Parsley Energy, Inc.
Form 10-Q
May 03, 2019

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)
x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended March 31, 2019
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: 001-36463

PARSLEY ENERGY, INC.
(Exact name of registrant as specified in its charter)

Delaware	**46-4314192**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
303 Colorado Street, Suite 3000 Austin, Texas	**78701**
(Address of principal executive offices)	**(Zip Code)**

(737) 704-2300
(Registrant’s telephone number, including area code)

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

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading symbol	Name of each exchange on which listed
Class A common stock, par value $0.01 per share	PE	New York Stock Exchange

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 x No ¨

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files). Yes x No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, 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 x	Accelerated filer ¨
Non-accelerated filer ¨	Smaller reporting company ¨
	Emerging growth company ¨

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. ¨

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

As of May 3, 2019, the registrant had 281,114,084 shares of Class A common stock and 35,538,145 shares of Class B common stock outstanding.

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CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q (the “Quarterly Report”) includes “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933, as amended (the “Securities Act”), and Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”). All statements, other than statements of historical fact included in this Quarterly Report, regarding our operations, performance, business strategy, oil and natural gas reserves, drilling program, capital expenditures, liquidity and capital resources, the timing and success of specific projects, outcomes and effects of litigation, claims and disputes, derivative activities, potential financing, prospects, plans and objectives of management are forward-looking statements. When used in this Quarterly Report, the words “could,” “believe,” “anticipate,” “intend,” “estimate,” “expect,” “project” and similar expressions are intended to identify forward-looking statements, although not all forward-looking statements contain such identifying words. These forward-looking statements are based on our current expectations and assumptions about future events and are based on currently available information as to the outcome and timing of future events. When considering forward-looking statements, you should carefully consider the risk factors and other cautionary statements described under the heading “Item 1A. Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2018 (the “Annual Report”) and the risk factors and other cautionary statements contained in our other filings with the United States Securities and Exchange Commission (“SEC”). These forward-looking statements are based on management’s current beliefs, based on currently available information, as to the outcome and timing of future events.

Forward-looking statements may include statements about our:

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

All forward-looking statements speak only as of the date of this Quarterly Report. You should not place undue reliance on these forward-looking statements. These forward-looking statements are subject to a number of risks, uncertainties and assumptions. Moreover, we operate in a very competitive and rapidly changing environment. New risks emerge from time to time. It is not possible for our management to predict all risks, nor can we assess the impact of all factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements we may make. Although we believe that our plans, intentions and expectations reflected in or suggested by the forward-looking statements we make in this Quarterly Report are reasonable, we can give no assurance that these plans, intentions or expectations will be achieved or occur, and actual results could differ materially and adversely from those anticipated or implied by the forward-looking statements.

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GLOSSARY OF CERTAIN TERMS AND CONVENTIONS USED HEREIN

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

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

(2) *Boe*. One barrel of oil equivalent, with 6,000 cubic feet of natural gas being equivalent to one barrel of oil.

(3) *Boe/d*. One barrel of oil equivalent per day.

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

(5) *Completion*. The process of treating a drilled well followed by the installation of permanent equipment for the production of oil or natural gas, or in the case of a dry hole, the reporting of abandonment to the appropriate agency.

(6) *Condensate*. A mixture of hydrocarbons that exists in the gaseous phase at original reservoir temperature and pressure, but that, when produced, is in the liquid phase at surface pressure and temperature.

(7) *Developed acreage*. Acreage spaced or assigned to productive wells, excluding undrilled acreage held by production under the terms of the lease.

(8) *Dry hole.* A well found to be incapable of producing hydrocarbons in sufficient quantities such that proceeds from the sale of such production exceed production expenses and taxes.

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

(10) *Exploration costs.* Costs incurred in identifying areas that may warrant examination and in examining specific areas that are considered to have prospects of containing oil and natural gas reserves, including costs of drilling exploratory wells and exploratory-type stratigraphic test wells. Exploration costs may be incurred both before acquiring the related property and after acquiring the related property. Principal types of exploration costs, which include depreciation and applicable operating costs of support equipment and facilities and other costs of exploration activities, are:

(i) Costs of topographical, geographical and geophysical studies, rights of access to properties to conduct those studies, and salaries and other expenses of geologists, geophysical crews, and others conducting those studies.

(ii) Costs of carrying and retaining undeveloped properties, such as delay rentals, ad valorem taxes on properties, legal costs for title defense, and the maintenance of land and lease records.

(iii) Dry hole contributions and bottom hole contributions.

(iv) Costs of drilling and equipping exploratory wells.

(v) Costs of drilling exploratory-type stratigraphic test wells.

(11) *Exploratory well.* A well drilled to find a new field or to find a new reservoir in a field previously found to be productive of oil or natural gas in another reservoir.

(12) *Field*. An area consisting of a single reservoir or multiple reservoirs all grouped on or related to the same individual geological structural feature and/or stratigraphic condition. There may be two or more reservoirs in a field that are separated vertically by intervening impervious, strata, or laterally by local geologic barriers, or by both. Reservoirs that are associated by being in overlapping or adjacent fields may be treated as a single or common operational field. The geological terms structural feature and stratigraphic condition are intended to identify localized geological features as opposed to the broader terms of basins, trends, provinces, plays, areas-of-interest, etc.

(13) *Formation*. A layer of rock which has distinct characteristics that differ from nearby rock.

(14) *GAAP*. Accounting principles generally accepted in the United States.

(15) *Gross acres or gross wells*. The total acres or wells, as the case may be, in which an entity owns a working interest.

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(16) *Horizontal drilling*. A drilling technique where a well is drilled vertically to a certain depth and then drilled laterally within a specified target zone.

(17) *Identified drilling locations*. Potential drilling locations specifically identified by our management based on evaluation of applicable geologic and engineering data accrued over our multi-year historical drilling activities.

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

(19) *LIBOR*. London Interbank Offered Rate.

