TOWN SPORTS INTERNATIONAL HOLDINGS INC
Form S-8
July 29, 2011

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As filed with the Securities and Exchange Commission on July 29, 2011

Registration No. 333-

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

FORM S-8
REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933

TOWN SPORTS INTERNATIONAL HOLDINGS, INC.
(Exact Name of Registrant as Specified in Its Charter)

Delaware	**20-0640002**
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)

5 Penn Plaza (4th Floor) **New York, New York**	**10001**
(Address of Principal Executive Offices)	(Zip Code)

Town Sports International Holdings, Inc. 2006 Stock Incentive Plan
(as amended and restated effective as of March 1, 2011)
(Full Title of the Plan)

Copies to:

Robert J. Giardina
Chief Executive Officer and President
Town Sports International Holdings, Inc.
5 Penn Plaza (4th Floor)
New York, New York 10001
(Name and Address of Agent for Service)

Glenn M. Reiter, Esq.
Simpson Thacher & Bartlett LLP
425 Lexington Avenue
New York, New York 10017-3954
(212) 455-2000

(212) 246-6700
(Telephone Number, Including Area Code, of Agent For Service)

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-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. (Check one):

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

CALCULATION OF REGISTRATION FEE

	Proposed Maximum	Proposed Maximum	Amount

Title Of Securities To Be Registered	Amount To Be Registered[1]	Offering Price Per Share[2]	Aggregate Offering Price[2]	Of Registration Fee
Common Stock, par value $0.001 per share	500,000	$ 7.82	$ 3,910,000	$ 453.96

(1) This Registration Statement covers 500,000 shares of the Registrant s common stock available for issuance under the Town Sports International Holdings, Inc. 2006 Stock Incentive Plan (as amended and restated effective as of March 1, 2011). This Registration Statement shall also cover any additional shares of common stock of the Registrant that become issuable under the Town Sports International Holdings, Inc. 2006 Stock Incentive Plan (as amended and restated effective as of March 1, 2011) by reason of any stock dividend, stock split, recapitalization or other similar transaction that results in an increase in the number of the outstanding shares of common stock of the Registrant.

(2) Calculated solely for purposes of the registration fee for this offering in accordance with paragraph (c) and (h)(1) of Rule 457 of the Securities Act of 1933, as amended, on the basis of the average of the high and low prices of the Registrant s common stock as reported by The NASDAQ Global Market on July 27, 2011.

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EXPLANATORY NOTE

This Registration Statement relates to shares of common stock to be issued under the Town Sports International Holdings, Inc. 2006 Stock Incentive Plan (as amended and restated effective as of March 1, 2011). The contents of the registration statement on Form S-8 with respect to the Town Sports International Holdings, Inc. 2006 Stock Incentive Plan (Registration No. 333-151965), filed with the Securities and Exchange Commission (the Commission) on June 26, 2008, are hereby incorporated by reference pursuant to General Instruction E on From S-8.

PART I

INFORMATION REQUIRED IN THE SECTION 10(a) PROSPECTUS

Item 1. Plan Information.

Not required to be filed with this Registration Statement.

Item 2. Registrant Information and Employee Plan Annual Information.

Not required to be filed with this Registration Statement.

PART II

INFORMATION REQUIRED IN THE REGISTRATION STATEMENT

Item 3. Incorporation of Documents by Reference.

Not required to be filed with this Registration Statement pursuant to General Instruction E on Form S-8.

Item 4. Description of Securities

Not applicable.

Item 5. Interests of Named Experts and Counsel.

The validity of the securities offered hereby has been passed upon by David M. Kastin, Esq., Senior Vice President General Counsel and Corporate Secretary of the Registrant. Mr. Kastin is a full-time employee of the Registrant.

Item 6. Indemnification of Directors and Officers.

Section 145 of the General Corporation Law of the State of Delaware (the DGCL) provides for the indemnification of officers and directors in certain circumstances. In accordance with and to the extent permitted by the DGCL, Article VII of the Company s Amended and Restated Certificate of Incorporation (the Certificate of Incorporation) limits the personal liability of the directors of the Registrant for breaches of fiduciary duty. In accordance with and to the extent permitted by the DGCL, Article VIII of the Certificate of Incorporation and

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Article VIII of the Company s Second Amended and Restated By-Laws (the By-Laws) permits the Company to indemnify its directors and officers.

The Company has entered into agreements with its directors and certain officers that will require the Company, among other things, to indemnify them against certain liabilities that may arise by reason of their status or service as directors or officers to the fullest extent not prohibited by law. The Company maintains liability insurance for the benefit of its officers and directors.

The Registrant s 2004 Common Stock Option Plan, as amended (the 2004 Stock Option Plan), provides for the indemnification of the Registrant s directors in connection with any action, suit or proceeding in which such directors are involved by reason of any act or omission under the 2004 Stock Option Plan or any option granted thereunder. To the maximum extent permitted by the DGCL, the Certificate of Incorporation and By-Laws and to the extent not covered by insurance directly insuring such person, the Registrant s 2006 Stock Incentive Plan (as amended and restated effective as of March 1, 2011) (the 2006 Stock Incentive Plan) provides for the indemnification of the Registrant s officers and directors for any cost, expense or liability arising out of any act or omission in connection with the administration of the 2006 Stock Incentive Plan.

The above discussion of the DGCL and of the Certificate of Incorporation, By-Laws, indemnification agreements, 2004 Stock Option Plan and 2006 Stock Incentive Plan is not intended to be exhaustive and is qualified in its entirety by such statute, Certificate of Incorporation, By-Laws, indemnification agreements, 2004 Stock Option Plan and 2006 Stock Incentive Plan.

Insofar as indemnification for liabilities arising under the Securities Act of 1933, as amended, may be permitted to directors, officers or persons controlling the Company as disclosed above, the Company has been informed that in the opinion of the Commission such indemnification is against public policy as expressed in the Securities Act of 1933, as amended, and is therefore unenforceable.

Item 7. Exemption from Registration Claimed.

Not applicable.

Item 8. Exhibits.

