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Bonanza Creek Energy, Inc.
Form 10-Q
July 28, 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 June 30, 2015

Commission File Number: 001-35371

Bonanza Creek Energy, Inc.

(Exact name of registrant as specified in its charter)

Delaware	61-1630631
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

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410 17th Street, Suite 1400
Denver, Colorado 80202
(Address of principal executive offices) (Zip Code)

(720) 440-6100

(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date. As of July 23, 2015, the registrant had 49,748,846 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)

	June 30, 2015	December 31, 2014
	(in thousands, except share data)	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 15,340	\$ 2,584
Accounts receivable:		
Oil and gas sales	46,755	54,574
Joint interest and other	26,702	37,202
Prepaid expenses and other	13,870	12,522
Inventory of oilfield equipment	10,340	15,353
Derivative asset	55,419	86,240
Total current assets	168,426	208,475
Property and equipment (successful efforts method), at cost:		
Proved properties	2,203,152	1,924,380
Less: accumulated depreciation, depletion and amortization	(716,954)	(592,073)
Total proved properties, net	1,486,198	1,332,307
Unproved properties	198,098	206,721
Wells in progress	130,575	139,208
Natural gas plant, net of accumulated depreciation of \$9,640 in 2015 and \$8,457 in 2014	66,770	67,840
Other property and equipment, net of accumulated depreciation of \$7,804 in 2015 and \$6,087 in 2014	9,333	10,401
Total property and equipment, net	1,890,974	1,756,477
Long-term derivative asset	11,310	17,765
Other noncurrent assets	22,176	23,372
Total assets	\$ 2,092,886	\$ 2,006,089
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued expenses (note 4)	\$ 120,858	\$ 145,788
Oil and gas revenue distribution payable	38,566	40,659
Contractual obligation for land acquisition	12,000	12,000
Total current liabilities	171,424	198,447
Long-term liabilities:		
Long-term debt (note 5)	850,006	840,619

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Contractual obligation for land acquisition	11,884	11,186
Ad valorem taxes	19,668	28,635
Deferred income taxes	129,122	165,667
Asset retirement obligations	22,264	21,464
Total liabilities	1,204,368	1,266,018
Commitments and contingencies (note 6)		
Stockholders' equity:		
Preferred stock, \$.001 par value, 25,000,000 shares authorized, none outstanding	—	—
Common stock, \$.001 par value, 225,000,000 shares authorized, 49,750,590 and 41,287,270 issued and outstanding in 2015 and 2014, respectively	50	41
Additional paid-in capital	799,534	591,511
Retained earnings	88,934	148,519
Total stockholders' equity	888,518	740,071
Total liabilities and stockholders' equity	\$ 2,092,886	\$ 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 June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
	(in thousands, except shares and per share amounts)			
Operating net revenues:				
Oil and gas sales	\$ 90,422	\$ 151,682	\$ 163,498	\$ 279,077
Operating expenses:				
Lease operating expense	20,895	18,018	40,159	35,099
Severance and ad valorem taxes	4,148	16,263	10,644	27,013
Exploration	5,748	96	6,246	1,179
Depreciation, depletion and amortization	69,925	54,117	128,929	95,248
Abandonment and impairment of unproved properties	14,527	—	19,996	—
General and administrative (including \$4,359, \$7,353, \$7,787, and \$14,150, respectively, of stock compensation)	21,602	24,547	38,474	48,261
Total operating expenses	136,845	113,041	244,448	206,800
Income (loss) from operations	(46,423)	38,641	(80,950)	72,277
Other income (expense):				
Derivative gain (loss)	(5,478)	(27,307)	13,378	(36,085)
Interest expense	(14,468)	(9,434)	(28,706)	(18,769)
Other income	198	167	148	216
Total other expense	(19,748)	(36,574)	(15,180)	(54,638)
Income (loss) from continuing operations before taxes	(66,171)	2,067	(96,130)	17,639
Income tax benefit (expense)	25,007	(796)	36,544	(6,791)
Income (loss) from continuing operations	\$ (41,164)	\$ 1,271	(59,586)	\$ 10,848
Discontinued operations (note 3):				
Loss from operations associated with oil and gas properties held for sale	—	—	—	(85)
Gain (loss) on sale of oil and gas properties	—	(184)	—	6,330
Income tax benefit (expense)	—	71	—	(2,404)
Gain (loss) from discontinued operations	—	(113)	—	3,841
Net income (loss)	\$ (41,164)	\$ 1,158	\$ (59,586)	\$ 14,689
Comprehensive income (loss)	\$ (41,164)	\$ 1,158	\$ (59,586)	\$ 14,689
Basic and diluted income (loss) per share:				
Income (loss) from continuing operations	\$ (0.83)	\$ 0.03	\$ (1.25)	\$ 0.27
Income from discontinued operations	\$ —	\$ —	\$ —	\$ 0.09
Net income (loss) per common share	\$ (0.83)	\$ 0.03	\$ (1.25)	\$ 0.36
Basic weighted-average common shares outstanding	48,923,335	39,758,489	46,733,682	39,655,968
	48,923,335	39,857,028	46,733,682	39,780,195

