

Rosetta Resources Inc.
Form 10-Q
November 03, 2014

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 September 30, 2014

OR

Transition Report Pursuant To Section 13 or 15(d) of the Securities Exchange Act of 1934
Commission File Number: 000-51801

ROSETTA RESOURCES INC.

(Exact name of registrant as specified in its charter)

Delaware	43-2083519
(State or other jurisdiction of	(I.R.S. Employer
incorporation or organization)	Identification No.)

1111 Bagby Street, Suite 1600

Houston, TX	77002
(Address of principal executive offices)	(Zip Code)

(713) 335-4000

(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 definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Securities Exchange Act of 1934.

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 Securities Exchange Act of 1934). Yes No

The number of shares of the registrant's Common Stock, \$0.001 par value per share, outstanding as of October 24, 2014 was 61,489,705 which excludes unvested restricted stock awards.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

Rosetta Resources Inc.

Consolidated Balance Sheet

(In thousands, except par value and share amounts)

	September 30, 2014 (Unaudited)	December 31, 2013
Assets		
Current assets:		
Cash and cash equivalents	\$23,627	\$193,784
Accounts receivable	154,268	122,677
Derivative instruments	14,249	4,307
Prepaid expenses	9,050	9,860
Deferred income taxes	1,524	27,976
Other current assets	5,032	1,284
Total current assets	207,750	359,888
Oil and natural gas properties using the full cost method of accounting:		
Proved properties	5,172,365	3,951,397
Unproved/unevaluated properties, not subject to amortization	535,041	755,438
Gathering systems and compressor stations	278,045	168,730
Other fixed assets	29,794	26,362
	6,015,245	4,901,927
Accumulated depreciation, depletion and amortization, including impairment	(2,313,109)	(2,020,879)
Total property and equipment, net	3,702,136	2,881,048
Other assets:		
Debt issuance costs	26,756	25,602
Derivative instruments	8,347	5,458
Other long-term assets	281	4,622
Total other assets	35,384	35,682
Total assets	\$3,945,270	\$3,276,618
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	\$236,058	\$190,950
Royalties and other payables	114,164	78,264
Derivative instruments	—	4,913
Total current liabilities	350,222	274,127
Long-term liabilities:		
Derivative instruments	966	433
Long-term debt	1,910,000	1,500,000
Deferred income taxes	179,833	136,407

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Other long-term liabilities	19,705	17,317
Total liabilities	2,460,726	1,928,284
Commitments and Contingencies (Note 9)		
Stockholders' equity:		
Preferred stock, \$0.001 par value; authorized 5,000,000 shares; no shares issued in 2014 or 2013	—	—
Common stock, \$0.001 par value; authorized 150,000,000 shares; issued 62,272,702 shares and 62,032,162 shares at September 30, 2014 and December 31, 2013, respectively	62	61
Additional paid-in capital	1,193,492	1,182,672
Treasury stock, at cost; 785,185 shares and 724,755 shares at September 30, 2014 and December 31, 2013, respectively	(27,308)	(24,592)
Accumulated other comprehensive loss	(98)	(108)
Retained earnings	318,396	190,301
Total stockholders' equity	1,484,544	1,348,334
Total liabilities and stockholders' equity	\$3,945,270	\$3,276,618

See accompanying notes to the consolidated financial statements.

Rosetta Resources Inc.