(20) *MBbl*. One thousand barrels of crude oil, condensate or NGLs.

(21) *MBoe*. One thousand barrels of oil equivalent.

(22) *Mcf*. One thousand cubic feet of natural gas.

(23) *MMBtu*. One million British thermal units.

(24) *MMcf*. One million cubic feet of natural gas.

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

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

(27) *NYMEX*. The New York Mercantile Exchange.

(28) *Operator*. The entity responsible for the exploration, development and production of a well or lease.

(29) *PE Units*. The single class of units that represents the membership interests in Parsley Energy, LLC.

(30) *Proved developed reserves*. Proved reserves that can be expected to be recovered:

(i) Through existing wells with existing equipment and operating methods or in which the cost of the required equipment is relatively minor compared with the cost of a new well; or

(ii) Through installed extraction equipment and infrastructure operational at the time of the reserves estimate if the extraction is by means not involving a well.

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

(32) *Proved undeveloped reserves* or *PUDs*. Proved reserves that are expected to be recovered from new wells on undrilled acreage, or from existing wells where a relatively major expenditure is required for recompletion. The following rules apply to PUDs:

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

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

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

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

(34) *Recompletion*. The process of re-entering an existing wellbore that is either producing or not producing and completing new or existing reservoirs in an attempt to establish new production or increase existing production.

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

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

(37) *Reservoir.* A porous and permeable underground formation containing a natural accumulation of producible hydrocarbons that is confined by impermeable rock or water barriers and is separate from other reservoirs.

(38) *SEC.* The United States Securities and Exchange Commission.

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

(40) *Undeveloped acreage.* Leased acreage on which wells have not been drilled or completed to a point that would permit the production of economic quantities of oil or natural gas regardless of whether such acreage contains proved reserves.

(41) *Wellbore.* The hole drilled by the bit that is equipped for oil or gas production on a completed well. Also called well or borehole.

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

(43) *Workover.* Operations on a producing well to restore or increase production.

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

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PART I: FINANCIAL INFORMATION
Item 1: Financial Statements
PARSLEY ENERGY, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)

	March 31, 2019	December 31, 2018
	(In thousands)	
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$10,380	$163,216
Accounts receivable, net of allowance for doubtful accounts:		
Joint interest owners and other	36,657	36,062
Oil, natural gas and NGLs	176,381	138,987
Related parties	2,204	94
Short-term derivative instruments, net	82,327	191,297
Other current assets	9,618	11,056
Total current assets	317,567	540,712
PROPERTY, PLANT AND EQUIPMENT		
Oil and natural gas properties, successful efforts method	10,327,178	9,948,246
Accumulated depreciation, depletion and impairment	(1,464,040)	(1,295,098)
Total oil and natural gas properties, net	8,863,138	8,653,148
Other property, plant and equipment, net	178,854	170,739
Total property, plant and equipment, net	9,041,992	8,823,887
NONCURRENT ASSETS		
Operating lease assets, net of accumulated depreciation	157,655	—
Long-term derivative instruments, net	27,301	20,124
Other noncurrent assets	9,632	6,640
Total noncurrent assets	194,588	26,764
TOTAL ASSETS	$9,554,147	$9,391,363
LIABILITIES AND EQUITY		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	$402,496	$364,803
Revenue and severance taxes payable	126,339	127,265
Short-term derivative instruments, net	138,784	152,330
Current operating lease liabilities	69,104	—
Other current liabilities	4,657	4,547
Total current liabilities	741,380	648,945
NONCURRENT LIABILITIES		
Long-term debt	2,180,616	2,181,667
Deferred tax liability	121,336	131,523
Operating lease liability	92,793	—
Payable pursuant to tax receivable agreement	71,077	68,110
Long-term derivative instruments, net	29,212	16,633
Asset retirement obligations	25,315	24,750
Financing lease liability	1,847	—
Total noncurrent liabilities	2,522,196	2,422,683
COMMITMENTS AND CONTINGENCIES		

STOCKHOLDERS' EQUITY		
Preferred stock, $0.01 par value, 50,000,000 shares authorized, none issued and outstanding	—	—
Common stock		
Class A, $0.01 par value, 600,000,000 shares authorized, 281,525,513 shares issued and 280,567,240 shares outstanding at March 31, 2019 and 280,827,038 shares issued and 280,205,293 shares outstanding at December 31, 2018	2,815	2,808
Class B, $0.01 par value, 125,000,000 shares authorized, 36,127,731 and 36,547,731 shares issued and outstanding at March 31, 2019 and December 31, 2018	362	366
Additional paid in capital	5,175,012	5,163,987
Retained earnings	388,582	412,646
Treasury stock, at cost, 958,273 shares and 621,745 shares at March 31, 2019 and December 31, 2018	(17,058)	(11,749)
Total stockholders' equity	5,549,713	5,568,058
Noncontrolling interest	740,858	751,677
Total equity	6,290,571	6,319,735
TOTAL LIABILITIES AND EQUITY	$9,554,147	$9,391,363

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

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PARSLEY ENERGY, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

