SM Energy Co
Form 10-Q
November 03, 2017

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q

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

For the quarterly period ended September 30, 2017

OR

o 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 001-31539

SM ENERGY COMPANY
(Exact name of registrant as specified in its charter)

Delaware	41-0518430
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
1775 Sherman Street, Suite 1200, Denver, Colorado	80203
(Address of principal executive offices)	(Zip Code)

(303) 861-8140
(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 þ 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 þ No o

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

Large accelerated filer þ	Accelerated filer o
Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o
	Emerging growth company o

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. 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 þ

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

As of October 26, 2017, the registrant had 111,624,029 shares of common stock, $0.01 par value, outstanding.

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PART I. FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS
SM ENERGY COMPANY AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)
(in thousands, except share amounts)

	September 30, 2017	December 31, 2016
ASSETS		
Current assets:		
Cash and cash equivalents	$ 441,415	$ 9,372
Accounts receivable	146,056	151,950
Derivative asset	63,685	54,521
Prepaid expenses and other	17,756	8,799
Total current assets	668,912	224,642
Property and equipment (successful efforts method):		
Proved oil and gas properties	5,938,351	5,700,418
Less - accumulated depletion, depreciation, and amortization	(3,243,072)	(2,836,532)
Unproved oil and gas properties	2,321,508	2,471,947
Wells in progress	287,106	235,147
Oil and gas properties held for sale, net	7,144	372,621
Other property and equipment, net of accumulated depreciation of $50,468 and $42,882, respectively	106,046	137,753
Total property and equipment, net	5,417,083	6,081,354
Noncurrent assets:		
Derivative asset	60,035	67,575
Other noncurrent assets	32,896	19,940
Total other noncurrent assets	92,931	87,515
Total Assets	$ 6,178,926	$ 6,393,511
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued expenses	$ 348,885	$ 299,708
Derivative liability	87,791	115,464
Total current liabilities	436,676	415,172
Noncurrent liabilities:		
Revolving credit facility	—	—
Senior Notes, net of unamortized deferred financing costs	2,768,346	2,766,719
Senior Convertible Notes, net of unamortized discount and deferred financing costs	137,012	130,856
Asset retirement obligation	100,958	96,134
Asset retirement obligation associated with oil and gas properties held for sale	—	26,241
Deferred income taxes	208,720	315,672
Derivative liability	67,676	98,340
Other noncurrent liabilities	47,497	47,244
Total noncurrent liabilities	3,330,209	3,481,206
Commitments and contingencies (note 6)		

Stockholders’ equity:		
Common stock, $0.01 par value - authorized: 200,000,000 shares; issued and outstanding: 111,624,029 and 111,257,500 shares, respectively	1,116	1,113
Additional paid-in capital	1,734,217	1,716,556
Retained earnings	691,915	794,020
Accumulated other comprehensive loss	(15,207)	(14,556)
Total stockholders’ equity	2,412,041	2,497,133
Total Liabilities and Stockholders’ Equity	$ 6,178,926	$ 6,393,511

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

SM ENERGY COMPANY AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)
(in thousands, except per share amounts)

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2017	2016	2017	2016
Operating revenues and other income:				
Oil, gas, and NGL production revenue	$294,459	$329,165	$912,596	$832,130
Net gain (loss) on divestiture activity	(1,895)	22,388	(131,565)	3,413
Other operating revenues	2,815	1,107	7,807	2,007
Total operating revenues and other income	295,379	352,660	788,838	837,550
Operating expenses:				
Oil, gas, and NGL production expense	122,651	152,524	385,073	445,658
Depletion, depreciation, amortization, and asset retirement obligation liability accretion	134,599	193,966	425,643	619,193
Exploration	14,243	13,482	39,293	41,942
Impairment of proved properties	—	8,049	3,806	277,834
Abandonment and impairment of unproved properties	—	3,568	157	5,917
General and administrative	27,880	32,679	85,564	93,117
Net derivative (gain) loss	80,599	(28,037)	(89,364)	121,086
Other operating expenses, net	999	(5,917)	6,303	7,731
Total operating expenses	380,971	370,314	856,475	1,612,478
Loss from operations	(85,592)	(17,654)	(67,637)	(774,928)
Non-operating income (expense):				
Interest expense	(44,091)	(47,206)	(135,639)	(112,329)
Gain (loss) on extinguishment of debt	—	—	(35)	15,722
Other, net	1,301	221	2,901	232
Loss before income taxes	(128,382)	(64,639)	(200,410)	(871,303)
Income tax benefit	39,270	23,732	65,825	314,505
Net loss	$(89,112)	$(40,907)	$(134,585)	$(556,798)
Basic weighted-average common shares outstanding	111,575	78,468	111,366	71,574
Diluted weighted-average common shares outstanding	111,575	78,468	111,366	71,574
Basic net loss per common share	$(0.80)	$(0.52)	$(1.21)	$(7.78)
Diluted net loss per common share	$(0.80)	$(0.52)	$(1.21)	$(7.78)
Dividends per common share	$0.05	$0.05	$0.10	$0.10

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

SM ENERGY COMPANY AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS) (UNAUDITED)
(in thousands)

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2017	2016	2017	2016
Net loss	$(89,112)	$(40,907)	$(134,585)	$(556,798)
Other comprehensive loss, net of tax:				
Pension liability adjustment	(208)	(255)	(651)	(760)
Total other comprehensive loss, net of tax	(208)	(255)	(651)	(760)
Total comprehensive loss	$(89,320)	$(41,162)	$(135,236)	$(557,558)

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

SM ENERGY COMPANY AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY (UNAUDITED)
(in thousands, except share amounts)

