ABRAXAS PETROLEUM CORP
Form 10-Q
May 15, 2007

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

FORM 10-Q

(Mark One)

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2007

[ ] 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: 001-16701

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

Nevada	74-2584033
(State of Incorporation)	(I.R.S. Employer Identification No.)

500 N. Loop 1604 East, Suite 100, San Antonio, TX 78232

(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 [X] No [ ]

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer (as defined in Rule 12b-2 of the Exchange Act) or a non-accelerated filer. See definition of "accelerated filer" and " large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check One)

Large Accelerated Filer [ ] Accelerated Filer [X] Non-Accelerated Filer [ ]

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). [ ] Yes [X] No

The number of shares of the issuer's common stock outstanding as of May 4, 2007 was:

Class	Shares Outstanding
Common Stock, $.01 Par Value	42,878,725

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", "seek", "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 natural gas and crude oil;
- prices for natural gas and crude oil;
- 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;
- 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, 2006, which is incorporated by reference herein. 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 AND SUBSIDIARIES

FORM 10 - Q
INDEX

PART I
FINANCIAL INFORMATION

ITEM 1 - Financial Statements
Condensed Consolidated Balance Sheets - March 31, 2007 and December 31, 2006....4
Condensed Consolidated Statements of Operations - Three Months Ended March 31, 2007 and 2006....6
Condensed Consolidated Statements of Cash Flows - Three Months Ended March 31, 2007 and 2006....7
Notes to Condensed Consolidated Financial Statements....8

ITEM 2 - Management's Discussion and Analysis of Financial Condition and Results of Operations....11

ITEM 3 - Quantitative and Qualitative Disclosure about Market Risk....22

ITEM 4 - Controls and Procedures....22

PART II
OTHER INFORMATION

ITEM 1 - Legal Proceedings....23
ITEM 1A- Risk Factors....23
ITEM 2 - Unregistered Sales of Equity Securities and Use of Proceeds....23
ITEM 3 - Defaults Upon Senior Securities....23
ITEM 4 - Submission of Matters to a Vote of Security Holders....23
ITEM 5 - Other Information....23
ITEM 6 - Exhibits....23
Signatures....24

Abraxas Petroleum Corporation
Condensed Consolidated Balance Sheets
(in thousands)

	Mar (Una
Assets:	
Current assets:	
Cash	$
Accounts receivable, net:	
Joint owners	
Oil and gas production	
Other	

Other current assets...	

Total current assets...	
Property and equipment:	
Oil and gas properties, full cost method of accounting:	
Proved..	
Other property and equipment...	

Total...	
Less accumulated depreciation, depletion, and amortization...	

Total property and equipment - net...	
Deferred financing fees, net..	
Other assets	

Total assets..	$
	=====

See accompanying notes to condensed consolidated financial statements

4

Abraxas Petroleum Corporation
Condensed Consolidated Balance Sheets (continued)
(in thousands)

	Marc 2 (Unau

Liabilities and Stockholders' Deficit	
Current liabilities:	
Accounts payable...	$
Oil and gas production payable..	
Accrued interest...	
Other accrued expenses...	

Total current liabilities..	1
Long-term debt...	12
Future site restoration..	

Total liabilities..	13
Stockholders' deficit:	
Common Stock, par value $.01 per share-	

authorized 200,000,000 shares; issued, 42,878,725 and, 42,762,466		
Additional paid-in capital		16
Accumulated deficit		(18
Treasury stock, at cost, -0- and 35,552 shares		
Accumulated other comprehensive income		
Total stockholders' deficit		(2
Total liabilities and stockholders' deficit	$	11

See accompanying notes to condensed consolidated financial statements

5

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

Revenue:	
Oil and gas production revenues	$
Rig revenues	
Other	
Operating costs and expenses:	
Lease operating and production taxes	
Depreciation, depletion and amortization	
Rig operations	
General and administrative (including stock-based compensation of $172 and $171)	
Operating income	
Other (income) expense	
Interest income	
Interest expense	
Amortization of deferred financing fees	

Net income (loss)...	$
Net income per common share - basic...	$
Net income per common share - diluted...	$

See accompanying notes to condensed consolidated financial statements

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

		T
		2007
Cash flows from Operating Activities		
Net income (loss)..	$	(7
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, depletion, and amortization................................		3,4
Accretion of future site restoration.....................................		
Amortization of deferred financing fees..................................		3
Stock-based compensation...		1
Other non-cash items...		1
Changes in operating assets and liabilities:		
Accounts receivable..		(
Other		4
Accounts payable and accrued expenses....................................		9
Net cash provided by operations..		4,7
Cash flows from Investing Activities		
Capital expenditures, including purchases and development of properties......		(3,9
Net cash used in investing activities..		(3,9
Cash flows from Financing Activities		
Proceeds from long-term borrowings...		7
Payments on long-term borrowings...		(1,0
Issuance of common stock for compensation....................................		
Exercise of stock options		
Deferred financing fees		
Net cash provided by (used in) financing operations..........................		(2

Increase in cash		5
Cash, at beginning of period		
Cash, at end of period	$	6
Supplemental disclosures of cash flow information:		
Interest paid	$	1

See accompanying notes to condensed consolidated financial statements

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" or "Abraxas") 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, 2006. 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 the 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 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. The results of operations for the three months ended March 31, 2007 are not necessarily indicative of results to be expected for the full year.

Stock-based Compensation

The Company currently utilizes a standard option pricing model (i.e., Black-Scholes) to measure the fair value of stock options granted to employees. The Company uses the Black-Scholes model for option valuation as of the current time.