Exhibit No.	**Description**
4.1	Amended and Restated Certificate of Incorporation of Town Sports International Holdings, Inc. (incorporated by reference to Exhibit 3.1 of the Registrant s Quarterly Report on Form 10-Q for the quarter ended June 30, 2006 (File No. 000-52013)).
4.2	Second Amended and Restated By-Laws of Town Sports International Holdings, Inc. (incorporated by reference to Exhibit 3.1 of the Registrant s Current Report on Form 8-K, filed with the Commission on May 19, 2008 (File No. 000-52013)).
4.3	Form of Common Stock Certificate (incorporated by reference to Exhibit 4.5 of the Registrant s Current Report on Form 8-K, filed with the Commission on May 19, 2008).
4.4	Town Sports International Holdings, Inc. 2006 Stock Incentive Plan (as amended and restated effective as of March 1, 2011) (incorporated by reference to Appendix A of the Registrant s definitive Proxy Statement on Schedule 14A filed on March 29, 2011).
5.1	Opinion of David M. Kastin, Esq., Senior Vice President General Counsel and Corporate Secretary of the Registrant.*

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Exhibit No.	Description
23.1	Consent of PricewaterhouseCoopers LLP.*
23.2	Consent of David M. Kastin, Esq., Senior Vice President General Counsel and Corporate Secretary of the Registrant (included in Exhibit 5.1).
24	Power of Attorney (included on signature page).*

* Filed herewith.

Item 9. Undertakings.

Not required to be filed with this Registration Statement pursuant to General Instruction E on Form S-8.

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SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, the Registrant certifies that it has reasonable grounds to believe that it meets all of the requirements for filing on Form S-8 and has duly caused this Registration Statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of New York, State of New York on this 29th day of July, 2011.

TOWN SPORTS INTERNATIONAL HOLDINGS, INC.

By: /s/ Robert J. Giardina
Name: Robert J. Giardina
Title: Chief Executive Officer and President

POWER OF ATTORNEY

Each person whose signature appears below constitutes and appoints Robert J. Giardina, Daniel Gallagher and David M. Kastin, and each of them (with full power to act alone) as his true and lawful attorney-in-fact and agent, with full power of substitution and resubstitution, for him and in his name, place and stead, in any and all capacities, to sign any and all amendments (including post-effective amendments, exhibits thereto and other documents in connection therewith) to this Registration Statement, and to file the same, with all exhibits thereto, and other documents in connection therewith, with the Commission, granting unto said attorney-in-fact and agent, full power and authority to do and perform each and every act and thing requisite and necessary to be done in and about the premises, as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that said attorney-in-fact and agent or his or substitute, may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Act of 1933, this Registration Statement has been signed by the following persons in the capacities and on the date indicated.

Signature	Title	Date
/s/ Robert J. Giardina Robert J. Giardina	Chief Executive Officer, President and Director (Principal Executive Officer)	July 29, 2011
/s/ Daniel Gallagher Daniel Gallagher	Chief Financial Officer (Principal Accounting and Financial Officer)	July 29, 2011
/s/ Keith E. Alessi Keith E. Alessi	Director	July 29, 2011
/s/ Paul N. Arnold Paul N. Arnold	Director	July 29, 2011
/s/ Bruce C. Bruckmann Bruce C. Bruckmann	Director	July 29, 2011

/s/ J. Rice Edmonds	Director	July 29, 2011
J. Rice Edmonds		

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Signature	Title	Date
/s/ Thomas J. Galligan III	Chairman of the Board and Director	July 29, 2011
Thomas J. Galligan III		
/s/ Kevin McCall	Director	July 29, 2011
Kevin McCall		

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4.4	Town Sports International Holdings, Inc. 2006 Stock Incentive Plan (as amended and restated effective as of March 1, 2011) (incorporated by reference to Appendix A of the Registrant s definitive Proxy Statement on Schedule 14A filed on March 29, 2011).
5.1	Opinion of David M. Kastin, Esq., Senior Vice President General Counsel and Corporate Secretary of the Registrant. *
23.1	Consent of PricewaterhouseCoopers LLP.*
23.2	Consent of David M. Kastin, Esq., Senior Vice President General Counsel and Corporate Secretary of the Registrant (included in Exhibit 5.1).
24	Power of Attorney (included on signature page).*

* Filed herewith.

;font-family:Times New Roman,Times,serif;height:1.00pt;overflow:hidden;font-size:0pt;">

December 31,

2016

2015

Cash at banks

$

58,269

$

35,600

Money market funds

443,648

399,448

Total cash and cash equivalents

$

501,917

$

435,048

Note 5. Long Term Debt

Long-term debt as of December 31, 2016 consisted of $1.15 billion face value of 6.125% senior notes (the “6.125% Notes,” consisting of $850 million in Original 6.125% Notes and $300 million in Additional 6.125% Notes (defined below), which were issued at a premium to face value of $2.3 million) maturing on January 15, 2023, and $600 million principal amount of 7.75% senior notes (the “7.75% Notes,” consisting of $400 million in Original 7.75% Notes (defined below) and $200 million in Additional 7.75% Notes, which were issued at a discount to face value of $7.0 million), maturing on June 15, 2021. During the first quarter 2016, the Company adopted ASU 2015-03 retrospectively to the comparable periods in this Form 10-Q. Adoption of this guidance affected the balance sheets as of December 31, 2015 as follows (in thousands):

Decrease in Long term debt, net of premium, discount and debt issuance costs of approximately $41,039

Decrease in Debt issuance costs, net (Other Assets) of approximately $41,039

As of December 31, 2016 and 2015 the Company’s long-term debt consisted of the following:

			Amount Outstanding (in thousands) as of	
	Interest Rate	Maturity date	December 31, 2016	December 31, 2015
Second Amended and Restated Credit Agreement	Variable	June 30, 2019	$ —	$ —
7.75% Notes	7.75%	June 15, 2021	600,000	600,000
6.125% Notes	6.125%	January 15, 2023	1,150,000	1,150,000
			1,750,000	1,750,000
Unamortized discount on Additional 7.75% Notes			(4,030)	(4,933)
Unamortized premium on Additional 6.125% Notes			1,629	1,899
Unamortized debt issuance costs			(34,832)	(41,039)
Total long-term debt			$ 1,712,767	$ 1,705,927

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Notes to the Consolidated Financial Statements (Continued)

The components of interest expense are (in thousands):

	Year Ended December 31,		
	2016	2015	2014
Interest on Senior Notes	$ (116,938)	$ (116,938)	$ (78,479)
Interest expense and commitment fees on credit agreement	(1,561)	(1,229)	(1,564)
Amortization of debt issuance costs	(7,840)	(7,529)	(9,002)
Amortization of discount on Additional 7.75% Notes	(904)	(904)	(905)
Amortization of premium on Additional 6.125% Notes	270	201	150
Total interest expense	$ (126,973)	$ (126,399)	$ (89,800)

Credit Facility

Previous Credit Agreement: On May 31, 2013, we and our subsidiaries, SEP Holdings III, LLC ("SEP III"), SN Marquis LLC ("SN Marquis") and SN Cotulla, collectively, as the borrowers, entered into a revolving credit facility represented by a $500 million Amended and Restated Credit Agreement with Royal Bank of Canada as the administrative agent and collateral agent, and the lenders party thereto (the "Amended and Restated Credit Agreement"). The Amended and Restated Credit Agreement was to mature on May 31, 2018.