	Common Stock		Additional Paid-in	Retained	Accumulated Other Comprehensive	Total Stockholders'
	Shares	Amount	Capital	Earnings	Loss	Equity
Balances, December 31, 2016	111,257,500	$ 1,113	$ 1,716,556	$ 794,020	$ (14,556)	$ 2,497,133
Net loss	—	—	—	(134,585)	—	(134,585)
Other comprehensive loss	—	—	—	—	(651)	(651)
Dividends, $0.10 per share	—	—	—	(11,144)	—	(11,144)
Issuance of common stock under Employee Stock Purchase Plan	123,678	1	1,737	—	—	1,738
Issuance of common stock upon vesting of restricted stock units, net of shares used for tax withholdings	171,278	1	(1,241)	—	—	(1,240)
Stock-based compensation expense	71,573	1	16,159	—	—	16,160
Cumulative effect of accounting change [(1)]	—	—	1,108	43,624	—	44,732
Other	—	—	(102)	—	—	(102)
Balances, September 30, 2017	111,624,029	$ 1,116	$ 1,734,217	$ 691,915	$ (15,207)	$ 2,412,041

(1) Refer to Note 2 - Basis of Presentation, Significant Accounting Policies, and Recently Issued Accounting Standards.

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

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SM ENERGY COMPANY AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)
(in thousands)

	For the Nine Months Ended September 30, 2017	2016
Cash flows from operating activities:		
Net loss	$(134,585)	$(556,798)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Net (gain) loss on divestiture activity	131,565	(3,413)
Depletion, depreciation, amortization, and asset retirement obligation liability accretion	425,643	619,193
Impairment of proved properties	3,806	277,834
Abandonment and impairment of unproved properties	157	5,917
Stock-based compensation expense	16,160	20,485
Net derivative (gain) loss	(89,364)	121,086
Derivative settlement gain	29,402	306,234
Amortization of debt discount and deferred financing costs	12,478	5,687
Non-cash (gain) loss on extinguishment of debt, net	22	(15,722)
Deferred income taxes	(67,458)	(314,770)
Plugging and abandonment	(2,095)	(5,222)
Other, net	4,713	(8,857)
Changes in current assets and liabilities:		
Accounts receivable	21,502	1,221
Prepaid expenses and other	(8,955)	7,652
Accounts payable and accrued expenses	21,560	(65,166)
Accrued derivative settlements	6,046	19,651
Net cash provided by operating activities	370,597	415,012
Cash flows from investing activities:		
Net proceeds from the sale of oil and gas properties	778,365	201,829
Capital expenditures	(624,969)	(492,794)
Acquisition of proved and unproved oil and gas properties	(87,389)	(21,853)
Acquisition deposit held in escrow	3,000	(49,000)
Net cash provided by (used in) investing activities	69,007	(361,818)
Cash flows from financing activities:		
Proceeds from credit facility	406,000	743,000
Repayment of credit facility	(406,000)	(945,000)
Debt issuance costs related to credit facility	—	(3,132)
Net proceeds from Senior Notes	—	492,397
Cash paid to repurchase Senior Notes	(2,344)	(29,904)
Net proceeds from Senior Convertible Notes	—	166,681
Cash paid for capped call transactions	—	(24,109)
Net proceeds from sale of common stock	1,738	533,266
Dividends paid	(5,563)	(3,404)
Other, net	(1,392)	(2,341)
Net cash provided by (used in) financing activities	(7,561)	927,454

Net change in cash and cash equivalents	432,043	980,648
Cash and cash equivalents at beginning of period	9,372	18
Cash and cash equivalents at end of period	$441,415	$980,666

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

SM ENERGY COMPANY AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED) (Continued)
(in thousands)

Supplemental schedule of additional cash flow information and non-cash activities:

	For the Nine Months Ended September 30,	
	2017	2016
Supplemental Cash Flow Information:		
Operating Activities:		
Cash paid for interest, net of capitalized interest [1]	$(124,443)	$(88,109)
Net cash (paid) refunded for income taxes	$(2,800)	$4,481
Investing Activities:		
Changes in capital expenditure accruals and other	$2,788	$(1,287)
Supplemental Non-Cash Investing Activities:		
Value of properties exchanged	$283,651	$733
Supplemental Non-Cash Financing Activities:		
Dividends declared, but not paid	$5,581	$4,343

(1) Cash paid for interest, net of capitalized interest for the nine months ended September 30, 2016, does not include the $10.0 million paid to terminate a second lien facility that was no longer necessary to fund acquisition activity.

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

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SM ENERGY COMPANY AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

Note 1 - The Company and Business

SM Energy Company, together with its consolidated subsidiaries ("SM Energy" or the "Company"), is an independent energy company engaged in the acquisition, exploration, development, and production of crude oil and condensate, natural gas, and natural gas liquids (also respectively referred to as "oil," "gas," and "NGLs" throughout this report) in onshore North America.

Note 2 - Basis of Presentation, Significant Accounting Policies, and Recently Issued Accounting Standards

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements include the accounts of SM Energy and its wholly-owned subsidiaries and have been prepared in accordance with accounting principles generally accepted in the United States ("GAAP") for interim financial information, the instructions to Quarterly Report on Form 10-Q, and Regulation S-X. These financial statements do not include all information and notes required by GAAP for annual financial statements. However, except as disclosed herein, there has been no material change in the information disclosed in the notes to consolidated financial statements included in SM Energy's Annual Report on Form 10-K for the year ended December 31, 2016 (the "2016 Form 10-K"). In the opinion of management, all adjustments, consisting of normal recurring adjustments considered necessary for a fair presentation of interim financial information, have been included. Operating results for the periods presented are not necessarily indicative of expected results for the full year. In connection with the preparation of the Company's unaudited condensed consolidated financial statements, the Company evaluated events subsequent to the balance sheet date of September 30, 2017, and through the filing of this report. Certain prior period amounts have been reclassified to conform to the current presentation on the accompanying condensed consolidated financial statements.

