

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**

**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

**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  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

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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

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

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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.

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

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**Sanchez Energy Corporation**  
**Condensed Consolidated Balance Sheets (Unaudited)**  
(in thousands, except share amounts)

	June 30, 2014	December 31, 2013
<b>ASSETS</b>		
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
<b>Total current assets</b>	<b>482,225</b>	<b>219,562</b>
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
<b>Total oil and natural gas properties</b>	<b>2,451,372</b>	<b>1,542,531</b>
Less: Accumulated depreciation, depletion, amortization and impairment	(288,258)	(157,043)
<b>Total oil and natural gas properties, net</b>	<b>2,163,114</b>	<b>1,385,488</b>
Other assets:		
Debt issuance costs, net	45,157	19,806
Fair value of derivative instruments	108	1,304
Other assets	13,450	2,993
<b>Total assets</b>	<b>\$ 2,704,054</b>	<b>\$ 1,629,153</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
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

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Deferred premium liability	3,143	717
Fair value of derivative instruments	27,148	4,623
<b>Total current liabilities</b>	<b>174,301</b>	<b>158,619</b>
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
<b>Total liabilities</b>	<b>1,670,301</b>	<b>771,844</b>
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)
<b>Total stockholders' equity</b>	<b>1,033,753</b>	<b>857,309</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$ 2,704,054</b>	<b>\$ 1,629,153</b>

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



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	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
<b>REVENUES:</b>				
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
<b>Total revenues</b>	<b>151,661</b>	<b>59,085</b>	<b>286,223</b>	<b>90,121</b>
<b>OPERATING COSTS AND EXPENSES:</b>				
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
<b>Total operating costs and expenses</b>	<b>121,205</b>	<b>47,429</b>	<b>228,080</b>	<b>73,848</b>
<b>Operating income</b>	<b>30,456</b>	<b>11,656</b>	<b>58,143</b>	<b>16,273</b>
<b>Other income (expense):</b>				
Interest and other income				