

Parsley Energy, Inc.
Form 10-Q
May 14, 2015

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2015

or

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

For the transition period from _____ to _____

Commission File Number: 001-36463

PARSLEY ENERGY, INC.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction

of incorporation or organization)

303 Colorado Street, Suite 3000

46-4314192
(I.R.S. Employer

Identification No.)
78701

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

Austin, Texas

(Address of principal executive offices) (Zip Code)

(737) 704-2300

(Registrant's telephone number, including area code)

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company)

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

As of May 13, 2015, the registrant had 108,762,018 shares of Class A common stock and 32,145,296 shares of Class B common stock outstanding.

PARSLEY ENERGY, INC.

FORM 10-Q

QUARTERLY PERIOD ENDED MARCH 31, 2015

TABLE OF CONTENTS

	Page
PART I. FINANCIAL INFORMATION	
Item 1. Financial Statements	
<u>Condensed Consolidated and Combined Balance Sheets as of March 31, 2015 and December 31, 2014</u>	7
<u>Condensed Consolidated and Combined Statements of Operations for the three months ended March 31, 2015 and 2014</u>	8
<u>Condensed Consolidated and Combined Statement of Changes in Equity for the three months ended March 31, 2015</u>	9
<u>Condensed Consolidated and Combined Statements of Cash Flows for the three months ended March 31, 2015 and 2014</u>	10
<u>Notes to Condensed Consolidated and Combined Financial Statements</u>	11
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	28
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	37
Item 4. <u>Controls and Procedures</u>	38
PART II. OTHER INFORMATION	
Item 1. <u>Legal Proceedings</u>	39
	39

Item 1A. Risk Factors

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds 39

Item 6. Exhibits 39

Signatures 40

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q (the “Quarterly Report”) includes “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933, as amended (the “Securities Act”) and Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”). All statements, other than statements of historical fact included in this Quarterly Report, 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,” “project” and similar expressions are intended to identify forward-looking statements, although not all forward-looking statements contain such identifying words. These forward-looking statements are based on our current expectations and assumptions about future events and are based on currently available information as to the outcome and timing of future events. When considering forward-looking statements, you should keep in mind the risk factors and other cautionary statements described under, but not limited to, the heading “Item 1A. Risk Factors” and elsewhere in our Annual Report on Form 10-K for the year ended December 31, 2014 (the “Annual Report”) and other filings with the United States Securities and Exchange Commission (“SEC”). These forward-looking statements are based on management’s current belief, based on currently available information, as to the outcome and timing of future events.

Forward-looking statements may include statements about our:

- business strategy;
- reserves;
- exploration and development drilling prospects, inventories, projects and programs;
- ability to replace the reserves we produce through drilling and property acquisitions;
- financial strategy, liquidity and capital required for our development program;
- realized oil, natural gas, and natural gas liquids (“NGLs”) prices;
- timing and amount of future production of oil, natural gas and NGLs;
- hedging strategy and results;
- future drilling plans;
- competition and government regulations;
- ability to obtain permits and governmental approvals;
- pending legal or environmental matters;
- marketing of oil, natural gas and NGLs;
- leasehold or business acquisitions;
- costs of developing our properties;
- general economic conditions;
- credit markets;
- uncertainty regarding our future operating results; and
- plans, objectives, expectations and intentions contained in this Quarterly Report that are not historical.

We caution you that these forward-looking statements are subject to all of the risks and uncertainties, most of which are difficult to predict and many of which are beyond our control, incident to the exploration for and development, production, gathering and sale of oil, natural gas, and NGLs. These risks include, but are not limited to, commodity price volatility, inflation, lack of availability of drilling and production equipment and services, environmental risks, drilling and other operating risks, regulatory changes, the uncertainty inherent in estimating reserves and in projecting future rates of production, cash flow and access to capital, the timing of development expenditures, and the other risks described under “Risk Factors” in our Annual Report.

Reserve engineering is a process of estimating underground accumulations of oil, natural gas, and NGLs that cannot be measured in an exact way. The accuracy of any reserve estimate depends on the quality of available data, the interpretation of such data and price and cost assumptions made by reserve engineers. In addition, the results of drilling, testing and production activities may justify revisions of estimates that were made previously. If significant, such revisions would change the schedule of any further production and development drilling. Accordingly, reserve estimates may differ significantly from the quantities of oil, natural gas and NGLs that are ultimately recovered.

Should one or more of the risks or uncertainties described in this Quarterly Report occur, or should underlying assumptions prove incorrect, our actual results and plans could differ materially from those expressed in any forward-looking statements.

