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Bonanza Creek Energy, Inc.  
Form 10-Q  
November 06, 2015  
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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2015

Commission File Number: 001-35371

Bonanza Creek Energy, Inc.  
(Exact name of registrant as specified in its charter)

Delaware  
(State or other jurisdiction of  
incorporation or organization)

61-1630631  
(I.R.S. Employer  
Identification No.)

410 17th Street, Suite 1400  
Denver, Colorado  
(Address of principal executive offices)  
(720) 440-6100

80202  
(Zip Code)

(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. x 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). x 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 x

Accelerated filer "

Non-accelerated filer "

Smaller reporting company "

(Do not check if a smaller reporting company)

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

Indicate the number of shares outstanding of each of the issuer’s classes of common stock, as of the latest practicable date. As of November 2, 2015, the registrant had 49,763,541 shares of common stock outstanding.

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## PART I - FINANCIAL INFORMATION

## Item 1. Financial Statements.

BONANZA CREEK ENERGY, INC. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)

	September 30, 2015	December 31, 2014
	(in thousands, except share data)	
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$25,326	\$2,584
Accounts receivable:		
Oil and gas sales	33,286	54,574
Joint interest and other	30,237	37,202
Prepaid expenses and other	11,528	12,522
Inventory of oilfield equipment	8,747	15,353
Derivative asset	60,004	86,240
Total current assets	169,128	208,475
Property and equipment (successful efforts method), at cost:		
Proved properties	1,556,942	1,924,380
Less: accumulated depreciation, depletion and amortization	(468,173)	(592,073)
Total proved properties, net	1,088,769	1,332,307
Unproved properties	197,770	206,721
Wells in progress	89,541	139,208
Oil and gas properties held for sale, net of accumulated depreciation, depletion and amortization of \$482,496 in 2015 (note 3)	362,922	—
Natural gas plant, net of accumulated depreciation of \$8,457 in 2014	—	67,840
Other property and equipment, net of accumulated depreciation of \$8,672 in 2015 and \$6,087 in 2014	10,206	10,401
Total property and equipment, net	1,749,208	1,756,477
Long-term derivative asset	6,900	17,765
Other noncurrent assets	18,445	23,372
Total assets	\$1,943,681	\$2,006,089
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable and accrued expenses (note 4)	\$149,063	\$145,788
Oil and gas revenue distribution payable	31,446	40,659
Contractual obligation for land acquisition	12,000	12,000
Total current liabilities	192,509	198,447
Long-term liabilities:		
Long-term debt (note 5)	875,699	840,619
Contractual obligation for land acquisition	—	11,186
Ad valorem taxes	13,226	28,635
Deferred income taxes	60,072	165,667
Asset retirement obligations	12,539	21,464
Asset retirement obligations for assets held for sale	10,086	—
Total liabilities	1,164,131	1,266,018
Commitments and contingencies (note 6)		
Stockholders' equity:		

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Preferred stock, \$.001 par value, 25,000,000 shares authorized, none outstanding	—	—
Common stock, \$.001 par value, 225,000,000 shares authorized, 49,767,839 and 41,287,270 issued and outstanding in 2015 and 2014, respectively	49	41
Additional paid-in capital	802,866	591,511
Retained earnings (deficit)	(23,365	) 148,519
Total stockholders' equity	779,550	740,071
Total liabilities and stockholders' equity	\$1,943,681	\$2,006,089

The accompanying notes are an integral part of these condensed consolidated financial statements.

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BONANZA CREEK ENERGY, INC. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME  
(UNAUDITED)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
	(in thousands, except per share amounts)			
Operating net revenues:				
Oil and gas sales	\$72,149	\$156,371	\$235,647	\$435,448
Operating expenses:				
Lease operating expense	20,236	18,217	60,395	53,316
Severance and ad valorem taxes	2,411	15,334	13,055	42,347
Exploration	6,979	3,291	13,225	4,470
Depreciation, depletion and amortization	58,635	63,241	187,564	158,489
Impairment of oil and gas properties	166,780	—	166,780	—
Abandonment and impairment of unproved properties	1,630	—	21,627	—
General and administrative (including \$3,164, \$3,162, \$10,951, and \$17,312, respectively, of stock compensation)	17,818	14,814	56,292	63,075
Total operating expenses	274,489	114,897	518,938	321,697
Income (loss) from operations	(202,340)	) 41,474	(283,291)	) 113,751
Other income (expense):				
Derivative gain	37,894	50,846	51,272	14,761
Interest expense	(14,073)	) (13,228)	) (42,779)	) (31,997)
Other income (loss)	(2,077)	) 181	(1,929)	) 397
Total other income (expense)	21,744	37,799	6,564	(16,839)
Income (loss) from continuing operations before taxes	(180,596)	) 79,273	(276,727)	) 96,912
Income tax benefit (expense)	68,297	(30,419)	) 104,843	(37,216)
Income (loss) from continuing operations	\$(112,299)	) \$48,854	(171,884)	) \$59,696
Discontinued operations:				
Loss from operations associated with oil and gas properties held for sale	—	—	—	(85)
Gain (loss) on sale of oil and gas properties	—	(117)	) —	6,213
Income tax benefit (expense)	—	45	—	(2,353)
Gain (loss) from discontinued operations	—	(72)	) —	3,775
Net income (loss)	\$(112,299)	) \$48,782	\$(171,884)	) \$63,471
Comprehensive income (loss)	\$(112,299)	) \$48,782	\$(171,884)	) \$63,471
Basic income (loss) per share:				
Income (loss) from continuing operations	\$(2.25)	) \$1.18	\$(3.56)	) \$1.47
Income from discontinued operations	\$—	\$—	\$—	\$0.09
Net income (loss) per common share	\$(2.25)	) \$1.18	\$(3.56)	) \$1.56
Diluted income (loss) per share:				
Income (loss) from continuing operations	\$(2.25)	) \$1.18	\$(3.56)	) \$1.46
Income from discontinued operations	\$—	\$—	\$—	\$0.09
Net income (loss) per common share	\$(2.25)	) \$1.18	\$(3.56)	) \$1.55
Basic weighted-average common shares outstanding	48,962	40,556	47,485	39,958

