

Diamondback Energy, Inc.  
Form 10-Q  
November 05, 2013  
Table of Contents

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 September 30, 2013  
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 1225 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	<input type="checkbox"/>	Accelerated Filer	<input type="checkbox"/>
-------------------------	--------------------------	-------------------	--------------------------

Edgar Filing: Diamondback Energy, Inc. - Form 10-Q

Non-Accelerated Filer ☒ x

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 ☒ y

As of October 28, 2013, 47,067,116 shares of the registrant's common stock were outstanding.

---

DIAMONDBACK ENERGY, INC.  
TABLE OF CONTENTS

	Page
<b><u>PART I. FINANCIAL INFORMATION</u></b>	
ITEM 1. <u>Combined Consolidated Financial Statements of Diamondback Energy, Inc. (unaudited)</u>	1
<u>Consolidated Balance Sheets as of September 30, 2013 and December 31, 2012</u>	1
<u>Combined Consolidated Statements of Operations for the Three and Nine Months Ended September 30, 2013 and 2012</u>	2
<u>Consolidated Statement of Stockholders' Equity for the Nine Months Ended September 30, 2013</u>	4
<u>Combined Consolidated Statements of Cash Flows for the Nine Months Ended September 30, 2013 and 2012</u>	5
<u>Notes to Combined Consolidated Financial Statements</u>	7
ITEM 2. <u>Management's Discussion and Analysis of Financial Conditions and Results of Operations</u>	23
ITEM 3. <u>Quantitative and Qualitative Disclosures about Market Risk</u>	35
ITEM 4. <u>Controls and Procedures</u>	36
<b><u>PART II OTHER INFORMATION</u></b>	
ITEM 1. <u>Legal Proceedings</u>	37
ITEM 1A. <u>Risk Factors</u>	37
ITEM 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	37
ITEM 3. <u>Defaults Upon Senior Securities</u>	37
ITEM 4. <u>Mine Safety Disclosures</u>	37
ITEM 5. <u>Other Information</u>	37
ITEM 6. <u>Exhibits</u>	38
<u>Signatures</u>	40

## 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.

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, 2012 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)

	September 30, 2013	December 31, 2012
Assets		
Current assets:		
Cash and cash equivalents	\$53,100,000	\$26,358,000
Accounts receivable:		
Joint interest and other	9,020,000	5,959,000
Oil and natural gas sales	21,141,000	8,081,000
Related party	1,121,000	772,000
Inventories	6,228,000	6,195,000
Deferred income taxes	423,000	1,857,000
Derivative instruments	223,000	—
Prepaid expenses and other	659,000	1,053,000
Total current assets	91,915,000	50,275,000
Property and equipment		
Oil and natural gas properties, based on the full cost method of accounting (\$424,556,000 and \$121,245,000 excluded from amortization at September 30, 2013 and December 31, 2012, respectively)	1,540,598,000	697,742,000
Other property and equipment	9,168,000	2,337,000
Accumulated depletion, depreciation, amortization and impairment	(188,645,000 )	(145,837,000 )
	1,361,121,000	554,242,000
Derivative instruments-long term	527,000	—
Other assets	12,333,000	2,184,000
Total assets	\$1,465,896,000	\$606,701,000
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable trade	\$24,012,000	\$12,141,000
Accounts payable-related party	271,000	18,813,000
Accrued capital expenditures	55,190,000	29,397,000
Other accrued liabilities	21,040,000	10,649,000
Revenues and royalties payable	6,860,000	3,270,000
Derivative instruments	1,933,000	4,817,000
Note payable-short term	145,000	145,000
Total current liabilities	109,451,000	79,232,000
Long-term debt	450,085,000	193,000
Derivative instruments-long term	—	388,000
Asset retirement obligations-long term	2,878,000	2,125,000
Deferred income taxes-noncurrent	80,544,000	62,695,000
Total liabilities	642,958,000	144,633,000
Contingencies (Note 13)		
Stockholders' equity:		

