Sanchez Energy Corp
Form 10-Q
August 11, 2014

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

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

For the quarterly period ended June 30, 2014

OR

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

Commission file number: 1-35372

Sanchez Energy Corporation

(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	**45-3090102** (I.R.S. Employer Identification No.)
1111 Bagby Street, Suite 1800 **Houston, Texas** (Address of principal executive offices)	**77002** (Zip Code)

(713) 783-8000
(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 ý No o

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 ý No o

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 o	Accelerated filer ý	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

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

Number of shares of registrant's common stock, par value $0.01 per share, outstanding as of August 8, 2014: 58,394,498.

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We were previously considered an "emerging growth company" as defined under the Jumpstart Our Business Startups Act of 2012, commonly referred to as the "JOBS Act." The JOBS Act permits a company to be classified as an "emerging growth company" for up to five years from the date of the completion of its initial public offering or until the earlier of (1) the last day of the fiscal year in which its total annual gross revenues exceed $1 billion, (2) the date that it becomes a "large accelerated filer" as defined in Rule 12b-2 under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), which would occur if the market value of its common equity that is held by non- affiliates is $700 million or more as of the last business day of its most recently completed second fiscal quarter or (3) the date on which it has issued more than $1 billion in non-convertible debt during the preceding three year period. However, during the second quarter of 2014, the Company issued non-convertible debt such that we have now issued more than $1 billion in non-convertible debt during the preceding three year period. As such, we are no longer considered an "emerging growth company" under the JOBS Act.

Further, as of June 30, 2014, the market value of our common equity held by non-affiliates was greater than $700 million. As such, the Company will become a large accelerated filer as defined in Rule 12b-2 under the Exchange Act at December 31, 2014.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q contains "forward-looking statements" within the meaning of the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. All statements, other than statements of historical facts, included in this Quarterly Report on Form 10-Q that address activities, events or developments that we expect, believe or anticipate will or may occur in the future are forward-looking statements. These statements are based on certain assumptions we made based on management's experience, perception of historical trends and technical analyses, current conditions, anticipated future developments and other factors believed to be appropriate and reasonable by management. When used in this Quarterly Report on Form 10- Q, words such as "will," "potential," "believe," "estimate," "intend," "expect," "may," "should," "anticipate," "could," "plan," "predict," "project," "profile," "model," "strategy," "future" or their negatives or the statements that include these words or other words that convey the uncertainty of future events or outcomes, are intended to identify forward-looking statements, although not all forward-looking statements contain such identifying words. In particular, statements, express or implied, concerning our future operating results and returns or our ability to replace or increase reserves, increase production, or generate income or cash flows are forward-looking statements. Forward-looking statements are not guarantees of performance. Such statements are subject to a number of assumptions, risks and uncertainties, many of which are beyond our control. Although we believe that the expectations reflected in our forward-looking statements are reasonable and are based on reasonable assumptions, no assurance can be given that these assumptions are accurate or that any of these expectations will be achieved (in full or at all) or will prove to have been correct. Important factors that could cause our actual results to differ materially from the expectations reflected in the forward-looking statements include, among others:

- our ability to successfully execute our business and financial strategies;
- our ability to replace the reserves we produce through drilling and property acquisitions;
- the realized benefits of the acreage acquired in our various acquisitions and other assets and liabilities assumed in connection therewith;
- the extent to which our drilling plans are successful in economically developing our acreage in, and to produce reserves and achieve anticipated production levels from, our existing and future projects;