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Diluted weighted-average common shares outstanding	48,962	40,708	47,485	40,105
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The accompanying notes are an integral part of these condensed consolidated financial statements.

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## BONANZA CREEK ENERGY, INC. AND SUBSIDIARIES

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

	Nine Months Ended September 30, 2015		2014
	(in thousands)		
Cash flows from operating activities:			
Net income (loss)	\$(171,884	)	\$63,471
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation, depletion and amortization	187,564		158,557
Deferred income taxes	(105,595	)	39,369
Impairment of oil and gas properties	166,780		—
Abandonment and impairment of unproved properties	21,627		—
Dry hole expense	7,628		—
Stock-based compensation	10,951		17,312
Amortization of deferred financing costs and debt premium	1,692		1,032
Accretion of contractual obligation for land acquisition	814		571
Derivative gain	(51,272	)	(14,761
Gain on sale of oil and gas properties	—		(6,213
Other	283		(12
Changes in current assets and liabilities:			
Accounts receivable	28,253		(23,837
Prepaid expenses and other assets	994		(2,286
Accounts payable and accrued liabilities	(11,905	)	43,133
Settlement of asset retirement obligations	(778	)	(374
Net cash provided by operating activities	85,152		275,962
Cash flows from investing activities:			
Acquisition of oil and gas properties	(13,602	)	(178,883
Proceeds from sale of oil and gas properties	—		6,000
Payments of contractual obligation	(12,000	)	(12,000
Exploration and development of oil and gas properties	(361,018	)	(448,586
Natural gas plant capital expenditures	(113	)	(281
Derivative cash settlements	88,372		(9,136
(Increase) decrease in restricted cash	2,926		(3,062
Additions to property and equipment - non oil and gas	(2,390	)	(5,451
Net cash used in investing activities	(297,825	)	(651,399
Cash flows from financing activities:			
Proceeds from credit facility	115,000		230,000
Payments to credit facility	(79,000	)	(230,000
Proceeds from sale of common stock	209,300		—
Offering costs related to sale of common stock	(6,620	)	—
Proceeds from sale of Senior Notes	—		300,000
Offering costs related to sale of Senior Notes	(99	)	(6,867
Payment of employee tax withholdings in exchange for the return of common stock	(2,593	)	(5,319
Deferred financing costs	(573	)	(341
Net cash provided by financing activities	235,415		287,473
Net change in cash and cash equivalents	22,742		(87,964
Cash and cash equivalents:			



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Beginning of period	2,584	180,582
End of period	\$25,326	\$92,618
Supplemental cash flow disclosure:		
Cash paid for interest	\$36,759	\$18,519
Stock issued for the acquisition of oil and gas properties	\$—	\$49,050
Stock issued for litigation settlement	\$326	\$—
Cash paid for income taxes	\$820	\$200
Changes in working capital related to drilling expenditures, natural gas plant expenditures, and property acquisition	\$(9,441	) \$26,776

The accompanying notes are an integral part of these condensed consolidated financial statements.

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BONANZA CREEK ENERGY, INC. AND SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE 1 - ORGANIZATION AND BUSINESS

Bonanza Creek Energy, Inc. (“BCEI” or, together with our consolidated subsidiaries, the “Company”) is engaged in the acquisition, exploration, development and production of onshore oil and associated liquids-rich natural gas in the United States. Our oil and liquids-weighted assets are concentrated primarily in the Wattenberg Field in Colorado, which the Company has designated the Rocky Mountain region, and the Dorcheat Macedonia Field in southern Arkansas, which the Company has designated the Mid-Continent region.