All forward-looking statements, expressed or implied, included in this Quarterly Report are expressly qualified in their entirety by this cautionary statement. This cautionary statement should also be considered in connection with any subsequent written or oral forward-looking statements that we or persons acting on our behalf may issue.

Except as otherwise required by applicable law, we disclaim any duty to update any forward-looking statements, all of which are expressly qualified by the statements in this section, to reflect events or circumstances after the date of this Quarterly Report.

GLOSSARY OF CERTAIN TERMS AND CONVENTIONS USED HEREIN

The terms defined in this section are used throughout this Quarterly Report:

“Bbl.” One stock tank barrel, of 42 U.S. gallons liquid volume, used in reference to crude oil, condensate or natural gas liquids.

“Boe.” One barrel of oil equivalent, with 6,000 cubic feet of natural gas being equivalent to one barrel of oil.

“Boe/d.” One barrel of oil equivalent per day.

“British thermal unit” or “Btu.” The heat required to raise the temperature of a one-pound mass of water from 58.5 to 59.5 degrees Fahrenheit.

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

“condensate.” A mixture of hydrocarbons that exists in the gaseous phase at original reservoir temperature and pressure, but that, when produced, is in the liquid phase at surface pressure and temperature.

“development well.” A well drilled within the proved area of an oil or natural gas 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.

“economically producible.” A resource that generates revenue that exceeds, or is reasonably expected to exceed, the costs of the operation. For a complete definition of economically producible, refer to the SEC’s Regulation S-X, Rule 4-10(a)(10).

“exploitation.” A development or other project which may target proven or unproven reserves (such as probable or possible reserves), but which generally has a lower risk than that associated with exploration projects.

“exploratory well.” A well drilled to find a new field or to find a new reservoir in a field previously found to be productive of oil or natural gas in another reservoir.

“field.” An area consisting of a single reservoir or multiple reservoirs all grouped on or related to the same individual geological structural feature and/or stratigraphic condition. The field name refers to the surface area, although it may refer to both the surface and the underground productive formations. For a complete definition of field, refer to the SEC’s Regulation S-X, Rule 4-10(a)(15).

“formation.” A layer of rock which has distinct characteristics that differ from nearby rock.

“GAAP.” Accounting principles generally accepted in the United States.

“gross acres” or “gross wells.” The total acres or wells, as the case may be, in which an entity owns a working interest.

“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 within a specified interval.

“lease operating expense.” All direct and allocated indirect costs of lifting hydrocarbons from a producing formation to the surface constituting part of the current operating expenses of a working interest. Such costs include labor, superintendence, supplies, repairs, maintenance, allocated overhead charges, workover, insurance and other expenses incidental to production, but exclude lease acquisition or drilling or completion expenses.

“LIBOR.” London Interbank Offered Rate.

“MBbl.” One thousand barrels of crude oil, condensate or NGLs.

“MBoe.” One thousand barrels of oil equivalent.

“Mcf.” One thousand cubic feet of natural gas.

“MMBtu.” One million British thermal units.

“MMcf.” One million cubic feet of natural gas.

“natural gas liquids” or “NGLs.” The combination of ethane, propane, butane, isobutane and natural gasolines that when removed from natural gas become liquid under various levels of higher pressure and lower temperature.

“net acres” or “net wells.” The percentage of total acres or wells, as the case may be, an owner has out of a particular number of gross acres or wells. For example, an owner who has 50% interest in 100 gross acres owns 50 net acres.

“NYMEX.” The New York Mercantile Exchange.

“operator.” The entity responsible for the exploration, development and production of a well or lease.

“PE Units.” The single class of units, in which all of the membership interests (including outstanding incentive units) in Parsley LLC were converted to in connection with the initial public offering.

“proved developed reserves.” Proved reserves that can be expected to be recovered:

- i. Through existing wells with existing equipment and operating methods or in which the cost of the required equipment is relatively minor compared with the cost of a new well; or
- ii. Through installed extraction equipment and infrastructure operational at the time of the reserves estimate if the extraction is by means not involving a well.

“proved reserves.” Those quantities of oil and natural gas, which, by analysis of geoscience and engineering data, can be estimated with reasonable certainty to be economically producible—from a given date forward, from known reservoirs, and under existing economic conditions, operating methods, and government regulations—prior to the time at which contracts providing the right to operate expire, unless evidence indicates that renewal is reasonably certain, regardless of whether deterministic or probabilistic methods are used for the estimation. The project to extract the hydrocarbons must have commenced, or the operator must be reasonably certain that it will commence, the project within a reasonable time. For a complete definition of proved oil and natural gas reserves, refer to the SEC’s Regulation S-X, Rule 4-10(a)(22).