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the accuracy of reserve estimates, which by their nature involve the exercise of professional judgment and may therefore be imprecise;

the extent to which we can optimize reserve recovery and economically develop our plays utilizing horizontal and vertical drilling, advanced completion technologies and hydraulic fracturing;

our ability to successfully execute our hedging strategy and the resulting realized prices therefrom;

competition in the oil and natural gas exploration and production industry for employees and other personnel, equipment, materials and services and, related thereto, the availability and cost of employees and other personnel, equipment, materials and services;

our ability to access the credit and capital markets to obtain financing on terms we deem acceptable, if at all, and to otherwise satisfy our capital expenditure requirements;

the availability, proximity and capacity of, and costs associated with, gathering, processing, compression and transportation facilities;

the timing and extent of changes in prices for, and demand for, crude oil and condensate, natural gas liquids ("NGLs"), natural gas and related commodities;

our ability to compete with other companies in the oil and natural gas industry;

the impact of, and changes in, government policies, laws and regulations, including tax laws and regulations, environmental laws and regulations relating to air emissions, waste disposal, hydraulic fracturing and access to and use of water, laws and regulations imposing conditions and restrictions on drilling and completion operations and laws and regulations with respect to derivatives and hedging activities;

developments in oil-producing and natural gas-producing countries;

our ability to effectively integrate acquired crude oil and natural gas properties into our operations, fully identify existing and potential problems with respect to such properties and accurately estimate reserves, production and costs with respect to such properties;

the extent to which our crude oil and natural gas properties operated by others are operated successfully and economically;

the use of competing energy sources and the development of alternative energy sources;

unexpected results of litigation filed against us;

the extent to which we incur uninsured losses and liabilities or losses and liabilities in excess of our insurance coverage; and the other factors described under "Part I, Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations," "Part II, Item 1A. Risk Factors" and elsewhere in this Quarterly Report on Form 10-Q and in our other public filings with the Securities and Exchange Commission (the "SEC").

In light of these risks, uncertainties and assumptions, the events anticipated by our forward-looking statements may not occur, and, if any of such events do, we may not have correctly anticipated the timing of their occurrence or the extent of their impact on our actual results. Accordingly, you should not place any undue reliance on any of our forward-looking statements. Any forward- looking statement speaks only as of the date on which such statement is made, and we undertake no obligation to correct or update any forward-looking statement, whether as a result of new information, future events or otherwise, except as required by applicable law.

Sanchez Energy Corporation
Form 10-Q
For the Quarterly Period Ended June 30, 2014

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PART I FINANCIAL INFORMATION

Item 1. Unaudited Financial Statements

Sanchez Energy Corporation

Condensed Consolidated Balance Sheets (Unaudited)

(in thousands, except share amounts)

	June 30, 2014	December 31, 2013
ASSETS		
Current assets:		
Cash and cash equivalents	$ 385,871	$ 153,531
Oil and natural gas receivables	56,456	51,960
Joint interest billing receivables	15,470	5,803
Fair value of derivative instruments	64	
Deferred tax asset	18,471	6,882
Other current assets	5,893	1,386
Total current assets	482,225	219,562
Oil and natural gas properties, at cost, using the full cost method:		
Unproved oil and natural gas properties	400,060	244,570
Proved oil and natural gas properties	2,051,312	1,297,961
Total oil and natural gas properties	2,451,372	1,542,531
Less: Accumulated depreciation, depletion, amortization and impairment	(288,258)	(157,043)
Total oil and natural gas properties, net	2,163,114	1,385,488
Other assets:		
Debt issuance costs, net	45,157	19,806
Fair value of derivative instruments	108	1,304
Other assets	13,450	2,993
Total assets	$ 2,704,054	$ 1,629,153
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 11,663	$ 46,900
Accounts payable related entities	1,888	961
Other payables	6,907	2,963
Accrued liabilities	123,552	102,455