NOTE 2 - BASIS OF PRESENTATION

These statements have been prepared in accordance with the Securities and Exchange Commission and accounting principles generally accepted in the United States of America (“GAAP”) for interim financial information with the condensed consolidated balance sheets (“balance sheets”) and the condensed consolidated statements of cash flows (“statements of cash flows”) as of December 31, 2014, being derived from audited financial statements. The quarterly financial statements included herein do not necessarily include all of the disclosures as may be required under generally accepted accounting principles for complete financial statements. There has been no material change in the information disclosed in the notes to the consolidated financial statements included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2014 (the “2014 Form 10-K”), except as disclosed herein. These consolidated financial statements include all of the adjustments, which, in the opinion of management, are necessary for a fair presentation of the financial position and results of operations. All such adjustments are of a normal recurring nature only. The results of operations for the quarterly periods are not necessarily indicative of the results to be expected for the full fiscal year. The Company evaluated events subsequent to the balance sheet date of September 30, 2015, and through the filing date of this report. Certain prior period amounts are reclassified to conform to the current period presentation, when necessary.

Principles of Consolidation

The balance sheets include the accounts of BCEI and its wholly owned subsidiaries, Bonanza Creek Energy Operating Company, LLC, Bonanza Creek Energy Resources, LLC, Bonanza Creek Energy Upstream LLC, Bonanza Creek Energy Midstream, LLC, Holmes Eastern Company, LLC and Rocky Mountain Infrastructure, LLC. All significant intercompany accounts and transactions have been eliminated.

Significant Accounting Policies

The significant accounting policies followed by the Company were set forth in Note 1 to the 2014 Form 10-K and are supplemented by the notes throughout this report. These unaudited condensed consolidated financial statements should be read in conjunction with the 2014 Form 10-K.

Recently Issued Accounting Standards

Effective January 1, 2015, the Company adopted, on a prospective basis, Financial Accounting Standards Board (“FASB”) Update No. 2015-01, Income Statement – Extraordinary and Unusual Items. This update simplifies income statement presentation by eliminating the concept of extraordinary items. There was no impact to the Company’s financial statements or disclosures from the adoption of this standard.

In April 2015, the FASB issued Update No. 2015-03 – Interest – Imputation of Interest, Simplifying the Presentation of Debt Issuance Costs. The update requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability. This authoritative accounting guidance is effective for fiscal years beginning after December 15, 2015 and interim periods within those fiscal years on a retrospective basis. The Company has taken the necessary steps to be ready for adoption of this update which will not have a material effect on the Company's financial statements or disclosures.

In July 2015, the FASB issued Update No. 2015-11 - Inventory. The update requires that inventory be measured at the lower of cost or net realizable value. This authoritative guidance is effective for fiscal years beginning after December 15, 2016 and interim periods within those fiscal years. The Company is currently evaluating the provisions of this guidance and

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assessing its impact, but does not currently believe it will have a material effect on the Company's financial statements or disclosures.

In August 2015, the FASB issued Update No. 2015-14 - Revenue from Contracts with Customers to defer the effective date of the new revenue recognition standard by one year. The new revenue recognition standard is now effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2017. Early adoption is permitted but only for annual periods, and interim periods within those annual periods, beginning after December 15, 2016. The Company is currently evaluating the provisions of this guidance and assessing its impact on the Company's financial statements and disclosures.

**Rocky Mountain Infrastructure, LLC**

During the first quarter of 2015, the Company's wholly owned subsidiary, Bonanza Creek Energy Operating Company, LLC, formed a wholly owned subsidiary, Rocky Mountain Infrastructure, LLC, to hold gathering systems, central production facilities and related infrastructure that service the Wattenberg Field.

**Discontinued Operations**

During June 2012, the Company sold the majority of its oil and gas properties in California classifying them as discontinued operations with its remaining property being sold in the first quarter of 2014 for approximately \$6.0 million. The Company recorded a gain on sale of oil and gas properties in the amount of \$6.2 million as of September 30, 2014.

**NOTE 3 - ASSETS HELD FOR SALE**

Assets are classified as held for sale when the Company commits to a plan to sell the assets and there is reasonable certainty that the sale will take place within one year. Upon classification as held for sale, long-lived assets are no longer depreciated or depleted, and a measurement for impairment is performed to identify and expense any excess of carrying value over fair value less estimated costs to sell. Any subsequent decreases to the estimated fair value less the costs to sell impact the measurement of assets held for sale.

As of September 30, 2015, the accompanying balance sheets present \$362.9 million of assets held for sale, net of accumulated depreciation, depletion, and amortization expense, which consists of all assets in our Rocky Mountain Infrastructure, LLC subsidiary ("RMI"), all assets within our Mid-Continent region and all assets in the North Park Field that the Company no longer intends to develop given the current pricing environment. There is a corresponding asset retirement obligation liability of approximately \$10.1 million for assets held for sale recorded in the asset retirement obligations for assets held for sale financial statement line item in the accompanying balance sheets. For the three months ended September 30, 2015, the Company recorded write-downs to fair value less estimated costs to sell of \$166.8 million for certain of these assets held for sale. These write-downs are recorded in the impairment of oil and gas properties line item in the accompanying condensed consolidated statements of operations and comprehensive income ("statements of operations").

Subsequent to September 30, 2015, the Company entered into a purchase agreement with a midstream partner to divest of its Rocky Mountain Infrastructure, LLC subsidiary for total cash consideration of up to \$255 million, of which \$175 million is to be paid upon closing with the remainder to be paid over the next two consecutive years based on execution of an agreed upon drilling program. The Company expects to close this transaction by January 31, 2016. The closing of this transaction is subject to the satisfaction of customary closing conditions.

The Company determined that none of these potential asset sales qualify for discontinued operations accounting as they did not result in a strategic shift of the Company.

**NOTE 4 - ACCOUNTS PAYABLE AND ACCRUED EXPENSES**

Accounts payable and accrued expenses contain the following:

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	As of September 30, 2015 (in thousands)	As of December 31, 2014
Drilling and completion costs	\$73,403	\$82,844
Accounts payable trade	3,123	5,493
Accrued general and administrative cost	10,996	13,541
Lease operating expense	8,248	3,569
Accrued reclamation cost	162	162
Accrued interest	18,353	14,839
Production and ad valorem taxes and other	34,778	25,340
Total accounts payable and accrued expenses	\$149,063	\$145,788

## NOTE 5 - LONG-TERM DEBT

Long-term debt consisted of the following as of September 30, 2015 and December 31, 2014:

	As of September 30, 2015 (in thousands)	As of December 31, 2014
Revolving credit facility	\$69,000	\$33,000
6.75% Senior Notes due 2021	500,000	500,000
Unamortized premium on 6.75% Senior Notes	6,699	7,619
5.75% Senior Notes due 2023	300,000	300,000
Total long-term debt	\$875,699	\$840,619

## Credit Facility

The Company's senior secured revolving Credit Agreement, dated March 29, 2011, as amended (the "revolving credit facility"), was further amended on May 13, 2015 (the "2015 Amendment") to decrease the borrowing base from \$600 million to \$550 million and subsequently amended on October 19, 2015 to decrease the borrowing base from \$550 million to \$475 million with the total credit facility size of \$1 billion remaining unchanged. The \$475 million borrowing base now equals the commitment level under the Credit Agreement. The borrowing base is redetermined semiannually no later than May 15 and November 15. The revolving credit facility is collateralized by substantially all of the Company's assets and matures on September 15, 2017. As of September 30, 2015, the Company had \$69 million outstanding under the revolving credit facility with an available borrowing capacity of \$469 million, if the Company elected to take advantage of the entire \$550 million borrowing base available at that date, after reduction for the outstanding letter of credit of \$12 million. As of December 31, 2014, the Company had \$33 million outstanding under the revolving credit facility with an available borrowing capacity of \$543 million, if the Company elected to take advantage of the entire \$600 million borrowing base available at that date, after reduction for the outstanding letter of credit of \$24 million.

The revolving credit facility restricts, among other items, certain dividend payments, additional indebtedness, asset sales, loans, investments and mergers. The revolving credit facility also contains certain financial covenants, which require the maintenance of certain financial and leverage ratios, as defined by the revolving credit facility. The 2015 Amendment (i) removed the maximum total debt to trailing twelve month debt to earnings before interest, income taxes, depreciation, depletion, and amortization, exploration expense and other non-cash charges ("EBITDAX") covenant of 4.00 to 1.00 and (ii) introduced both a maximum senior secured debt (defined as borrowings under the revolving credit facility, balances drawn under letters of credit, and any outstanding second lien debt) to trailing twelve month EBITDAX covenant of 2.50 to 1.00 and a minimum trailing twelve month interest to trailing twelve month EBITDAX coverage covenant of 2.50 to 1.00. The revolving credit facility also contains a minimum current

ratio covenant of 1.00 to 1.00. The Company was in compliance with all financial and non-financial covenants as of September 30, 2015, and through the filing date of this report.

Senior Unsecured Notes

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The \$500 million aggregate principal amount of 6.75% Senior Notes that mature on April 15, 2021 (“6.75% Senior Notes”) and the \$300 million aggregate principal amount of 5.75% Senior Notes that mature on February 1, 2023 (“5.75% Senior Notes” and, together with the 6.75% Senior Notes, the “Senior Notes”) are unsecured senior obligations and rank equal in right of payment with all of the Company’s existing and future unsecured senior debt, and are senior in right of payment to any future subordinated debt. The Senior Notes are jointly and severally guaranteed on a senior unsecured basis by our existing and future domestic subsidiaries that guarantee or are borrowers under our revolving credit facility. The Company has no independent assets or operations unrelated to its investments in its consolidated subsidiaries. There are no significant restrictions on the Company’s ability or the ability of any subsidiary guarantor to obtain funds from its subsidiaries by such means as a dividend or loan. The Company is subject to certain covenants under the respective indentures governing the Senior Notes that limit the Company’s ability to incur additional indebtedness, issue preferred stock, and make restricted payments, including certain dividends. The Company was in compliance with all covenants under its Senior Notes as of September 30, 2015, and through the filing date of this report.

## NOTE 6 - COMMITMENTS AND CONTINGENT LIABILITIES

### Legal Proceedings

From time to time, the Company is involved in various commercial and regulatory claims, litigation and other legal proceedings that arise in the ordinary course of its business. The Company assesses these claims in an effort to determine the degree of probability and range of possible loss for potential accrual in its condensed consolidated financial statements. In accordance with accounting authoritative guidance, an accrual is recorded for a loss contingency when its occurrence is probable and damages can be reasonably estimated based on the most likely anticipated outcome or the minimum amount within a range of possible outcomes. Because legal proceedings are inherently unpredictable and unfavorable resolutions could occur, assessing contingencies is highly subjective and requires judgments about uncertain future events. When evaluating contingencies, the Company may be unable to provide a meaningful estimate due to a number of factors, including the procedural status of the matter in question, the presence of complex or novel legal theories, and/or the ongoing discovery and development of information important to the matters. The Company regularly reviews contingencies to determine the adequacy of its accruals and related disclosures. No claims have been made, nor is the Company aware of any material uninsured liability which the Company may have, as it relates to any environmental cleanup, restoration or the violation of any rules or regulations. As of the filing date of this report, there were no material pending or overtly threatened legal actions against the Company of which it is aware.

### Commitments

A purchase and transportation agreement to deliver 12,580 barrels per day of crude oil in the Rocky Mountain region over an initial five year term went into effect May 1, 2015. As of the filing date of this report, the Company did not have any shortfalls in delivering the minimum volumes committed nor do we anticipate any shortfalls for the remainder of 2015.

There have been no material changes from the commitments disclosed in the notes to the Company’s consolidated financial statements included in the 2014 Form 10-K.

## NOTE 7 - STOCK-BASED COMPENSATION

### Restricted Stock under the Long Term Incentive Plan



The Company grants shares of restricted stock to directors, eligible employees and officers under its Long Term Incentive Plan, as amended and restated ("LTIP"). Each share of restricted stock represents one share of the Company's common stock to be released from restriction upon completion of the vesting period. The awards typically vest in one-third increments over three years. Each share of restricted stock is entitled to a non-forfeitable dividend, if the Company were to declare one, and has the same voting rights as a share of the Company's common stock. Shares of restricted stock are valued at the closing price of the Company's common stock on the grant date and are recognized as general and administrative expense over the vesting period of the award.

During the nine months ended September 30, 2015, the Company granted 594,543 shares of restricted stock under the Company's LTIP to certain employees and non-employee directors. The fair value of the issuance was \$14.4 million. Total expense recorded for restricted stock for the three month periods ended September 30, 2015 and 2014, was \$2.5 million and

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\$2.6 million, respectively, and \$9.0 million and \$15.8 million for the nine months ended September 30, 2015 and 2014, respectively. As of September 30, 2015, unrecognized compensation cost was \$18.5 million and will be amortized through 2018.

A summary of the status and activity of non-vested restricted stock for the nine months ended September 30, 2015 is presented below.

	Restricted Stock	Weighted- Average Grant-Date Fair Value
Non-vested at beginning of year	589,529	\$37.66
Granted	594,543	\$24.25
Vested	(293,150)	) \$23.25
Forfeited	(114,199)	) \$35.06
Non-vested at end of quarter	776,723	\$29.93

## Performance Stock Units under the Long Term Incentive Plan

The Company grants performance stock units (“PSUs”) to certain officers under its LTIP. The number of shares of the Company’s common stock that may be issued to settle PSUs ranges from zero to two times the number of PSUs awarded. PSUs granted prior to 2014 are determined based on the Company’s performance over a three-year measurement period and vest in their entirety at the end of the measurement period. Satisfaction of the performance conditions for the PSUs granted in 2014 and thereafter are determined at the end of each annual measurement period over the course of the three-year performance cycle in an amount up to two-thirds of the target number of PSUs that are eligible for vesting (such that an amount equal to 200% of the target number of PSUs may be earned during the performance cycle). For all grants, the PSUs will be settled in shares of the Company’s common stock following the end of the three-year performance cycle. Any PSUs that have not vested at the end of the applicable measurement period are forfeited. The performance criterion for the PSUs is based on a comparison of the Company’s total shareholder return (“TSR”) for the measurement period compared with the TSRs of a group of peer companies for the same measurement period. Compensation expense associated with PSUs is recognized as general and administrative expense over the measurement period.

The fair value of each PSU is estimated at the date of grant using a Monte Carlo simulation, which results in an expected percentage of PSUs to be earned during the performance period. The following table presents the assumptions used to determine the fair value of the PSUs granted during the nine month period ended September 30, 2015 and for the year ended December 31, 2014.