	Three Months Ended March 31,	
	2019	2018
	(In thousands, except per share data)	
REVENUES		
Oil sales	$368,126	$331,103
Natural gas sales	14,452	17,424
Natural gas liquids sales	43,785	40,620
Other	1,308	3,594
Total revenues	427,671	392,741
OPERATING EXPENSES		
Lease operating expenses	41,172	28,832
Transportation and processing costs	8,257	6,267
Production and ad valorem taxes	27,407	24,186
Depreciation, depletion and amortization	173,723	121,199
General and administrative expenses (including stock-based compensation of $5,322 and $5,069 for the three months ended March 31, 2019 and 2018)	38,037	34,995
Exploration and abandonment costs	22,994	5,411
Acquisition costs	—	4
Accretion of asset retirement obligations	345	354
Loss on sale of property	—	111
Other operating (income) expenses	(811)	2,175
Total operating expenses	311,124	223,534
OPERATING INCOME	116,547	169,207
OTHER INCOME (EXPENSE)		
Interest expense, net	(33,002)	(31,968)
Loss on derivatives	(119,687)	(10,793)
Change in TRA liability	—	(82)
Interest income	291	2,123
Other income	58	301
Total other expense, net	(152,340)	(40,419)
(LOSS) INCOME BEFORE INCOME TAXES	(35,793)	128,788
INCOME TAX BENEFIT (EXPENSE)	7,790	(23,325)
NET (LOSS) INCOME	(28,003)	105,463
LESS: NET LOSS (INCOME) ATTRIBUTABLE TO NONCONTROLLING INTERESTS	3,939	(22,573)
NET (LOSS) INCOME ATTRIBUTABLE TO PARSLEY ENERGY, INC. STOCKHOLDERS	$(24,064)	$82,890
Net (loss) income per common share:		
Basic	$(0.09)	$0.32
Diluted	$(0.09)	$0.32
Weighted average common shares outstanding:		
Basic	278,794	260,654
Diluted	278,794	261,639

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

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PARSLEY ENERGY, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
(Unaudited)

	Issued Shares						Shares				
	Class A Common Stock	Class B Common Stock	Class A Common Stock	Class B Common Stock	Additional paid in capital	Retained earnings	Treasury stock	Treasury stock	Total stockholders' equity	Noncontrolling interest	Total equity
	(In thousands)										
Balance at December 31, 2018	280,827	36,548	$ 2,808	$ 366	$ 5,163,987	$ 412,646	622	$ (11,749)	$ 5,568,058	$ 751,677	$ 6,319,735
Exchange of PE Units and Class B Common Stock for Class A Common Stock	420	(420)	4	(4)	6,277	—	—	—	6,277	(6,277)	—
Change in net deferred tax liability due to issuance of PE Units by Parsley LLC	—	—	—	—	(571)	—	—	—	(571)	—	(571)
Distribution to owners from consolidated subsidiary	—	—	—		—	—	—	—	—	(603)	(603)
Vesting of restricted stock units	279	—	3	—	(3)	—	—	—	—	—	—
Repurchase of common stock	—	—	—	—	—	—	291	(5,309)	(5,309)	—	(5,309)
Restricted stock forfeited	—	—	—	—	(267)	—	45	—	(267)	—	(267)
Stock-based compensation	—	—	—	—	5,589	—	—	—	5,589	—	5,589
Net loss	—	—	—	—	—	(24,064)	—	—	(24,064)	(3,939)	(28,003)
Balance at March 31, 2019	281,526	36,128	$ 2,815	$ 362	$ 5,175,012	$ 388,582	958	$ (17,058)	$ 5,549,713	$ 740,858	$ 6,290,571

	Issued Shares						Shares				
	Class A Common Stock	Class B Common Stock	Class A Common Stock	Class B Common Stock	Additional paid in capital	Retained earnings	Treasury stock	Treasury stock	Total stockholders' equity	Noncontrolling interest	Total equity
	(In thousands)										
Balance at December 31, 2017	252,420	62,128	$ 2,524	$ 622	$ 4,666,365	$ 43,519	159	$ (735)	$ 4,712,295	$ 1,168,411	$ 5,880,706
Exchange of PE Units and Class B Common Stock for Class A Common Stock	13,396	(13,396)	135	(135)	255,398	—	—	—	255,398	(255,398)	—
Change in net deferred tax liability due to issuance of PE Units by Parsley LLC	—	—	—	—	(15,123)	—	—	—	(15,123)	—	(15,123)
Issuance of restricted stock	750	—	8	—	(8)	—	—	—	—	—	—
Vesting of restricted stock units	886	—	8	—	(8)	—	—	—	—	—	—
Repurchase of common stock	—	—	—	—	—	—	279	(6,465)	(6,465)	—	(6,465)
Restricted stock forfeited	—	—	—	—	(40)	—	—	—	(40)	—	(40)
Stock-based compensation	—	—	—	—	5,109	—	—	—	5,109	—	5,109
Conversion of restricted stock units to restricted stock awards	1,098	—	11	—	(11)	—	—	—	—	—	—
Net income	—	—	—	—	—	82,890	—	—	82,890	22,573	105,463
Balance at March 31, 2018	268,550	48,732	$ 2,686	$ 487	$ 4,911,682	$ 126,409	438	$ (7,200)	$ 5,034,064	$ 935,586	$ 5,969,650

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

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PARSLEY ENERGY, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Three Months Ended March 31, 2019	2018
	(In thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net (loss) income	$ (28,003)	$ 105,463
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, depletion and amortization	173,723	121,199
Leasehold abandonments and impairments	22,189	5,179
Accretion of asset retirement obligations	345	354
Loss on sale of property	—	111
Stock-based compensation	5,322	5,069
Deferred income tax (benefit) expense	(7,790)	23,325
Change in TRA liability	—	82
Loss on derivatives	119,687	10,793
Net cash paid for derivative settlements	(5,072)	(1,903)
Net cash paid for option premiums	(10,440)	(13,506)
Other	1,056	1,096
Changes in operating assets and liabilities, net of acquisitions:		
Accounts receivable	(37,989)	(43,214)
Accounts receivable—related parties	(2,110)	77
Other current assets	1,438	3,835
Other noncurrent assets	(3,308)	(635)
Accounts payable and accrued expenses	(15,063)	(5,427)
Revenue and severance taxes payable	(926)	15,057
Net cash provided by operating activities	213,059	226,955
CASH FLOWS FROM INVESTING ACTIVITIES:		
Development of oil and natural gas properties	(352,650)	(411,073)
Acquisitions of oil and natural gas properties	(13,846)	(27,447)
Additions to other property and equipment	(11,106)	(28,248)
Proceeds from sales of property, plant and equipment	17,486	43,228
Other	809	349
Net cash used in investing activities	(359,307)	(423,191)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Borrowings under long-term debt	120,000	—
Payments on long-term debt	(120,000)	(694)
Payments on financing lease obligations	(676)	—
Debt issuance costs	—	(32)
Repurchase of common stock	(5,309)	(6,465)
Distributions to owners from consolidated subsidiary	(603)	—
Net cash used in financing activities	(6,588)	(7,191)
Net decrease in cash, cash equivalents and restricted cash	(152,836)	(203,427)
Cash, cash equivalents and restricted cash at beginning of period	163,216	554,189
Cash, cash equivalents and restricted cash at end of period	$ 10,380	$ 350,762
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		

