

Diamondback Energy, Inc.
Form 10-Q
August 07, 2014
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

✓ QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE QUARTERLY PERIOD ENDED June 30, 2014
OR
.. TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF SECURITIES EXCHANGE ACT OF 1934
Commission File Number 001-35700

Diamondback Energy, Inc.
(Exact Name of Registrant As Specified in Its Charter)

Delaware
(State or Other Jurisdiction of
Incorporation or Organization)

45-4502447
(IRS Employer
Identification Number)

500 West Texas, Suite 1200
Midland, Texas
(Address of Principal Executive Offices)
(432) 221-7400
(Registrant Telephone Number, Including Area Code)

79701
(Zip Code)

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 past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No ..

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No ..

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

Large Accelerated Filer

Accelerated Filer ..

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Non-Accelerated Filer

Smaller Reporting Company

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

As of July 29, 2014, 56,632,635 shares of the registrant's common stock were outstanding.

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GLOSSARY OF OIL AND NATURAL GAS TERMS

The following is a description of the meanings of some of the oil and natural gas industry terms used throughout this report:

3-D seismic. Geophysical data that depict the subsurface strata in three dimensions. 3-D seismic typically provides a more detailed and accurate interpretation of the subsurface strata than 2-D, or two-dimensional, seismic.

Bbl. Stock tank barrel, or 42 U.S. gallons liquid volume, used in this report in reference to crude oil or other liquid hydrocarbons.

Bbls/d. Bbls per day.

BOE. Barrels of oil equivalent, with six thousand cubic feet of natural gas being equivalent to one barrel of oil.

BOE/d. BOE per day.

Completion. The process of treating a drilled well followed by the installation of permanent equipment for the production of natural gas or oil, or in the case of a dry hole, the reporting of abandonment to the appropriate agency.

Condensate. Liquid hydrocarbons associated with the production of a primarily natural gas reserve.

Developed acreage. The number of acres that are allocated or assignable to productive wells or wells capable of production.

Development well. A well drilled within the proved area of a natural gas or oil reservoir to the depth of a stratigraphic horizon known to be productive.

Dry hole. A well found to be incapable of producing hydrocarbons in sufficient quantities such that proceeds from the sale of such production exceed production expenses and taxes.

Exploratory well. A well drilled to find and produce natural gas or oil reserves not classified as proved, to find a new reservoir in a field previously found to be productive of natural gas or oil in another reservoir or to extend a known reservoir.

Field. An area consisting of either a single reservoir or multiple reservoirs, all grouped on or related to the same individual geological structural feature and/or stratigraphic condition.

Finding and development costs. Capital costs incurred in the acquisition, exploitation and exploration of proved oil and natural gas reserves divided by proved reserve additions and revisions to proved reserves.

Fracturing. The process of creating and preserving a fracture or system of fractures in a reservoir rock typically by injecting a fluid under pressure through a wellbore and into the targeted formation.

Gross acres or gross wells. The total acres or wells, as the case may be, in which a working interest is owned.

Horizontal drilling. A drilling technique used in certain formations where a well is drilled vertically to a certain depth and then drilled at a right angle with a specified interval.

MBbls. Thousand barrels of crude oil or other liquid hydrocarbons.

MBOE. One thousand barrels of crude oil equivalent, determined using a ratio of six Mcf of natural gas to one Bbl of crude oil, condensate or natural gas liquids.

Mcf. Thousand cubic feet of natural gas.

Mcf/d. Mcf per day.

MMBtu. Million British Thermal Units.

MMcf. Million cubic feet of natural gas.

Net acres or net wells. The sum of the fractional working interest owned in gross acres or gross wells, as the case may be.

Net revenue interest. An owner's interest in the revenues of a well after deducting proceeds allocated to royalty and overriding interests.

PDP. Proved developed producing.

Play. A set of discovered or prospective oil and/or natural gas accumulations sharing similar geologic, geographic and temporal properties, such as source rock, reservoir structure, timing, trapping mechanism and hydrocarbon type.

Plugging and abandonment. Refers to the sealing off of fluids in the strata penetrated by a well so that the fluids from one stratum will not escape into another or to the surface. Regulations of all states require plugging of abandoned wells.

PUD. Proved undeveloped.

Productive well. A well that is found to be capable of producing hydrocarbons in sufficient quantities such that proceeds from the sale of the production exceed production expenses and taxes.

Prospect. A specific geographic area which, based on supporting geological, geophysical or other data and also preliminary economic analysis using reasonably anticipated prices and costs, is deemed to have potential for the discovery of commercial hydrocarbons.

Proved developed reserves. Reserves that can be expected to be recovered through existing wells with existing equipment and operating methods.