The following table summarizes the stock option activities for the three months ended March 31, 2007 (in thousands except per share data):

	Shares	Weighted Average Option Exercise Price Per Share	Weigh Average Date Value Pe

Outstanding December 31, 2006.......	2,457	$ 2.29	$ 1
Granted............................	-	$ -	$ -
Exercised..........................	(165)	$ 1.08	$ 0
Expired or canceled................	(2)	$ 6.05	$ 3
Outstanding March 31, 2007.........	2,290	$ 2.37	$ 1

Additional information related to options at March 31, 2007 and December 31, 2006 is as follows:

	March 31, 2007
Options exercisable..................................	1,743,116

As of March 31, 2007, there was approximately $1.2 million of unamortized compensation expense related to outstanding options that will be recognized through September 2010.

8

Note 2. 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 period ended March 31, 2007, there is no current or deferred income tax expense or benefit due to losses and/or loss carryforwards and valuation allowance which has been recorded against such benefits.

In June 2006, the FASB issued FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes" ("FIN 48"). FIN 48 is an interpretation of SFAS 109, "Accounting for Income Taxes", and it seeks to reduce the diversity in practice associated with certain aspects of measurement and accounting for income taxes and requires expanded disclosure with respect to the uncertainty in income taxes. FIN 48 is effective for fiscal years beginning after December 15, 2006. Accordingly, the Company adopted FIN 48 on January 1, 2007. The adoption of FIN 48 did not have any effect on the Company's financial position or results of operations for the quarter ended March 31, 2007. The Company recognizes interest and penalties related to uncertain tax positions in income tax expense. As of March 31, 2007, the Company did not have any accrued interest or penalties related to uncertain tax positions. The tax years from 1999 through 2006 remain open to examination by the tax jurisdictions to which the Company is subject.

Note 3. Long-Term Debt

Long-term debt consisted of the following:

	March 31, 2007
Floating rate senior secured notes due 2009...........................	$ 125,000
Senior secured revolving credit facility..............................	2,322
	127,322
Less current maturities	-
	$ 127,322

Floating Rate Senior Secured Notes due 2009. In connection with the October 2004 financial restructuring, Abraxas issued $125 million in aggregate principal amount of floating rate senior secured notes due 2009. The notes will mature on December 1, 2009. Interest is payable at a per annum floating rate of six-month LIBOR plus 7.50%. The interest rate was 12.85% per annum as of March 31, 2007. The interest rate is reset semi-annually on each June 1 and December 1. Interest is payable semi-annually in arrears on June 1 and December 1 of each year.

Senior Secured Revolving Credit Facility. On October 28, 2004, Abraxas entered into an agreement for a revolving credit facility having a maximum commitment of $15 million, which includes a $2.5 million subfacility for letters of credit. Availability under the revolving credit facility is subject to a borrowing base consistent with normal and customary natural gas and crude oil lending transactions.

Outstanding amounts under the revolving credit facility bear interest at the prime rate announced by Wells Fargo Bank, National Association plus 1.00%. The interest rate was 9.25% per annum as of March 31, 2007

Subject to earlier termination rights and events of default, the stated maturity date under the revolving credit facility is October 28, 2008.

Note 4. Earnings (Loss) Per Share

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

	Three M
	20
Numerator:	
Net earnings (loss) available to common stockholders	$ (
Denominator:	
Denominator for basic earnings per share - weighted-average shares.	42,681
Effect of dilutive securities:	
Stock options and warrants....................................	

Denominator for diluted earnings per share - adjusted weighted-average shares and assumed Conversions..............	42,681,
Net earnings per common share - basic.................................	$ (0
Net earnings per common share - diluted...............................	$ (0

For the three months ended March 31, 2007 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 period. Had there not been a loss in this period, dilutive shares would have been 613,811 shares for the three months ended March 31, 2007.

Note 5. Hedging Program and Derivatives

The Company has elected out of hedge accounting as prescribed by SFAS 133. Accordingly, instruments are recorded on the balance sheet at their fair value with adjustments to the carrying value of the instruments being recognized in oil and gas income in the current period.

Under the terms of our revolving credit facility, we are required to maintain hedging positions with respect to not less than 25% nor more than 75% of our crude oil and natural gas production.

The following table sets forth the Company's current hedge position:

Time Period	Notional Quantities	Price
June 2007	10,000 MMbtu of production per day	Floor of $5.00
July 2007	10,000 MMbtu of production per day	Floor of $4.25
August 2007	10,000 MMbtu of production per day	Floor of $5.00
September 2007	10,000 MMbtu of production per day	Floor of $5.50

Note 6. Contingencies - Litigation

From time to time, the Company is involved in litigation relating to claims arising out of its operations in the normal course of business. At March 31, 2007, the Company was not engaged in any legal proceedings that are expected, individually or in the aggregate, to have a material adverse effect on its operations.

10

ABRAXAS PETROLEUM CORPORATION

PART I

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following is a discussion of our financial condition, results of operations, liquidity and capital resources. This discussion should be read in conjunction with our consolidated financial statements and the notes thereto, included in our Annual Report on Form 10-K filed for the year ended December 31, 2006.

Critical Accounting Policies

There have been no changes from the Critical Accounting Polices described in our Annual Report on Form 10-K for the year ended December 31, 2006.

General

We are an independent energy company primarily engaged in the development and production of natural gas and crude oil. Historically we have grown through the acquisition and subsequent development and exploitation of producing properties, principally through the redevelopment of old fields utilizing new technologies such as modern log analysis and reservoir modeling techniques as well as 3-D seismic surveys and horizontal drilling. As a result of these activities, we believe that we have a substantial inventory of development opportunities, which provide a basis for significant production and reserve increases. In addition, we intend to expand upon our development activities with complementary exploration projects in our core areas of operation.