Edgar Filing: Diamondback Energy, Inc. - Form 10-Q

Common stock, \$0.01 par value, 100,000,000 shares authorized, 47,021,035 issued and outstanding at September 30, 2013; 36,986,532 issued and outstanding at December 31, 2012	470,000	370,000
Additional paid-in capital	840,079,000	513,772,000
Accumulated deficit	(17,611,000	) (52,074,000 )
Total stockholders' equity	822,938,000	462,068,000
Total liabilities and stockholders' equity	\$1,465,896,000	\$606,701,000
See accompanying notes to combined consolidated financial statements.		

Table of ContentsDiamondback Energy, Inc. and Subsidiaries  
Combined Consolidated Statements of Operations  
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Revenues:				
Oil sales	\$53,086,000	\$14,530,000	\$119,373,000	\$43,542,000
Natural gas sales	859,000	208,000	2,586,000	605,000
Natural gas sales - related party	704,000	370,000	1,796,000	631,000
Natural gas liquid sales	1,970,000	671,000	5,441,000	2,246,000
Natural gas liquid sales - related party	1,172,000	1,035,000	2,898,000	2,171,000
Total revenues	57,791,000	16,814,000	132,094,000	49,195,000
Costs and expenses:				
Lease operating expenses	4,718,000	3,242,000	14,527,000	8,667,000
Lease operating expenses - related party	246,000	267,000	840,000	841,000
Production and ad valorem taxes	3,420,000	1,194,000	7,970,000	2,992,000
Production and ad valorem taxes - related party	133,000	99,000	325,000	199,000
Gathering and transportation	69,000	9,000	175,000	61,000
Gathering and transportation - related party	192,000	109,000	466,000	203,000
Depreciation, depletion and amortization	17,423,000	6,136,000	42,976,000	16,552,000
General and administrative expenses	1,810,000	1,323,000	6,350,000	2,803,000
General and administrative expenses - related party	311,000	327,000	863,000	1,684,000
Asset retirement obligation accretion expense	46,000	22,000	134,000	63,000
Total costs and expenses	28,368,000	12,728,000	74,626,000	34,065,000
Income from operations	29,423,000	4,086,000	57,468,000	15,130,000
Other income (expense)				
Interest income	1,000	1,000	1,000	3,000
Interest expense	(1,089,000)	(1,130,000)	(2,109,000)	(3,184,000)
Other income - related party	270,000	643,000	1,047,000	1,654,000
Gain (loss) on derivative instruments, net	(4,910,000)	(3,148,000)	(1,881,000)	2,017,000
Loss from equity investment	—	—	—	(67,000)
Total other income (expense), net	(5,728,000)	(3,634,000)	(2,942,000)	423,000
Income before income taxes	23,695,000	452,000	54,526,000	15,553,000
Provision for income taxes				
Deferred income tax provision	9,099,000	—	20,063,000	—
Net income	\$14,596,000	\$452,000	\$34,463,000	\$15,553,000
Earnings per common share				
Basic	\$0.33		\$0.85	
Diluted	\$0.33		\$0.85	
Weighted average common shares outstanding				
Basic	44,385,107		40,308,989	
Diluted	44,697,609		40,523,764	

See accompanying notes to combined consolidated financial statements.



Table of Contents

Diamondback Energy, Inc. and Subsidiaries

Combined Consolidated Statements of Operations - Continued

(Unaudited)

	Three Months Ended September 30, 2012	Nine Months Ended September 30, 2012
Pro forma information		
Income before income taxes, as reported	\$452,000	\$15,553,000
Pro forma provision for income taxes	161,000	5,545,000
Pro forma net income	\$291,000	\$10,008,000
Pro forma earnings per common share - basic and diluted	\$0.02	\$0.68
Pro forma weighted average common shares outstanding - basic and diluted	14,697,496	14,697,496

See accompanying notes to combined consolidated financial statements.