	For the Nine Months Ended September 30, 2015	For the Year Ended December 31, 2014
Expected term of award	3	3
Risk-free interest rate	0.15% - 0.99%	0.12% - 0.9%
Expected volatility	65	% 40% - 45%

During the nine months ended September 30, 2015, the Company granted 144,363 PSUs under the LTIP to certain officers. The fair value of the issuance was \$4.8 million. Total expense recorded for PSUs for the three month periods ended September 30, 2015 and 2014 was \$642,000 and \$392,000, respectively, and \$2.0 million and \$1.0 million for the nine month periods ended September 30, 2015 and 2014, respectively. As of September 30, 2015, there was \$5.9 million of total unrecognized compensation expense related to unvested PSUs to be amortized through 2017.



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A summary of the status and activity of PSUs for the nine months ended September 30, 2015 is presented below:

	PSU	Weighted-Average Grant-Date Fair Value
Non-vested at beginning of year (1)	94,173	\$37.55
Granted(1)	144,363	\$33.44
Vested(1)	—	\$—
Forfeited(1)	(16,650)	) \$37.00
Non-vested at end of quarter(1)	221,886	\$35.77

The number of awards assumes that the associated performance condition is met at the target amount. The final (1) number of shares of the Company's common stock issued may vary depending on the performance multiplier, which ranges from zero to two, depending on the level of satisfaction of the performance condition.

## NOTE 8 - FAIR VALUE MEASUREMENTS

The Company follows fair value measurement authoritative guidance, which defines fair value, establishes a framework for using fair value to measure assets and liabilities, and expands disclosures about fair value measurements. The authoritative accounting guidance defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The statement establishes a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are inputs that market participants would use in pricing the asset or liability developed based on market data obtained from sources independent of the Company. Unobservable inputs are inputs that reflect the Company's assumptions of what market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. The hierarchy is broken down into three levels based on the reliability of the inputs as follows:

Level 1: Quoted prices are available in active markets for identical assets or liabilities

Level 2: Quoted prices in active markets for similar assets and liabilities, quoted prices for identical or similar instruments in markets that are not active, and model-derived valuations whose inputs are observable or whose significant value drivers are observable

Level 3: Significant inputs to the valuation model are unobservable

Financial and non-financial assets and liabilities are to be classified based on the lowest level of input that is significant to the fair value measurement. The Company's assessment of the significance of a particular input to the fair value measurement requires judgment and may affect the valuation of the fair value of assets and liabilities and their placement within the fair value hierarchy levels.

The following tables present the Company's financial and non-financial assets and liabilities that were accounted for at fair value as of September 30, 2015 and December 31, 2014 and their classification within the fair value hierarchy:

	As of September 30, 2015		
	Level 1	Level 2	Level 3
	(in thousands)		
Derivative assets(1)	\$—	\$66,904	\$—
Proved properties(2)	\$—	\$—	\$262,976
Unproved properties(2)	\$—	\$—	\$197,770



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	As of December 31, 2014		
	Level 1 (in thousands)	Level 2	Level 3
Derivative assets(1)	\$—	\$ 104,005	\$—
Proved properties(2)	\$—	\$—	\$ 407,900
Asset retirement obligations(3)	\$—	\$—	\$ 6,200

(1) This represents a financial asset or liability that is measured at fair value on a recurring basis.

This represents non-financial assets that are measured at fair value on a nonrecurring basis due to impairments.

(2) This is the fair value of the asset base that was subjected to impairment and does not reflect the entire asset balance as presented on the accompanying balance sheets. Please refer to the Proved Oil and Gas Properties and Unproved Oil and Gas Properties sections below for additional discussion.

(3) This represents the revision to estimates of the asset retirement obligation, which is a non-financial liability that is measured at fair value on a nonrecurring basis. Please refer to the Asset Retirement Obligation section below for additional discussion.

## Derivatives

Fair value of all derivative instruments are estimated with industry-standard models that consider various assumptions, including quoted forward prices for commodities, time value of money, volatility factors and current market and contractual prices for the underlying instruments, as well as other relevant economic measures. All valuations were compared against counterparty statements to verify the reasonableness of the estimate. The Company's commodity swaps and collars are validated by observable transactions for the same or similar commodity options using the NYMEX futures index, and are designated as Level 2 within the valuation hierarchy. Presently, all of our derivative arrangements are concentrated with four counterparties all of which are lenders under the Company's revolving credit facility.