Significant Accounting Policies

The significant accounting policies followed by the Company are set forth in Note 1 - Summary of Significant Accounting Policies to the Company's consolidated financial statements in its 2016 Form 10-K, and are supplemented by the notes to the unaudited condensed consolidated financial statements included in this report. These unaudited condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes included in the 2016 Form 10-K.

Recently Issued Accounting Standards

Effective January 1, 2017, the Company adopted, using various transition methods, Financial Accounting Standards Board ("FASB") Accounting Standards Update ("ASU") No. 2016-09, Compensation-Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting ("ASU 2016-09"). ASU 2016-09 is meant to simplify certain aspects of accounting for share-based arrangements, including income tax effects, accounting for forfeitures, and net share settlements. The Company adopted the various applicable amendments, which are summarized as follows:

- On January 1, 2017, a $44.3 million cumulative-effect adjustment was made to retained earnings and a corresponding deferred tax asset was recorded for previously unrecognized excess tax benefits using a modified retrospective transition method. Additionally, going forward excess tax benefits will be presented in operating activities on the condensed consolidated statement of cash flows.
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- Also on January 1, 2017, the Company elected to change its policy to account for forfeitures of share-based payment awards as they occur, rather than applying an estimated forfeiture rate. This change was made using a modified retrospective transition method and resulted in an increase in additional paid-in capital of $1.1 million, a decrease in deferred tax assets of $0.4 million, and a net $0.7 million cumulative effect adjustment decrease to retained earnings. Under this new guidance, excess tax benefits and deficiencies from share-based payments impact the Company's effective tax rate between periods. Please refer to Note 4 - Income Taxes for additional discussion.

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606) ("ASU 2014-09"). Under the new standard, revenue is recognized when a customer obtains control of promised goods or services in an amount that reflects the consideration the entity expects to receive in exchange for those goods or services. In addition, the standard requires disclosure of the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. The FASB issued several amendments to the standard which provided additional implementation guidance and deferred the effective date of ASU

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2014-09. Based upon work performed as of September 30, 2017, and through the filing of this report, the Company does not currently anticipate a material impact to net income (loss) or cash flows. Further, the Company completed its initial assessment of certain pipeline gathering, transportation and gas processing agreements, and does not anticipate changes in how total revenues or total expenses will be recognized given where control transfers for these agreements. In addition, the Company is in the process of implementing appropriate changes to its business processes, systems, and controls to support the recognition and disclosure requirements of ASU 2014-09. The Company plans to adopt the guidance using the modified retrospective method on the effective date of January 1, 2018.

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842) ("ASU 2016-02"), which requires lessees to recognize a right-of-use asset and a lease liability for virtually all leases currently classified as operating leases. The Company is currently analyzing the impact this standard will have on the Company's contract portfolio, including non-cancelable leases, drilling rig contracts, pipeline gathering, transportation and gas processing agreements, and other existing arrangements. Further, the Company is evaluating current accounting policies, applicable systems, controls, and processes to support the potential recognition and disclosure changes resulting from ASU 2016-02. Based upon an initial assessment, adoption of ASU 2016-02 is expected to result in an increase in assets and liabilities recorded. The Company plans to adopt the guidance on the effective date of January 1, 2019.

In March 2017, the FASB issued ASU No. 2017-07, Compensation-Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost ("ASU 2017-07"). ASU 2017-07 requires presentation of service cost in the same line item(s) as other compensation costs arising from services rendered by employees during the period and presentation of the remaining components of net benefit cost in a separate line item, outside operating items. In addition, only the service cost component of net benefit cost is eligible for capitalization. The Company plans to adopt ASU 2017-07 on the effective date of January 1, 2018, with retrospective application of the service cost component and the other components of net benefit cost in the consolidated statements of operations and prospective application for the capitalization of the service cost component of net benefit costs in assets. While ASU 2017-07 will result in the Company reclassifying certain amounts from operating expenses to non-operating expenses upon adoption, the Company does not currently anticipate ASU 2017-07 will result in a material impact to the Company's consolidated financial statements or disclosures.

Other than as disclosed above or in the 2016 Form 10-K, there are no other ASUs applicable to the Company that would have a material effect on the Company's financial statements and related disclosures that have been issued but not yet adopted by the Company as of September 30, 2017, and through the filing of this report.

Note 3 - Divestitures, Assets Held for Sale, and Acquisitions
Divestitures

On March 10, 2017, the Company divested its outside-operated Eagle Ford shale assets, including its ownership interest in related midstream assets, for total cash received at closing, net of costs (referred to throughout this report as "net divestiture proceeds"), of $747.4 million. The Company finalized this divestiture subsequent to September 30, 2017, and recorded a final net gain of $396.8 million for the nine months ended September 30, 2017. These assets were classified as held for sale as of December 31, 2016.

The following table presents income (loss) before income taxes from the outside-operated Eagle Ford shale assets sold for the three and nine months ended September 30, 2017, and 2016. This divestiture is considered a disposal of a significant asset group.

	For the Three Months Ended September	For the Nine Months Ended September 30,

	30,			
	2017	2016	2017	2016
	(in thousands)			
Income (loss) before income taxes [1]	$ —	$ 22,116	$ 24,324	$ (251,451)

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(1) Income (loss) before income taxes reflects oil, gas, and NGL production revenue, less oil, gas, and NGL production expense, and depletion, depreciation, amortization, and asset retirement obligation liability accretion. Additionally, income (loss) before income taxes included impairment of proved properties expense of approximately $269.6 million for the nine months ended September 30, 2016.

During the first nine months of 2017, the Company divested certain non-core properties in its Rocky Mountain and Permian regions for net divestiture proceeds of $31.0 million.

During the third quarter of 2016, the Company divested certain non-core properties in its Rocky Mountain and Permian regions for net divestiture proceeds of $165.2 million. As of September 30, 2016, $23.6 million of accrued costs and payments to Net Profits Plan participants related to divestitures were included in accounts payable and accrued expenses in the Company's condensed consolidated balance sheets. The Company recorded a $22.4 million net gain on divestiture activity for the three months ended September 30, 2016, which was a result of closing divestitures in the Company's Rocky Mountain and Permian regions during the third quarter of 2016. Certain of these sold assets were written down in the first quarter of 2016 and subsequently written up in the second quarter of 2016 based on changes in the estimated fair value less selling costs, resulting in a net gain of $6.3 million recorded for the nine months ended September 30, 2016.

Assets Held for Sale

Assets are classified as held for sale when the Company commits to a plan to sell the assets and it is probable the sale will take place within one year. Upon classification as held for sale, long-lived assets are no longer depreciated or depleted, and a measurement for impairment is performed to identify and expense any excess of carrying value over fair value less estimated costs to sell. When assets no longer meet the criteria of assets held for sale, they are measured at the lower of the carrying value of the assets before being classified as held for sale, adjusted for any depletion, depreciation, and amortization expense that would have been recognized, or the fair value at the date they are reclassified to assets held for use. Any gain or loss recognized on assets held for sale or on assets held for sale that are subsequently reclassified to assets held for use is reflected in the net gain (loss) on divestiture activity line item in the accompanying condensed consolidated statements of operations ("accompanying statements of operations"). As of September 30, 2017, there were $7.1 million of assets held for sale presented in the accompanying condensed consolidated balance sheets ("accompanying balance sheets").

During the nine months ended September 30, 2017, the Company recorded a $526.5 million write-down on its retained Divide County, North Dakota, assets previously held for sale, of which $359.6 million was recorded in the first quarter of 2017 based on an estimated fair value less selling costs and an additional $166.9 million write-down was recorded in the second quarter of 2017 based on market conditions that existed on the date the Company decided to retain the assets.

Acquisitions

During the first nine months of 2017, the Company acquired approximately 3,400 net acres of primarily unproved properties in Howard and Martin Counties, Texas, in multiple transactions for a total of $72.2 million of cash consideration. Under authoritative accounting guidance, these transactions were considered asset acquisitions and the properties were recorded based on the fair value of the total consideration transferred on the acquisition date and transaction costs were capitalized as a component of the cost of the assets acquired.

The Company finalized the 2016 acquisition of Midland Basin properties from Rock Oil Holdings, LLC (referred to as the "Rock Oil Acquisition") during the first quarter of 2017 by paying an additional $7.4 million of cash consideration, resulting in total consideration of approximately $1.0 billion paid after final closing adjustments. The Company finalized the 2016 acquisition of Midland Basin properties from QStar LLC and RRP-QStar, LLC (referred to as the "QStar Acquisition") during the third quarter of 2017 by paying an additional $7.3 million of cash consideration, with the majority of this payment being made in the first quarter of 2017, resulting in total consideration of approximately $1.6 billion paid after final closing adjustments. The Company funded these acquisitions with proceeds from divestitures, the Senior Convertible Notes issuance, the issuance of 6.75% Senior Notes due 2026 ("2026 Notes"), and equity offerings in 2016. Please refer to Note 5 - Long-Term Debt and Note 15 - Equity in the Company's 2016 Form 10-K for more information on the funding for these acquisitions. There were no material changes to the initial recorded basis of these proved and unproved properties acquired as a result of the final settlements.

Also, during the first nine months of 2017, the Company completed several non-monetary acreage trades of primarily unproved properties, in Howard and Martin Counties, Texas, resulting in the Company acquiring approximately 7,425 net acres in exchange for approximately 6,725 net acres with $283.7 million of value attributed to the properties assigned by the Company in such trades. These trades were recorded at carryover basis with no gain or loss recognized.

Note 4 - Income Taxes

The income tax benefit recorded for the three and nine months ended September 30, 2017, and 2016, differs from the amounts that would be provided by applying the statutory United States federal income tax rate to income or loss before income taxes primarily due to the effect of excess tax benefits and deficiencies from share-based payment awards, state income taxes, changes in valuation allowances, and accumulated impacts of other smaller permanent differences. The quarterly rate can also be affected by the proportional impacts of forecasted net income or loss as of each period end presented.

The provision for income taxes for the three and nine months ended September 30, 2017, and 2016, consisted of the following:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2017	2016	2017	2016
	(in thousands)			
Current portion of income tax benefit (expense):				
Federal	$2,832	$—	$—	$—
State	(230)	(24)	(1,633)	(265)
Deferred portion of income tax benefit	36,668	23,756	67,458	314,770
Income tax benefit	$39,270	$23,732	$65,825	$314,505
Effective tax rate	30.6 %	36.7 %	32.8 %	36.1 %

On a year-to-date basis, a change in the Company's effective tax rate between reporting periods will generally reflect differences in its estimated highest marginal state tax rate due to changes in the composition of income or loss from Company activities among multiple state tax jurisdictions. Cumulative effects of state tax rate changes are reflected in the period legislation is enacted. As a result of adopting ASU 2016-09 on January 1, 2017, excess tax benefits and deficiencies from share-based payment awards impact the Company's effective tax rate between periods. As discussed in Note 7 - Compensation Plans, the Company settled various grants in the third quarter of 2017. As a result of these share-based award settlements, the Company recorded an $8.2 million excess tax deficiency in the third quarter of 2017 reducing the tax benefit and the tax benefit rate.