Deferred premium liability	3,143	717
Fair value of derivative instruments	27,148	4,623
Total current liabilities	174,301	158,619
Long term debt, net of discount	1,443,710	593,258
Asset retirement obligations	22,626	4,130
Deferred tax liability	17,778	10,868
Deferred premium liability	2,465	4,891
Fair value of derivative instruments	9,421	78
Total liabilities	1,670,301	771,844
Commitments and contingencies (Note 15)		
Stockholders' equity:		
Preferred stock ($0.01 par value, 15,000,000 shares authorized; 1,886,485 and 3,000,000 shares issued and outstanding as of June 30, 2014 and December 31, 2013 of 4.875% Convertible Perpetual Preferred Stock, Series A, respectively; 3,532,330 and 4,500,000 shares issued and outstanding as of June 30, 2014 and December 31, 2013 of 6.500% Convertible Perpetual Preferred Stock, Series B, respectively)	54	75
Common stock ($0.01 par value, 150,000,000 shares authorized; 58,125,398 and 46,368,713 shares issued and outstanding as of June 30, 2014 and December 31, 2013, respectively)	581	464
Additional paid-in capital	1,077,494	867,108
Accumulated deficit	(44,376)	(10,338)
Total stockholders' equity	1,033,753	857,309
Total liabilities and stockholders' equity	$ 2,704,054	$ 1,629,153

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

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Sanchez Energy Corporation

Condensed Consolidated Statements of Operations (Unaudited)

(in thousands, except per share amounts)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
REVENUES:				
Oil sales	$ 136,902	$ 54,872	$ 256,577	$ 84,199
Natural gas liquids sales	8,116	2,047	16,609	2,976
Natural gas sales	6,643	2,166	13,037	2,946
Total revenues	151,661	59,085	286,223	90,121
OPERATING COSTS AND EXPENSES:				
Oil and natural gas production expenses	13,911	6,813	29,823	10,072
Production and ad valorem taxes	7,842	3,361	18,245	5,411
Depreciation, depletion, amortization and accretion	70,583	24,623	131,834	37,996
General and administrative (inclusive of stock-based compensation expense of $15,943 and $4,578, respectively, for the three months ended June 30, 2014 and 2013, and $25,878 and $7,712, respectively, for the six months ended June 30, 2014 and 2013)	28,869	12,632	48,178	20,369
Total operating costs and expenses	121,205	47,429	228,080	73,848
Operating income	30,456	11,656	58,143	16,273
Other income (expense):				
Interest and other income	3	51	15	72
Interest expense	(17,261)	(7,069)	(30,533)	(8,153)
Net gains (losses) on commodity derivatives	(31,900)	4,252	(41,017)	624
Total other expense, net	(49,158)	(2,766)	(71,535)	(7,457)
Income (loss) before income taxes	(18,702)	8,890	(13,392)	8,816
Income tax benefit	(6,544)		(4,679)	
Net income (loss)	(12,158)	8,890	(8,713)	8,816
Less:				
Preferred stock dividends	(7,132)	(5,484)	(25,325)	(7,556)
Net income allocable to participating securities		(159)		(56)

Net income (loss) attributable to common stockholders	$	(19,290)	$	3,247	$	(34,038)	$	1,204
Net income (loss) per common share basic and diluted	$	(0.38)	$	0.10	$	(0.70)	$	0.04
Weighted average number of shares used to calculate net income (loss) attributable to common stockholders basic and diluted		50,602		33,117		48,825		33,108

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

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Sanchez Energy Corporation

Condensed Consolidated Statement of Stockholders' Equity for the Six Months Ended June 30, 2014
(Unaudited)

(in thousands)

	Series A Preferred Stock		Series B Preferred Stock		Common Stock		Additional Paid-in Capital	Accumulated Deficit	Total Stockholders' Equity
	Shares	Amount	Shares	Amount	Shares	Amount			
BALANCE, December 31, 2013	3,000	$ 30	4,500	$ 45	46,369	$ 464	$ 867,108	$ (10,338)	$ 857,309
Common shares issued					5,000	50	167,541		167,591
Preferred stock dividends								(8,312)	(8,312)
Restricted stock awards, net of forfeitures					1,337	13	(13)		
Exchange of preferred stock for common stock	(1,113)	(11)	(968)	(10)	5,419	54	16,980	(17,013)	
Stock-based compensation							25,878		25,878
Net loss								(8,713)	(8,713)
BALANCE, June 30, 2014	1,887	$ 19	3,532	$ 35	58,125	$ 581	$ 1,077,494	$ (44,376)	$ 1,033,753

