidated EBITDAX to consolidated interest expense for the four fiscal quarters ended on the calculation date after giving pro forma effect to the Merger. For the purposes of this calculation, EBITDAX is consolidated net income plus interest expense, oil and gas exploration expenses, taxes, depreciation, amortization, depletion and other non-cash charges including non-cash charges resulting from the application of SFAS 123R (which relates to stock-based compensation and is now referred to as ASC 718), SFAS 133 and SFAS 143 plus all realized net cash proceeds arising from the settlement or monetization of any hedge contracts or upon the termination of any hedge contract minus all non-cash items of income which were included in determining consolidated net income, including all non-cash items resulting from the application of SFAS 133 and SFAS 143. Interest expense includes total interest, letter of credit fees and other fees and expenses incurred in connection with any debt. The total debt to EBITDAX ratio is defined as the ratio of total debt to consolidated EBITDAX for the four fiscal quarters ended on the calculation date after giving pro forma effect to the Merger. For the purposes of this calculation, total debt is the

outstanding principal amount of debt, excluding debt associated with the office building, and obligations with respect to surety bonds and hedge arrangements.

The new credit facility also required that we enter into hedging arrangements for specified volumes, which equate to approximately 85% of the estimated oil and gas production from our net proved developed producing reserves through December 31, 2012 and 70% for 2013. We satisfied this requirement by assuming all of the Partnership's derivative contracts in connection with the Merger. See Note 7. Hedge Program and Derivatives.

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The following table sets forth our derivative contract position as of November 6, 2009:

Contract Periods	Daily Volume (Bbl)	Fixed Price Swap		Daily Volume (Mmbtu)	Swap Price
		OIL	GAS		
Q4 2009	1,355	\$	68.90	13,981	\$ 4.50
2010	1,158		73.28	11,258	5.73
2011	1,035		76.61	9,580	6.52
2012	946		70.89	8,303	6.77
2013	705		80.79	5,962	6.84

In addition to the foregoing and other customary covenants, the new credit facility contains a number of covenants that, among other things, restrict our ability to:

- incur or guarantee additional indebtedness;
- transfer or sell assets;
- create liens on assets;
- engage in transactions with affiliates other than on an “arm’s-length” basis;
- make any change in the principal nature of our business; and
- permit a change of control.

The new credit facility also contains customary events of default, including nonpayment of principal or interest, violations of covenants, cross default and cross acceleration to certain other indebtedness, bankruptcy and material judgments and liabilities.

We were in compliance with all covenants as of September 30, 2009. As of September 30, 2009, the current ratio was 1.38 to 1.00, the interest coverage ratio was 5.15 to 1.00 and the total debt to EBITDAX ratio was 2.2 to 1.00, after giving pro forma effect to the Merger.

Real Estate Lien Note

On May 9, 2008, the Company entered into an advancing line of credit in the amount of \$5.4 million for the purchase and finish out of a new building to serve as its corporate headquarters. This note was refinanced in November 2008. The new note bears interest at a fixed rate of 6.375%, and is payable in monthly installments of principal and interest of \$39,754 based on a twenty year amortization. The note matures in May 2015 at which time the outstanding balance becomes due. The note is secured by a first lien deed of trust on the property and improvements. As of September 30, 2009, \$5.3 million was outstanding on the note.

Note 6. Earnings (Loss) Per Share

The following table sets forth the computation of basic and diluted earnings (loss) per share:

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2009	2008	2009	2008

(In thousands, except per share data)

Numerator:

Net income (loss) available to common stockholders	\$ (4,370) \$ 70,755	\$ (9,952) \$ 4,076
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Denominator:

Denominator for basic earnings (loss) per share - Weighted-average shares	49,672	49,043	49,600	48,955
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Effect of dilutive securities:

Stock options and warrants	—	355	—	454
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Dilutive potential common shares

Denominator for diluted earnings (loss) per share - Weighted-average shares and assumed conversions	49,672	49,398	49,600	49,409
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Net earnings (loss) per common share – basic	\$(0.09)	\$1.44	\$(0.20)	\$0.08
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Net earnings (loss) per common share – diluted	\$(0.09)	\$1.43	\$(0.20)	\$0.08
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For the three and nine months ended September 30, 2009, none of the shares issuable in connection with stock options or warrants are included in diluted shares. Inclusion of these shares would be antidilutive due to losses incurred in the periods. Had there not been losses in the periods, dilutive shares would have been 405,052 and 338,043 shares for the three and nine months ended September 30, 2009, respectively.

Note 7. Hedging Program and Derivatives

The derivative instruments we utilize are based on index prices that may and often do differ from the actual oil and gas prices realized in our operations. These variations often result in a lack of adequate correlation to enable these derivative instruments to qualify for hedge accounting rules as prescribed by ASC 815. Accordingly, we do not attempt to account for our derivative instruments as cash flow hedges for financial reporting purposes and instead record their fair value on the balance sheet with adjustments to the carrying value of the instruments being recognized as a gain or loss on derivative contracts in the current period.

Under the terms of the Partnership Credit Facility, Abraxas Energy Partners entered into derivative contracts for specified volumes, which equated to approximately 85% of the estimated oil and gas production through December 31, 2011 and 60% for the year 2012. On July 29, 2009, the derivative contracts for the periods 2009 through 2011 were monetized for \$26.7 million. These funds, together with the July 2009 commodity swap settlement of \$2.0 million, were used by the Partnership to repay outstanding indebtedness under the Partnership Credit Facility. In connection with the monetization and repayment, the Company and the Partnership entered into new commodity swaps. The following table sets forth our consolidated weighted average derivative contract position as of November 6, 2009:

Contract Periods	Fixed-Price Swaps			
	Oil		Gas	
	Daily Volume (Bbl)	Swap Price	Daily Volume (Mmbtu)	Swap Price
Q4 2009	1,355	\$ 68.90	13,981	\$ 4.50
2010	1,158	73.28	11,258	5.73
2011	1,035	76.61	9,580	6.52
2012	946	70.89	8,303	6.77
2013	705	80.79	5,962	6.84

At September 30, 2009, the aggregate fair market value of our commodity derivative contracts was a liability of approximately \$8.5 million.

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In order to mitigate its interest rate exposure, the Partnership entered into an interest rate swap, effective August 12, 2008, amended in February 2009, to fix its floating LIBOR based debt. The 2-year interest rate swap arrangement is for \$100 million at a fixed rate of 2.95%. The arrangement expires on August 12, 2010. The fair value of this interest rate swap at September 30, 2009 was a liability of approximately \$2.4 million.

As a result of the Merger, all of the Partnership's derivative contracts were assumed by Abraxas Petroleum as required by the new credit facility.

The following table illustrates the impact of derivative contracts on the Company's balance sheet:

	September 30, 2009		December 31, 2008	
	Balance Sheet Location	Fair Value (thousands)	Balance Sheet Location	Fair Value (thousands)
NYMEX-based fixed price derivative contracts	Derivative asset - current	\$ 459	Derivative asset - current	\$ 22,832
NYMEX-based fixed price derivative contracts	Derivative asset - long-term	\$ 426	Derivative asset - long-term	\$ 16,394
NYMEX-based fixed price derivative contracts	Derivative liability - current	\$ 2,275	—	—
NYMEX-based fixed price derivative contracts	Derivative liability - Long-term	\$ 7,096	—	—
Interest rate swap	Derivative liability - current	\$ 2,435	Derivative liability - current	\$ 3,000