At the end of the third quarter 2017, the Company reevaluated various factors affecting deferred tax assets related to net operating losses and tax credits, and determined utilization would be appropriate. The change in the current portion of income tax benefit (expense) between periods reflects the effect of this determination. The Company is generally no longer subject to United States federal or state income tax examinations by tax authorities for years before 2013. Its 2003 to 2005 tax years have been reopened for net operating loss carryback claims and are currently under examination by the Internal Revenue Service (the "IRS"). During the quarter ended September 30, 2017, the Company received a $5.5 million refund in advance of the IRS completing its examination of the Company's claims.

Note 5 - Long-Term Debt

Credit Agreement

The Company's Fifth Amended and Restated Credit Agreement, as amended (the "Credit Agreement"), provides for a maximum loan amount of $2.5 billion and has a maturity date of December 10, 2019. On March 31, 2017, the Company entered into a Ninth Amendment to the Credit Agreement (the "Ninth Amendment") with its lenders. Pursuant to the Ninth Amendment, and as part of the regular, semi-annual borrowing base redetermination process, the borrowing base and aggregate lender commitments were reduced to $925 million primarily due to the sale of the Company's outside-operated Eagle Ford shale assets and the decrease in the value of the Company's proved reserves at

December 31, 2016. The borrowing base redetermination process considers the value of both the Company’s (a) proved oil and gas properties reflected in the Company’s most recent reserve report and (b) commodity derivative contracts, each as determined by the Company’s lender group. As of the filing of this report, the second semi-annual redetermination for 2017 was in progress and is expected to be completed prior to year-end.

The Company must comply with certain financial and non-financial covenants under the terms of the Credit Agreement and was in compliance with all such covenants as of September 30, 2017, and through the filing of this report.

Interest and commitment fees are accrued based on a borrowing base utilization grid set forth in the Credit Agreement and presented in Note 5 - Long-Term Debt to the Company’s consolidated financial statements in its 2016 Form 10-K. Eurodollar loans accrue interest at the London Interbank Offered Rate, plus the applicable margin from the utilization table, and Alternate Base Rate and swingline loans accrue interest at the prime rate, plus the applicable margin from the utilization table. Commitment fees are accrued on the unused portion of the aggregate lender commitment amount and are included in interest expense in the accompanying statements of operations.

The following table presents the outstanding balance, total amount of letters of credit outstanding, and available borrowing capacity under the Credit Agreement as of October 26, 2017, September 30, 2017, and December 31, 2016:

	As of October 26, 2017	As of September 30, 2017	As of December 31, 2016
	(in thousands)		
Credit facility balance [1]	$—	$ —	$—
Letters of credit [2]	200	200	200
Available borrowing capacity	924,800	924,800	1,164,800
Total aggregate lender commitment amount	$925,000	$ 925,000	$ 1,165,000

(1) Unamortized deferred financing costs attributable to the credit facility are presented as a component of other noncurrent assets on the accompanying balance sheets and totaled $3.5 million and $5.9 million as of September 30, 2017, and December 31, 2016, respectively.

(2) Letters of credit outstanding reduce the amount available under the credit facility on a dollar-for-dollar basis.

Senior Notes

The Company's Senior Notes consist of 6.50% Senior Notes due 2021, 6.125% Senior Notes due 2022, 6.50% Senior Notes due 2023, 5.0% Senior Notes due 2024, 5.625% Senior Notes due 2025, and 6.75% Senior Notes due 2026 (collectively referred to as "Senior Notes"). The Senior Notes, net of unamortized deferred financing costs line on the accompanying balance sheets as of September 30, 2017, and December 31, 2016, consisted of the following:

	As of September 30, 2017			As of December 31, 2016		
	Principal Amount	Unamortized Deferred Financing Costs	Senior Notes, Net of Unamortized Deferred Financing Costs	Principal Amount	Unamortized Deferred Financing Costs	Senior Notes, Net of Unamortized Deferred Financing Costs
	(in thousands)					
6.50% Senior Notes due 2021 [1] [2]	$344,611	$ 2,830	$ 341,781	$346,955	$ 3,372	$ 343,583
6.125% Senior Notes due 2022 [2]	561,796	6,095	555,701	561,796	6,979	554,817
6.50% Senior Notes due 2023 [2]	394,985	3,889	391,096	394,985	4,436	390,549
5.0% Senior Notes due 2024	500,000	5,841	494,159	500,000	6,533	493,467
5.625% Senior Notes due 2025	500,000	6,940	493,060	500,000	7,619	492,381
6.75% Senior Notes due 2026 [3]	500,000	7,451	492,549	500,000	8,078	491,922
Total	$2,801,392	$ 33,046	$ 2,768,346	$2,803,736	$ 37,017	$ 2,766,719

(1) During the first quarter of 2017, the Company repurchased a total of $2.3 million in aggregate principal amount of 6.50% Senior Notes due 2021 in open market transactions at a slight premium. The Company canceled all of these repurchased Senior Notes upon cash settlement.

(2) During the first quarter of 2016, the Company repurchased a total of $46.3 million in aggregate principal amount of certain of its Senior Notes in open market transactions for a settlement amount of $29.9 million, excluding interest. The Company recorded a net gain on extinguishment of debt of approximately $15.7 million for the nine months ended September 30, 2016. This amount includes a gain of approximately $16.4 million associated with the discount realized upon repurchase, which was partially offset by approximately $0.7 million related to the acceleration of unamortized deferred financing costs. The Company canceled all of these repurchased Senior Notes upon cash settlement.

(3) On September 12, 2016, the Company issued 6.75% Senior Notes due September 15, 2026. The Company received net proceeds of $491.6 million after deducting paid and accrued fees. The net proceeds were used to partially fund the Rock Oil Acquisition that closed on October 4, 2016.