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

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Sanchez Energy Corporation

Condensed Consolidated Statements of Cash Flows (Unaudited)

(in thousands)

	Six Months Ended June 30, 2014	Six Months Ended June 30, 2013
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	$ (8,713)	$ 8,816
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, depletion, amortization and accretion	131,834	37,996
Stock-based compensation	25,878	7,712
Net (gains) losses on commodity derivative contracts	41,017	(624)
Net cash settlement received (paid) on commodity derivative contracts	(6,057)	141
Premiums paid on derivative contracts		(189)
Amortization of deferred financing costs	5,505	4,600
Accretion of debt discount	452	
Deferred taxes	(4,679)	
Changes in operating assets and liabilities:		
Accounts receivable	(14,163)	(14,360)
Other assets	(5,894)	(361)
Accounts payable	(35,237)	25,811
Accounts payable related entities	927	(12,891)
Other payables	2,174	3,855
Accrued liabilities	8,991	8,335
Net cash provided by operating activities	142,035	68,841
CASH FLOWS FROM INVESTING ACTIVITIES:		
Payments for oil and natural gas properties	(328,673)	(175,213)
Payments for other property and equipment	(7,065)	(1,523)
Acquisitions of oil and natural gas properties	(552,380)	(291,890)
Purchases of investments		(25,000)
Sale of investments		11,591
Net cash used in investing activities	(888,118)	(482,035)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from borrowings	100,000	236,000
Repayment of borrowings	(100,000)	(236,000)
Issuance of senior notes	850,000	400,000
Issuance of common stock	176,250	
Issuance of preferred stock		225,000
Payments for offering costs	(8,659)	(8,439)
Financing costs	(30,856)	(18,476)
Preferred dividends paid	(8,312)	(7,556)
Purchase of common stock		(1,040)

Net cash provided by financing activities		978,423		589,489
Increase in cash and cash equivalents		232,340		176,295
Cash and cash equivalents, beginning of period		153,531		50,347
Cash and cash equivalents, end of period	$	385,871	$	226,642
NON-CASH INVESTING AND FINANCING ACTIVITIES:				
Asset retirement obligations	$	18,229	$	2,318
Change in accrued capital expenditures		12,106		7,775
Common stock issued in exchange for preferred stock		121,072		
SUPPLEMENTAL DISCLOSURE:				
Cash paid for interest	$	25,029	$	2,020

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

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Sanchez Energy Corporation

Notes to the Condensed Consolidated Financial Statements

(Unaudited)

Note 1. Organization

Sanchez Energy Corporation (together with our consolidated subsidiaries, the "Company," "we," "our," "us" or similar terms) is an independent exploration and production company, formed in August 2011 as a Delaware corporation, focused on the exploration, acquisition and development of unconventional oil and natural gas resources in the onshore U.S. Gulf Coast, with a current focus on the Eagle Ford Shale in South Texas and the Tuscaloosa Marine Shale ("TMS") in Mississippi and Louisiana. We have accumulated net leasehold acreage in the oil and condensate, or black oil and volatile oil, windows of the Eagle Ford Shale and in what we believe to be the core of the TMS. We are currently focused on the horizontal development of significant resource potential from the Eagle Ford Shale.

Note 2. Basis of Presentation and Summary of Significant Accounting Policies

The accompanying condensed consolidated financial statements are unaudited and were prepared from the Company's records. The condensed consolidated financial statements were prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP" or "U.S. GAAP") for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. The Company derived the condensed consolidated balance sheet as of December 31, 2013 from the audited financial statements filed in its Annual Report on Form 10-K for the fiscal year ended December 31, 2013 (the "2013 Annual Report"). Because this is an interim period filing presented using a condensed format, it does not include all of the disclosures required by U.S. GAAP. These condensed consolidated financial statements should be read in connection with the consolidated financial statements and notes thereto included in the 2013 Annual Report, which contains a summary of the Company's significant accounting policies and other disclosures. In the opinion of management, these financial statements include the adjustments and accruals, all of which are of a normal recurring nature, which are necessary for a fair presentation of the results for the interim periods. These interim results are not necessarily indicative of results to be expected for the entire year.