Cash paid for interest	$ (30,493)	$ (29,455)
Cash received for income taxes	$ 240	$ —
SUPPLEMENTAL DISCLOSURE OF NON-CASH ACTIVITIES:		
Asset retirement obligations incurred, including changes in estimate	$ 219	$ 359
Additions to oil and natural gas properties - change in capital accruals	$ 53,654	$ 13,013
Net premiums on options that settled during the period	$ (9,516)	$ (16,526)

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

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PARSLEY ENERGY, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

NOTE 1. ORGANIZATION AND NATURE OF OPERATIONS

Parsley Energy, Inc. (either individually or together with its subsidiaries, as the context requires, the "Company") is an independent oil and natural gas company focused on the acquisition, development, exploration and production of unconventional oil and natural gas properties in the Permian Basin. The Permian Basin is located in west Texas and southeastern New Mexico and is characterized by high oil and liquids-rich natural gas content, multiple vertical and horizontal target horizons, extensive production histories, long-lived reserves and historically high drilling success rates. The Company's properties are located in two sub areas of the Permian Basin, the Midland Basin and the Delaware Basin, where, given the associated returns, it focuses predominantly on horizontal development drilling.

NOTE 2. SUMMARY OF ACCOUNTING POLICIES

These condensed consolidated financial statements include the accounts of (i) the Company, (ii) Parsley Energy, LLC, the Company's majority owned subsidiary ("Parsley LLC"), (iii) the direct and indirect wholly owned subsidiaries of Parsley LLC, and (iv) Pacesetter Drilling, LLC ("Pacesetter"), an indirect, majority owned subsidiary of Parsley LLC, of which Parsley LLC owns, indirectly, a 63.0% interest. Parsley LLC also owns, indirectly, a 42.5% noncontrolling interest in Spraberry Production Services, LLC ("SPS"). The Company accounts for its investment in SPS using the equity method of accounting. All significant intercompany and intra-company balances and transactions have been eliminated.

Certain information and footnote disclosures normally included in annual financial statements prepared in accordance with GAAP have been omitted from this Quarterly Report, as permitted by SEC rules and regulations. The Company believes the disclosures made in this Quarterly Report are adequate to make the information herein not misleading. The Company recommends that these condensed consolidated financial statements should be read in conjunction with its audited consolidated financial statements and related notes thereto included in the Annual Report.

The interim data includes all adjustments, consisting only of normal recurring adjustments, that are, in the opinion of the Company's management, necessary for a fair statement of the results for the interim periods presented. The results of operations for the three months ended March 31, 2019 are not necessarily indicative of the Company's operating results for the entire fiscal year ending December 31, 2019.

Use of Estimates

These condensed consolidated financial statements and related notes are presented in accordance with GAAP. Preparation in accordance with GAAP requires the Company to (i) adopt accounting policies within accounting rules set by the Financial Accounting Standards Board ("FASB") and by the SEC and (ii) make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. The Company's management believes the major estimates and assumptions impacting the Company's condensed consolidated financial statements are the following:

- estimates of proved reserves of oil and natural gas, which affect the calculations of depletion, depreciation and amortization ("DD&A") and impairment of capitalized costs of oil and natural gas properties;
- estimates of the fair value of oil and natural gas properties the Company owns, particularly properties that the Company has not yet explored, or fully explored, by drilling and completing wells;
- impairment of developed and undeveloped properties and other assets;
- depreciation of property and equipment; and
- valuation of commodity derivative instruments.

Although management believes these estimates are reasonable, actual results may differ from estimates and assumptions of future events and these revisions could be material. Future production may vary materially from estimated oil and natural gas

proved reserves. Actual future prices may vary significantly from price assumptions used for determining proved reserves and for financial reporting.

Significant Accounting Policies

For a complete description of the Company's significant accounting policies, see *Note 2—Summary of Significant Accounting Policies* in the Annual Report.

Accounts Receivable

The Company had an allowance for doubtful accounts of $2.8 million at each of March 31, 2019 and December 31, 2018.

Reclassifications

Certain reclassifications have been made to prior period amounts to conform to the current presentation. Such reclassifications had no effect on the Company's previously reported net income, earnings per share, cash flows or retained earnings.

Recent Accounting Pronouncements

Recently Adopted Accounting Pronouncements

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*, which requires lessees to recognize leases on-balance sheet and disclose key information about leasing arrangements. Topic 842 was subsequently amended by ASU No. 2018-01, *Land Easement Practical Expedient for Transition to Topic 842*; ASU No. 2018-10, *Codification Improvements to Topic 842*, *Leases*; ASU No. 2018-11, *Targeted Improvements*; and ASU No. 2018-20 *Leases (Topic 842)*. The new standard establishes a right-of-use ("ROU") model that requires a lessee to recognize a ROU asset and lease liability on the balance sheet for all leases with a term longer than 12 months. Leases will be classified as finance or operating, with classification affecting the pattern and classification of expense recognition in the income statement. A modified retrospective transition approach is required, applying the new standard to all leases existing at the date of initial application. An entity may choose to use either (1) its effective date or (2) the beginning of the earliest comparative period presented in the financial statements as its date of initial application. If an entity chooses the second option, the transition requirements for existing leases also apply to leases entered into between the date of initial application and the effective date. The entity must also recast its comparative period financial statements and provide the disclosures required by the new standard for the comparative periods. The Company adopted the new standard on January 1, 2019 using the modified retrospective transition approach and used the effective date as the Company's date of initial application.

The new standard provides a number of optional practical expedients in transition. The Company has elected to apply the practical expedient to use hindsight with respect to determining lease term and in assessing any impairment of ROU assets for existing leases. The Company did not elect to apply the "package practical expedients." The new standard also provides practical expedients for an entity's ongoing accounting. The Company elected the short-term lease recognition exemption for all leases that qualify. This means, for those leases that qualify, the Company did not recognize ROU assets or lease liabilities, and this includes not recognizing ROU assets or lease liabilities for existing short-term leases of those assets in transition. The Company has elected the practical expedient to not separate lease and non-lease components for all of its leases other than leases of vehicles.

Adoption of the new standard resulted in the Company recording additional operating net ROU assets and lease liabilities of $143.9 million. The current portion of the operating lease liability is included in *Current operating lease liabilities* and the noncurrent portion in *Operating lease liabilities* on the Company's condensed consolidated balance sheets. Balances associated with finance leases have been reclassified to include the current portion in *Other current liabilities* and the noncurrent portion in *Financing lease liabilities* on the Company's condensed consolidated balance sheets. The adoption of this standard did not materially impact the Company's consolidated statements of operations or cash flows. Please refer to *Note 9—Leases* for additional discussion.

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PARSLEY ENERGY, INC. AND SUBSIDIARIES
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NOTE 3. REVENUE FROM CONTRACTS WITH CUSTOMERS
In accordance with ASC Topic 606, *Revenue from Contracts with Customers* (“ASC 606”), revenue is measured based on considerations specified in contracts with customers, excluding any sales incentives or amounts collected on behalf of third parties. The Company recognizes revenue when a performance obligation is satisfied by the transfer of control over a product to the ultimate customer. Sales of oil, natural gas and NGLs are recognized at the time that control of the product is transferred to the customer and collectability is reasonably assured. Generally, the pricing provisions in the Company’s contracts are tied to a market index, with certain adjustments based on, among other factors, whether a well delivers to a gathering or transmission line, the quality of the oil or natural gas, and prevailing supply and demand conditions. As a result, the prices of the Company’s oil, natural gas, and NGLs fluctuate to remain competitive with other available oil, natural gas, and NGLs supplies. The Company reports revenues disaggregated by product on its condensed consolidated statements of operations.
Oil Sales
Under the Company’s oil sales contracts, the Company sells oil production at or near the wellhead and the Company collects an agreed-upon index price, net of pricing differentials. The Company recognizes revenue at the net price received when control transfers to the purchaser at or near the wellhead.
Natural Gas and NGLs Sales
Under the Company’s natural gas processing contracts, it delivers natural gas to a midstream processing company at the wellhead or the inlet of the midstream processing company’s system. The midstream processing company gathers and processes the natural gas and remits proceeds to the Company for the resulting natural gas and NGLs sales. In these scenarios, the Company evaluates whether it is the principal or the agent in the transaction, which includes considerations of product redelivery, take-in-kind rights and risk of loss. For those contracts where the Company has concluded that control of the product transfers at the tailgate of the plant, meaning that the Company is the principal and the ultimate third party is its customer, the Company recognizes revenue on a gross basis, with transportation and processing fees presented as *Transportation and processing costs* on the Company’s condensed consolidated statements of operations. Alternatively, for those contracts where the Company has concluded control of the product transfers at the inlet of the plant, meaning that the Company is the agent and the midstream processing company is the Company’s customer, the Company recognizes natural gas and NGLs sales based on the net amount of proceeds received from the midstream processing company. The Company also determined that losses associated with shrinkage and line loss (“FL&U”) occur prior to the change in control. As a result, natural gas and NGLs sales are presented net of FL&U costs. Revenues associated with natural gas and NGLs sales at the plant inlet are considered a single combined performance obligation. During the three months ended March 31, 2019 and 2018, the applicable line items on the condensed consolidated statements of operations include $2.9 million and $4.7 million of natural gas and $7.2 million and $10.5 million NGLs sales, respectively, completed at the plant inlet.
Contract Balances
Under the Company’s product sales contracts, the Company invoices customers once performance obligations have been satisfied, at which point payment is unconditional. Accordingly, the Company’s product sales contracts do not give rise to contract assets or liabilities under ASC 606.
Prior-Period Performance Obligations
The Company records revenue in the month production is delivered to the purchaser. Settlement statements for certain natural gas and NGLs sales, however, may not be received for 30 to 90 days after the date production is delivered, and as a result the Company is required to estimate the amount of production delivered to the purchaser and the price that will be received for the sale of the product. In these situations, the Company records the differences between its estimates and the actual amounts received for product sales in the month that payment is received from the purchaser. The Company has existing internal controls for its revenue estimation process and related accruals, and any identified differences between the Company’s revenue estimates and actual revenue received have historically been insignificant. For each of the three months ended March 31, 2019 and 2018, revenue recognized in the reporting period related to

performance obligations satisfied in prior reporting periods was not material.

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PARSLEY ENERGY, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

NOTE 4. DERIVATIVE FINANCIAL INSTRUMENTS

Commodity Derivative Instruments and Concentration of Risk

Objective and Strategy

The Company utilizes derivative financial instruments, including put spread options, three-way collars, two-way collars, commodity swap contracts and basis swap contracts to (i) reduce the effect of price volatility on the Company's oil and natural gas revenues and (ii) support the Company's annual capital budgeting and expenditure plans.

Oil Production Derivative Activities

The Company's material physical sales contracts governing its oil production are typically correlated with NYMEX WTI, including Cushing ("WTI Cushing"), Midland ("WTI Midland") and Magellan East Houston ("WTI MEH") oil prices. The Company uses put spread options, three-way collars and two-way collars to manage oil price volatility. The Company uses basis swap contracts to reduce basis risk between NYMEX WTI prices and the actual index prices at which the oil is sold.

As of March 31, 2019, the Company had the following outstanding oil derivative contracts. When aggregating multiple contracts, the weighted average contract price is disclosed.

Put spreads[1]	**Nine Months Ending December 31, 2019**			**Year Ending December 31, 2020**		
	WTI Cushing	WTI Midland	WTI MEH	WTI Cushing	WTI Midland	WTI MEH
Volume (MBbls)	4,650	2,250	1,800	—	—	900
Long put price (per Bbl)	$57.90	$ 54.33	$65.00	$—	$—	$ 70.00
Short put price (per Bbl)	$48.55	$ 44.33	$55.00	$—	$—	$ 60.00

Three-way collars	**Nine Months Ending December 31, 2019**			**Year Ending December 31, 2020**		
	WTI Cushing	WTI Midland	WTI MEH	WTI Cushing	WTI Midland	WTI MEH
Volume (MBbls)	6,750	900	—	—	—	4,800
Short call price (per Bbl)	$72.17	$ 64.65	$—	$—	$—	$ 75.88
Long put price (per Bbl)	$51.00	$ 50.00	$—	$—	$—	$ 59.69
Short put price (per Bbl)	$42.33	$ 45.00	$—	$—	$—	$ 49.69

Two-way collars	**Nine Months Ending December 31, 2019**
	WTI Cushing
Volume (MBbls)	6,150
Short call price (per Bbl)	$58.08
Long put price (per Bbl)	$54.31

Basis swaps	**Nine Months Ending December 31, 2019**		**Year Ending December 31, 2020**	
	Volume (MBbls)	Basis Differential (per Bbl)	Volume (MBbls)	Basis Differential (per Bbl)
Basis swap - WTI Midland-WTI Cushing index[2]	8,910	$ (2.22)	900	$ 0.25
Basis swap - WTI Houston-WTI Cushing index[2]	585	$ 5.10	—	$ —

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PARSLEY ENERGY, INC. AND SUBSIDIARIES
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(Unaudited)

(1) Excludes 3,150 notional MBbls with a fair value of $1.4 million related to amounts recognized under master netting agreements with derivative counterparties.

(2) Swaps that fix the basis differentials representing the index prices at which the Company sells its oil produced in the Permian Basin less the WTI Cushing price.

Natural Gas Production Derivative Activities

All material physical sales contracts governing the Company's natural gas production are tied directly or indirectly to NYMEX Henry Hub ("Henry Hub") natural gas prices or regional index prices where the natural gas is sold. The Company uses three-way collars and commodity swap contracts to manage natural gas price volatility.

The following table sets forth the volumes associated with the Company's outstanding natural gas derivative contracts expiring during the period indicated and the weighted average natural gas prices for those contracts:

Three-way collars	**Nine Months Ending December 31, 2019**
	NYMEX Henry Hub
Volume (MMbtu)	9,000,000
Short call price (per MMbtu)	$3.93
Long put price (per MMbtu)	$3.00
Short put price (per MMbtu)	$2.50

	Volume (MMbtu)	Basis Differential (per MMbtu)
Basis swap - Waha [1]	9,000,000	$(1.78)

(1) Swaps that fix the basis differentials representing the index prices at which the Company sells its natural gas produced in the Permian Basin less the Henry Hub price.

Effect of Derivative Instruments on the Condensed Consolidated Financial Statements

All of the Company's derivatives are accounted for as non-hedge derivatives and therefore all changes in the fair values of its derivative contracts are recognized as gains or losses in the earnings of the periods in which they occur. The table below summarizes the Company's losses on derivative instruments for the three months ended March 31, 2019 and 2018 (in thousands):

	Three Months Ended March 31,	
	2019	**2018**
Changes in fair value of derivative instruments	$(111,348)	(7,920)
Net derivative settlements	(8,339)	(2,873)
Loss on derivatives	$(119,687)	$(10,793)
Net premiums on options that settled during the period [1]	$(9,516)	$(16,526)

(1) The net premiums on options that settled during the period

represents the cumulative cost of premiums paid and received on positions purchased and sold, which expired during the current period. These amounts are included in *Loss on derivatives* on the Company's consolidated statements of operations.

The Company classifies the fair value amounts of derivative assets and liabilities as gross current or noncurrent derivative assets or gross current or noncurrent derivative liabilities, whichever the case may be, excluding those amounts netted under master netting agreements. The fair value of the derivative instruments is discussed in *Note 16—Disclosures About Fair Value of Financial Instruments.* The Company has agreements in place with all of its counterparties that allow for the financial right of offset for derivative assets and liabilities at settlement or in the event of default under the agreements. Additionally, the Company maintains accounts with its brokers to facilitate financial derivative transactions in support of its risk management activities. Based on the value of the Company's positions in these accounts and the associated margin requirements, the Company may be required to deposit cash into these broker accounts. During each of the three months ended March 31, 2019 and 2018, the Company did not receive or post any material margins in connection with collateralizing its derivative positions.

The following table presents the Company's net exposure from its offsetting derivative asset and liability positions, as well as option premiums payable and receivable as of the reporting dates indicated (in thousands):

	Gross Amount	Netting Adjustments	Net Exposure
March 31, 2019			
Derivative assets with right of offset or master netting agreements	$111,068	$(1,440)	$109,628
Derivative liabilities with right of offset or master netting agreements	(169,436)	1,440	(167,996)
December 31, 2018			
Derivative assets with right of offset or master netting agreements	$236,431	$(25,010)	$211,421
Derivative liabilities with right of offset or master netting agreements	(193,973)	25,010	(168,963)

Concentration of Credit Risk

The Company believes that it has limited credit risk with respect to its exchange-traded contracts, as such contracts are subject to financial safeguards and transaction guarantees through NYMEX. Over-the-counter traded options expose the Company to counterparty credit risk. These over-the-counter options are entered into with large multinational financial institutions with investment grade credit ratings or through brokers that require all the transaction parties to collateralize their open option positions. The gross and net credit exposure from the Company's commodity derivative contracts as of March 31, 2019 and December 31, 2018 is summarized in the preceding table.

The Company monitors the creditworthiness of its counterparties, establishes credit limits according to the Company's credit policies and guidelines and assesses the impact on fair values of its counterparties' creditworthiness. The Company enters into International Swap Dealers Association Master Agreements ("ISDA Agreements") with its derivative counterparties. The terms of the ISDA Agreements provide the Company and its counterparties and brokers with rights of net settlement of gross commodity derivative assets against gross commodity derivative liabilities. The Company routinely exercises its contractual right to offset realized gains against realized losses when settling with derivative counterparties. If the Company believes a counterparty's creditworthiness has declined or is suspect, it may seek to novate the applicable ISDA Agreement to another financial institution that has an ISDA Agreement in place with the Company. The Company did not incur any losses due to counterparty nonperformance during the three months ended March 31, 2019 or the year ended December 31, 2018.

Credit Risk Related Contingent Features in Derivatives

Certain commodity derivative instruments contain provisions that require the Company to either post additional collateral or collateral support (including letters of credit, security interests in an asset, or a performance bond or guarantee), or immediately settle any outstanding liability balances, upon the occurrence of a specified credit risk related event. These events, which are set forth in the Company's existing commodity derivative contracts, include, among others, downgrades in the credit ratings of the Company and its affiliates, events of default under the Company's revolving credit agreement (the "Revolving Credit Agreement"), and the release of collateral (other than as provided under the terms of the Revolving Credit Agreement). Although the Company could be required to post additional collateral or collateral support, or immediately settle any outstanding liability balances, under such conditions, the Company seeks to reduce its potential risk by entering into commodity derivative contracts with several different counterparties.

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PARSLEY ENERGY, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

NOTE 5. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment includes the following (in thousands):

	March 31, 2019	December 31, 2018
Oil and natural gas properties:		
Subject to depletion	$7,083,324	$6,659,444
Not subject to depletion		
Incurred in 2019	333,629	—
Incurred in 2018	402,583	677,920
Incurred in 2017 and prior	2,507,642	2,610,882
Total not subject to depletion	3,243,854	3,288,802
Oil and natural gas properties, successful efforts method	10,327,178	9,948,246
Less accumulated depreciation, depletion and impairment	(1,464,040)	(1,295,098)
Total oil and natural gas properties, net	8,863,138	8,653,148
Other property, plant and equipment	218,002	206,662
Less accumulated depreciation	(39,148)	(35,923)
Other property, plant and equipment, net	178,854	170,739
Total property, plant and equipment, net	$9,041,992	$8,823,887

Costs subject to depletion are proved costs and costs not subject to depletion are unproved costs and current drilling projects.

As the Company's exploration and development work progresses and the reserves on the Company's properties are proven, capitalized costs attributed to the properties and mineral interests are subject to DD&A. Depletion of capitalized costs is provided using the units-of-production method based on proved oil and natural gas reserves related to the associated reservoir. Depletion expense on capitalized oil and natural gas properties was $169.9 million and $117.6 million, for the three months ended March 31, 2019 and 2018, respectively. The Company had no exploratory wells in progress at March 31, 2019 or December 31, 2018.

NOTE 6. ACQUISITIONS AND DIVESTITURES

Acquisitions

During the three months ended March 31, 2019, the Company incurred costs of $13.8 million related to the purchase of leasehold acreage. During the three months ended March 31, 2019, the Company reflected $11.7 million as part of costs not subject to depletion and $2.1 million as part of costs subject to depletion within its oil and natural gas properties.

During the three months ended March 31, 2018, the Company incurred costs of $27.4 million related to the acquisition of leasehold acreage. During the three months ended March 31, 2018, the Company reflected $23.9 million as part of costs not subject to depletion and $3.5 million as part of costs subject to depletion within its oil and natural gas properties.

During each of the three months ended March 31, 2019 and 2018, the Company exchanged certain leasehold acreage and oil and natural gas properties with third parties, with no gain or loss recognized.

Divestitures

During the three months ended March 31, 2019, the Company closed sales of certain leasehold acreage for proceeds of $17.5 million, including customary purchase price adjustments. Upon closing these sales, the Company recognized no gain or loss in accordance with the guidance for partial sales of oil and natural gas properties under ASC Topic 932, *Extractive Activities—Oil and Gas* ("ASC 932").

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(Unaudited)

During the three months ended March 31, 2018, the Company sold certain acreage for total proceeds of $43.2 million, subject to customary purchase price adjustments. Upon closing the sale, the Company recognized no gain or loss in accordance with the guidance for partial sales of oil and natural gas properties under ASC 932.

NOTE 7. ASSET RETIREMENT OBLIGATIONS

For the Company, asset retirement obligations represent the future abandonment costs of tangible assets, namely the plugging and abandonment of wells and land remediation. The fair value of a liability for an asset's retirement obligation is recorded in the period in which it is incurred if a reasonable estimate of fair value can be made and the corresponding cost is capitalized as part of the carrying amount of the related long-lived asset. The liability is accreted to its then present value each period. If the liability is settled for an amount other than the recorded amount, the difference is recorded in *Other income (expense)* in the consolidated statements of operations.

The following table summarizes the changes in the Company's asset retirement obligations for the three months ended March 31, 2019 (in thousands):

	March 31, 2019
Asset retirement obligations, beginning of period	$26,884
Additional liabilities incurred	221
Accretion expense	345
Revision of estimates	(2)
Asset retirement obligations, end of period	$27,448

NOTE 8. DEBT

The Company's debt consisted of the following as of the dates indicated (in thousands):

	March 31, 2019	December 31, 2018
Revolving Credit Agreement	$—	$—
6.250% senior unsecured notes due 2024	400,000	400,000
5.375% senior unsecured notes due 2025	650,000	650,000
5.250% senior unsecured notes due 2025	450,000	450,000
5.625% senior unsecured notes due 2027	700,000	700,000
Capital leases(1)	—	4,202
Total debt	2,200,000	2,204,202
Debt issuance costs on senior unsecured notes	(22,050)	(22,918)
Premium on senior unsecured notes	2,666	2,796
Less: current portion of debt	—	(2,413)
Total long-term debt	$2,180,616	$2,181,667

(1) As a result of the implementation of ASU No. 2016-02, *Leases (Topic 842)*, as of March 31, 2019, capital leases have been reclassified to include the current portion in *Other current liabilities* and the noncurrent portion in *Financing lease liabilities* on the Company's condensed consolidated balance sheets. Please refer to *Note 9—Leases* for additional discussion.

Revolving Credit Agreement

As of March 31, 2019, the borrowing base under the Revolving Credit Agreement was $2.3 billion with a commitment level of $1.0 billion. There were no borrowings outstanding and $8.7 million in letters of credit outstanding as of March 31, 2019, resulting in availability of $991.3 million. The amount Parsley LLC is able to borrow under the Revolving Credit Agreement is subject to compliance with the financial covenants, satisfaction of various conditions precedent to borrowing and other provisions of the Revolving Credit Agreement. See *Note 17—Subsequent Events* for information regarding the terms of

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PARSLEY ENERGY, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

the Seventh Amendment ("the Seventh Amendment") to the Revolving Credit Agreement, which was entered to on April 23, 2019.

As of March 31, 2019, letters of credit under the Revolving Credit Agreement bear a 1.25% weighted average interest rate.

Covenant Compliance

The Revolving Credit Agreement and the indentures governing the 5.625% senior unsecured notes due 2027 (the "2027 Notes"), the 5.250% senior unsecured notes due 2025 (the "New 2025 Notes"), the 5.375% senior unsecured notes due 2025 (the "2025 Notes"), and the 6.250% senior unsecured notes due 2024 (the "2024 Notes" and, together with the 2027 Notes, the New 2025 Notes and the 2025 Notes, the "Notes") restrict the Company's ability and the ability of certain of its subsidiaries to, among other things: (i) incur or guarantee additional indebtedness or issue certain types of preferred stock; (ii) pay dividends on capital stock or redeem, repurchase or retire its capital stock or subordinated indebtedness; (iii) transfer or sell assets; (iv) make investments; (v) create certain liens; (vi) enter into agreements that restrict its restricted subsidiaries from issuing dividends or making other payments to the Company; (vii) consolidate, merge or transfer all or substantially all of its assets; (viii) engage in transactions with affiliates; and (ix) create unrestricted subsidiaries. These covenants are subject to a number of important exceptions and qualifications. If at any time the Notes are rated investment grade by either Moody's Investors Service, Inc. or Standard & Poor's Ratings Services and no default or event of default (as defined in the indentures) has occurred and is continuing, many of the foregoing covenants pertaining to the Notes will be suspended. If the ratings on the Notes were to subsequently decline to below investment grade, the suspended covenants would be reinstated.

As of March 31, 2019, the Company was in compliance with all required covenants under the Revolving Credit Agreement and each of the indentures governing the Notes.

Interest Expense

The following amounts have been incurred and charged to interest expense for the three months ended March 31, 2019 and 2018 (in thousands):

	Three Months Ended March 31,	
	2019	2018
Cash payments for interest	$30,493	$29,455
Change in interest accrual	1,453	1,453
Amortization of deferred loan origination costs	1,185	1,189
Amortization of bond premium	(129)	(129)
Total interest expense, net	$33,002	$31,968

NOTE 9. LEASES

The Company has entered into operating leases for drilling rigs, real estate, and other field and office equipment, as well as finance leases for vehicles. The Company's leases have remaining lease terms of up to 26 years, some of which include options to extend for up to 14 years, and some of which include options to terminate within one year. The exercise of lease renewal and termination options are at the Company's sole discretion. For purposes of calculating operating lease liabilities, the Company's leases are deemed not to include an option to extend the lease term until it is reasonably certain that the Company will exercise that option. Certain finance leases also include options to purchase the leased asset.

The Company determines whether a contract arrangement contains a lease at inception. The lease classification and lease measurement are determined upon lease commencement. The lease commencement date is evaluated based on when the key lease terms are available and when the Company takes possession of the underlying asset. The Company's lease agreements do not contain any material residual value guarantees or material restrictive covenants.

ROU assets and operating lease liabilities are recognized based on the present value of lease payments over the lease term at commencement date. The lease payments represent gross payments to vendors which, for certain of our operating assets, are offset by amounts received from other working interest owners. Because the majority of the Company’s leases do not

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provide an implicit rate of return, the Company uses its incremental borrowing rate based on the information available at the commencement date of the lease in determining the present value of lease payments. The Company has operating lease agreements with lease and non-lease components that are accounted for as a single lease component. For vehicle leases, the Company accounts for the lease and non-lease components separately. The Company subleases certain of its real estate to third parties for office and parking space.

The Company recognizes lease costs on a straight-line basis over the term of the lease. The depreciable life of assets is limited by the non-cancellable term of the lease, unless there is a transfer of title or purchase option reasonably certain of exercise. The components of the Company's lease costs as of March 31, 2019 were as follows:

	Three Months Ended March 31, 2019
	(In thousands)
Finance lease costs:	
Amortization of right-of-use assets	$681
Interest on lease liabilities	60
Operating lease costs[(1)]	23,428
Short-term lease costs[(2)]	6,047
Variable lease costs[(3)]	3,738
Sublease income	(97)
Total lease costs	$33,857

(1) For the three months ended