Proved reserves. The estimated quantities of oil, natural gas and natural gas liquids which geological and engineering data demonstrate with reasonable certainty to be commercially recoverable in future years from known reservoirs under existing economic and operating conditions.

Proved undeveloped reserves. Proved reserves that are expected to be recovered from new wells on undrilled acreage or from existing wells where a relatively major expenditure is required for recompletion.

Recompletion. The process of re-entering an existing wellbore that is either producing or not producing and completing new reservoirs in an attempt to establish or increase existing production.

Reservoir. A porous and permeable underground formation containing a natural accumulation of producible natural gas and/or oil that is confined by impermeable rock or water barriers and is separate from other reservoirs.

Stratigraphic play. An oil or natural gas formation contained within an area created by permeability and porosity changes characteristic of the alternating rock layer that result from the sedimentation process.

Structural play. An oil or natural gas formation contained within an area created by earth movements that deform or rupture (such as folding or faulting) rock strata.

Undeveloped acreage. Lease acreage on which wells have not been drilled or completed to a point that would permit the production of commercial quantities of oil and natural gas regardless of whether such acreage contains proved reserves.

Working interest. The operating interest that gives the owner the right to drill, produce and conduct operating activities on the property and receive a share of production and requires the owner to pay a share of the costs of drilling and production operations.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

Various statements contained in this report that express a belief, expectation, or intention, or that are not statements of historical fact, are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, or the Securities Act, and Section 21E of the Securities Exchange Act of 1934, or the Exchange Act. These forward-looking statements are subject to a number of risks and uncertainties, many of which are beyond our control. All statements, other than statements of historical fact, regarding our strategy, future operations, financial position, estimated revenues and losses, projected costs, prospects, plans and objectives of management are forward-looking statements. When used in this quarterly report, the words “could,” “believe,” “anticipate,” “intend,” “estimate,” “expect,” “may,” “continue,” “predict,” “potential,” “project,” and similar expressions are intended to identify forward-looking statements, although not all forward-looking statements contain such identifying words. In particular, the factors discussed in this quarterly report on Form 10-Q and detailed under Part II, Item 1A. Risk Factors in this report and our Annual Report on Form 10-K for the year ended December 31, 2013 could affect our actual results and cause our actual results to differ materially from expectations, estimates or assumptions expressed, forecasted or implied in such forward-looking statements.

Forward-looking statements may include statements about our:

- business strategy;
- exploration and development drilling prospects, inventories, projects and programs;
- oil and natural gas reserves;
- identified drilling locations;
- ability to obtain permits and governmental approvals;
- technology;
- financial strategy;
- realized oil and natural gas prices;
- production;
 - lease operating expenses, general and administrative costs and finding and development costs;
- future operating results; and
- plans, objectives, expectations and intentions.

All forward-looking statements speak only as of the date of this quarterly report. You should not place undue reliance on these forward-looking statements. These forward-looking statements are subject to a number of risks, uncertainties and assumptions. Moreover, we operate in a very competitive and rapidly changing environment. New risks emerge from time to time. It is not possible for our management to predict all risks, nor can we assess the impact of all factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements we may make. Although we believe that our plans, intentions and expectations reflected in or suggested by the forward-looking statements we make in this quarterly report are reasonable, we can give no assurance that these plans, intentions or expectations will be achieved or occur, and actual results could differ materially and adversely from those anticipated or implied in the forward-looking statements.

Table of ContentsDiamondback Energy, Inc. and Subsidiaries
Consolidated Balance Sheets
(Unaudited)

| | June 30, 2014 | December 31, 2013 |
|---|---|----------------------|
| | (In thousands, except par values and share data) | |
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | \$36,993 | \$15,555 |
| Accounts receivable: | | |
| Joint interest and other | 24,697 | 14,437 |
| Oil and natural gas sales | 40,648 | 23,533 |
| Related party | 3,310 | 1,303 |
| Inventories | 3,308 | 5,631 |
| Deferred income taxes | 4,327 | 112 |
| Derivative instruments | — | 213 |
| Prepaid expenses and other | 1,421 | 1,184 |
| Total current assets | 114,704 | 61,968 |
| Property and equipment | | |
| Oil and natural gas properties, based on the full cost method of accounting (\$456,692 and \$369,561 excluded from amortization at June 30, 2014 and December 31, 2013, respectively) | 2,191,321 | 1,648,360 |
| Pipeline and gas gathering assets | 6,846 | 6,142 |
| Other property and equipment | 4,973 | 4,071 |
| Accumulated depletion, depreciation, amortization and impairment | (283,152 |) (212,236 |
| Derivative instruments | 1,919,988 |) 1,446,337 |
| Other assets | — | 218 |
| Total assets | 12,702 | 13,091 |
| | \$2,047,394 | \$1,521,614 |
| Liabilities and Stockholders' Equity | | |
| Current liabilities: | | |
| Accounts payable-trade | \$23,475 | \$2,679 |
| Accounts payable-related party | 67 | 17 |
| Accrued capital expenditures | 81,550 | 74,649 |
| Other accrued liabilities | 38,236 | 34,750 |
| Revenues and royalties payable | 15,170 | 9,225 |
| Derivative instruments | 10,379 | — |
| Total current liabilities | 168,877 | 121,320 |
| Long-term debt | 496,000 | 460,000 |
| Asset retirement obligations | 5,437 | 2,989 |
| Deferred income taxes | 124,743 | 91,764 |
| Total liabilities | 795,057 | 676,073 |
| Contingencies (Note 13) | | |
| Stockholders' equity: | | |
| | 509 | 471 |