On May 12, 2014, the Company borrowed $100 million under the Amended and Restated Credit Agreement. The Company used proceeds from the issuance of the Original 6.125% Notes to repay the $100 million outstanding.

Second Amended and Restated Credit Agreement: On June 30, 2014, the Company, as borrower, and SEP III, SN Marquis, SN Cotulla, SN Operating, LLC, SN TMS, LLC and SN Catarina, LLC as loan parties, entered into a revolving credit facility represented by a $1.5 billion Second Amended and Restated Credit Agreement with Royal Bank of Canada, as the administrative agent and collateral agent, and the lenders party thereto (together with all subsequent amendments, the ''Second Amended and Restated Credit Agreement''). The Second Amended and Restated Credit Agreement provides for the issuance of letters of credit, limited in the aggregate to the lesser of $80 million and the total availability thereunder. As of December 31, 2016, there were no borrowings and no letters of credit outstanding under the Second Amended and Restated Credit Agreement, which had a borrowing base of $350 million and aggregate elected commitments of $300 million. Availability under the Second Amended and Restated Credit Agreement is at all times subject to customary conditions and the then applicable borrowing base and aggregate

elected commitment amount. All of the $300 million aggregate elected commitment amount was available for future revolver borrowings as of December 31, 2016.

The Second Amended and Restated Credit Agreement matures on June 30, 2019. The borrowing base under the Second Amended and Restated Credit Agreement is redetermined semi-annually by the lenders based on, among other things, an evaluation of the Company's and its restricted subsidiaries' oil and natural gas reserves. Semi-annual redeterminations of the borrowing base are generally scheduled to occur on or before April 1 and October 1 of each year. The borrowing base is also subject to (i) automatic reduction by 25% of the amount of any increase in the aggregate amount of the Company's high yield debt and second lien debt, other than high yield or second lien debt issued in exchange for or to refinance existing high yield debt, permitted second lien debt incurred to refinance or replace permitted second lien debt, and permitted second lien debt representing the payment of interest in kind, (ii) interim redetermination at the election of the Company once between each scheduled redetermination, (iii) interim redetermination at the election of a majority of the lenders once between each scheduled redetermination, and (iv) if the

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Sanchez Energy Corporation

Notes to the Consolidated Financial Statements (Continued)

required lenders so direct, in connection with asset sales and swap terminations during the period since the most recent borrowing base determination with a combined borrowing base value of more than 10% of the value of the proved developed oil and gas properties included in the most recent reserve report, a reduction in an amount equal to the borrowing base value, as determined by the administrative agent in its reasonable judgment, of such assets and swaps

The Company's obligations under the Second Amended and Restated Credit Agreement are guaranteed by all of the Company's existing and future subsidiaries not designated as "unrestricted subsidiaries" and secured by a first priority lien on substantially all of the Company's assets and the assets of its existing and future subsidiaries including the SPV, defined below, an "unrestricted subsidiary," but excluding other subsidiaries designated as "unrestricted subsidiaries," including a first priority lien on all ownership interests in existing and future subsidiaries not designated as "unrestricted subsidiaries."

At the Company's election, interest on borrowings under the Second Amended and Restated Credit Agreement may be calculated based on an alternate base rate or an adjusted eurodollar (LIBOR) rate, plus an applicable margin. The applicable margin varies from 1.00% to 2.00% for alternate base rate borrowings and from 2.00% to 3.00% for eurodollar (LIBOR) borrowings and letters of credit, if any, depending on the Company's utilization of the borrowing base. The Company is also required to pay a commitment fee of 0.50% per annum on any unused aggregate elected commitment amount.

The Second Amended and Restated Credit Agreement contains various affirmative and negative covenants and events of default that limit the Company's ability to, among other things, incur indebtedness, make restricted payments, grant liens, consolidate or merge, dispose of certain assets, make investments, engage in transactions with affiliates, enter into hedge transactions and make acquisitions. The Second Amended and Restated Credit Agreement also provides for cross default between the Second Amended and Restated Credit Agreement and the other debt (including debt under the 6.125% Notes and the 7.75% Notes) and obligations in respect of hedging agreements (on a mark-to-market basis), of the Company and its restricted subsidiaries, in an aggregate principal amount in excess of $10 million. Furthermore, the Second Amended and Restated Credit Agreement contains financial covenants that require the Company to satisfy the following tests: (i) current assets plus undrawn borrowing capacity on the Second Amended and Restated Credit Agreement to current liabilities of at least 1.0 to 1.0 at all times, and (ii) net first lien debt (defined as the excess of first lien debt over cash) to consolidated last twelve months EBITDA of not greater than 2.00 to 1.0 as of the last day of any fiscal quarter. As of December 31, 2016, the Company was in compliance with the covenants of the Second Amended and Restated Credit Agreement.

The Second Amended and Restated Credit Amendment, among other things, also (a) permits the repurchase by the Company and its restricted subsidiaries, or by a special purpose unrestricted subsidiary of the Company (the “SPV”), of the Company’s senior unsecured notes and common and preferred equity securities, from cash in excess of lender credit exposure in an aggregate amount up to approximately $298.5 million subject to certain caps on purchases of the Company’s common and preferred equity securities and other limitations; (b) permits (i) the formation and capitalization of the SPV with up to $150 million, (ii) the SPV to purchase, hold and dispose of, including by way of distribution to its immediate parent, up to $150 million of the Company’s senior unsecured notes and common and preferred equity securities, (iii) the SPV to hold cash received from its immediate parent in a deposit account maintained with a lender under the Second Amended and Restated Credit Agreement, and (iv) the SPV to distribute cash to its immediate parent; (c) requires (i) the Company to cause the SPV to distribute all cash held by it or in its name as of the close of business on December 31, 2016 to its immediate parent, (ii) the equity interests in the SPV to be pledged in favor of the secured parties and (iii) the Company to maintain all deposits, securities and commodity accounts with lenders or affiliates of lenders under the Second Amended and Restated Credit Agreement and to enter into account control agreements in favor of the administrative agent for the benefit of the secured parties in respect of each of such accounts; (d) provides that, in

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Notes to the Consolidated Financial Statements (Continued)

the event of a borrowing base deficiency, the Company shall use unrestricted cash of the Company and its subsidiaries in excess of $35 million to prepay borrowings and cash collateralize letter of credit exposure, as applicable; and (e) restricts the Company from increasing its aggregate elected commitment amount until the lenders' next regularly scheduled borrowing base redetermination, which is expected to occur in the fourth quarter 2016.