Diluted weighted-average common shares
outstanding

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)

	Six Months Ended June 30,	
	2015	2014
	(in thousands)	
Cash flows from operating activities:		
Net income (loss)	\$ (59,586)	\$ 14,689
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation, depletion and amortization	128,929	95,316
Deferred income taxes	(36,544)	9,095
Abandonment and impairment of unproved properties	19,996	—
Dry hole expense	5,680	—
Stock-based compensation	7,787	14,150
Amortization of deferred financing costs and debt premium	1,226	542
Accretion of contractual obligation for land acquisition	698	381
Derivative (gain) loss	(13,378)	36,085
Gain on sale of oil and gas properties	—	(6,330)
Other	(43)	(14)
Changes in current assets and liabilities:		
Accounts receivable	18,319	(32,385)
Prepaid expenses and other assets	(1,348)	(2,575)
Accounts payable and accrued liabilities	(23,054)	29,114
Settlement of asset retirement obligations	(519)	(99)
Net cash provided by operating activities	48,163	157,969
Cash flows from investing activities:		
Acquisition of oil and gas properties	(11,914)	(3,091)
Proceeds from sale of oil and gas properties	—	6,000
Exploration and development of oil and gas properties	(282,993)	(275,890)
Natural gas plant capital expenditures	(113)	(271)
Derivative cash settlements	50,655	(8,142)
(Increase) decrease in restricted cash	—	(11,280)
Additions to property and equipment - non oil and gas	(649)	(3,989)
Net cash used in investing activities	(245,014)	(296,663)
Cash flows from financing activities:		
Proceeds from credit facility	87,000	—
Payments to credit facility	(77,000)	—
Proceeds from sale of common stock	209,300	—
Offering costs related to sale of common stock	(6,607)	—
Offering costs related to sale of Senior Notes	(93)	(277)
Payment of employee tax withholdings in exchange for the return of common stock	(2,448)	(4,766)
Deferred financing costs	(545)	(290)
Net cash provided by (used in) financing activities	209,607	(5,333)
Net change in cash and cash equivalents	12,756	(144,027)

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Cash and cash equivalents:		
Beginning of period	2,584	180,582
End of period	\$ 15,340	\$ 36,555
Supplemental cash flow disclosure:		
Cash paid for interest	\$ 27,396	\$ 17,857
Cash paid for income taxes	\$ 820	\$ 100
Changes in working capital related to drilling expenditures, natural gas plant expenditures, and property acquisition	\$ (12,935)	\$ 10,920

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 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 June 30, 2015 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

In March 2015, the Financial Accounting Standards Board 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 is currently evaluating the provisions of this guidance and assessing its impact, but does not currently believe it will have a material effect on the Company's financial statements or 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 and related infrastructure that service the Wattenberg Field. In May 2015, Bonanza Creek Energy

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Operating Company, LLC transferred approximately \$46.5 million of gathering system assets to Rocky Mountain Infrastructure, LLC.

NOTE 3 - DISCONTINUED OPERATIONS

During June 2012, the Company began marketing, with intent to sell, all of its oil and gas properties in California classifying them as 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. The Company determined that its intent to sell all of its assets in a region qualified as discontinued operations. The Company sold its remaining property in this region during the first quarter of 2014 for approximately \$6.0 million and recorded a gain on sale of oil and gas properties in the amount of \$6.3 million as of June 30, 2014.

The total revenues, expenses, and income associated with the operation of the oil and gas properties held for sale are presented below.

	Three Months Ended June 30, 2015		Six Months Ended June 30, 2014	
	2015	2014	2015	2014
	(in thousands)			
Net revenues:				
Oil and gas sales	\$ —	\$ —	\$ —	\$ 361
Operating expenses:				
Lease operating expense	—	—	—	366
Severance and ad valorem taxes	—	—	—	12
Depreciation, depletion and amortization	—	—	—	68
Total operating expenses	—	—	—	446
Loss from operations associated with oil and gas properties held for sale	\$ —	\$ —	\$ —	\$ (85)

NOTE 4 - ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Accounts payable and accrued expenses contain the following:

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	As of June 30, 2015	As of December 31, 2014
	(in thousands)	
Drilling and completion costs	\$ 69,909	\$ 82,844
Accounts payable trade	5,812	5,493
Accrued general and administrative cost	10,281	13,541
Lease operating expense	3,432	3,569
Accrued reclamation cost	162	162
Accrued interest	14,225	14,839
Production and ad valorem taxes and other	17,037	25,340
Total accounts payable and accrued expenses		