

LRR Energy, L.P.
Form 10-Q
August 14, 2012
Table of Contents

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 June 30, 2012

OR

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: 001-35344

LRR Energy, L.P.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

90-0708431
(I.R.S. Employer
Identification No.)

Heritage Plaza

1111 Bagby, Suite 4600

Houston, Texas
(Address of principal executive offices)

77002
(Zip code)

Telephone Number: (713) 292-9510

(Registrant's telephone number, including area 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 preceding 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 (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer
(Do not check if a smaller reporting company)

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

There were 15,708,474 Common Units, 6,720,000 Subordinated Units and 22,400 General Partner Units outstanding as of August 10, 2012. The Common Units trade on the New York Stock Exchange under the ticker symbol "LRE".

Table of Contents

LRR Energy, L.P.

TABLE OF CONTENTS

Caption	Page
<u>PART I FINANCIAL INFORMATION</u>	
<u>Item 1. Financial Statements.</u>	
<u>Unaudited Consolidated Condensed Balance Sheets as of June 30, 2012 and December 31, 2011</u>	1
<u>Unaudited Condensed Statements of Operations for the Three and Six Months Ended June 30, 2012 (consolidated) and 2011 (combined)</u>	2
<u>Unaudited Consolidated Condensed Statement of Changes in Unitholders' Equity as of June 30, 2012</u>	3
<u>Unaudited Condensed Statements of Cash Flows for the Six Months Ended June 30, 2012 (consolidated) and 2011 (combined)</u>	4
<u>Notes to Unaudited Consolidated/Combined Condensed Financial Statements</u>	5
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations .</u>	20
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk.</u>	35
<u>Item 4. Controls and Procedures.</u>	35
<u>PART II OTHER INFORMATION</u>	
<u>Item 1. Legal Proceedings.</u>	35
<u>Item 1A. Risk Factors.</u>	36
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.</u>	37
<u>Item 3. Defaults Upon Senior Securities.</u>	37
<u>Item 4. Mine Safety Disclosures.</u>	37
<u>Item 5. Other Information.</u>	37
<u>Item 6. Exhibits.</u>	37
<u>Signatures.</u>	39

Table of Contents**PART I FINANCIAL INFORMATION****Item 1. Financial Statements.****LRR Energy, L.P.****Consolidated Condensed Balance Sheets****(Unaudited)****(in thousands, except unit amounts)**

	June 30, 2012	Partnership	December 31, 2011
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 4,656	\$	1,513
Accounts receivable	8,452		12,924
Commodity derivative instruments	23,088		16,064
Prepaid expenses	662		578
Total current assets	36,858		31,079
Property and equipment (successful efforts method)	744,312		725,486
Accumulated depletion, depreciation and impairment	(286,745)		(263,931)
Total property and equipment, net	457,567		461,555
Commodity derivative instruments	32,057		27,015
Deferred financing costs, net of accumulated amortization	1,739		1,365
TOTAL ASSETS	\$ 528,221	\$	521,014
LIABILITIES AND UNITHOLDERS EQUITY			
Current liabilities:			
Trade accounts payable	\$	\$	2,707
Accrued liabilities	3,910		2,746
Accrued capital cost	6,724		1,421
Commodity derivative instruments	565		186
Amounts due to affiliates	583		536
Interest rate derivative instruments	463		
Asset retirement obligations	371		359
Total current liabilities	12,616		7,955
Long-term liabilities:			
Commodity derivative instruments	620		
Interest rate derivative instruments	1,584		
Term loan	50,000		
Revolving credit facility	172,800		155,800
Asset retirement obligations	24,423		23,795
Deferred tax liabilities	140		35
Total long-term liabilities	249,567		179,630
Total liabilities	262,183		187,585
Unitholders equity:			
Predecessor s capital			61,926

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General partner (22,400 units issued and outstanding as of June 30, 2012 and December 31, 2011)	432	438
Public common unitholders (10,608,000 units issued and outstanding as of June 30, 2012 and December 31, 2011)	187,025	189,537
Affiliated common unitholders (5,049,600 units issued and outstanding as of June 30, 2012 and December 31, 2011)	33,744	35,007
Subordinated unitholders (6,720,000 units issued and outstanding as of June 30, 2012 and December 31, 2011)	44,837	46,521
Total Unitholders Equity	266,038	333,429
TOTAL LIABILITIES AND UNITHOLDERS EQUITY	\$ 528,221	\$ 521,014

See accompanying notes to the unaudited consolidated/combined condensed financial statements

Table of Contents**LRR Energy, L.P.****Condensed Statements of Operations****(Unaudited)****(in thousands, except per unit amounts)**