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Common stock, \$0.01 par value, 100,000,000 shares authorized, 50,807,635 issued and outstanding at June 30, 2014; 47,106,216 issued and outstanding at December 31, 2013

| | | |
|---|-------------|-------------|
| Additional paid-in capital | 1,060,537 | 842,557 |
| Retained earnings | 53,855 | 2,513 |
| Total Diamondback Energy, Inc. stockholders' equity | 1,114,901 | 845,541 |
| Noncontrolling interest | 137,436 | — |
| Total equity | 1,252,337 | 845,541 |
| Total liabilities and equity | \$2,047,394 | \$1,521,614 |

See accompanying notes to consolidated financial statements.

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Diamondback Energy, Inc. and Subsidiaries
Consolidated Statements of Operations
(Unaudited)

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|--|--|-----------|---------------------------|-----------|
| | 2014 | 2013 | 2014 | 2013 |
| | (In thousands, except per share amounts) | | | |
| Revenues: | | | | |
| Oil sales | \$ 115,282 | \$ 41,034 | \$ 205,040 | \$ 66,287 |
| Natural gas sales | 1,913 | 988 | 3,668 | 1,727 |
| Natural gas sales - related party | 2,416 | 680 | 3,996 | 1,092 |
| Natural gas liquid sales | 3,304 | 1,649 | 5,888 | 3,471 |
| Natural gas liquid sales - related party | 4,089 | 1,043 | 6,416 | 1,726 |
| Total revenues | 127,004 | 45,394 | 225,008 | 74,303 |
| Costs and expenses: | | | | |
| Lease operating expenses | 10,425 | 5,103 | 18,232 | 9,809 |
| Lease operating expenses - related party | 71 | 392 | 179 | 594 |
| Production and ad valorem taxes | 8,106 | 2,672 | 13,684 | 4,550 |
| Production and ad valorem taxes - related party | 448 | 116 | 712 | 192 |
| Gathering and transportation | 102 | 31 | 316 | 106 |
| Gathering and transportation - related party | 601 | 216 | 969 | 274 |
| Depreciation, depletion and amortization | 40,021 | 14,815 | 70,994 | 25,553 |
| General and administrative expenses (including non-cash stock based compensation, net of capitalized amounts, of \$1,128 and \$477 for the three months ended June 30, 2014 and 2013, respectively, and \$3,318 and \$936 for the six months ended June 30, 2014 and 2013, respectively) | 3,610 | 2,355 | 7,875 | 4,540 |
| General and administrative expenses - related party | 324 | 266 | 616 | 552 |
| Asset retirement obligation accretion expense | 104 | 45 | 176 | 88 |
| Total costs and expenses | 63,812 | 26,011 | 113,753 | 46,258 |
| Income from operations | 63,192 | 19,383 | 111,255 | 28,045 |
| Other income (expense) | | | | |
| Interest expense | (7,739) |) (535) |) (14,244) |) (1,020) |
| Other income - related party | 30 | 388 | 60 | 777 |
| Other expense | (1,408) |) — | (1,408) |) — |
| Gain (loss) on derivative instruments, net | (11,088) |) 3,037 | (15,486) |) 3,029 |
| Total other income (expense), net | (20,205) |) 2,890 | (31,078) |) 2,786 |
| Income before income taxes | 42,987 | 22,273 | 80,177 | 30,831 |
| Provision for income taxes | | | | |
| Deferred | 15,163 | 7,802 | 28,764 | 10,964 |
| Net income | 27,824 | 14,471 | 51,413 | 19,867 |
| Less: Net income attributable to noncontrolling interest | 71 | — | 71 | — |
| Net income attributable to Diamondback Energy, Inc. | \$ 27,753 | \$ 14,471 | \$ 51,342 | \$ 19,867 |
| Earnings per common share | | | | |
| Basic | \$ 0.55 | \$ 0.37 | \$ 1.03 | \$ 0.52 |
| Diluted | \$ 0.54 | \$ 0.36 | \$ 1.02 | \$ 0.52 |

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Weighted average common shares outstanding

| | | | | |
|---------|--------|--------|--------|--------|
| Basic | 50,777 | 39,402 | 49,622 | 38,237 |
| Diluted | 51,142 | 39,719 | 50,047 | 38,477 |

See accompanying notes to consolidated financial statements.