The Senior Notes are unsecured senior obligations and rank equal in right of payment with all of the Company's existing and any future unsecured senior debt, and are senior in right of payment to any future subordinated debt. There are no subsidiary guarantors of the Senior Notes. The Company is subject to certain covenants under the indentures governing the Senior Notes and was in compliance with all such covenants as of September 30, 2017, and through the filing of this report. The Company may redeem some or all of its Senior Notes prior to their maturity at redemption prices based on a premium, plus accrued and unpaid interest as described in the indentures governing the Senior Notes.

Senior Convertible Notes

On August 12, 2016, the Company issued $172.5 million in aggregate principal amount of 1.50% Senior Convertible Notes due July 1, 2021 (the "Senior Convertible Notes"). The Senior Convertible Notes are unsecured senior obligations and rank equal in right of payment with all of the Company's existing and any future unsecured senior debt, and are senior in right of payment to any future subordinated debt.

The Senior Convertible Notes mature on July 1, 2021, unless earlier converted. Holders may convert their Senior Convertible Notes at their option at any time prior to January 1, 2021, only under certain circumstances as outlined in the indenture governing the Senior Convertible Notes and in Note 5 – Long-Term Debt to the Company's consolidated financial statements in its 2016 Form 10-K. On or after January 1, 2021, until the maturity date, holders may convert their Senior Convertible Notes at any time. The Company may not redeem the Senior Convertible Notes prior to the maturity date. Upon conversion, the Senior Convertible Notes may be settled, at the Company's election, in shares of the Company's common stock, cash, or a combination of cash and common stock. Holders may convert their notes based on a conversion rate of 24.6914 shares of the Company's common stock per $1,000 principal amount of the Senior Convertible Notes, which is equal to an initial conversion price of approximately $40.50 per share, subject to adjustment.

The Company has initially elected a net-settlement method to satisfy its conversion obligation, which would result in the Company settling the principal amount in cash with any excess value in shares of the Company's common stock. The Senior Convertible Notes were not convertible at the option of holders as of September 30, 2017, or through the filing of this report. Notwithstanding the inability to convert, the if-converted value of the Senior Convertible Notes as of September 30, 2017, did not exceed the principal amount.

Upon the issuance of the Senior Convertible Notes, the Company recorded $132.3 million as the initial carrying amount of the debt component, which approximated its fair value at issuance, and was estimated by using an interest rate for nonconvertible debt with terms similar to the Senior Convertible Notes. The effective interest rate used was 7.25%. The $40.2 million excess of the principal amount of the Senior Convertible Notes over the fair value of the debt component was recorded as a debt discount and a corresponding increase in additional paid-in capital. The debt discount and debt-related issuance costs are amortized to the principal value of the Senior Convertible Notes as interest expense through the maturity date of July 1, 2021. Interest expense recognized on the Senior Convertible Notes related to the stated interest rate and amortization of the debt discount totaled $2.5 million and $7.4 million for the three and nine months ended September 30, 2017, respectively.

The net carrying amount of the liability component of the Senior Convertible Notes, as reflected on the accompanying balance sheets as of September 30, 2017, and December 31, 2016, consisted of the following:

	As of September 30, 2017	As of December 31, 2016
	(in thousands)	
Principal amount of Senior Convertible Notes	$ 172,500	$ 172,500
Unamortized debt discount	(32,048)	(37,513)

Unamortized deferred financing costs	(3,440)	(4,131)
Net carrying amount	$137,012	$130,856

The Company is subject to certain covenants under the indenture governing the Senior Convertible Notes and was in compliance with all such covenants as of September 30, 2017, and through the filing of this report.

Capped Call Transactions

In connection with the issuance of the Senior Convertible Notes, the Company entered into capped call transactions with affiliates of the underwriters of such issuance. The capped call transactions are generally expected to reduce the potential dilution upon conversion of the Senior Convertible Notes and/or partially offset any cash payments the Company is required to make in excess of the principal amount of converted Senior Convertible Notes in the event that the market price per share of the Company's common stock is greater than the strike price of the capped call transactions, which initially corresponds to the approximate $40.50 per share conversion price of the Senior Convertible Notes. The cap price of the capped call transactions is initially $60.00 per share. If the market price per share exceeds the cap price of the capped call transactions, there could be dilution or there would not be an offset of such potential cash payments.

Note 6 - Commitments and Contingencies

Commitments

During the first quarter of 2017, the Company completed the divestiture of its outside-operated Eagle Ford shale assets. Upon closing of the sale, the Company is no longer subject to gathering, processing, and transportation throughput commitments totaling 514 Bcf of gas, 52 MMBbl of oil, and 13 MMBbl of NGLs, or $501.9 million of the potential undiscounted deficiency payments as of December 31, 2016. As of September 30, 2017, the Company had total gathering, processing, transportation throughput, and purchase commitments with various third parties that require delivery of a minimum quantity of 850 Bcf of gas, 15 MMBbl of oil, and 25 MMBbl of water through 2028 and a minimum purchase quantity of 16 MMBbl of water by 2022. If the Company fails to deliver or purchase any product, as applicable, the aggregate undiscounted deficiency payments totaled approximately $445.0 million as of September 30, 2017. As of the filing of this report, the Company does not expect to incur any material shortfalls with regard to these commitments.

Additionally, the Company entered into new and amended drilling rig contracts during the first nine months of 2017 and subsequent to September 30, 2017. As of the filing of this report, the Company's drilling rig commitments totaled $30.4 million; however, if the Company terminated these rig contracts immediately, it would incur penalties of $17.5 million.

There were no other material changes in commitments during the first nine months of 2017. Please refer to Note 6 - Commitments and Contingencies to the Company's consolidated financial statements in its 2016 Form 10-K for additional discussion of the Company's commitments.

Contingencies

The Company is subject to litigation and claims arising in the ordinary course of business. The Company accrues for such items when a liability is both probable and the amount can be reasonably estimated. On July 7, 2017, Michael Lirette filed a Collective Action Complaint against the Company in the Southern District of Texas, claiming damages related to unpaid overtime wages under the Federal Fair Labor Standards Act. This case involves complex legal issues and uncertainties, a potentially large class of plaintiffs, and an alleged class period commencing in 2014. Because the proceedings are in the early stages, with discovery yet to be completed, the Company is unable to estimate what impact, if any, the action will have on its financial condition, results of operations, or cash flows.

Note 7 - Compensation Plans

Performance Share Units Under the Equity Incentive Compensation Plan

The Company grants performance share units ("PSUs") to eligible employees as part of its long-term equity compensation program. The number of shares of the Company's common stock issued to settle PSUs ranges from 0% to 200% of the number of PSUs awarded and is determined based on certain performance criteria over a three-year measurement period. The performance criteria for PSUs are based on a combination of the Company's annualized Total Shareholder Return ("TSR") for the performance period and the relative performance of the Company's TSR compared with the annualized TSR of certain peer companies for the performance period. Compensation expense for PSUs is recognized within general and administrative and exploration expense over the vesting periods of the respective awards.

Total compensation expense recorded for PSUs for the three months ended September 30, 2017, and 2016, was $2.6 million and $2.3 million, respectively, and $6.8 million and $8.2 million for the nine months ended September 30, 2017, and 2016, respectively. As of September 30, 2017, there was $22.0 million of total unrecognized compensation expense related to non-vested PSU awards, which is being amortized through 2020.

A summary of the status and activity of non-vested PSUs for the nine months ended September 30, 2017, is presented in the following table:

	PSUs [1]	Weighted-Average Grant-Date Fair Value
Non-vested at beginning of year	828,923	$ 43.25
Granted	977,731	$ 15.86
Vested	(94,338)	$ 85.85
Forfeited	(168,658)	$ 46.30
Non-vested at end of quarter	1,543,658	$ 22.97

(1) The number of awards assumes a multiplier of one. The final number of shares of common stock issued may vary depending on the three-year performance multiplier, which ranges from zero to two.

During the nine months ended September 30, 2017, the Company granted 977,731 PSUs with a fair value of $15.5 million as part of its regular annual long-term equity compensation program. These PSUs generally vest on the third anniversary of the date of the grant. Also, during this period, the Company settled PSUs that were granted in 2014 with no shares issued upon settlement as the grant settled at a zero multiplier.

Restricted Stock Units Under the Equity Incentive Compensation Plan

The Company grants restricted stock units ("RSUs") as part of its long-term equity compensation program. Each RSU represents a right to receive one share of the Company's common stock upon settlement of the award at the end of the specified vesting period. Compensation expense for RSUs is recognized within general and administrative expense and exploration expense over the vesting periods of the respective awards.

Total compensation expense recorded for RSUs was $2.9 million and $2.8 million for the three months ended September 30, 2017, and 2016, respectively, and $7.5 million and $9.3 million for the nine months ended September 30, 2017, and 2016, respectively. As of September 30, 2017, there was $22.8 million of total unrecognized compensation expense related to non-vested RSU awards, which is being amortized through 2020.

A summary of the status and activity of non-vested RSUs for the nine months ended September 30, 2017, is presented in the following table:

	RSUs	Weighted-Average Grant-Date Fair Value
Non-vested at beginning of year	604,116	$ 37.39
Granted	1,020,780	$ 16.64
Vested	(251,575)	$ 44.00
Forfeited	(102,183)	$ 28.43
Non-vested at end of quarter	1,271,138	$ 20.14

During the nine months ended September 30, 2017, the Company granted 1,020,780 RSUs with a fair value of $16.9 million. These RSUs generally vest one-third of the total grant on each of the next three anniversary dates of the grant. Also, during the nine months ended September 30, 2017, the Company settled 246,025 RSUs that related to awards granted in previous years. The Company and the majority of grant participants mutually agreed to net share settle a portion of the awards to cover income and payroll tax withholdings, as provided for in the plan document and award agreements. As a result, the Company issued 171,278 net shares of common stock upon settlement of the awards. The remaining 74,747 shares were withheld to satisfy income and payroll tax withholding obligations that occurred upon delivery of the shares underlying those RSUs.

Director Shares

During the second quarter of 2017, the Company issued 71,573 shares of restricted common stock to its non-employee directors under the Company's Equity Incentive Compensation Plan, which fully vest on December 31, 2017. Also during the second quarter of 2017, the Company issued 8,794 RSUs to a non-employee director, which fully vest on December 31, 2017, and settle upon the earlier to occur of May 25, 2027, or the director resigning from the board of directors. The Company did not issue any director shares during the third quarter of 2017.

Employee Stock Purchase Plan

Under the Company's Employee Stock Purchase Plan ("ESPP"), eligible employees may purchase shares of the Company's common stock through payroll deductions of up to 15 percent of eligible compensation, without accruing in excess of $25,000 in value from purchases for each calendar year. The purchase price of the stock is 85 percent of the lower of the fair market value of the stock on either the first or last day of the purchase period. The ESPP is intended to qualify under Section 423 of the Internal Revenue Code of 1986, as amended ("IRC"). There were 123,678 and 140,853 shares issued under the ESPP during the nine months ended September 30, 2017, and 2016, respectively. The fair value of ESPP grants is measured at the date of grant using the Black-Scholes option-pricing model.

Note 8 - Pension Benefits

Pension Plans

The Company has a non-contributory defined benefit pension plan covering substantially all of its employees who joined the Company prior to January 1, 2015, and who meet age and service requirements (the "Qualified Pension Plan"). The Company also has a supplemental non-contributory pension plan covering certain management employees (the "Nonqualified Pension Plan" and together with the Qualified Pension Plan, the "Pension Plans"). The Company froze the Pension Plans to new participants, effective as of December 31, 2015. Employees participating in the Pension Plans as of December 31, 2015, continue to earn benefits.

Components of Net Periodic Benefit Cost for the Pension Plans

The following table presents the components of the net periodic benefit cost for the Pension Plans:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2017	2016	2017	2016
	(in thousands)			
Service cost	$1,660	$2,050	$4,979	$6,150
Interest cost	673	727	2,017	2,181
Expected return on plan assets that reduces periodic pension benefit cost	(561)	(559)	(1,683)	(1,677)
Amortization of prior service cost	4	4	13	13
Amortization of net actuarial loss	324	396	973	1,187
Net periodic benefit cost	$2,100	$2,618	$6,299	$7,854

Prior service costs are amortized on a straight-line basis over the average remaining service period of active participants. Gains and losses in excess of 10 percent of the greater of the benefit obligation or the market-related value of assets are amortized over the average remaining service period of active participants.

Contributions

The Company contributed $7.0 million to the Qualified Pension Plan during the nine months ended September 30, 2017.

Note 9 - Earnings Per Share

Basic net income or loss per common share is calculated by dividing net income or loss available to common stockholders by the basic weighted-average number of common shares outstanding for the respective period. Diluted net income or loss per common share is calculated by dividing adjusted net income or loss by the diluted weighted-average number of common shares outstanding, which includes the effect of potentially dilutive securities. Potentially dilutive securities for this calculation consist primarily of non-vested RSUs, contingent PSUs, and shares into which the Senior Convertible Notes are convertible, which are measured using the treasury stock method.

PSUs represent the right to receive, upon settlement of the PSUs after the completion of the three-year performance period, a number of shares of the Company’s common stock that may range from zero to two times the number of PSUs granted on the award date. The number of potentially dilutive shares related to PSUs is based on the number of shares, if any, that would be issuable at the end of the respective reporting period, assuming that date was the end of the contingency period applicable to such PSUs.

On August 12, 2016, the Company issued $172.5 million in aggregate principal amount of Senior Convertible Notes due 2021. Upon conversion, the Senior Convertible Notes may be settled, at the Company’s election, in shares of the Company’s common stock, cash, or a combination of cash and common stock. The Company has initially elected a net-settlement method to satisfy its conversion obligation, which would result in the Company settling the principal amount of the Senior Convertible Notes in cash and the excess conversion value in shares. However, the Company has not made this an irrevocable election and thereby reserves the right to settle the Senior Convertible Notes in any manner allowed under the indenture as business circumstances warrant. Shares of the Company’s common stock traded at an average closing price below the $40.50 conversion price for the three and nine months ended September 30, 2017, and therefore, the Senior Convertible Notes had no dilutive impact. In connection with the offering of the Senior Convertible Notes, the Company entered into capped call transactions with affiliates of the underwriters that would effectively prevent dilution upon settlement up to the $60.00 cap price. The capped call transactions are not reflected in diluted net income (loss) per share, nor will they ever be, as they are anti-dilutive. Please refer to Note 5 - Long-Term Debt for additional discussion.

When the Company recognizes a loss from continuing operations, as was the case for all periods presented, all potentially dilutive shares are anti-dilutive and are consequently excluded from the calculation of diluted net loss per common share.

The following table details the weighted-average anti-dilutive securities for the periods presented:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2017	2016	2017	2016
	(in thousands)			
Anti-dilutive	—	506	78	193

The following table sets forth the calculations of basic and diluted net loss per common share:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2017	2016	2017	2016
	(in thousands, except per share amounts)			
Net loss	$(89,112)	$(40,907)	$(134,585)	$(556,798)
Basic weighted-average common shares outstanding	111,575	78,468	111,366	71,574
Add: dilutive effect of non-vested RSUs and contingent PSUs	—	—	—	—
Add: dilutive effect of Senior Convertible Notes	—	—	—	—
Diluted weighted-average common shares outstanding	111,575	78,468	111,366	71,574

Basic net loss per common share	$(0.80)	$(0.52)	$(1.21)	$(7.78)
Diluted net loss per common share	$(0.80)	$(0.52)	$(1.21)	$(7.78)

Note 10 - Derivative Financial Instruments

Summary of Oil, Gas, and NGL Derivative Contracts in Place

The Company has entered into various commodity derivative contracts to mitigate a portion of its exposure to potentially adverse market changes in commodity prices and the associated impact on cash flows. As of September 30, 2017, all derivative counterparties were members of the Company’s credit facility lender group and all contracts were entered into for other-than-trading purposes. The Company’s commodity derivative contracts consist of swap and collar arrangements. In a typical commodity swap agreement, if the agreed upon published third-party index price (“index price”) is lower than the swap fixed price, the Company receives the difference between the index price and the agreed upon swap fixed price. If the index price is higher than the swap fixed price, the Company pays the difference. For collar arrangements, the Company receives the difference between an agreed upon index and the floor price if the index price is below the floor price. The Company pays the difference between the agreed upon ceiling price and the index price if the index price is above the ceiling price. No amounts are paid or received if the index price is between the floor and ceiling prices.

As of September 30, 2017, the Company had commodity derivative contracts outstanding as summarized in the tables below:

Oil Swaps

Contract Period	NYMEX WTI Volumes (MBbls)	Weighted-Average Contract Price (per Bbl)
Fourth quarter 2017	1,510	$ 47.11
2018	6,272	$ 49.82
2019	1,940	$ 50.70
Total	9,722	