## Proved Oil and Gas Properties

Proved oil and gas property costs are evaluated for impairment and reduced to fair value when there is an indication that the carrying costs exceed the sum of the undiscounted cash flows. The Company uses Level 3 inputs and the income valuation technique, which converts future amounts to a single present value amount, to measure the fair value of proved properties through an application of risk-adjusted discount rates and price forecasts selected by the Company's management. The calculation of the risk-adjusted discount rate is a significant management estimate based on the best information available. Management believes that the risk-adjusted discount rate is representative of current market conditions and reflects the following factors: estimates of future cash payments, expectations of possible variations in the amount and/or timing of cash flows, the risk premium, and nonperformance risk. The price forecast is based on the NYMEX strip pricing, adjusted for basis differentials. Future operating costs are also adjusted as deemed appropriate for these estimates. Proved properties classified as held for sale are valued using a market approach, based on an estimated selling price, as evidenced by the most current bid prices received from third parties. If a relevant estimated selling price is not available, the Company utilizes the income valuation technique discussed above. The Company impaired the Mid-Continent region which had a fair value of \$429.8 million to its fair value of \$263.0 million and recognized an impairment of \$166.8 million for the nine months ended September 30, 2015. The Company impaired the Dorcheat Macedonia Field which had a carrying value of \$519.2 million to its fair value of \$391.9 million and recognized an impairment of \$127.3 million for the year ended December 31, 2014. The Company impaired the McKamie Patton Field which had a carrying value of \$41.0 million to its fair value of \$16.0 million and recognized an impairment of \$25.0 million for the year ended December 31, 2014. The Company impaired the McCallum Field which had a carrying value of \$15.3 million to its fair value of zero and recognized an impairment of \$15.3 million for the year ended December 31, 2014.

### Unproved Oil and Gas Properties

Unproved oil and gas property costs are evaluated for impairment and reduced to fair value when there is an indication that the carrying costs may not be fully recoverable. To measure the fair value of unproved properties, the Company uses Level 3 inputs and the income valuation technique, which takes into account the following significant assumptions: future development plans, risk weighted potential resource recovery, remaining lease life, and estimated reserve values. Unproved properties classified as held for sale are valued using a market approach, based on an estimated selling price, as evidenced by the most current bid prices received from third parties. If a relevant estimated selling price is not available, the Company uses

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the price received for similar acreage in recent transactions by the Company or other market participants in the principal market. The Company impaired non-core acreage in the Wattenberg Field due to lease expirations, which had a carrying value of \$210.7 million to its fair value of \$197.8 million and recognized an impairment of unproved properties for the nine months ended September 30, 2015 of \$12.9 million. The Company also fully impaired the North Park Basin in June 2015, due to a change in the Company's development plan, recognizing an impairment of unproved properties of \$8.7 million. There were no unproved properties measured at fair value as of December 31, 2014.

### Asset Retirement Obligation

The Company utilizes the income valuation technique to determine the fair value of the asset retirement obligation liability at the point of inception by applying a credit-adjusted risk-free rate, which takes into account the Company's credit risk, the time value of money, and the current economic state, to the undiscounted expected abandonment cash flows. Upon completion of wells and natural gas plants, the Company records an asset retirement obligation at fair value using Level 3 assumptions. Given the unobservable nature of the inputs, the initial measurement of the asset retirement obligation liability is deemed to use Level 3 inputs. There were no asset retirement obligations measured at fair value as of September 30, 2015. The Company had \$6.2 million of asset retirement obligations recorded at fair value as of December 31, 2014.

### Long-term Debt

As of September 30, 2015, the Company had \$500 million of outstanding 6.75% Senior Notes and \$300 million of outstanding 5.75% Senior Notes, all of which are unsecured senior obligations. The 6.75% Senior Notes are recorded at cost, plus the unamortized premium, on the accompanying balance sheets at \$506.7 million and \$507.6 million as of September 30, 2015 and December 31, 2014, respectively. The fair value of the 6.75% Senior Notes as of September 30, 2015 and December 31, 2014 was \$350.0 million and \$440.0 million, respectively. The 5.75% Senior Notes are recorded at cost on the accompanying balance sheets at \$300.0 million as of September 30, 2015 and December 31, 2014. The fair value of the 5.75% Senior Notes as of September 30, 2015 and December 31, 2014 was \$198.0 million and \$243.0 million, respectively. The Senior Notes are measured using Level 1 inputs based on a secondary market trading price. The Company's revolving credit facility approximates fair value as the applicable interest rates are floating. The outstanding balance under the revolving credit facility as of September 30, 2015 and December 31, 2014 was \$69.0 million and \$33.0 million, respectively.

### NOTE 9 - DERIVATIVES

The Company enters into commodity derivative contracts to mitigate a portion of its exposure to potentially adverse market changes in commodity prices and the associated impact on cash flows. All contracts are entered into for other-than-trading purposes. The Company's derivatives include swaps and collar arrangements for oil and gas and none of the derivative instruments qualify as having hedging relationships.



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As of September 30, 2015, and as of the filing date of this report, the Company had the following derivative commodity contracts in place:

Settlement Period	Derivative Instrument	Total Volumes (Bbls/MMBtu per day)	Average Fixed Price	Average Short Floor Price	Average Floor Price	Average Ceiling Price	Fair Market Value of Assets (in thousands)
Oil							
4Q 2015	Swap	6,000	\$72.16				\$14,538
4Q 2015	2-Way Collar	6,500			\$84.62	\$95.49	23,187
2016	3-Way Collar	5,500		\$70.00	\$85.00	\$96.83	28,496
							\$66,221
Gas							
4Q 2015	3-Way Collar	15,000		\$3.50	\$4.00	\$4.75	\$683
							\$683
Total							\$66,904

## Derivative Assets and Liabilities Fair Value

The Company's commodity derivatives are measured at fair value and are included in the accompanying balance sheets as derivative assets and liabilities.