Our financial results depend upon many factors which significantly affect our results of operations including the following:

- the sales prices of natural gas and crude oil;
- the level of total sales volumes of natural gas and crude oil;
- the availability of, and our ability to raise additional capital resources and provide liquidity to meet cash flow needs;
- the level of and interest rates on borrowings; and
- the level and success of exploration and development activity.

Commodity Prices and Hedging Activities. The results of our operations are highly dependent upon the prices received for our natural gas and crude oil production. Substantially all of our sales of natural gas and crude oil are made in the spot market, or pursuant to contracts based on spot market prices, and not pursuant to long-term, fixed-price contracts. Accordingly, the prices received for our natural gas and crude oil production are dependent upon numerous factors beyond our control. Significant declines in prices for natural gas and crude oil could have a material adverse effect on our financial condition, results of operations and quantities of reserves recoverable on an economic basis. Recently, the prices of natural gas and crude oil have been volatile. During the first half of 2006, prices for natural gas and crude oil were sustained at record or near-record levels. Supply and geopolitical uncertainties resulted in significant price volatility during the remainder of 2006 with both natural gas and crude oil prices weakening. During the first three months of 2007, prices have remained relatively strong although not at levels attained during the first three months of 2006. New York Mercantile Exchange (NYMEX) futures prices for West Texas Intermediate (WTI) crude oil averaged $58.39 per barrel for the first three months of 2007. NYMEX Henry Hub futures prices averaged $7.16 per million British thermal units (MMBtu) during the first three months of 2007. The natural gas market continues to be driven by high natural gas storage inventories and mild early winter conditions for much of the country. NYMEX natural gas prices ended the first quarter of 2007 at

about $7.56 per MMBtu. The outlook for the commodity markets for the remainder of 2007 calls for continued volatility.

We seek to reduce our exposure to price volatility by hedging our

production through price floors. Under the terms of our revolving credit facility, we are required to maintain hedging positions with respect to not less than 25% nor more than 75% of our crude oil and natural gas production. We currently have the following hedges in place:

Time Period	Notional Quantities	Price
June 2007	10,000 MMbtu of production per day	Floor of $5.00
July 2007	10,000 MMbtu of production per day	Floor of $4.25
August 2007	10,000 MMbtu of production per day	Floor of $5.00
September 2007	10,000 MMbtu of production per day	Floor of $5.50

Production Volumes. Because our proved reserves will decline as natural gas and crude oil are produced, unless we acquire additional properties containing proved reserves or conduct successful exploration and development activities, our reserves and production will decrease. Our ability to acquire or find additional reserves in the near future will be dependent, in part, upon the amount of available funds for acquisition, exploration and development projects.

We had capital expenditures during the first three months of 2007 of $3.9 million and have a capital budget for 2007 ranging from $27 to $44 million, which will depend on our success rate, production levels and commodity prices.

Availability of Capital. As described more fully under "Liquidity and Capital Resources" below, our sources of capital going forward will primarily be cash from operating activities, funding under our revolving credit facility, cash on hand, and if an appropriate opportunity presents itself, proceeds from the sale of properties. We currently have approximately $14.1 million of availability under our revolving credit facility.

Exploration and Development Activity. We believe that our high quality asset base, high degree of operational control and large inventory of drilling projects position us for future growth. Our properties are concentrated in locations that facilitate substantial economies of scale in drilling and production operations and more efficient reservoir management practices. We operate 94% of the properties accounting for approximately 93% of our PV-10, giving us substantial control over the timing and incurrence of operating and capital expenditures. In addition, we have 51 proved undeveloped projects and have identified over 500 drilling and recompletion opportunities on our existing acreage, the successful development of which we believe could significantly increase our daily production and proved reserves.

Our future natural gas and crude oil production, and therefore our success, is highly dependent upon our ability to find, acquire and develop additional reserves that are profitable to produce. The rate of production from our natural gas and crude oil properties and our proved reserves will decline as our reserves are produced unless we acquire additional properties containing proved reserves, conduct successful development and exploration activities or, through engineering studies, identify additional behind-pipe zones or secondary recovery reserves. We cannot assure you that our exploration and development activities will result in increases in our proved reserves. For example, in 2006, while we had some success in pursuing these activities, we were not able to fully replace the production volumes lost from natural field declines and property sales. If our proved reserves continue to decline in the future, our production will also decline and, consequently, our cash flow from operations and the amount that we are able to borrow under our revolving credit facility will also decline. In addition, approximately 52% of our total estimated proved reserves at December 31, 2006 were undeveloped. By their nature, estimates of undeveloped reserves are less certain. Recovery of such reserves will require significant capital expenditures and successful drilling operations. We may be unable to acquire or develop additional reserves, in which case our results of operations and

financial condition could be adversely affected.

12

Borrowings and Interest. We currently have indebtedness of approximately $125.9 million and availability of $14.1 million under our revolving credit facility. Our cash interest expense will require us to increase our cash flow from operations in order to meet our debt service requirements, as well as to fund the development of our numerous drilling opportunities.

Results of Operations

The following table sets forth certain of our operating data for the periods presented. All data is for continuing operations.

	Three Mo Marc	
	2007	
Operating Revenue: (1)		
Crude oil sales	$	2,741
Natural gas sales		8,581
Rig operations		328
Other		1
	$	11,651
Operating Income	$	3,801
Crude oil production (MBbl)		50.2
Natural gas production (MMcf)		1,451
Average crude oil sales price ($/Bbl)	$	54.63
Average natural gas sales price ($/Mcf)	$	5.91

(1) Revenue and average sales prices are net of hedging activities.