From time to time, the agents, arrangers, book runners and lenders under the Second Amended and Restated Credit Agreement and their affiliates have provided, and may provide in the future, investment banking, commercial lending, hedging and financial advisory services to the Company and its affiliates in the ordinary course of business, for which they have received, or may in the future receive, customary fees and commissions for these transactions.

7.75% Senior Notes Due 2021

On June 13, 2013, we completed a private offering of $400 million in aggregate principal amount of the Company's 7.75% senior notes that will mature on June 15, 2021 (the "Original 7.75% Notes"). Interest on the notes is payable on each June 15 and December 15. We received net proceeds from this offering of approximately $388 million, after deducting initial purchasers' discounts and offering expenses, which we used to repay outstanding indebtedness under our credit facilities. The Original 7.75% Notes are senior unsecured obligations and are guaranteed on a joint and several senior unsecured basis by, with certain exceptions, substantially all of our existing and future subsidiaries.

On September 18, 2013, we issued an additional $200 million in aggregate principal amount of our 7.75% senior notes due 2021 (the "Additional 7.75% Notes" and, together with the Original 7.75% Notes, the "7.75% Notes") in a private offering at an issue price of 96.5% of the principal amount of the Additional 7.75% Notes. We received net proceeds of $188.8 million (after deducting the initial purchasers' discounts and offering expenses of $4.2 million) from the sale of the Additional 7.75% Notes. The Company also received cash for accrued interest from June 13, 2013 through the date of issuance of $4.1 million, for total net proceeds of $192.9 million from the sale of the Additional 7.75% Notes. The Additional 7.75% Notes were issued under the same indenture as the Original 7.75% Notes, and are, therefore, treated as a single class of securities under the indenture. We used the net proceeds from the offering to partially fund our acquisition of contiguous acreage in McMullen County, Texas (the "Wycross Acquisition") completed in October 2013, a portion of the 2013 and 2014 capital budgets, and for general corporate purposes.

The 7.75% Notes are senior unsecured obligations and rank equally in right of payment with all of our existing and future senior unsecured indebtedness. The 7.75% Notes rank senior in right of payment to our future subordinated indebtedness. The 7.75% Notes are effectively junior in right of payment to all of our existing and future secured debt (including under our Second Amended and Restated Credit Agreement) to the extent of the value of the assets securing such debt. The 7.75% Notes are fully and unconditionally guaranteed (except for customary release provisions) on a joint and several senior unsecured basis by the subsidiary guarantors party to the indenture governing the 7.75% Notes. To the extent set forth in the indenture governing the 7.75% Notes, certain of our subsidiaries will be required to fully and unconditionally guarantee the 7.75% Notes on a joint and several senior unsecured basis in the future.

The indenture governing the 7.75% Notes, among other things, restricts our ability and our restricted subsidiaries' ability to: (i) incur, assume, or guarantee additional indebtedness or issue certain types of equity securities; (ii) pay distributions on, purchase or redeem shares or purchase or redeem subordinated debt; (iii) make certain investments; (iv) enter into certain transactions with affiliates; (v) create or incur liens on their assets; (vi) sell assets; (vii) consolidate, merge or transfer all or substantially all of their assets; (viii) restrict distributions or other payments from the Company's restricted subsidiaries; and (ix) designate subsidiaries as unrestricted subsidiaries.

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Notes to the Consolidated Financial Statements (Continued)

We have the option to redeem all or a portion of the 7.75% Notes, at any time on or after June 15, 2017 at the applicable redemption prices specified in the indenture plus accrued and unpaid interest. We may also redeem the 7.75% Notes, in whole or in part, at a redemption price equal to 100% of their principal amount plus a make whole premium, together with accrued and unpaid interest and additional interest, if any, to the redemption date, at any time prior to June 15, 2017. In addition, we may be required to repurchase the 7.75% Notes upon a change of control or if we sell certain of our assets.

On July 18, 2014, we completed an exchange offer of $600 million aggregate principal amount of the 7.75% Notes that had been registered under the Securities Act of 1933, as amended (the “Securities Act”), for an equal amount of the 7.75% Notes that had not been registered under the Securities Act.

6.125% Senior Notes Due 2023

On June 27, 2014, the Company completed a private offering of $850 million in aggregate principal amount senior unsecured 6.125% notes due 2023 (the Original 6.125% Notes). Interest on the notes is payable on each July 15 and January 15. The Company received net proceeds from this offering of approximately $829 million, after deducting initial purchasers’ discounts and estimated offering expenses, which the Company used to repay all of the $100 million in borrowings outstanding under its Amended and Restated Credit Agreement and to finance a portion of the purchase price of the Catarina Acquisition. We used the remaining proceeds from the offering to fund a portion of the remaining 2014 capital budget and for general corporate purposes. The Original 6.125% Notes are the senior unsecured obligations of the Company and are guaranteed on a joint and several senior unsecured basis by, with certain exceptions, substantially all of the Company’s existing and future subsidiaries.

On September 12, 2014, we issued an additional $300 million in aggregate principal amount of our 6.125% senior notes due 2023 (the “Additional 6.125% Notes” and, together with the Original 6.125% Notes, the “6.125% Notes” and, together with the 7.75% Notes, the “Senior Notes”) in a private offering at an issue price of 100.75% of the principal amount of the Additional 6.125% Notes. We received net proceeds of $295.9 million, after deducting the initial purchasers’ discounts, adding premiums to face value of $2.3 million and deducting estimated offering expenses of $6.4 million. The Company also received cash for accrued interest from June 27, 2014 through the date of the issuance of $3.8 million, for total net proceeds of $299.7 million from the sale of the Additional 6.125% Notes. The Additional 6.125% Notes were issued under the same indenture as the Original 6.125% Notes, and are therefore treated as a single class of securities under the indenture. We used a portion of the net proceeds from the offering to fund a portion of the 2014 capital budget and used the remainder of the net proceeds to fund a portion of the 2015

capital budget, and for general corporate purposes.

The 6.125% Notes are senior unsecured obligations and rank equally in right of payment with all of our existing and future senior unsecured indebtedness. The 6.125% Notes rank senior in right of payment to the Company's future subordinated indebtedness. The 6.125% Notes are effectively junior in right of payment to all of the Company's existing and future secured debt (including under the Second Amended and Restated Credit Agreement) to the extent of the value of the assets securing such debt. The 6.125% Notes are fully and unconditionally guaranteed (except for customary release provisions) on a joint and several senior unsecured basis by the subsidiary guarantors party to the indenture governing the 6.125% Notes. To the extent set forth in the indenture governing the 6.125% Notes, certain of our subsidiaries will be required to fully and unconditionally guarantee the 6.125% Notes on a joint and several senior unsecured basis in the future.