The following table contains a summary of all the Company's derivative positions reported on the accompanying balance sheets as of September 30, 2015 and December 31, 2014:

As of September 30, 2015		
	Balance Sheet Location	Fair Value (in thousands)
Derivative Assets:		
Commodity contracts	Current assets	\$60,004
Commodity contracts	Noncurrent assets	6,900
Derivative Liabilities:		
Commodity contracts	Current liabilities	—
Commodity contracts	Long-term liabilities	—
Total derivative asset		\$66,904
As of December 31, 2014		
	Balance Sheet Location	Fair Value (in thousands)
Derivative Assets:		
Commodity contracts	Current assets	\$86,240
Commodity contracts	Noncurrent assets	17,765
Derivative Liabilities:		
Commodity contracts	Current liabilities	—
Commodity contracts	Long-term liabilities	—
Total derivative asset		\$104,005



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The following table summarizes the components of the derivative gain presented on the accompanying statements of operations:

	Three months ended September 30, 2015		Nine months ended September 30, 2015	
	2015	2014	2015	2014
	(in thousands)			
Derivative cash settlement gain (loss):				
Oil contracts(1)	\$37,027	\$(1,577)	) \$86,325	\$(9,171)
Gas contracts	690	583	2,047	35
Total derivative cash settlement gain (loss)(2)	\$37,717	\$(994)	) \$88,372	\$(9,136)
Change in fair value gain (loss)	\$177	\$51,840	\$(37,100)	) \$23,897
Total derivative gain(3)	\$37,894	\$50,846	\$51,272	\$14,761

- (1) During the nine months ended September 30, 2015, the Company paid \$10.5 million to convert its three-way collars, scheduled to settle during the third and fourth quarters of 2015, to two-way collars. Derivative cash settlement gain (loss) for the nine months ended September 30, 2015 and 2014 is reported in the (2) derivative cash settlements line item on the accompanying statements of cash flows within the net cash used in investing activities.
- (3) Total derivative gain for the nine months ended September 30, 2015 and 2014 is reported in the derivative gain line item on the accompanying statements of cash flows within the net cash provided by operating activities.

## NOTE 10 - EARNINGS PER SHARE

The Company issues shares of restricted stock entitling the holders to receive non-forfeitable dividends, if and when, the Company was to declare a dividend, before vesting, thus making the awards participating securities. The awards are included in the calculation of earnings per share under the two-class method. The two-class method allocates earnings for the period between common shareholders and unvested participating shareholders.

The Company issues PSUs, which represent the right to receive, upon settlement of the PSUs, a number of shares of the Company's common stock that range from zero to two times the number of PSUs granted on the award date. The number of potentially dilutive shares related to PSUs is based on the number of shares, if any, that would be issuable at the end of the respective reporting period, assuming that date was the end of the measurement period applicable to such PSUs. Please refer to Note 7- Stock-Based Compensation for additional discussion.

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The following table sets forth the calculation of income (loss) per basic and diluted shares from continuing and discontinued operations and net income (loss) for the three and nine month periods ended September 30, 2015 and 2014.

	Three Months Ended September 30, 2015		Nine Months Ended September 30, 2015		Nine Months Ended September 30, 2014	
	2014		2015		2014	
	(in thousands, except per share amounts)					
Income (loss) from continuing operations:						
Income (loss) from continuing operations	\$ (112,299	) \$ 48,854		\$ (171,884	) \$ 59,696	
Less: undistributed income (loss) to unvested restricted stock	(1,923	) 914		(2,916	) 1,124	
Undistributed income (loss) to common shareholders	(110,376	) 47,940		(168,968	) 58,572	
Basic income (loss) per common share from continuing operations	\$ (2.25	) \$ 1.18		\$ (3.56	) \$ 1.47	
Diluted income (loss) per common share from continuing operations	\$ (2.25	) \$ 1.18		\$ (3.56	) \$ 1.46	
Income (loss) from discontinued operations:						
Income (loss) from discontinued operations	\$ —	\$ (72	) \$ —		\$ 3,775	
Less: undistributed income (loss) to unvested restricted stock	—	(1	) —		71	
Undistributed income (loss) to common shareholders	—	(71	) —		3,704	
Basic income per common share from discontinued operations	\$ —	\$ —		\$ —	\$ 0.09	
Diluted income per common share from discontinued operations	\$ —	\$ —		\$ —	\$ 0.09	
Net income (loss):						
Net income (loss)	\$ (112,299	) \$ 48,782		\$ (171,884	) \$ 63,471	
Less: undistributed income (loss) to unvested restricted stock	(1,923	) 913		(2,916	) 1,195	
Undistributed income (loss) to common shareholders	(110,376	) 47,869		(168,968	) 62,276	
Basic net income (loss) per common share	\$ (2.25	) \$ 1.18		\$ (3.56	) \$ 1.56	
Diluted net income (loss) per common share	\$ (2.25	) \$ 1.18		\$ (3.56	) \$ 1.55	