“proved undeveloped reserves” or “PUDs.” 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.

Reserves on undrilled acreage shall be limited to those directly offsetting development spacing areas that are reasonably certain of production when drilled, unless evidence using reliable technology exists that establishes reasonable certainty of economic producibility at greater distances.

Undrilled locations can be classified as having undeveloped reserves only if a development plan has been adopted indicating that they are scheduled to be drilled within five years, unless the specific circumstances justify a longer time.

Under no circumstances shall estimates for proved undeveloped reserves be attributable to any acreage for which an application of fluid injection or other improved recovery technique is contemplated, unless such techniques have been proved effective by actual projects in the same reservoir or an analogous reservoir, or by other evidence using reliable technology establishing reasonable certainty.

“reasonable certainty.” A high degree of confidence. For a complete definition of reasonable certainty, refer to the SEC’s Regulation S-X, Rule 4-10(a)(24).

“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.

“reliable technology.” A grouping of one or more technologies (including computational methods) that have been field tested and have been demonstrated to provide reasonably certain results with consistency and repeatability in the formation being evaluated or in an analogous formation.

“reserves.” Estimated remaining quantities of oil and natural gas and related substances anticipated to be economically producible, as of a given date, by application of development prospects to known accumulations. In addition, there must exist, or there must be a reasonable expectation that there will exist, the legal right to produce or a revenue interest in the production, installed means of delivering oil and natural gas or related substances to market and all permits and financing required to implement the project.

“reservoir.” A porous and permeable underground formation containing a natural accumulation of producible hydrocarbons that is confined by impermeable rock or water barriers and is separate from other reservoirs.

“SEC.” The United States Securities and Exchange Commission.

“spacing.” The distance between wells producing from the same reservoir. Spacing is often expressed in terms of acres, e.g., 40-acre spacing, and is often established by regulatory agencies.

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

“wellbore.” The hole drilled by the bit that is equipped for oil or gas production on a completed well. Also called well or borehole.

“working interest.” The right granted to the lessee of a property to explore for and to produce and own oil, natural gas or other minerals. The working interest owners bear the exploration, development and operating costs on either a cash, penalty or carried basis.

“workover.” Operations on a producing well to restore or increase production.

“WTI.” West Texas Intermediate crude oil, which is a light, sweet crude oil, characterized by an American Petroleum Institute gravity, or API gravity, between 39 and 41 and a sulfur content of approximately 0.4 weight percent that is used as a benchmark for other crude oils.

PART 1: FINANCIAL INFORMATION

Item 1: Financial Statements

PARSLEY ENERGY, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED AND COMBINED BALANCE SHEETS

(Unaudited)

	March 31, 2015	December 31, 2014
	(In thousands)	
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$27,236	\$50,550
Accounts receivable:		
Joint interest owners and other	36,101	37,620
Oil and gas	19,672	22,700
Related parties	2,243	4,065
Short-term derivative instruments	54,512	80,911
Materials and supplies	4,342	3,767
Other current assets	4,596	4,548
Total current assets	148,702	204,161
PROPERTY, PLANT AND EQUIPMENT, AT COST		
Oil and natural gas properties, successful efforts method	2,014,240	1,872,616
Accumulated depreciation, depletion and amortization	(164,417)	(128,044)
Total oil and natural gas properties, net	1,849,823	1,744,572
Other property, plant and equipment, net	19,891	16,290
Total property, plant and equipment, net	1,869,714	1,760,862
NONCURRENT ASSETS		
Long-term derivative instruments	47,415	70,805
Equity investment	3,133	2,121
Deferred loan costs, net	11,835	12,943
Other noncurrent assets	197	187
Total noncurrent assets	62,580	86,056
TOTAL ASSETS	\$2,080,996	\$2,051,079
LIABILITIES AND EQUITY		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	\$120,859	\$139,922
Revenue and severance taxes payable	37,705	38,366
Current portion of long-term debt	655	650
Short-term derivative instruments	17,360	29,326
Current deferred tax liability	13,721	12,601
Total current liabilities	190,300	220,865
NONCURRENT LIABILITIES		