Consolidated Statement of Operations

(In thousands, except per share amounts)

(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Revenues:				
Oil sales	\$168,016	\$140,172	\$462,396	\$353,119
NGL sales	66,003	50,857	176,740	144,236
Natural gas sales	54,359	34,136	157,878	108,369
Derivative instruments	77,215	(30,597)	4,035	3,484
Total revenues	365,593	194,568	801,049	609,208
Operating costs and expenses:				
Lease operating expense	26,952	15,854	71,537	35,982
Treating and transportation	23,638	18,807	62,933	52,414
Taxes, other than income	13,191	7,896	35,656	24,286
Depreciation, depletion and amortization	128,255	60,915	293,670	153,382
Reserve for commercial disputes	5,800	—	5,800	—
General and administrative costs	23,438	18,790	64,643	52,830
Total operating costs and expenses	221,274	122,262	534,239	318,894
Operating income	144,319	72,306	266,810	290,314
Other expense (income):				
Interest expense, net of interest capitalized	21,011	6,907	53,628	26,009
Interest income	(1)	—	(14)	—
Other expense	(116)	620	12,531	1,061
Total other expense	20,894	7,527	66,145	27,070
Income before provision for income taxes	123,425	64,779	200,665	263,244
Income tax expense	45,017	23,754	72,570	93,387
Net income	\$78,408	\$41,025	\$128,095	\$169,857
Earnings per share:				
Basic	\$1.28	\$0.67	\$2.08	\$2.95
Diluted	\$1.27	\$0.67	\$2.08	\$2.93
Weighted average shares outstanding:				
Basic	61,484	61,152	61,439	57,656
Diluted	61,675	61,364	61,636	57,924

See accompanying notes to the consolidated financial statements.

Rosetta Resources Inc.

Consolidated Statement of Comprehensive Income

(In thousands)

(Unaudited)

	Three Months		Nine Months Ended	
	Ended September 30,		September 30,	
	2014	2013	2014	2013
Net income	\$78,408	\$41,025	\$128,095	\$169,857
Other comprehensive income (loss):				
Amortization of accumulated other comprehensive gain (loss) related to de-designated hedges, net of income taxes of \$58 and (\$97) for the three and nine months ended September 30, 2013, respectively	—	(102)	—	171
Postretirement medical benefits prior service benefit (cost), net of income taxes of (\$2) and (\$3) for the three months ended September 30, 2014 and 2013, respectively, and (\$6) and \$98 for the nine months ended September 30, 2014 and 2013, respectively	4	6	10	(173)
Other comprehensive income (loss)	4	(96)	10	(2)
Comprehensive income	\$78,412	\$40,929	\$128,105	\$169,855

See accompanying notes to the consolidated financial statements.

Rosetta Resources Inc.

Consolidated Statement of Cash Flows

(In thousands)

(Unaudited)

	Nine Months Ended September 30,	
	2014	2013
Cash flows from operating activities:		
Net income	\$ 128,095	\$ 169,857
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, depletion and amortization	293,670	153,382
Deferred income taxes	69,914	89,358
Amortization of deferred loan fees recorded as interest expense	2,866	7,674
Loss on debt extinguishment	3,101	—
Stock-based compensation expense	9,821	8,293
(Gain) loss due to change in fair value of derivative instruments	(17,211)	3,280
Change in operating assets and liabilities:		
Accounts receivable	(31,592)	(11,230)
Prepaid expenses	2,053	(652)
Other current assets	(3,749)	171
Long-term assets	90	(105)
Accounts payable and accrued liabilities	17,848	32,347
Royalties and other payables	35,899	19,201
Other long-term liabilities	(14)	4,189
Excess tax benefit from share-based awards	—	(6,342)
Net cash provided by operating activities	510,791	469,423
Cash flows from investing activities:		
Acquisitions of oil and gas assets	(79,600)	(952,703)
Additions to oil and gas assets	(1,000,816)	(568,140)
Disposals of oil and gas assets	8	(1,402)
Net cash used in investing activities	(1,080,408)	(1,522,245)
Cash flows from financing activities:		
Borrowings on Credit Facility	795,000	580,000
Payments on Credit Facility	(685,000)	(515,000)
Issuance of Senior Notes	500,000	700,000
Retirement of Senior Notes	(200,000)	—
Proceeds from issuance of common stock	—	329,008
Deferred loan fees	(8,364)	(18,102)
Proceeds from stock options exercised	375	4,582
Purchases of treasury stock	(2,716)	(6,838)
Excess tax benefit from share-based awards	165	6,342
Net cash provided by financing activities	399,460	1,079,992
Net (decrease) increase in cash	(170,157)	27,170
Cash and cash equivalents, beginning of period	193,784	36,786
Cash and cash equivalents, end of period	\$ 23,627	\$ 63,956

Supplemental disclosures:

Capital expenditures included in Accounts payable and accrued liabilities	\$ 145,956	\$ 126,780
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See accompanying notes to the consolidated financial statements.

Rosetta Resources Inc.

Consolidated Statement of Stockholders' Equity

(In thousands, except share amounts)

(Unaudited)

	Common Stock		Additional Paid-In Capital	Treasury Stock		Accumulated Other Comprehensive Loss		Retained Earnings	Total Stockholders' Equity
	Shares	Amount		Shares	Amount				
Balance at December 31, 2013	62,032,162	\$ 61	\$ 1,182,672	724,755	\$(24,592)	\$ (108)	\$ 190,301	\$ 1,348,334	
Excess tax benefit from share-based awards	—	—	165	—	—	—	—	165	
Stock options exercised	19,000	1	375	—	—	—	—	376	
Treasury stock - employee tax payment	—	—	—	60,430	(2,716)	—	—	(2,716)	
Stock-based compensation	—	—	10,280	—	—	—	—	10,280	
Vesting of restricted stock	221,540	—	—	—	—	—	—	—	
Comprehensive income	—	—	—	—	—	10	128,095	128,105	
Balance at September 30, 2014	62,272,702	\$ 62	\$ 1,193,492	785,185	\$(27,308)	\$ (98)	\$ 318,396	\$ 1,484,544	

See accompanying notes to the consolidated financial statements.

Rosetta Resources Inc.

Notes to Consolidated Financial Statements (unaudited)

(1) Organization and Operations of the Company

Nature of Operations. Rosetta Resources Inc. (together with its consolidated subsidiaries, the “Company”) is an independent exploration and production company engaged in the acquisition and development of onshore energy resources in the United States of America. The Company’s operations are located in the Eagle Ford shale in South Texas and the Permian Basin in West Texas.

These interim financial statements have not been audited. However, in the opinion of management, all adjustments, consisting of normal recurring adjustments necessary to fairly state the financial statements, have been included. Results of operations for interim periods are not necessarily indicative of the results of operations that may be expected for the entire year. In addition, these financial statements have been prepared in accordance with the instructions to Form 10-Q and, therefore, do not include all disclosures required for financial statements prepared in conformity with accounting principles generally accepted in the U.S. (“GAAP”). These financial statements and notes should be read in conjunction with the Company’s audited Consolidated Financial Statements and the notes thereto included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2013 (“2013 Annual Report”).

(2) Summary of Significant Accounting Policies

The Company has provided a discussion of significant accounting policies, estimates and judgments in its 2013 Annual Report. There have been no changes to the Company’s significant accounting policies since December 31, 2013.

Recent Accounting Developments

In May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2014-09, Revenue from Contracts with Customers. The ASU will supersede most of the existing revenue recognition requirements in GAAP and will require entities to recognize revenue at an amount that reflects the consideration to which the company expects to be entitled in exchange for transferring goods or services to a customer. The new standard also requires disclosures sufficient to enable users to understand an entity’s nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. The pronouncement is effective for annual and interim reporting periods beginning after December 15, 2016, and is to be applied retrospectively, with early application not permitted. This guidance is not expected to have a material impact on the Company’s consolidated financial position, results of operations, or cash flows.