	Partnership Three Months Ended June 30, 2012 (consolidated)	Predecessor Three Months Ended June 30, 2011 (combined)	Partnership Six Months Ended June 30, 2012 (consolidated)	Predecessor Six Months Ended June 30, 2011 (combined)
Revenues:				
Oil sales	\$ 15,555	\$ 18,258	\$ 30,913	\$ 34,661
Natural gas sales	4,345	10,929	9,786	21,754
Natural gas liquids sales	2,713	4,422	5,770	7,758
Realized gain (loss) on commodity derivative instruments	6,820	(7,239)	12,068	41
Unrealized gain (loss) on commodity derivative instruments	10,997	16,124	11,008	(3,109)
Other income	41	41	3	80
Total revenues	40,430	42,535	69,548	61,185
Operating expenses:				
Lease operating expense	6,912	5,392	13,208	11,935
Production and ad valorem taxes	1,700	1,712	3,361	3,020
Depletion and depreciation	10,559	7,756	19,859	20,871
Impairment of oil and natural gas properties			3,093	
Accretion expense	361	372	717	744
(Gain) loss on settlement of asset retirement obligations	(10)		(108)	
Management fees		1,495		2,967
General and administrative expense	3,229	1,510	6,301	3,206
Total operating expenses	22,751	18,237	46,431	42,743
Operating income	17,679	24,298	23,117	18,442
Other income (expense), net				
Interest income				1
Interest expense	(1,332)	(273)	(2,460)	(559)
Realized loss on interest rate derivative instruments	(108)	(145)	(141)	(298)
Unrealized gain (loss) on interest rate derivative instruments	(2,852)	36	(2,047)	163
Other income (expense), net	(4,292)	(382)	(4,648)	(693)
Income before taxes	13,387	23,916	18,469	17,749
Income tax expense	(24)	(103)	(150)	(146)
Net income	\$ 13,363	\$ 23,813	\$ 18,319	\$ 17,603
Net income attributable to predecessor operations	(1,158)		(2,265)	
Net income available to unitholders	\$ 12,205		\$ 16,054	

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Computation of net income per limited partner unit:

General partners interest in net income	\$	12	\$	16
Limited partners interest in net income	\$	12,193	\$	16,038
Net income per limited partner unit (basic and diluted)	\$	0.54	\$	0.72
Weighted average number of limited partner units outstanding		22,428		22,425

See accompanying notes to the unaudited consolidated/combined condensed financial statements

Table of Contents**LRR Energy, L.P.****Consolidated Condensed Statement of Changes in Unitholders' Equity****(Unaudited)****(in thousands)**

	Predecessors		General Partner	Public Common	Limited Partners		Total
	Capital				Common	Affiliated Subordinated	
Balance, December 31, 2011	\$ 61,926	\$ 438	\$ 189,537	\$ 35,007	\$ 46,521	\$ 333,429	
Contribution from predecessor	(4,869)	(6)	(2,752)	(1,303)	(1,731)	(10,661)	
Book value of transferred properties contributed by predecessor	(59,322)					(59,322)	
Amortization of equity awards			150			150	
Distribution		(16)	(7,536)	(3,572)	(4,753)	(15,877)	
Net income	2,265	16	7,626	3,612	4,800	18,319	
Balance, June 30, 2012	\$	\$ 432	\$ 187,025	\$ 33,744	\$ 44,837	\$ 266,038	

See accompanying notes to the unaudited consolidated/combined condensed financial statements

Table of Contents**LRR Energy, L.P.****Condensed Statements of Cash Flows****(Unaudited)****(in thousands)**

	Partnership Six Months Ended June 30, 2012 (consolidated)	Predecessor Six Months Ended June 30, 2011 (combined)
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 18,319	\$ 17,603
Adjustments to reconcile net income to net cash provided by operating activities:		
Depletion and depreciation	19,859	20,871
Impairment of oil and natural gas properties	3,093	
Unrealized (gain) loss on derivative instruments, net	(8,961)	2,946
Accretion expense	717	744
Amortization of equity awards	150	
Amortization of deferred financing costs and other	160	40
Gain on settlement of asset retirement obligations	(108)	
Purchase of derivative contracts	(59)	
Changes in operating assets and liabilities:		
Change in receivables	4,472	890
Change in prepaid expenses	(84)	(2,251)
Change in trade accounts payable and accrued liabilities	(1,438)	(1,567)
Change in amounts due from affiliates	47	(1,282)
Net cash provided by operating activities	36,167	37,994
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of oil and natural gas properties	(1,009)	(354)
Development of oil and natural gas properties	(12,607)	(26,158)
Disposition of oil and gas properties		2,967
Expenditures for other property and equipment	(16)	(40)
Net cash used in investing activities	(13,632)	(23,585)
CASH FLOWS FROM FINANCING ACTIVITIES		
Capital contributions		3,551
Contribution to Fund I	(4,869)	
Deferred financing costs	(532)	
Borrowings under revolving credit facility	67,000	
Payments on revolving credit facility	(50,000)	
Borrowings under term loan	50,000	
Distribution to Fund I	(65,114)	
Distributions to unitholders	(15,877)	(24,382)
Net cash used in financing activities	(19,392)	(20,831)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	3,143	(6,422)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	1,513	12,455
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 4,656	\$ 6,033