Comparison of Three Months Ended March 31, 2007 to Three Months Ended March 31, 2006

Operating Revenue. During the three months ended March 31, 2007, operating revenue from natural gas and crude oil sales decreased to $11.3 million from $12.9 million for the first quarter of 2006. The decrease in revenue was primarily due to a reduction in realized prices during the first quarter of 2007 as compared to the same period of 2006. Reduced realized prices had a negative impact of $1.2 million on revenue for the quarter. A decline in natural gas production partially offset by an increase in crude oil production had a negative impact of $427,000 for the first quarter of 2007.

Average sales prices net of hedging cost for the quarter ended March 31, 2007 were:

- o $54.63 per Bbl of crude oil,
- o $ 5.91 per Mcf of natural gas

Average sales prices net of hedging cost for the quarter ended March 31,

2006 were:

- $59.57 per Bbl of crude oil,
- $ 6.52 per Mcf of natural gas

Crude oil sales volumes increased from 46.7 MBbls during the quarter ended March 31, 2006 to 50.2 MBbls for the same period of 2007. The increase in crude oil sales volumes was primarily due to new production brought on line in 2006. Sales in Wyoming increased from 1.1 MBbls during the first quarter of 2006 to 4.2 MBbls for the same period of 2007. Natural gas production volumes decreased from 1,556 MMcf for the three months ended March 31, 2006 to 1,451 MMcf for the same period of 2007. The decrease in natural gas production volumes was primarily due to property sales in the third quarter of 2006. Properties sold contributed 74.4 MMcf to production during the first quarter of 2006.

Lease Operating Expenses. Lease operating expenses ("LOE") for the three months ended March 31, 2007 increased to $3.0 million compared to $2.8 million in 2006. The increase in LOE was due to a general increase in the cost of field services. LOE on a per Mcfe basis for the three months ended March 31, 2007 was $1.69 per Mcfe compared to $1.54 for the same period of 2006. The increase in per Mcfe cost was attributable to the decrease in production volumes during the first quarter of 2007 as compared to 2006 as well as the overall increase in cost.

General and Administrative ("G&A") Expenses. G&A expenses excluding stock-based compensation remained constant at $1.1 million during the quarters ended March 31, 2007 and 2006. G&A expense on a per Mcfe basis was $0.65 for the first quarter of 2007 compared to $0.61 for the same period of 2006. The increase in G&A expense on a per Mcfe basis was primarily due to a decline in production volumes during the first quarter of 2007 compared to the same period in 2006.

Stock-based Compensation We currently utilize a standard option pricing model (i.e., Black-Scholes) to measure the fair value of stock options granted to employees. Options granted to employees are valued at the date of grant and expense is recognized over the options vesting period. For the quarters ended March 31, 2007 and 2006, stock based compensation was approximately $172,000 and $171,000 respectively.

Depreciation, Depletion and Amortization Expenses. Depreciation, depletion and amortization ("DD&A") expense remained constant at $3.4 million for the three months ended March 31, 2007 and 2006. Our DD&A on a per Mcfe basis for the three months ended March 31, 2007 was $1.94 per Mcfe compared to $1.85 per Mcfe in 2006.

Interest Expense. Interest expense increased to $4.2 million for the first three months of 2007 from $4.0 million for the same period of 2006. The increase in interest expense was primarily due to an increase in the interest rates on our long-term debt. The interest rate on our senior notes was 12.08% for the three months ended March 31, 2006 compared to 12.85% for the three months ended March 31, 2007. The rate on our senior secured revolving credit facility also increased to 9.25% from 8.75% for the three months ended March 31, 2007 as compared to the same period of 2006.

Liquidity and Capital Resources

General. The natural gas and crude oil industry is a highly capital intensive and cyclical business. Our capital requirements are driven principally by our obligations to service debt and to fund the following costs:

- the development of existing properties, including drilling and completion costs of wells;
- acquisition of interests in additional natural gas and crude oil properties; and
- production and transportation facilities.

The amount of capital expenditures we are able to make has a direct impact on our ability to increase cash flow from operations and, thereby, will directly affect our ability to service our debt obligations and to continue to grow the business through the development of existing properties and the acquisition of new properties.

Our sources of capital going forward will primarily be cash from operating activities, funding under our revolving credit facility, cash on hand, and if an appropriate opportunity presents itself, proceeds from the sale of properties. However, under the terms of the notes, proceeds of optional sales of our assets that are not timely reinvested in new natural gas and crude oil assets will be required to be used to reduce indebtedness and proceeds of mandatory sales must be used to repay or redeem indebtedness.

Working Capital (Deficit). At March 31, 2007, our current liabilities of approximately $11.4 million exceeded our current assets of $7.2 million resulting in a working capital deficit of $4.2 million. This compares to a working capital deficit of approximately $3.7 million at December 31, 2006. Current liabilities at March 31, 2007 consisted of trade payables of $2.5 million, revenues due third parties of $2.5 million, accrued interest of $5.4 million and other accrued liabilities of $1.0 million.

14

Capital expenditures. Capital expenditures during the first three months of 2007 were $3.9 million compared to $7.1 million during the same period of 2006. The table below sets forth the components of these capital expenditures on a historical basis for the three months ended March 31, 2007 and 2006.

	Three Mo Mar	
	2007	
Expenditure category (in thousands):		
Development	$ 3,896	$
Facilities and other	4	
Total	$ 3,900	$

During the three months ended March 31, 2007 and 2006, capital expenditures were primarily for the development of existing properties. We anticipate making capital expenditures ranging from $27 to $44 million in 2007. These anticipated expenditures are subject to adequate cash flow from operations and availability under our revolving credit facility. Our ability to make all of our budgeted capital expenditures will also be subject to availability of drilling rigs and other field equipment and services. Our capital expenditures could also include

expenditures for acquisition of producing properties if such opportunities arise, but we currently have no agreements, arrangements or undertakings regarding any material acquisitions. Should the prices of natural gas and crude oil begin to decline, or if our costs of operations increase as a result of the scarcity of drilling rigs or if our production volumes decrease, our cash flow from operations will decrease which may result in a further reduction of the capital expenditures budget.

Sources of Capital. The net funds provided by and/or used in each of the operating, investing and financing activities relating to continuing operations are summarized in the following table and discussed in further detail below:

	Three Month March	
	2007	
Net cash provided by operating activities........................	$ 4,760	$
Net cash used in investing activities............................	(3,900)	
Net cash provided by (used in) financing activities..............	(293)	
Total..	$ 567	$

Operating activities during the three months ended March 31, 2007 provide us $4.8 million of cash compared to providing $6.4 million in the same period in 2006. Net income plus non-cash expense items during 2006 and 2007 and net changes in operating assets and liabilities accounted for most of these funds. Financing activities used $293,000 for the first three months of 2007 compared to providing $762,000 for the same period of 2006. Funds used in 2007 were the result of a net reduction in the outstanding balance of our revolving line of credit. In 2006, the funds were provided by net proceeds from our revolving line of credit and proceeds from the exercise of employee stock options. Investing activities used $3.9 million during the three months ended March 31, 2007 compared to using $7.1 million for the quarter ended March 31, 2006. Expenditures during the quarter ended March 31, 2007 and March 31, 2006 were primarily for the development of existing properties.

Future Capital Resources. We currently have three principal sources of liquidity going forward: (i) cash from operating activities, (ii) funding under our revolving credit facility, and (iii) if an appropriate opportunity presents itself, the sale of producing properties. If these sources of liquidity do not prove to be sufficient, we may also issue additional shares of equity securities although we may not be able to complete equity financings on terms acceptable to us, if at all. Covenants under the indenture for the notes and the revolving credit facility restrict our use of cash from operating activities, cash on hand and any proceeds from asset sales. Under the terms of the notes, proceeds of optional sales of our assets that are not timely reinvested in new natural gas and crude oil assets will be required to be used to reduce indebtedness and

proceeds of mandatory sales must be used to redeem indebtedness. The terms of the notes and the revolving credit facility also substantially restrict our ability to:

- incur additional indebtedness;
- grant liens;
- pay dividends or make certain other restricted payments;
- merge or consolidate with any other entity; or
- sell, assign, transfer, lease, convey or otherwise dispose of all or substantially all of our assets.

Our cash flow from operations depends heavily on the prevailing prices of natural gas and crude oil and our production volumes of natural gas and crude oil. Although we have hedged a portion of our natural gas and crude oil production and will continue this practice as required pursuant to the revolving credit facility, future natural gas and crude oil price declines would have a material adverse effect on our overall results, and therefore, our liquidity. Falling natural gas and crude oil prices could also negatively affect our ability to raise capital on terms favorable to us or at all.

Our cash flow from operations will also depend upon the volume of natural gas and crude oil that we produce. Unless we otherwise expand reserves, our production volumes may decline as reserves are produced. Due to sales of properties in 2002 and 2003, the divestiture of Grey Wolf during the first quarter of 2005, property sales in 2006 and restrictions on capital expenditures under the terms of our 11 1/2% secured notes due 2007 (which were refinanced in October 2004), we now have significantly reduced reserves and production as compared with pre-2003 levels. In the future, if an appropriate opportunity presents itself, we may sell additional properties, which could further reduce our production volumes. To offset the loss in production volumes resulting from natural field declines and sales of producing properties, we must conduct successful, exploration and development activities, acquire additional producing properties or identify additional behind-pipe zones or secondary recovery reserves. We believe our numerous drilling opportunities will allow us to increase our production volumes; however, our drilling activities are subject to numerous risks, including the risk that no commercially productive natural gas or crude oil reservoirs will be found. While we have had some success in pursuing these activities, we have not been able to fully replace the production volumes lost from natural field declines and property sales. For example, during 2006, we added approximately 3.6 Bcfe of proved reserves which were offset by 1.8 Bcfe of reserves attributable to properties we sold and 7.7 Bcfe of production. If our proved reserves continue to decline in the future, our production will also decline and, consequently, our cash flow from operations and the amount that we are able to borrow under our revolving credit facility will also decline. The risk of not finding commercially productive reservoirs will be compounded by the fact that 52% of our total estimated proved reserves at December 31, 2006 were undeveloped. During 2006, we expended approximately $26.1 million for wells in south Texas, west Texas and Wyoming. These activities did not result in significant new production or reserves. In west Texas, we are currently drilling a horizontal lateral in the Devonian formation. We continue to perform general well maintenance and work-overs utilizing our own work-over rigs. In addition, approximately 24% of our production for the three months ended March 31, 2007 was from a single well in west Texas. If production from this well decreases, the volume of our production would also decrease which, in turn, would likely cause our cash flow from operations to decrease.

Contractual Obligations

We are committed to making cash payments in the future on the following types of agreements:

- Long-term debt

- Operating leases for office facilities

We have no off-balance sheet debt or unrecorded obligations and we have not guaranteed the debt of any other party. Below is a schedule of the future payments that we are obligated to make based on agreements in place as of March 31, 2007:

Contractual Obligations (dollars in thousands)	Total	Payments due in twelve month periods e March 31, 2008	March 31, 2009-2010	2
Long-Term Debt (1)	$ 127,322	$ -	$ 127,322	$
Interest on long-term debt (2)	43,173	16,277	26,896	
Operating Leases (3)	471	259	212	
Total	$ 170,966	$ 16,536	$ 154,430	$

(1) These amounts represent the b outstanding under the revolving credit facility and the notes. These repayments assume that we will not draw down additional funds.

(2) Interest expense assumes the balances of long-term debt at the end of the period and current effective interest rates.

(3) Office lease obligations. The lease for office space for Abraxas expires in 2009.

We maintain a reserve for cost associated with the retirement of tangible long-lived assets. At March 31, 2007, our reserve for these obligations totaled $1.0 million for which no contractual commitment exist.

Off-Balance Sheet Arrangements. At March 31, 2007, we had no existing off-balance sheet arrangements, as defined under SEC regulations, that have or are reasonably likely to have a current or future effect on our financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that are material to investors.

Other obligations. We make and will continue to make substantial capital expenditures for the acquisition, development, exploration and production of crude oil and natural gas. In the past, we have funded our operations and capital expenditures primarily through cash flow from operations, sales of properties, sales of production payments and borrowings under our bank credit facilities and other sources. Given our high degree of operating control, the timing and incurrence of operating and capital expenditures is largely within our discretion.

Long-term Indebtedness.

	March 31, 2007
	(in th
Floating rate senior secured notes due 2009...........................	$ 125,000

Senior secured revolving credit facility	2,322
	127,322
Less current maturities	-
	$ 127,322

Floating Rate Senior Secured Notes due 2009. In connection with the October 2004 financial restructuring, Abraxas issued $125 million in aggregate principal amount of Floating Rate Senior Secured Notes due 2009. The notes will mature on December 1, 2009 and began accruing interest from the date of issuance, October 28, 2004 at a per annum floating rate of six-month LIBOR plus 7.50%. The current interest rate is 12.85% per annum. The interest rate is reset semi-annually on each June 1 and December 1. Interest is payable semi-annually in arrears on June 1 and December 1 of each year.

The notes rank equally among themselves and with all of our unsubordinated and secured indebtedness, including our credit facility and senior in right of payment to our existing and future subordinated indebtedness.

Each of our subsidiaries, Eastside Coal Company, Inc., Sandia Oil & Gas Corporation, Sandia Operating Corp., Wamsutter Holdings, Inc. and Western Associated Energy Corporation (collectively, the "Subsidiary Guarantors"), has unconditionally guaranteed, jointly and severally, the payment of the principal, premium and interest on the notes on a senior secured basis. In addition, any other subsidiary or affiliate of ours, that in the future guarantees any other indebtedness with us, or our restricted subsidiaries, will also be required to guarantee the notes.

The notes and the Subsidiary Guarantors' guarantees thereof, together with our revolving credit facility and the Subsidiary Guarantors' guarantees thereof, are secured by shared first priority perfected security interests, subject to certain permitted encumbrances, in all of our and each of our restricted subsidiaries' material property and assets, including substantially all of our and their natural gas and crude oil properties and all of the capital stock (or in the case of an unrestricted subsidiary that is a controlled foreign corporation, up to 65% of the outstanding capital stock) of any entity, owned by us and our restricted subsidiaries (collectively, the "Collateral").

The notes may be redeemed, at our election, as a whole or from time to time in part, at any time after April 28, 2007, upon not less than 30 nor more than 60 days notice to each holder of notes to be redeemed, subject to the conditions and at the redemption prices (expressed as percentages of principal amount) set forth below, together with accrued and unpaid interest and Liquidating Damages (as defined in the indenture) if any, to the applicable redemption date.

Year	Percentage
From April 29, 2007 to April 28, 2008	104.00%
From April 29, 2008 to April 28, 2009	102.00%
After April 28, 2009	100.00%

If we experience specific kinds of change of control events, each holder of notes may require us to repurchase all or any portion of such holder's notes at a purchase price equal to 101% of the principal amount of the notes, plus accrued and unpaid interest to the date of repurchase.

The indenture governing the notes contains covenants that, among other things, limit our ability to:

- incur or guarantee additional indebtedness and issue certain types of preferred stock or redeemable stock;
- transfer or sell assets;
- create liens on assets;
- pay dividends or make other distributions on capital stock or make other restricted payments, including repurchasing, redeeming or retiring capital stock or subordinated debt or making certain investments or acquisitions;
- engage in transactions with affiliates;
- guarantee other indebtedness;
- permit restrictions on the ability of our subsidiaries to distribute or lend money to us;
- cause a restricted subsidiary to issue or sell its capital stock; and
- consolidate, merge or transfer all or substantially all of the consolidated assets of our and our restricted subsidiaries.

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

18

Senior Secured Revolving Credit Facility. On October 28, 2004, we entered into an agreement for a revolving credit facility having a maximum commitment of $15 million, which includes a $2.5 million subfacility for letters of credit. Availability under the revolving credit facility is subject to a borrowing base consistent with normal and customary natural gas and crude oil lending transactions.

Outstanding amounts under the revolving credit facility bear interest at the prime rate announced by Wells Fargo Bank, National Association plus 1.00%. The current interest rate is 9.25% per annum. Subject to earlier termination rights and events of default, the stated maturity date under the revolving credit facility is October 28, 2008.

We are permitted to terminate the revolving credit facility, and under certain circumstances, may be required, from time to time, to permanently reduce the lenders' aggregate commitment under the revolving credit facility. Such termination and each such reduction is subject to a premium equal to the percentage listed below multiplied by the lenders' aggregate commitment under the revolving credit facility, or, in the case of partial reduction, the amount of such reduction.

Year	% Premium
1	1.5
2	1.0
3	0.5
4	0.0

Each of our current subsidiaries has guaranteed, and each of our future restricted subsidiaries will guarantee, our obligations under the revolving credit facility on a senior secured basis. In addition, any other subsidiary or affiliate of ours, that in the future guarantees any of our other indebtedness or of our restricted subsidiaries will be required to guarantee our obligations under the revolving credit facility. Obligations under the revolving credit facility are secured, together with the notes, by a shared first priority perfected security interest, subject to certain permitted encumbrances, in all of our and each of our restricted subsidiaries' material property and assets, including substantially all of our and their natural gas and crude oil properties and all of the capital stock (or in the case of an unrestricted subsidiary that is a controlled foreign corporation, up to 65% of the outstanding capital stock) in any entity, owned by us and our restricted subsidiaries.

Under the revolving credit facility, we are subject to customary covenants, including certain financial covenants and reporting requirements. The revolving credit facility requires us to maintain a minimum net cash interest coverage ratio and also requires us to enter into hedging agreements on not less than 25% or more than 75% of our projected natural gas and crude oil production.

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

- incur or guarantee additional indebtedness and issue certain types of preferred stock or redeemable stock;
- transfer or sell assets;
- create liens on assets;
- pay dividends or make other distributions on capital stock or make other restricted payments, including repurchasing, redeeming or retiring capital stock or subordinated debt or making certain investments or acquisitions;
- engage in transactions with affiliates;
- guarantee other indebtedness;
- make any change in the principal nature of our business;
- prepay, redeem, purchase or otherwise acquire any of our or our restricted subsidiaries' indebtedness;

- permit a change of control;
- directly or indirectly make or acquire any investment;
- cause a restricted subsidiary to issue or sell our capital stock; and
- consolidate, merge or transfer all or substantially all of the consolidated assets of Abraxas and our restricted subsidiaries.

The revolving 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, and is subject to an Intercreditor, Security and Collateral Agency Agreement, which specifies the rights of the parties thereto to the proceeds from the Collateral.

Intercreditor Agreement. The holders of the notes, together with the lenders under our credit facility, are subject to an Intercreditor, Security and Collateral Agency Agreement, which specifies the rights of the parties thereto to the proceeds from the Collateral. The Intercreditor Agreement, among other things, (i) creates security interests in the Collateral in favor of a collateral agent for the benefit of the holders of the notes and the credit facility lenders and (ii) governs the priority of payments among such parties upon notice of an event of default under the Indenture or the credit facility.

So long as no such event of default exists, the collateral agent will not collect payments under the new credit facility documents or the indenture governing the notes and other note documents (collectively, the "Secured Documents"), and all payments will be made directly to the respective creditor under the applicable Secured Document. Upon notice of an event of default and for so long as an event of default exists, payments to each credit facility lender and holder of the notes from us and our current subsidiaries and proceeds from any disposition of any collateral, will, subject to limited exceptions, be collected by the collateral agent for deposit into a collateral account and then distributed as provided in the following paragraph.

Upon notice of any such event of default and so long as an event of default exists, funds in the collateral account will be distributed by the collateral agent generally in the following order of priority:

first, to reimburse the collateral agent for expenses incurred in protecting and realizing upon the value of the Collateral;

second, to reimburse the credit facility administrative agent and the trustee, on a pro rata basis, for expenses incurred in protecting and realizing upon the value of the Collateral while any of these parties was acting on behalf of the Control Party (as defined below);

third, to reimburse the credit facility administrative agent and the trustee, on a pro rata basis, for expenses incurred in protecting and realizing upon the value of the Collateral while any of these parties was not acting on behalf of the Control Party;

fourth, to pay all accrued and unpaid interest (and then any unpaid commitment fees) under the credit facility;

fifth, if, the collateral coverage value of three times the outstanding obligations under the credit facility would be met after giving effect to any payment under this clause "fifth," to pay all accrued and unpaid interest on the notes;

sixth, to pay all outstanding principal of (and then any other unpaid amounts, including, without limitation, any fees, expenses, premiums and reimbursement obligations) the credit facility;

seventh, to pay all accrued and unpaid interest on the notes (if not paid under clause "fifth");

eighth, to pay all outstanding principal of (and then any other unpaid amounts, including, without limitation, any premium with respect to) the notes; and

ninth, to pay each credit facility lender, holder of the notes, and other secured party, on a pro rata basis, all other amounts outstanding under the credit facility and the notes.

To the extent there exists any excess monies or property in the collateral account after all of ours and our subsidiaries' obligations under the credit facility, the indenture and the notes are paid in full, the collateral agent will be required to return such excess to us.

The collateral agent will act in accordance with the Intercreditor Agreement and as directed by the "Control Party" which for purposes of the Intercreditor Agreement is the holders of the notes and the credit facility lenders, acting as a single class, by vote of the holders of a majority of the aggregate principal amount of outstanding obligations under the notes and the credit facility.

The Intercreditor Agreement provides that the lien on the assets constituting part of the Collateral that is sold or otherwise disposed of in accordance with the terms of each Secured Document may be released if (i) no default or event of default exists under any of the Secured Documents, (ii) we have delivered an officers' certificate to each of the collateral agent, the trustee, the credit facility administrative agent certifying that the proposed sale or other disposition of assets is either permitted or required by, and is in accordance with the provisions of, the applicable Secured Documents and (iii) the collateral agent has acknowledged such certificate.

The Intercreditor Agreement provides for the termination of security interests on the date that all obligations under the Secured Documents are paid in full.

Hedging Activities.

Our results of operations are significantly affected by fluctuations in commodity prices and we seek to reduce our exposure to price volatility by hedging our production through commodity derivative instruments. Under the senior credit agreement, we are required to maintain hedge positions on not less than 25% or more than 75% of our projected oil and gas production..