Table of Contents

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

	Common Stock Shares	Amount	Additional Paid-in Capital	Accumulated Deficit	Total
Balance December 31, 2012	36,986,532	\$370,000	\$513,772,000	\$(52,074,000)	) \$462,068,000
Stock based compensation	—	—	1,845,000	—	1,845,000
Common shares issued in public offering, net of offering costs	9,775,000	98,000	321,848,000	—	321,946,000
Exercise of stock options and vesting of restricted stock units	259,503	2,000	2,614,000	—	2,616,000
Net income	—	—	—	34,463,000	34,463,000
Balance September 30, 2013	47,021,035	\$470,000	\$840,079,000	\$(17,611,000)	) \$822,938,000

See accompanying notes to combined consolidated financial statements.

Table of ContentsDiamondback Energy, Inc. and Subsidiaries  
Combined Consolidated Statements of Cash Flows  
(Unaudited)

	Nine Months Ended September 30,	
	2013	2012
Cash flows from operating activities:		
Net income	\$34,463,000	\$15,553,000
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for deferred income taxes	20,063,000	—
Asset retirement obligation accretion expense	134,000	63,000
Depreciation, depletion, and amortization	42,976,000	16,552,000
Amortization of debt issuance costs	526,000	347,000
Change in fair value of derivative instruments	(3,733,000)	(2,017,000)
Loss from equity investment	—	67,000
Equity based compensation expense	1,426,000	873,000
Gain on sale of assets	(31,000)	(26,000)
Changes in operating assets and liabilities:		
Accounts receivable	(13,262,000)	(4,256,000)
Accounts receivable-related party	(350,000)	5,061,000
Inventories	309,000	(44,000)
Prepaid expenses and other	(1,376,000)	1,000
Accounts payable and accrued liabilities	7,324,000	2,145,000
Accounts payable and accrued liabilities-related party	(82,000)	2,289,000
Revenues and royalties payable	3,260,000	(740,000)
Revenues and royalties payable-related party	—	(2,404,000)
Net cash provided by operating activities	91,647,000	33,464,000
Cash flows from investing activities:		
Additions to oil and natural gas properties	(188,201,000)	(73,237,000)
Additions to oil and natural gas properties-related party	(11,594,000)	(8,264,000)
Acquisition of Gulfport properties	(18,550,000)	—
Acquisition of mineral interests	(440,000,000)	—
Acquisition of leasehold interests	(166,635,000)	—
Purchase of other property and equipment	(4,965,000)	(778,000)
Proceeds from sale of property and equipment	62,000	26,000
Settlement of non-hedge derivative instruments	(289,000)	(7,025,000)
Receipt on derivative margins	—	2,325,000
Net cash used in investing activities	(830,172,000)	(86,953,000)
Cash flows from financing activities:		
Proceeds from borrowings on credit facility	49,000,000	15,000,000
Repayment on credit facility	(49,000,000)	—
Proceeds from senior notes	450,000,000	—
Proceeds from note payable - related party	—	30,045,000
Debt issuance costs	(9,524,000)	(72,000)
Public offering costs	(505,000)	(1,009,000)
Proceeds from public offering	322,680,000	—
Exercise of stock options	2,616,000	—
Contributions by members	—	4,008,000
Net cash provided by financing activities	765,267,000	47,972,000

Edgar Filing: Diamondback Energy, Inc. - Form 10-Q

Net increase (decrease) in cash and cash equivalents	26,742,000	(5,517,000 )
Cash and cash equivalents at beginning of period	26,358,000	6,959,000
Cash and cash equivalents at end of period	\$53,100,000	\$1,442,000
See accompanying notes to combined consolidated financial statements.		

Table of Contents

Diamondback Energy, Inc. and Subsidiaries

Combined Consolidated Statements of Cash Flows - Continued  
(Unaudited)