The indenture governing the 6.125% Notes, among other things, restricts our ability and our restricted subsidiaries' ability to: (i) incur, assume or guarantee additional indebtedness or issue certain types of equity securities;

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Notes to the Consolidated Financial Statements (Continued)

(ii) pay distributions on, purchase or redeem shares or purchase or redeem subordinated debt; (iii) make certain investments; (iv) enter into certain transactions with affiliates; (v) create or incur liens on their assets; (vi) sell assets; (vii) consolidate, merge or transfer all or substantially all of their assets; (viii) restrict distributions or other payments from the Company's restricted subsidiaries; and (ix) designate subsidiaries as unrestricted subsidiaries.

The Company has the option to redeem all or a portion of the 6.125% Notes, at any time on or after July 15, 2018 at the applicable redemption prices specified in the indenture plus accrued and unpaid interest. The Company may also redeem the 6.125% Notes, in whole or in part, at a redemption price equal to 100% of their principal amount plus a make whole premium, together with accrued and unpaid interest and additional interest, if any, to the redemption date, at any time prior to July 15, 2018. In addition, the Company may redeem up to 35% of the 6.125% Notes prior to July 15, 2017 under certain circumstances with an amount not greater than the net cash proceeds of one or more equity offerings at the redemption price specified in the indenture. The Company may also be required to repurchase the 6.125% Notes upon a change of control or if we sell certain Company assets.

On February 27, 2015, we completed an exchange offer of $1.15 billion aggregate principal amount of the 6.125% Notes that had been registered under the Securities Act, for an equal amount of the 6.125% Notes that had not been registered under the Securities Act.

Pursuant to tripartite agreements by and among the Company, U.S. Bank National Association ("U.S. Bank") and Delaware Trust Company ("Delaware Trust"), effective May 20, 2016, U.S. Bank resigned as the Trustee, Notes Custodian, Registar and Paying Agent ("Trustee") under the indentures of the Senior Notes and Delaware Trust was appointed as successor Trustee. No other changes to the indentures for the 6.125% Notes or the 7.75% Notes were made at the time of the change in Trustee.

Note 6. Stockholders' Equity

Common Stock Offerings— On September 18, 2013, the Company completed a public offering of 11,040,000 shares of common stock (including 1,440,000 shares purchased pursuant to the full exercise of the underwriters' overallotment option), at an issue price of $23.00 per share. The Company received net proceeds from this offering of $241.4

million, after deducting underwriters' fees and offering expenses of $12.5 million. The Company used the net proceeds from the offering to partially fund the Wycross Acquisition completed in October 2013 and a portion of the 2013 and 2014 capital budgets, and for general corporate purposes.

On June 12, 2014, the Company completed a public offering of 5,000,000 shares of common stock, at an issue price of $35.25 per share. The Company received net proceeds from this offering of $167.5 million, after deducting underwriters' fees and offering expenses of $8.7 million. The Company used the net proceeds from the offering to partially fund the 2014 capital budget and for general corporate purposes.

As discussed further below in Note 19, "Subsequent Events," on February 6, 2017, the Company completed a public offering of 11,500,000 shares of common stock (including 1,500,000 shares purchased pursuant to the full exercise of the underwriters' overallotment option), at an issue price of $12.50 per share. The Company received net proceeds from this offering of $135.9 million, after deducting underwriters' discounts fees of approximately $7.8 million.

Series A Preferred Stock Offering—On September 17, 2012, the Company completed a private placement of 3,000,000 shares of Series A Preferred Stock, which were sold to a group of qualified institutional buyers pursuant to the Rule 144A exemption from registration under the Securities Act. The issue price of each share of the Series A Preferred

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Notes to the Consolidated Financial Statements (Continued)

Stock was $50.00. The Company received net proceeds from the private placement of $144.5 million, after deducting initial purchasers' discounts and commissions and offering costs of $5.5 million.

Each share of Series A Preferred Stock is convertible at any time at the option of the holder thereof at an initial conversion rate of 2.325 shares of common stock per share of Series A Preferred Stock (which is equal to an initial conversion price of $21.51 per share of common stock) and is subject to specified adjustments. As of December 31, 2016, based on the initial conversion price, approximately 4,275,640 shares of common stock would be issuable upon conversion of all of the outstanding shares of the Series A Preferred Stock.

The annual dividend on each share of Series A Preferred Stock is 4.875% on the liquidation preference of $50.00 per share and is payable quarterly, in arrears, on each January 1, April 1, July 1 and October 1, when, as and if declared by the Company's Board of Directors (the "Board"). The Company may, at its option, pay dividends in cash and, subject to certain conditions, common stock or any combination thereof. Dividends are cumulative, and as of December 31, 2016, all dividends accumulated through that date had been paid. The dividends accrued for the period from October 1 to December 31, 2016, were declared by the Board and paid with the Company's common stock on January 3, 2017.

Except as required by law or the Company's Amended and Restated Certificate of Incorporation, (the "Charter"), holders of the Series A Preferred Stock will have no voting rights unless dividends fall into arrears for six or more quarterly periods (whether or not consecutive). In that event and until such arrearage is paid in full, the holders of the Series A Preferred Stock and the holders of the Series B Preferred Stock, voting as a single class, will be entitled to elect two directors and the number of directors on the Board will increase by that same number.

At any time on or after October 5, 2017, the Company may at its option cause all outstanding shares of the Series A Preferred Stock to be automatically converted into common stock at the conversion price, if, among other conditions, the closing sale price (as defined) of the Company's common stock equals or exceeds 130% of the conversion price for a specified period prior to the conversion.

If a holder elects to convert shares of Series A Preferred Stock upon the occurrence of certain specified fundamental changes, the Company will be obligated to deliver an additional number of shares above the applicable conversion rate to compensate the holder for lost option time value of the shares of Series A Preferred Stock as a result of the fundamental change.

Series B Preferred Stock Offering—On March 26, 2013, the Company completed a private placement of 4,500,000 shares of Series B Preferred Stock. The issue price of each share of the Series B Preferred Stock was $50.00. The Company received net proceeds from the private placement of $216.6 million, after deducting placement agent's fees and offering costs of $8.4 million.

Each share of Series B Preferred Stock is convertible at any time at the option of the holder thereof at an initial conversion rate of 2.337 shares of common stock per share of Series B Preferred Stock (which is equal to an initial conversion price of approximately $21.40 per share of common stock) and is subject to specified adjustments. As of December 31, 2016, based on the initial conversion price, approximately 8,244,539 shares of common stock would be issuable upon conversion of all of the outstanding shares of the Series B Preferred Stock.

The annual dividend on each share of Series B Preferred Stock is 6.500% on the liquidation preference of $50.00 per share and is payable quarterly, in arrears, on each January 1, April 1, July 1 and October 1, when, as and if declared by the Board. The Company may, at its option, pay dividends in cash and, subject to certain conditions,

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Notes to the Consolidated Financial Statements (Continued)

common stock or any combination thereof. Dividends are cumulative, and as of December 31, 2016, all dividends accumulated through that date had been paid. The dividends accrued for the period from October 1 to December 31, 2016, were declared by the Board and paid with the Company's common stock on January 3, 2017.

Except as required by law or the Charter, holders of the Series B Preferred Stock will have no voting rights unless dividends fall into arrears for six or more quarterly periods (whether or not consecutive). In that event and until such arrearage is paid in full, the holders of the Series B Preferred Stock and the holders of the Series A Preferred Stock, voting as a single class, will be entitled to elect two directors and the number of directors on the Board will increase by that same number.

At any time on or after April 6, 2018, the Company may at its option cause all outstanding shares of the Series B Preferred Stock to be automatically converted into common stock at the conversion price, if, among other conditions, the closing sale price (as defined) of the Company's common stock equals or exceeds 130% of the conversion price for a specified period prior to the conversion.

If a holder elects to convert shares of Series B Preferred Stock upon the occurrence of certain specified fundamental changes, the Company will be obligated to deliver an additional number of shares above the applicable conversion rate to compensate the holder for lost option time value of the shares of Series B Preferred Stock as a result of the fundamental change.

Preferred Stock Exchange—On February 12, 2014 and February 13, 2014, the Company entered into exchange agreements with certain holders (the "February 2014 Holders") of the Series A Preferred Stock and the Series B Preferred Stock pursuant to which such holders agreed to exchange an aggregate of (i) 947,490 shares of the Series A Preferred Stock (and waive their rights to any accrued and unpaid dividends thereon) for 2,425,574 shares of the Company's common stock, and (ii) 756,850 shares of the Series B Preferred Stock (and waive their rights to any accrued and unpaid dividends thereon) for 2,021,066 shares of the Company's common stock.

Additionally, on May 29, 2014, the Company entered into exchange agreements with certain holders (the "May 2014 Holders") of the Series A Preferred Stock and the Series B Preferred Stock pursuant to which such holders agreed to exchange an aggregate of (i) 166,025 shares of the Series A Preferred Stock (and waive their rights to any accrued and unpaid dividends thereon) for 418,715 shares of the Company's common stock, and (ii) 210,820 shares of the Series B

Preferred Stock (and waive their rights to any accrued and unpaid dividends thereon) for 553,980 shares of the Company's common stock.

Further, on August 28, 2014, the Company entered into exchange agreements with certain holders (the "August 2014 Holders,'" and together with the May 2014 Holders and the February 2014 Holders, the "Holders") of the Series A Preferred Stock, pursuant to which such holders agreed to exchange an aggregate of 47,500 shares of Series A Preferred Stock (and waive their rights to any accrued and unpaid dividends thereon) for 119,320 shares of the Company's common stock.

Since the Holders were not entitled to any consideration over and above the initial conversion rates of 2.325 and 2.337 shares of common stock for each preferred share exchanged for Series A Preferred Stock and Series B Preferred Stock, respectively, any consideration is considered an inducement for the Holders to convert earlier than the Company could have forced conversion.

The Company has determined the fair value of consideration transferred to the Holders and the fair value of consideration transferrable pursuant to the original conversion terms. The $13.9 million, $3.1 million and $0.3 million

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excess of the fair value of the shares of common stock issued over the carrying value of the Series A Preferred Stock and Series B Preferred Stock redeemed in connection with the exchange agreements entered into in February, May and August 2014, respectively, has been reflected as an additional preferred stock dividend (i.e., as an increase in accumulated deficit) to arrive at net loss attributable to common stockholders in our condensed consolidated financial statements.

Preferred Stock Conversion—On November 20, 2015, a holder of our Series B Preferred Stock exercised its right to convert 4,500 shares our Series B Preferred Stock, at the prescribed initial conversion rate of 2.337 shares of common stock per share of Series B Preferred Stock, in exchange for 10,517 shares of our common stock.

NOL Rights Plan—On July 28, 2015, the Company entered into a net operating loss carryforwards (“NOLs”) rights plan (the “Rights Plan”) with Continental Stock Transfer & Trust Company, as rights agent. In connection therewith, the Board declared a dividend of one preferred share purchase right (“Right”) for each outstanding share of the Company’s common stock. The dividend was paid on August 10, 2015 to stockholders of record as of the close of business on August 7, 2015 (the “NOL Record Date”). In addition, one Right automatically attaches to each share of common stock issued between the NOL Record Date and such date as when the Rights become exercisable.

Earnings (Loss) Per Share—The following table shows the computation of basic and diluted net earnings (loss) per share for the years ended December 31, 2016, 2015, and 2014 (in thousands, except per share amounts):

	Year Ended December 31,		
	2016	2015	2014
Net loss	$ (256,958)	$ (1,454,627)	$ (21,791)
Less:			
Preferred stock dividends	(15,948)	(16,008)	(33,590)
Net loss allocable to participating securities(1)(2)	—	—	—
Net loss attributable to common stockholders	$ (272,906)	$ (1,470,635)	$ (55,381)
Weighted average number of unrestricted outstanding common shares used to calculate basic net loss per share	58,900	57,229	52,338
Dilutive shares(3)(4)(5)	—	—	—
Denominator for diluted loss per common share	58,900	57,229	52,338
Net loss per common share - basic and diluted	$ (4.63)	$ (25.70)	$ (1.06)

(1) The Company's restricted shares of common stock are participating securities.

(2) For the years ended December 31, 2016, 2015 and 2014, no losses were allocated to participating restricted stock because such securities do not have a contractual obligation to share in the Company's losses.

(3) The year ended December 31, 2016 excludes 2,113,462 shares of weighted average restricted stock and 12,554,481 shares of common stock resulting from an assumed conversion of the Company's Series A Preferred Stock and Series B Preferred Stock from the calculation of the denominator for diluted earnings (loss) per common share as these shares were anti-dilutive.

(4) The year ended December 31, 2015 excludes 2,663,010 shares of weighted average restricted stock and 12,529,314 shares of common stock resulting from an assumed conversion of the Company's Series A Preferred Stock and

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Notes to the Consolidated Financial Statements (Continued)

Series B Preferred Stock from the calculation of the denominator for diluted earnings (loss) per common share as these shares were anti-dilutive.

(5) The year ended December 31, 2014 excludes 1,732,888 shares of weighted average restricted stock and 13,527,738 shares of common stock resulting from an assumed conversion of the Company's Series A Preferred Stock and Series B Preferred Stock from the calculation of the denominator for diluted earnings (loss) per common share as these shares were anti-dilutive.

Note 7. Stock Based Compensation

At the Annual Meeting of Stockholders of the Company held on May 24, 2016 ("2016 Annual Meeting"), the Company's stockholders approved the Sanchez Energy Corporation Third Amended and Restated 2011 Long Term Incentive Plan (the "LTIP"). The Board had previously approved the LTIP on May 21, 2015, subject to stockholder approval.

The Company's directors and consultants as well as employees of SOG and its affiliates (excluding the Company) (collectively, the "Sanchez Group") who provide services to the Company are eligible to participate in the LTIP. Awards to participants may be made in the form of stock options, stock appreciation rights, restricted shares, phantom stock, other stock-based awards or stock awards, or any combination thereof. The maximum shares of common stock that may be delivered with respect to awards under the LTIP shall be (i) 17,239,790 shares plus (ii) upon the issuance of additional shares of common stock from time to time after April 1, 2016, an automatic increase equal to the lesser of (A) 15% of such issuance of additional shares of common stock, and (B) such lesser number of shares of common stock as determined by the Board or Compensation Committee; provided, however, withheld to satisfy tax withholding obligations are not considered to be delivered under the LTIP. If any award is forfeited, cancelled, exercised, paid, or otherwise terminates or expires without the actual delivery of shares of common stock pursuant to such award (the grant of restricted stock is not a delivery of shares of common stock for this purpose), the shares subject to such award shall again be available for awards under the LTIP. There shall not be any limitation on the number of awards that may be paid in cash. Any shares delivered pursuant an award shall consist, in whole or in part, of shares of common stock newly issued by the Company, shares of common stock acquired in the open market, from any affiliate of the Company, or any combination of the foregoing, as determined by the Board or Compensation Committee in its discretion.

The LTIP is administered by the Compensation Committee of the Board as appointed by the Board. The Board may terminate or amend the LTIP at any time with respect to any shares for which a grant has not yet been made. The

Board has the right to alter or amend the LTIP or any part of the LTIP from time to time, including increasing the number of shares that may be granted, subject to stockholder approval as may be required by the exchange upon which shares of the common stock are listed at that time, if any. No change may be made in any outstanding grant that would materially reduce the benefits of the participant without the consent of the participant. The LTIP will expire upon its termination by the Board or, if earlier, when no shares remain available under the LTIP for awards. Upon termination of the LTIP, awards then outstanding will continue pursuant to the terms of their grants.

The Company records stock-based compensation expense for awards granted to its directors (for their services as directors) in accordance with the provisions of ASC 718, “Compensation—Stock Compensation.” Stock-based compensation expense for these awards is based on the grant-date fair value and recognized over the vesting period using the straight-line method.

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Notes to the Consolidated Financial Statements (Continued)

Awards granted to employees of the Sanchez Group (including those employees of the Sanchez Group who also serve as the Company's officers) and consultants in exchange for services are considered awards to non-employees and the Company records stock-based compensation expense for these awards at fair value in accordance with the provisions of ASC 505-50, "Equity-Based Payments to Non-Employees." For awards granted to non-employees, the Company records compensation expenses equal to the fair value of the stock-based award at the measurement date, which is determined to be the earlier of the performance commitment date or the service completion date. Compensation expense for unvested awards to non-employees is revalued at each period end and is amortized over the vesting period of the stock-based award. Stock-based payments are measured based on the fair value of the equity instruments granted, as it is more determinable than the value of the services rendered.

For the restricted stock awards granted to non-employees, stock-based compensation expense is based on fair value re-measured at each reporting period and recognized over the vesting period using the straight-line method. Compensation expense for these awards will be revalued at each period end until vested.

During the year ended December 31, 2016, the Company issued 156,126 shares of restricted common stock pursuant to the LTIP to five directors of the Company that vest within one year from the date of grant. Pursuant to ASC 718, stock-based compensation expense for these awards was based on their grant date fair values of $8.00 and $5.81 per share (the closing sales price of the Company's common stock on the grant date) and is being amortized over the vesting period.

The Company also issued approximately 4.4 million shares of restricted common stock pursuant to the LTIP to certain employees and consultants of SOG (including the Company's officers), with whom the Company has a services agreement. Approximately 3.3 million shares of restricted common stock vest in equal annual amounts over a three-year period and the remaining 1.1 million shares of restricted common stock with cliff vesting at the end of a five-year period or earlier if the common stock closing price equals or exceeds certain benchmarks as set forth in the forms of agreement.

During the year ended December 31, 2015, the Company issued 95,237 shares of restricted common stock pursuant to the LTIP to five directors of the Company that vest within one year from the date of grant. Pursuant to ASC 718, stock-based compensation expense for these awards was based on their grant date fair values of $12.65 and $9.80 per share (the closing sales price of the Company's common stock on the grant date) and is being amortized over the vesting period

The Company also issued approximately 3.4 million shares of restricted common stock pursuant to the LTIP to certain employees and consultants of SOG (including the Company's officers), with whom the Company has a services agreement. Approximately 3.3 million shares of restricted common stock vest in equal annual amounts over a three-year period and approximately 0.1 million shares of restricted common stock vest in equal annual amounts over a five-year period.

During the year ended December 31, 2014, the Company issued 35,769 shares of restricted common stock pursuant to the LTIP to four directors of the Company that vest within one year from the date of grant. Pursuant to ASC 718, stock-based compensation expense for these awards was based on their grant date fair value of $33.05 and $14.90 per share (the closing sales price of the Company's common stock on the grant date) and is being amortized over the one year vesting period.

The Company also issued approximately 2.0 million shares of restricted common stock pursuant to the LTIP to certain employees and consultants of SOG (including the Company's officers), with whom the Company has a services agreement. Approximately 0.7 million shares of restricted common stock vest in equal annual amounts over a two-year

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period and approximately 1.3 million shares of restricted common stock vest in equal annual amounts over a three-year period.

In February 2016 and April 2016, the Compensation Committee approved several new forms of agreement for use in equity awards pursuant to the LTIP. The new forms of agreements consist of two new forms of restricted stock award agreements, one of which provides for vesting in equal annual increments over a three year period from the grant date (the "Grant Date") and the other of which provides for cliff vesting five years after the Grant Date or earlier if the common stock closing price equals or exceeds certain benchmarks as set forth in the form of agreement (the "Performance Accelerated Restricted Stock" or "PARS"), and two new forms of phantom stock agreements payable only in cash, one of which provides for vesting in equal annual increments over a three year period from the Grant Date (the "Phantom Stock") and the other of which provides for cliff vesting five years after the Grant Date or earlier if the Company's common stock closing price equals or exceeds certain benchmarks as set forth in the form of agreement (the "Performance Accelerated Phantom Stock" or "PAPS").