Net Operating Loss Carryforwards.

At December 31, 2006 we had $191.7 million of net operating loss carryforwards for U.S. tax purposes. These loss carryforwards will expire through 2026 if not utilized.

Uncertainties exist as to the future utilization of the operating loss carryforwards under the criteria set forth under FASB Statement No. 109. Therefore, we have established a valuation allowance of $67.1 million for deferred tax assets at March 31, 2007.

In June 2006, the FASB issued FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes" ("FIN 48"). FIN 48 is an interpretation of SFAS 109, "Accounting for Income Taxes", and it seeks to reduce the diversity in practice associated with certain aspects of measurement and accounting for income taxes and requires expanded disclosure with respect to the uncertainty in income taxes. FIN 48 is effective for fiscal years beginning after December 15, 2006. Accordingly, the Company adopted FIN 48 on January 1, 2007. The adoption of FIN 48 did not have any effect on the Company's financial position or results of operations for the quarter ended March 31, 2007. The Company recognizes interest and penalties related to uncertain tax positions in income tax expense. As of March 31, 2007, the Company did not have any accrued interest or penalties related to uncertain tax positions. The tax years from 1999 through 2006 remain

open to examination by the tax jurisdictions to which the Company is subject.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Commodity Price Risk

As an independent crude oil and natural gas producer, our revenue, cash flow from operations, other income and profitability, reserve values, access to capital and future rate of growth are substantially dependent upon the prevailing prices of crude oil and natural gas. Declines in commodity prices will materially adversely affect our financial condition, liquidity, ability to obtain financing and operating results. Lower commodity prices may reduce the amount of crude oil and natural gas that we can produce economically. Prevailing prices for such commodities are subject to wide fluctuation in response to relatively minor changes in supply and demand and a variety of additional factors beyond our control, such as global political and economic conditions. Historically, prices received for crude oil and natural gas production have been volatile and unpredictable, and such volatility is expected to continue. Most of our production is sold at market prices. Generally, if the commodity indexes fall, the price that we receive for our production will also decline. Therefore, the amount of revenue that we realize is partially determined by factors beyond our control. Assuming the production levels we attained during the quarter ended March 31, 2007, a 10% decline in crude oil and natural gas prices would have reduced our operating revenue, cash flow and net income by approximately $1.1 million for the quarter.

Hedging Sensitivity

On January 1, 2001, we adopted SFAS 133 as amended by SFAS 137 and SFAS 138. Under SFAS 133, all derivative instruments are recorded on the balance sheet at fair value. In 2003 we elected not to designate derivative instruments as hedges. Accordingly the instruments are recorded on the balance sheet at fair value with changes in the market value of the derivatives being recorded in current oil and gas revenue.

Under the terms of our revolving credit facility, we are required to maintain hedging positions with respect to not less than 25% nor more than 75% of our natural gas and crude oil production.

Interest rate risk

At March 31, 2007 we had $125.0 million in outstanding indebtedness under the floating rate senior secured notes due 2009. The notes bear interest at a per annum rate of six-month LIBOR plus 7.5%. The rate is redetermined on June 1 and December 1 of each year, beginning June 1, 2005. The current rate on the notes is 12.85%. For every percentage point that the LIBOR rate rises, our interest expense would increase by approximately $1.3 million on an annual basis. At March 31, 2007, we had $2.3 million of outstanding indebtedness under our revolving credit facility. Interest on this facility accrues at the prime rate announced by Wells Fargo Bank plus 1.00%. For every percentage point increase in the announced prime rate, our interest expense would increase by approximately $23,000 on an annual basis.

Item 4. Controls and Procedures.

As of the end of the period covered by this report, our Chief Executive Officer and Chief Financial Officer carried out an evaluation of the effectiveness of Abraxas' "disclosure controls and procedures" (as defined in

the Securities Exchange Act of 1934 Rules 13a-15(e)and 15d-15(e)) and concluded that the disclosure controls and procedures were effective.

There were no changes in our internal controls over financial reporting during the period covered by this report that could materially affect, or are reasonably likely to materially affect, our financial reporting.

ABRAXAS PETROLEUM CORPORATION

PART II
OTHER INFORMATION

Item 1. Legal Proceedings.

There have been no changes in legal proceedings from that described in the Company's Annual Report of Form 10-K for the year ended December 31, 2006, and in Note 6 in the Notes to Condensed Consolidated Financial Statements contained in Part I of this report on Form 10-Q.

Item 1A. Risk Factors.

In addition to the other information set forth in this report, you should carefully consider the factors discussed in Part I, "Item 1A. Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2006, which could materially affect our business, financial condition or future results. The risks described in our Annual Report on Form 10-K are not the only risks facing Abraxas. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or operating results.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

None

Item 3. Defaults Upon Senior Securities.

None

Item 4. Submission of Matters to a Vote of Security Holders.

None

Item 5. Other Information.

None

Item 6. Exhibits

(a) Exhibits

Exhibit 31.1 Certification - Robert L.G. Watson, CEO
Exhibit 31.2 Certification - Chris E. Williford, CFO
Exhibit 32.1 Certification pursuant to 18 U.S.C. Section 1350 - Robert L.G. Watson, CEO
Exhibit 32.2 Certification pursuant to 18 U.S.C. Section 1350 - Chris E. Williford, CFO

ABRAXAS PETROLEUM CORPORATION

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Date: May 15,2007 By: /s/Robert L.G. Watson

ROBERT L.G. WATSON,
President and Chief
Executive Officer

Date: May 15, 2007 By: /s/Chris E. Williford

CHRIS E. WILLIFORD,
Executive Vice President and
Principal Accounting Officer