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

Long-term debt	556,486	676,845
Asset retirement obligations	16,383	16,207
Deferred tax liability	62,755	62,334
Payable pursuant to tax receivable agreement	50,689	50,689
Long-term derivative instruments	16,818	31,275
Other noncurrent liabilities	—	375
Total noncurrent liabilities	703,131	837,725
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS' EQUITY		
Preferred Stock, \$.01 par value, 50,000,000 shares authorized, none issued and outstanding	—	—
Common Stock		
Class A, \$.01 par value, 600,000,000 shares authorized, 108,823,744 issued and 108,774,991		
outstanding at March 31, 2015 and 93,937,947 issued and 93,901,208 outstanding at December 31, 2014	1,081	932
Class B, \$.01 par value, 125,000,000 shares authorized, 32,145,296 issued and		
outstanding at March 31, 2015 and December 31, 2014	321	321
Additional paid in capital	842,485	644,636
Retained earnings	44,328	61,352
Treasury Stock, at cost, 48,753 shares and 36,739 at March 31, 2015 and December 31, 2014	—	—
Total stockholders' equity	888,215	707,241
Noncontrolling interest	299,350	285,248
Total equity	1,187,565	992,489
TOTAL LIABILITIES AND EQUITY	\$2,080,996	\$2,051,079

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

PARSLEY ENERGY, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED AND COMBINED STATEMENTS OF OPERATIONS

(Unaudited)

	Three Months Ended March 31,	
	2015	2014
	(In thousands, except per share data)	
REVENUES		
Oil sales	\$43,688	\$45,828
Natural gas sales	6,956	5,037
Natural gas liquids sales	4,567	6,865
Total revenues	55,211	57,730
OPERATING EXPENSES		
Lease operating expenses	16,398	7,018
Production and ad valorem taxes	4,495	2,972
Depreciation, depletion and amortization	37,381	18,392
General and administrative expenses	11,472	7,626
Exploration costs	3,219	—
Incentive unit compensation	—	529
Stock based compensation	1,641	—
Accretion of asset retirement obligations	249	92
Total operating expenses	74,855	36,629
OPERATING INCOME	(19,644)	21,101
OTHER INCOME (EXPENSE)		
Interest expense, net	(11,538)	(7,928)
Rig termination	(5,100)	—
Prepayment premium on extinguishment of debt	—	(5,107)
Derivative income (loss)	7,142	(5,676)
Other income (expense)	108	138
Total other income (expense), net	(9,388)	(18,573)
INCOME (LOSS) BEFORE INCOME TAXES	(29,032)	2,528
INCOME TAX BENEFIT (EXPENSE)	5,474	(545)
NET INCOME (LOSS)	(23,558)	1,983
LESS: NET LOSS ATTRIBUTABLE TO		
NONCONTROLLING INTEREST	6,534	—
NET INCOME (LOSS) ATTRIBUTABLE TO PARSLEY ENERGY INC. STOCKHOLDERS	\$(17,024)	\$1,983
Net income (loss) per common share:		
Basic	\$(0.17)	
Diluted	\$(0.17)	
Weighted average common shares outstanding:		

Basic	101,273
Diluted	101,273

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

PARSLEY ENERGY, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED AND COMBINED STATEMENT OF CHANGES IN EQUITY

(Unaudited)

	Issued Shares		Class A	Class B	Additional	Retained	Shares		Total	Noncontrolling	Total
	Class A	Class B					Treasury	Stockholders'			
	common	common	common	common	paid in	Earnings	stock	equity			Equity
	stock	Stock	stock	Stock	capital		stock	equity			
Balance at											
December 31,											
2014	93,937	32,145	\$932	\$321	\$644,636	\$61,352	37	\$—	\$707,241	\$285,248	\$992,489
Reorganization											
Transactions:											
Issuance of Class A											
Common Stock, net of											
underwriters discount											
and expenses	14,886	—	149	—	223,859	—	—	—	224,008	—	224,008
Change in equity due											
to issuance of PE Units											
by Parsley LLC	—	—	—	—	(20,636)	—	—	—	(20,636)	20,636	—
Increase in net deferred											
tax liability due to issuance											
of PE Units by Parsley LLC	—	—	—	—	(7,015)	—	—	—	(7,015)	—	(7,015)
Restricted stock forfeited	—	—	—	—	(38)	—	12	—	(38)	—	(38)

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

Stock based compensation	—	—	—	—	1,679	—	—	—	1,679	—	1,679
Consolidated net loss	—	—	—	—	—	(17,024)	—	—	(17,024)	(6,534)	(23,558)
Balance at											
March 31, 2015	108,823	32,145	\$ 1,081	\$ 321	\$ 842,485	\$ 44,328					