(3) Property and Equipment

The Company’s Total property and equipment, net consists of the following:

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	September 30, 2014	December 31, 2013
	(In thousands)	
Proved properties	\$5,172,365	\$3,951,397
Unproved/unevaluated properties	535,041	755,438
Gathering systems and compressor stations	278,045	168,730
Other fixed assets	29,794	26,362
Total	6,015,245	4,901,927
Less: Accumulated depreciation, depletion and amortization	(2,313,109)	(2,020,879)
Total property and equipment, net	\$3,702,136	\$2,881,048

Acquisitions

2014 Permian Acquisition. On December 30, 2013, the Company entered into a definitive agreement with several private parties to acquire Delaware Basin assets covering 5,034 net acres located in Reeves County (the “2014 Permian Acquisition”). These assets include 13 gross producing wells, of which 11 are operated by the Company. The Company completed the 2014 Permian Acquisition on February 28, 2014, with an effective date of December 1, 2013, for total cash consideration of \$83.8 million.

Gates Ranch Acquisition. In the second quarter of 2013, the Company acquired the remaining 10% working interest in certain producing wells along with a third party's option to participate in future wells in certain leases of its Gates Ranch leasehold located in the Eagle Ford shale (the "Gates Acquisition") in Webb County for total cash consideration of approximately \$128.1 million. The transaction closed on June 5, 2013 (the "Gates Acquisition Date") and was financed with borrowings under the Company's senior secured revolving credit facility (the "Credit Facility"), as described in Note 7 – Debt and Credit Agreements. As of the Gates Acquisition Date, the Company owns a 100% working interest in the entire Gates Ranch leasehold.

2013 Permian Acquisition. On March 14, 2013, the Company entered into a purchase and sale agreement with Comstock Oil & Gas, LP to purchase producing and undeveloped oil and natural gas interests in the Permian Basin in Gaines and Reeves Counties, Texas (the "2013 Permian Acquisition"). The Company completed the 2013 Permian Acquisition on May 14, 2013, with an effective date of January 1, 2013, for total cash consideration of \$825.2 million. The 2013 Permian Acquisition was financed with the proceeds from the Company's issuance of the 5.625% Senior Notes, as described in Note 7 – Debt and Credit Agreements, and the common stock offering described in Note 10 – Equity. In connection with the 2013 Permian Acquisition and related financings, the Company incurred total transaction costs of approximately \$31.0 million, including (i) \$5.6 million of commitment fees and related expenses associated with a bridge credit facility ("Bridge Credit Facility"), which were recorded as Interest expense since the Company did not borrow under the Bridge Credit Facility, (ii) \$10.0 million of debt issuance costs paid in connection with the issuance of the 5.625% Senior Notes, which were deferred and are being amortized over the term of these senior notes, (iii) \$13.1 million of equity issuance costs and related expenses associated with the common stock offering, which were reflected as a reduction of equity proceeds, and (iv) \$2.3 million of consulting, investment, advisory, legal and other acquisition-related fees, which were expensed and are included in General and administrative costs.

The above transactions were accounted for under the acquisition method of accounting, whereby each respective purchase price was allocated to the assets acquired and liabilities assumed based on their estimated fair values, with any excess of the purchase price over the estimated fair value of the identifiable net assets acquired recorded as goodwill (or shortfall of purchase price versus net fair value recorded as bargain purchase). Based on the final purchase price allocations for these acquisitions, no goodwill or bargain purchase was recognized. The final purchase price allocations for these transactions, representing consideration paid, assets acquired and liabilities assumed as of the respective acquisition dates, are shown in the tables below.

2014 Permian Acquisition

	Final Total Purchase Price Allocation (In thousands)
Cash consideration	\$ 83,752
Fair value of assets acquired:	
Oil and natural gas properties	
Proved properties	\$ 61,520
Unproved/unevaluated properties	22,525
Total assets acquired	\$ 84,045
Fair value of liabilities assumed:	
Asset retirement obligations	\$ 293
Net assets acquired	\$ 83,752

2013 Permian Acquisition and Gates Ranch Acquisition

	Final Total Purchase Price Allocation (In thousands)
Cash consideration	\$ 953,242