As of June 30, 2014, the Company's significant accounting policies are consistent with those discussed in Note 2 in the notes to the Company's consolidated financial statements contained in its 2013 Annual Report.

Use of Estimates

The condensed consolidated financial statements are prepared in conformity with U.S. GAAP, which requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The most significant estimates pertain to proved oil and natural gas reserves and related cash flow estimates used in the calculation of depletion and impairment of oil and natural gas properties, fair value accounting for acquisitions, the evaluation of unproved properties for impairment, the fair value of commodity derivative contracts and asset retirement obligations, accrued oil and natural gas revenues and expenses and the allocation of general and administrative expenses. Actual results could differ materially from those estimates.

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Sanchez Energy Corporation

Notes to the Condensed Consolidated Financial Statements (Continued)

(Unaudited)

Note 2. Basis of Presentation and Summary of Significant Accounting Policies (Continued)

Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update No. 2014-09, *Revenue from Contracts with Customers* ("ASU 2014-09"), which supersedes nearly all existing revenue recognition guidance under U.S. GAAP. The core principle of ASU 2014-09 is to recognize revenues when promised goods or services are transferred to customers in an amount that reflects the consideration to which an entity expects to be entitled for those goods or services. ASU 2014-09 defines a five step process to achieve this core principle and, in doing so, more judgment and estimates may be required within the revenue recognition process than are required under existing U.S. GAAP.

The standard is effective for annual periods beginning after December 15, 2016, and interim periods therein, using either of the following transition methods: (i) a full retrospective approach reflecting the application of the standard in each prior reporting period with the option to elect certain practical expedients, or (ii) a retrospective approach with the cumulative effect of initially adopting ASU 2014-09 recognized at the date of adoption (which includes additional footnote disclosures). We are currently evaluating the impact of our pending adoption of ASU 2014-09 on our consolidated financial statements and have not yet determined the method by which we will adopt the standard in 2017.

Note 3. Acquisitions

Our acquisitions are accounted for under the acquisition method of accounting in accordance with Accounting Standards Codification, or ASC, Topic 805, "Business Combinations." A business combination may result in the recognition of a gain or goodwill based on the measurement of the fair value of the assets acquired at the acquisition date as compared to the fair value of consideration transferred, adjusted for purchase price adjustments. The initial accounting for acquisitions may not be complete and adjustments to provisional amounts, or recognition of additional assets acquired or liabilities assumed, may occur as more detailed analyses are completed and additional information is obtained about the facts and circumstances that existed as of the acquisition dates. The results of operations of the properties acquired in our acquisitions have been included in the condensed consolidated financial statements since the closing dates of the acquisitions.

Catarina Acquisition

On June 30, 2014, we completed our acquisition of the Catarina properties (the "Catarina acquisition") for an aggregate adjusted purchase price of $553.5 million. The effective date of the transaction was January 1, 2014. The purchase price was funded with proceeds from the issuance of the $850 million senior unsecured 6.125% notes due 2023 and cash on hand. The purchase price allocation for the Catarina acquisition is preliminary and is subject to further adjustments and the settlement of certain post-closing adjustments with the seller. The total purchase price was allocated to the assets

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Sanchez Energy Corporation

Notes to the Condensed Consolidated Financial Statements (Continued)

(Unaudited)

Note 3. Acquisitions (Continued)

purchased and liabilities assumed based upon their fair values on the date of acquisition as follows (in thousands):

Proved oil and natural gas properties	$	428,484
Unproved properties		137,089
Other assets acquired		2,682
Fair value of assets acquired		568,255
Asset retirement obligations		(14,723)
Fair value of net assets acquired	$	553,532

Cotulla Acquisition

On May 31, 2013, we completed our acquisition of the Cotulla properties (the "Cotulla acquisition") for an aggregate adjusted purchase price of $280.9 million. The effective date of the transaction was March 1, 2013.

The purchase price was funded with borrowings under the Company's First Lien Credit Agreement (defined in Note 6 "Long-Term Debt"), cash on hand, and proceeds from the Company's private placement of the Series B Convertible Perpetual Preferred Stock. The total purchase price was allocated to the assets purchased and liabilities assumed based upon their fair values on the date of acquisition as follows (in thousands):

Proved oil and natural gas properties	$	265,466
Unproved properties		16,745
Fair value of assets acquired		282,211
Asset retirement obligations		(1,138)
Other liabilities assumed		(190)
Fair value of net assets acquired	$	280,883

Wycross Acquisition

On October 4, 2013, we completed our acquisition of the Wycross properties (the "Wycross acquisition") for an aggregate adjusted purchase price of $229.6 million. The effective date of the transaction was July 1, 2013. The purchase price was funded with proceeds from the issuance of the Additional Notes (defined in Note 6 "Long-Term Debt"), the issuance of 11,040,000 shares of common

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Sanchez Energy Corporation

Notes to the Condensed Consolidated Financial Statements (Continued)

(Unaudited)

Note 3. Acquisitions (Continued)

stock, and cash on hand. The total purchase price was allocated to the assets purchased and liabilities assumed based upon their fair values on the date of acquisition as follows (in thousands):

Proved oil and natural gas properties	$	215,265
Unproved properties		13,095
Other assets acquired		1,523
Fair value of assets acquired		229,883
Asset retirement obligations		(158)
Other liabilities assumed		(113)
Fair value of net assets acquired	$	229,612

Pro Forma Operating Results

The following pro forma combined results for the three and six months ended June 30, 2014 and 2013 reflect the consolidated results of operations of the Company as if the Catarina acquisition and related financing had occurred on January 1, 2013 and the Wycross and Cotulla acquisitions and related financings had occurred on January 1, 2012. The pro forma information includes adjustments primarily for revenues and expenses from the acquired properties, depreciation, depletion, amortization and accretion, interest expense and debt issuance cost amortization for acquisition debt, and stock dividends for the issuance of preferred stock.

The unaudited pro forma combined financial statements give effect to the events set forth below:

The Catarina acquisition completed on June 30, 2014.

Issuance of the 6.125% Notes (defined in Note 6 "Long-Term Debt") to finance a portion of the Catarina acquisition, and the related adjustments to interest expense.

The Cotulla acquisition completed on May 31, 2013.

The increase in borrowings under the First Lien Credit Agreement to finance a portion of the Cotulla acquisition, and the related adjustments to interest expense.

Issuance of Series B Convertible Perpetual Preferred Stock and related adjustments to preferred dividends.

The Wycross acquisition completed on October 4, 2013.

Issuance of the 7.75% Notes (defined in Note 6 "Long-Term Debt") to finance a portion of the Wycross acquisition, and the related adjustments to interest expense.

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Sanchez Energy Corporation

Notes to the Condensed Consolidated Financial Statements (Continued)

(Unaudited)

Note 3. Acquisitions (Continued)

Issuance of common stock to finance a portion of the Wycross acquisition and the related effect on net income (loss) per common share (in thousands, except per share amounts).

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Revenues	$ 216,051	$ 190,468	$ 445,563	$ 347,865
Net income (loss) attributable to common stockholders	$ (12,268)	$ 12,498	$ (7,920)	$ 11,028
Net income (loss) per common share, basic	$ (0.24)	$ 0.36	$ (0.16)	$ 0.32
Net income (loss) per common share, diluted	$ (0.24)	$ 0.34	$ (0.16)	$ 0.32

The pro forma combined financial information is for informational purposes only and is not intended to represent or to be indicative of the combined results of operations that the Company would have reported had the Catarina, Wycross and Cotulla acquisitions and related financings been completed as of the date set forth in this pro forma combined financial information and should not be taken as indicative of the Company's future combined results of operations. The actual results may differ significantly from that reflected in the pro forma combined financial information for a number of reasons, including, but not limited to, differences in assumptions used to prepare the pro forma combined financial information and actual results.