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Table of ContentsDiamondback Energy, Inc. and Subsidiaries
Consolidated Statement of Stockholders' Equity
(Unaudited)

| | Common Stock Shares | Common Stock Amount | Additional Paid-in Capital | Retained Earnings | Non-controlling Interest | Total |
|---|------------------------|------------------------|----------------------------------|----------------------|-----------------------------|-------------|
| | (In thousands) | | | | | |
| Balance December 31, 2013 | 47,106 | \$471 | \$842,557 | \$2,513 | \$— | \$845,541 |
| Net proceeds from issuance of common units - Viper Energy Partners LP | — | — | — | — | 137,365 | 137,365 |
| Stock based compensation | — | — | 5,906 | — | — | 5,906 |
| Common shares issued in public offering, net of offering costs | 3,450 | 35 | 208,394 | — | — | 208,429 |
| Exercise of stock options and vesting of restricted stock units | 251 | 3 | 3,680 | — | — | 3,683 |
| Net income | — | — | — | 51,342 | 71 | 51,413 |
| Balance June 30, 2014 | 50,807 | \$509 | \$1,060,537 | \$53,855 | \$137,436 | \$1,252,337 |

See accompanying notes to consolidated financial statements.

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Consolidated Statements of Cash Flows
(Unaudited)

| | Six Months Ended June 30, | |
|---|---------------------------|-----------|
| | 2014 | 2013 |
| | (In thousands) | |
| Cash flows from operating activities: | | |
| Net income | \$51,413 | \$19,867 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Provision for deferred income taxes | 28,764 | 10,964 |
| Asset retirement obligation accretion expense | 176 | 88 |
| Depreciation, depletion, and amortization | 70,994 | 25,553 |
| Amortization of debt issuance costs | 946 | 318 |
| Change in fair value of derivative instruments | 10,810 | (5,429) |
| Stock based compensation expense | 3,318 | 936 |
| (Gain) loss on sale of assets, net | 1,397 | (30) |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | (18,584) | (12,185) |
| Accounts receivable-related party | (2,007) | 5,110 |
| Inventories | 977 | (96) |
| Prepaid expenses and other | (219) | (1,517) |
| Accounts payable and accrued liabilities | 2,076 | 4,543 |
| Accounts payable and accrued liabilities-related party | — | (74) |
| Accrued interest | 3,415 | — |
| Revenues and royalties payable | 6,230 | 1,750 |
| Net cash provided by operating activities | 159,706 | 49,798 |
| Cash flows from investing activities: | | |
| Additions to oil and natural gas properties | (206,779) | (102,785) |
| Additions to oil and natural gas properties-related party | (2,571) | (9,298) |
| Acquisition of Gulfport properties | — | (18,550) |
| Acquisition of leasehold interests | (312,207) | (6,192) |
| Pipeline and gas gathering assets | (1,165) | — |
| Purchase of other property and equipment | (934) | (1,615) |
| Proceeds from sale of property and equipment | 11 | 54 |
| Settlement of non-hedge derivative instruments | — | (289) |
| Net cash used in investing activities | (523,645) | (138,675) |
| Cash flows from financing activities: | | |
| Proceeds from borrowings on credit facility | 166,000 | 49,000 |
| Repayment on credit facility | (130,000) | (49,000) |
| Debt issuance costs | (1,039) | (72) |
| Public offering costs | (946) | (447) |
| Proceeds from public offerings | 347,679 | 144,936 |
| Exercise of stock options | 3,683 | — |
| Net cash provided by financing activities | 385,377 | 144,417 |
| Net increase in cash and cash equivalents | 21,438 | 55,540 |
| Cash and cash equivalents at beginning of period | 15,555 | 26,358 |
| Cash and cash equivalents at end of period | \$36,993 | \$81,898 |

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Diamondback Energy, Inc. and Subsidiaries
Consolidated Statements of Cash Flows - Continued
(Unaudited)

See accompanying notes to consolidated financial statements.

Six Months Ended June 30,
2014 2013

(In thousands)

Supplemental disclosure of cash flow information: