

Resolute Energy Corp  
Form 10-Q  
May 10, 2016

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 March 31, 2016

OR

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

Commission File No. 001-34464

RESOLUTE ENERGY CORPORATION

(Exact Name of Registrant as Specified in its Charter)

Delaware  
(State or other Jurisdiction of

27-0659371  
(I.R.S. Employer

Incorporation or Organization)

Identification Number)

1700 Lincoln Street, Suite 2800 Denver, CO  
(Address of Principal Executive Offices)

80203  
(Zip Code)

(303) 534-4600

(Registrant's telephone number, including area code)

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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  (Do not check if a smaller reporting company) Smaller reporting company

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

As of April 29, 2016, 77,048,763 shares of the Registrant’s \$0.0001 par value Common Stock were outstanding.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q contains “forward-looking statements” as that term is defined in the Private Securities Litigation Reform Act of 1995. The use of any statements containing the words “anticipate,” “intend,” “believe,” “estimate,” “project,” “expect,” “plan,” “should” or similar expressions are intended to identify such statements. Forward-looking statements included in this report relate to, among other things, our production and cost guidance for 2016; anticipated capital expenditures in 2016 and the sources of such funding; availability of alternative oil purchase markets and oil takeaway systems; our financial condition and management of the Company in the current commodity price environment; future financial and operating results; our intention to evaluate and pursue liquidity enhancing and de-levering transactions, including a mid-stream asset monetization, joint ventures and asset sales; liquidity and availability of capital including projections of free cash flow; additional future potential full cost ceiling impairments; future downward adjustments in estimated proved reserves as a result of low commodity prices; future borrowing base adjustments and the effect thereof; future production, reserve growth and decline rates; our plans and expectations regarding our development activities including drilling, deepening, recompleting, fracing and refracing wells, the number of such potential projects, locations and productive intervals, the rates of return on such projects and the resource potential of such projects; and the prospectivity of our properties and acreage. Although we believe that these statements are based upon reasonable current assumptions, no assurance can be given that the future results covered by the forward-looking statements will be achieved. Forward-looking statements can be subject to risks, uncertainties and other factors that could cause actual results to differ materially from future results expressed or implied by the forward-looking statements. The forward-looking statements in this report are primarily, although not exclusively, located under the heading “Risk Factors.” All forward-looking statements speak only as of the date made. All subsequent written and oral forward-looking statements attributable to us, or persons acting on our behalf, are expressly qualified in their entirety by the cautionary statements. Except as required by law, we undertake no obligation to update any forward-looking statement. Factors that could cause actual results to differ materially from our expectations include, among others, those factors referenced in the “Risk Factors” section of this report, if any, in our Annual Report on Form 10-K for the year ended December 31, 2015, and such things as:

- volatility of oil and gas prices, including extended periods of depressed prices that would adversely affect our revenue, income, cash flow from operations and liquidity and the discovery, estimation and development of, and our ability to replace oil and gas reserves;
- a lack of available capital and financing, including the capital needed to pursue our operations and other development plans for our properties, on acceptable terms, including as a result of a reduction in the borrowing base under our revolving credit facility;
- risks related to our level of indebtedness;
- our ability to fulfill our obligations under our revolving credit facility, secured term loan facility, the senior notes and any additional indebtedness we may incur;
- constraints imposed on our business and operations by our revolving credit facility, secured term loan facility and senior notes may limit our ability to execute our business strategy;
- future write downs of reserves and the carrying value of our oil and gas properties;
- our future cash flow, liquidity and financial position;
- the success of our business and financial strategy, derivative strategies and plans;
- risks associated with rising interest rates;
- risks associated with all of our Aneth Field oil production being purchased by a single customer and connected to such customer with a pipeline that we do not own or control;
- inaccuracies in reserve estimates;
- the completion, timing and success of drilling on our properties;
- operational problems, or uninsured or underinsured losses affecting our operations or financial results;
  - the amount, nature and timing of our capital expenditures, including future development costs;

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- anticipated CO<sub>2</sub> supply, which is currently sourced exclusively from Kinder Morgan CO<sub>2</sub> Company, L.P. under a contract with take or pay obligations;
  - the effectiveness and results of our CO<sub>2</sub> flood program at Aneth Field;
  - our relationship with the Navajo Nation, the local community in the area where we operate Aneth Field, and Navajo Nation Oil and Gas Company, as well as certain purchase rights held by Navajo Nation Oil and Gas Company;
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- the impact of any U.S. or global economic recession;
  - the success of the development plan for and production from our oil and gas properties;
  - the timing and amount of future production of oil and gas;
  - the ability to sell or otherwise monetize assets at values and on terms that are advantageous to us;
  - availability of, or delays related to, drilling, completion and production, personnel, supplies and equipment;
  - risks and uncertainties in the application of available horizontal drilling and completion techniques;
  - uncertainty surrounding occurrence and timing of identifying drilling locations and necessary capital to drill such locations;
    - our ability to fund and develop our estimated proved undeveloped reserves;
  - the effect of third party activities on our oil and gas operations, including our dependence on third party owned gas gathering and processing systems;
  - our operating costs and other expenses;
  - our success in marketing oil and gas;
  - the impact and costs related to compliance with, or changes in, laws or regulations governing our oil and gas operations, including changes in Navajo Nation laws, and the potential for increased regulation of drilling and completion techniques, underground injection or fracing operations;
  - our relationship with the local communities in the areas where we operate;
  - the availability of water and our ability to adequately treat and dispose of water while and after drilling and completing wells;
  - regulation of salt water injection intended to address seismic activity;
  - the concentration of our producing properties in a limited number of geographic areas;
  - potential changes to regulations affecting derivatives instruments;
  - environmental liabilities under existing or future laws and regulations;
  - the impact of climate change regulations on oil and gas production and demand;
  - potential changes in income tax deduction and credits currently available to the oil and gas industry;
  - the impact of weather and the occurrence of disasters, such as fires, explosions, floods and other events and natural disasters;
  - competition in the oil and gas industry and failure to keep pace with technological development;
    - developments in oil and gas producing countries;
  - risks relating to our joint interest partners' and other counterparties' inability to fulfill their contractual commitments;
  - loss of senior management or key technical personnel;
  - timing of issuance of permits and rights of way, including the effects of any government shut-downs;
    - potential power supply limitations in the electrical infrastructure serving Aneth Field;
  - timing of installation of gathering infrastructure in areas of new exploration and development;
  - potential breakdown of equipment and machinery relating to the Aneth compression facility;
  - losses possible from pending or future litigation;
  - cybersecurity risks;
  - risks related to our common stock including potential delisting from the NYSE, complication of "penny stock" rules and potential declines in our stock prices and dilution to stockholders;
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- the risk of a transaction that could trigger a change of control under our debt agreements and the higher likelihood of such a transaction occurring due to our current low stock price;
- acquisitions and other business opportunities (or lack thereof) that may be presented to and pursued by us, and the risk that any opportunity currently being pursued will fail to consummate or encounter material complications;
- our ability to achieve the growth and benefits we expect from our acquisitions;
- risks associated with unanticipated liabilities assumed, or title, environmental or other problems resulting from, our acquisitions;
- risk factors discussed or referenced in this report; and
- other factors, many of which are beyond our control.

Additionally, the Securities and Exchange Commission (“SEC”) requires oil and gas companies, in filings made with the SEC, to disclose proved reserves, which are those quantities of oil and 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, under existing economic conditions, operating methods and governmental regulations. The SEC permits the optional disclosure of “probable” and “possible” reserves. From time to time, we may elect to disclose probable reserves and possible reserves, excluding their valuation, in our SEC filings, press releases and investor presentations. The SEC defines “probable” reserves as “those additional reserves that are less certain to be recovered than proved reserves but which, together with proved reserves, are likely as not to be recovered.” The SEC defines “possible” reserves as “those additional reserves that are less certain to be recovered than probable reserves.” The Company applies these definitions when estimating probable and possible reserves. Statements of reserves are only estimates and may not correspond to the ultimate quantities of oil and gas recovered. Any reserves estimates or potential resources disclosed in our public filings, press releases and investor presentations that are not specifically designated as being estimates of proved reserves may include estimated reserves not necessarily calculated in accordance with, or contemplated by, the SEC’s reserves reporting guidelines.

SEC rules prohibit us from including resource estimates in our public filings with the SEC. Our potential resource estimates include estimates of hydrocarbon quantities for (i) new areas for which we do not have sufficient information to date to classify as proved, probable or possible reserves, (ii) other areas to take into account the level of certainty of recovery of the resources and (iii) uneconomic proved, probable or possible reserves. Potential resource estimates do not take into account the certainty of resource recovery and are therefore not indicative of the expected future recovery and should not be relied upon for such purpose. Potential resources might never be recovered and are contingent on exploration success, technical improvements in drilling access, commerciality and other factors. In our press releases and investor presentations, we sometimes include estimates of quantities of oil and gas using certain terms, such as “resource,” “resource potential,” “EUR,” “oil in place,” or other descriptions of volumes of reserves, which terms include quantities of oil and gas that may not meet the SEC definition of proved, probable and possible reserves. These estimates are by their nature more speculative than estimates of proved reserves and accordingly are subject to substantially greater risk of being recovered. The Company believes its potential resource estimates are reasonable, but such estimates have not been reviewed by independent engineers. Furthermore, estimates of potential resources may change significantly as development provides additional data, and actual quantities that are ultimately recovered may differ substantially from prior estimates.

Finally, 24-hour peak IP rates and 30-day peak IP rates for both our wells and for those wells that are located near to our properties are limited data points in each well’s productive history and not necessarily indicative or predictive of future production rates, EUR or economic rates of return from such wells and should not be relied upon for such purpose. Equally, the way we calculate and report 24-hour and 30-day peak IP rates and the methodologies employed by others may not be consistent, and thus the values reported may not be directly and meaningfully comparable.

You are urged to consider closely the disclosure in this Quarterly Report on Form 10-Q and in our Annual Report on Form 10-K for the year ended December 31, 2015, in particular the factors described under “Risk Factors.”



TABLE OF CONTENTS

PART I - FINANCIAL INFORMATION

Item 1.	<u>Financial Statements</u>	1
Item 2.	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	19
Item 3.	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	29
Item 4.	<u>Controls and Procedures</u>	31

PART II - OTHER INFORMATION 32

Item 1.	<u>Legal Proceedings</u>	32
Item 1 A.	<u>Risk Factors</u>	32
Item 2.	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	32
Item 3.	<u>Defaults Upon Senior Securities</u>	32
Item 4.	<u>Mine Safety Disclosures</u>	32
Item 5.	<u>Other Information</u>	32
Item 6.	<u>Exhibits</u>	33
	<u>Signatures</u>	34

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## RESOLUTE ENERGY CORPORATION

## Condensed Consolidated Balance Sheets (Unaudited)

(in thousands, except share amounts)

	March 31, 2016	December 31, 2015
<b>Assets</b>		
<b>Current assets:</b>		
Cash and cash equivalents	\$2,921	\$ 9,297
Accounts receivable	34,801	37,100
Commodity derivative instruments	71,035	92,431
Prepaid expenses and other current assets	1,261	1,387
<b>Total current assets</b>	<b>110,018</b>	<b>140,215</b>
<b>Property and equipment, at cost:</b>		
<b>Oil and gas properties, full cost method of accounting</b>		
Unproved	27,733	21,264
Proved	1,755,485	1,732,707
Other property and equipment	9,678	9,648
Accumulated depletion, depreciation and amortization	(1,608,370)	(1,540,447 )
<b>Net property and equipment</b>	<b>184,526</b>	<b>223,172</b>
<b>Other assets:</b>		
Restricted cash	21,498	21,497
Commodity derivative instruments	3,664	3,463
Other assets	1,995	2,636
<b>Total assets</b>	<b>\$321,701</b>	<b>\$ 390,983</b>
<b>Liabilities and Stockholders' Equity (Deficit)</b>		
<b>Current liabilities:</b>		
Accounts payable	\$12,775	\$ 7,101
Accrued expenses	40,816	45,496
Accrued interest payable	14,261	5,764
Asset retirement obligations	1,068	891
Commodity derivative instruments	120	—
<b>Total current liabilities</b>	<b>69,040</b>	<b>59,252</b>
<b>Long term liabilities:</b>		
Secured term loan facility	119,723	118,944
Senior notes	396,340	396,051
Asset retirement obligations	18,614	18,347
Commodity derivative instruments	2,592	—
Other long term liabilities	1,688	1,670
<b>Total liabilities</b>	<b>607,997</b>	<b>594,264</b>
<b>Commitments and contingencies</b>		
<b>Stockholders' equity (deficit):</b>		
Preferred stock, \$0.0001 par value; 1,000,000 shares authorized; none issued or outstanding	—	—
	8	8

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Common stock, \$0.0001 par value; 225,000,000 shares authorized; issued and outstanding

77,055,646 and 77,210,735 shares at March 31, 2016 and December 31, 2015, respectively

Additional paid-in capital	661,415	659,118
Accumulated deficit	(947,719 )	(862,407 )
Total stockholders' deficit	(286,296 )	(203,281 )
Total liabilities and stockholders' deficit	\$321,701	\$ 390,983

See notes to condensed consolidated financial statements

## RESOLUTE ENERGY CORPORATION

## Condensed Consolidated Statements of Operations (Unaudited)

(in thousands, except per share data)

	Three Months Ended March 31,	
	2016	2015
Revenue:		
Oil	\$ 17,795	\$ 36,344
Gas	978	3,814
Natural gas liquids	229	975
Total revenue	19,002	41,133
Operating expenses:		
Lease operating	13,817	20,356
Production and ad valorem taxes	3,142	5,890
Depletion, depreciation, amortization, and asset retirement obligation accretion	10,361	31,912
Impairment of proved oil and gas properties	58,000	220,000
General and administrative	8,968	7,311
Cash-settled incentive awards	798	—
Total operating expenses	95,086	285,469
Loss from operations	(76,084)	(244,336)
Other income (expense):		
Interest expense, net	(13,075)	(11,156)
Commodity derivative instruments gain	3,841	24,910
Other income	6	6
Total other income (expense)	(9,228)	13,760
Loss before income taxes	(85,312)	(230,576)
Income tax benefit (expense)	—	22,354
Net loss	\$(85,312)	\$(208,222)
Net loss per common share:		
Basic and diluted	\$(1.13)	\$(2.80)
Weighted average common shares outstanding:		
Basic and diluted	75,182	74,284

See notes to condensed consolidated financial statements



## RESOLUTE ENERGY CORPORATION

## Condensed Consolidated Statements of Stockholders' Equity (Deficit) (Unaudited)

(in thousands)

	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Accumulated Deficit	Total Stockholders' Equity (Deficit)
Balance as of January 1, 2016	77,211	\$ 8	\$ 659,118	\$ (862,407 )	\$ (203,281 )
Issuance of stock, restricted stock and share-based compensation	226	—	2,357	—	2,357
Redemption of restricted stock for employee income tax and					
restricted stock forfeitures	(381 )	—	(60 )	—	(60 )
Net loss	—	—	—	(85,312 )	(85,312 )
Balance as of March 31, 2016	77,056	\$ 8	\$ 661,415	\$ (947,719 )	\$ (286,296 )

See notes to condensed consolidated financial statements

## RESOLUTE ENERGY CORPORATION

## Condensed Consolidated Statements of Cash Flows (Unaudited)

(in thousands)

	Three Months Ended March 31, 2016	2015
<b>Operating activities:</b>		
Net loss	\$ (85,312 )	\$ (208,222 )
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depletion, depreciation, amortization and asset retirement obligation accretion	10,361	31,912
Impairment of proved oil and gas properties	58,000	220,000
Amortization of deferred financing costs and long-term debt premium and discount	1,303	1,497
Share-based compensation	2,324	3,034
Commodity derivative instruments gain	(3,841 )	(24,910 )
Commodity derivative settlement gains	27,748	24,190
Deferred income tax benefit	—	(22,354 )
Change in operating assets and liabilities:		
Accounts receivable	2,332	12,872
Other current assets	126	(66 )
Accounts payable and accrued expenses	(5,001 )	(15,820 )
Accrued interest payable	8,497	8,500
Net cash provided by operating activities	16,537	30,633
<b>Investing activities:</b>		
Oil and gas exploration and development	(23,001 )	(34,054 )

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expenditures		
Proceeds from sale of oil and gas properties and other	166	518
Purchase of other property and equipment	(30 )	(32 )
Restricted cash	(1 )	(1,636 )
Other	13	13
Net cash used in investing activities	(22,853 )	(35,191 )
Financing activities:		
Proceeds from bank borrowings	—	60,000
Repayments of borrowings	—	(55,375 )
Payment of financing costs	—	(3,687 )
Redemption of restricted stock for employee income taxes	(60 )	(152 )
Net cash provided by (used in) financing activities	(60 )	786
Net decrease in cash and cash equivalents	(6,376 )	(3,772 )
Cash and cash equivalents at beginning of period	9,297	