Post-Acquisition Operating Results

The amounts of revenue and excess of revenues over direct operating expenses included in the Company's condensed consolidated statements of operations for the three and six months ended June 30, 2014 and 2013, for the Wycross and Cotulla acquisitions are shown in the table that follows. Direct operating expenses include lease operating expenses and production and ad valorem taxes (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Revenues	$ 54,937	$ 8,474	$ 109,408	$ 8,474

Excess of revenues over direct operating expenses	$ 45,136	$ 4,929	$ 86,505	$ 4,929

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Sanchez Energy Corporation

Notes to the Condensed Consolidated Financial Statements (Continued)

(Unaudited)

Note 4. Cash and Cash Equivalents

As of June 30, 2014 and December 31, 2013, cash and cash equivalents consisted of the following (in thousands):

	June 30, 2014	December 31, 2013
Cash at banks	$ 135,870	$ 48,326
Money market funds	250,001	105,205
Total cash and cash equivalents	$ 385,871	$ 153,531

Note 5. Oil and Natural Gas Properties

The Company's oil and natural gas properties are accounted for using the full cost method of accounting. All direct costs and certain indirect costs associated with the acquisition, exploration and development of oil and natural gas properties are capitalized. Once evaluated, these costs, as well as the estimated costs to retire the assets, are included in the amortization base and amortized to depletion expense using the units-of-production method. Depletion is calculated based on estimated proved oil and natural gas reserves. Proceeds from the sale or disposition of oil and natural gas properties are applied to reduce net capitalized costs unless the sale or disposition causes a significant change in the relationship between costs and the estimated quantity of proved reserves.

Full Cost Ceiling Test Capitalized costs (net of accumulated depreciation, depletion and amortization and deferred income taxes) of proved oil and natural gas properties are subject to a full cost ceiling limitation. The ceiling limits these costs to an amount equal to the present value, discounted at 10%, of estimated future net cash flows from estimated proved reserves less estimated future operating and development costs, abandonment costs (net of salvage value) and estimated related future income taxes. In accordance with SEC rules, the oil and natural gas prices used to calculate the full cost ceiling are the 12-month average prices, calculated as the unweighted arithmetic average of the first-day-of-the-month price for each month within the 12-month period prior to the end of the reporting period, unless prices are defined by contractual arrangements. Prices are adjusted for "basis" or location differentials. Prices are held constant over the life of the reserves. If unamortized costs capitalized within the cost pool exceed the ceiling, the excess is charged to expense and separately disclosed during the period in which the excess occurs. Amounts thus required to be written off are not reinstated for any subsequent increase in the cost center ceiling. No impairment expense was recorded for the three and six month periods ended June 30, 2014 or 2013.

Investments in unproved properties and major development projects are capitalized and excluded from the amortization base until proved reserves associated with the projects can be determined or until impairment occurs. Once the assessment of unproved properties is complete and when major development projects are evaluated, the costs previously excluded from amortization are transferred to the full cost pool subject to periodic amortization. The Company assesses the carrying value of its unproved properties that are not subject to amortization for impairment periodically. If the results of an assessment indicate that the properties are impaired, the amount of the asset impaired is added to the full cost pool subject to both periodic amortization and the ceiling test.

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Sanchez Energy Corporation

Notes to the Condensed Consolidated Financial Statements (Continued)

(Unaudited)

Note 6. Long-Term Debt

Long-term debt on June 30, 2014 consisted of $850 million principal amount of 6.125% senior notes maturing on January 15, 2023 (the "6.125% Notes") and $600 million principal amount of 7.75% senior notes (the "7.75% Notes" and, together with the 6.125% Notes, the "Senior Notes") which were issued at a discount to face value of $7.0 million, maturing on June 15, 2021. As of June 30, 2014, the Company's long-term debt consisted of the following:

	Interest Rate	Maturity date	Amount Outstanding (in thousands)
Second amended and restated credit agreement	Variable	June 30, 2019	$
7.75% Notes	7.750%	June 15, 2021	600,000
6.125% Notes	6.125%	January 15, 2023	850,000
			1,450,000
Unamortized discount on Senior Notes			(6,290)
Total long-term debt			$ 1,443,710

Credit Facility

Previous Credit Agreement: On May 31, 2013, we and our subsidiaries, SEP Holdings III, LLC ("SEP III"), SN Marquis LLC ("SN Marquis") and SN Cotulla Assets, LLC ("SN Cotulla") collectively, as the borrowers, entered into a revolving credit facility which was represented by a $500 million Amended and Restated Credit Agreement with Royal Bank of Canada as the administrative agent, Capital One, National Association as the syndication agent and RBC Capital Markets as sole lead arranger and sole book runner and each of the other lenders party thereto ("First Lien Credit Agreement"). The First Lien Credit Agreement was to mature on May 31, 2018.

On May 12, 2014, the Company borrowed $100 million under the First Lien Credit Agreement. The Company used proceeds from the issuance of the 6.125% Notes to repay the $100 million outstanding.

Second Amended and Restated Credit Agreement: On June 30, 2014, the Company, as borrower, and SEP III, SN Marquis, SN Cotulla, SN Operating, LLC, SN TMS, LLC and SN Catarina, LLC as loan parties, entered into a revolving credit facility represented by a $1.5 billion Second Amended and Restated Credit Agreement, dated June 30, 2014, with Royal Bank of Canada as the administrative agent, Capital One, National Association as the syndication agent, Compass Bank and SunTrust Bank as co-documentation agents, RBC Capital Markets as sole lead arranger and sole book runner and the lenders party thereto (the "Credit Agreement"). The Company has elected an available commitment amount under the Credit Agreement of $425 million. Additionally, the Credit Agreement provides for the issuance of letters of credit, limited in the aggregate to the lesser of $50 million and the total availability thereunder. As of June 30, 2014, there were no borrowings and no letters of credit outstanding under the Credit Agreement. Availability under the Credit Agreement is at all times subject to customary conditions and the then applicable borrowing base. The borrowing base under the

Sanchez Energy Corporation

Notes to the Condensed Consolidated Financial Statements (Continued)

(Unaudited)

Note 6. Long-Term Debt (Continued)

Company's Credit Agreement was set at $437.5 million upon issuance of the 6.125% Notes and completion of the Catarina acquisition, with an elected commitment amount of $425 million, all of which was available for future revolver borrowings as of June 30, 2014.

The Credit Agreement matures on June 30, 2019. The borrowing base under the Credit Agreement can be subsequently redetermined up or down by the lenders based on, among other things, their evaluation of the Company's and its subsidiaries' oil and natural gas reserves. Redeterminations of the borrowing base are scheduled to occur semi-annually on April 1 and October 1 of each year, beginning on October 1, 2014. The borrowing base is also subject to reduction by 25% of the amount of the increase in the Company's net high yield debt resulting from the issuance of high yield debt.

The Company's obligations under the Credit Agreement are secured by a first priority lien on substantially all of its assets and the assets of the Company's existing and future subsidiaries not designated as "unrestricted subsidiaries," including a first priority lien on all ownership interests in existing and future subsidiaries not designated as "unrestricted subsidiaries." The obligations under the Credit Agreement are guaranteed by all of the Company's existing and future subsidiaries not designated as "unrestricted subsidiaries."

At the Company's election, borrowings under the Credit Agreement may be made on an alternate base rate or an adjusted eurodollar rate basis, plus an applicable margin. The applicable margin varies from 0.50% to 1.50% for alternate base rate borrowings and from 1.50% to 2.50% for eurodollar borrowings, depending on the utilization of the borrowing base. Furthermore, the Company is also required to pay a commitment fee on the unused committed amount at a rate varying from 0.375% to 0.50% per annum, depending on the utilization of the borrowing base.

The Credit Agreement contains various affirmative and negative covenants and events of default that limit the Company's ability to, among other things, incur indebtedness, make res