The PARS, PAPS and Phantom Stock awards granted to certain employees of the Sanchez Group (including those employees of the Sanchez Group who also serve as the Company's officers) and consultants in exchange for services are considered awards to non-employees and the Company records stock-based compensation expense for these awards at fair value in accordance with the provisions of ASC 718, "Compensation – Stock Compensation." In accordance with the guidance, the inclusion of market performance acceleration conditions does not change the accounting classification as compared to the restricted stock without market performance acceleration conditions, as both are still classified as equity within the Company's balance sheet. The Phantom Stock awards are required to be settled in cash by the Company and, per the guidance, should be classified as a liability. Compensation expense for the unvested awards is revalued at each period end and is amortized over the vesting period of the stock-based award.

During the year ended December 31, 2016, the Company issued approximately 1.1 million shares of PARS pursuant to the LTIP to certain employees of SOG (including the Company's officers), with whom the Company has a services agreement. These PARS shares vest have cliff vesting at the end of a five-year period or earlier if the common stock closing price equals or exceeds certain benchmarks as set forth in the forms of agreement.

During the year ended December 31, 2016, the Company issued approximately 4.0 million shares of Phantom Stock and PAPS pursuant to the LTIP to certain employees of SOG (including the Company's officers), with whom the Company has a services agreement. Approximately 2.8 million shares of Phantom Stock vest in equal annual amounts over a three-year period and the remaining 1.2 million shares of PAPS have cliff vesting at the end of a five-year

period or earlier if the common stock closing price equals or exceeds certain benchmarks as set forth in the forms of agreement.

The Company recognized the following stock-based compensation expense (in thousands) which is included in general and administrative expense in the condensed consolidated statements of operations.

	Year Ended December 31,		
	2016	2015	2014
Restricted stock awards, directors	$ 1,000	$ 917	$ 802
Restricted stock awards, non-employees	18,145	13,914	12,041
Phantom Stock awards	17,945	—	—
Total stock-based compensation expense	$ 37,090	$ 14,831	$ 12,843

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Based on the $9.03 per share closing price of the Company's common stock on December 31, 2016, there was approximately $22.2 million of unrecognized compensation cost related to these non vested restricted shares (excluding the PARS shares) outstanding. The cost is expected to be recognized over a weighted average period of approximately 1.85 years.

Based on the $9.03 per share closing price of the Company's common stock on December 31, 2016, there was approximately $3.9 million of unrecognized compensation cost related to these non vested PARS restricted shares outstanding. The cost is expected to be recognized over a weighted average period of approximately 3.42 years.

Based on the $9.03 per share closing price of the Company's common stock on December 31, 2016, there was approximately $23.2 million of unrecognized compensation cost related to the non vested PAPS and Phantom Stock award shares outstanding. The cost is expected to be recognized over an average period of approximately 2.50 years.

A summary of the status of the non vested restricted common shares and PARS as of December 31, 2016 is presented below (in thousands, except per share amounts):

	Number of Shares	Weighted Average Fair Value	Aggregate Intrinsic Value (in thousands)
Non-vested common stock at December 31, 2015	4,425,767	$ 12.21	$ 54,053
Granted	4,558,640	4.59	20,930
Vested	(1,991,025)	5.04	(10,036)
Forfeited	(466,407)	10.85	(5,061)
Non-vested common stock at December 31, 2016	6,526,975	$ 9.18	$ 59,886

As of December 31, 2016, approximately 6.7 million shares remain available for future issuance to participants under the LTIP.

A summary of the status of the non vested Phantom Stock shares and PAPS as of December 31, 2016 is presented below (in thousands, except per share amounts):

	Number of Shares	Weighted Average Fair Value	Aggregate Intrinsic Value (in thousands)
Non-vested common stock at December 31, 2015	—	$ —	$ —
Granted	3,990,413	4.87	19,451
Vested	—	—	—
Forfeited	(78,000)	6.62	(516)
Non-vested common stock at December 31, 2016	3,912,413	$ 4.84	$ 18,935

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Notes to the Consolidated Financial Statements (Continued)

Note 8. Income Taxes

The components of the federal income tax provision for the years ended December 31, 2016, 2015 and 2014 are (in thousands):

	Year Ended December 31,		
	2016	2015	2014
Current expense as a result of current operations	$ 1,825	$ 158	$ —
Deferred benefit as a result of current operations	(86,606)	(506,943)	(11,429)
Increase in valuation allowance	86,606	514,385	—
Net income tax expense (benefit)	$ 1,825	$ 7,600	$ (11,429)

The difference between the statutory federal income taxes calculated using a U.S. Federal statutory corporate income tax rate of 35% and the Company's effective tax rate of (0.7)% is summarized as follows (in thousands):

	Year Ended December 31,		
	2016	2015	2014
Income tax benefit at the federal statutory rate	$ (89,297)	$ (506,460)	$ (11,627)
Officers' compensation limitation	3,115	1,328	—
State Taxes (net of federal benefit)	(232)	(5,463)	—
Non-deductible general and administrative expenses	743	309	231
Percentage depletion carryforward	(144)	—	(107)
Other	39	—	—
Differences between actual income taxes and amounts estimated in prior years	995	3,501	74
Income tax expense (benefit)	(84,781)	(506,785)	(11,429)
Valuation allowance	86,606	514,385	—
Net income tax expense (benefit)	$ 1,825	$ 7,600	$ (11,429)

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The Company's deferred tax position reflects the net tax effects of the temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax reporting. Significant components of the deferred tax assets and liabilities are as follows (in thousands):

	As of December 31,	
	2016	2015
Deferred tax assets (liabilities):		
Derivative assets (obligations)	$ 12,516	$ (54,638)
Depreciable, depletable property, plant and equipment	144,348	288,736
Share-based compensation	12,408	2,897
Revenue Recognition	7,077	8,417
Other	1,085	(535)
Federal net operating loss carryforward	420,302	268,068
State net operating loss carryforward	3,256	1,440
Deferred tax assets:	600,992	514,385
Valuation allowance	(600,992)	(514,385)
Total Deferred tax assets	$ —	$ —

As of December 31, 2016, the Company had NOLs of approximately $1,200.9 million which begin to expire in 2031. Additionally, the Company had net operating losses in the states of Montana, Mississippi, and Louisiana which will begin to expire in 2018, 2033 and 2026, respectively.

Management assesses the available positive and negative evidence to estimate if sufficient future taxable income will be generated to use the existing deferred tax assets. A significant piece of objective negative evidence evaluated was the cumulative loss incurred over the three-year period ended December 31, 2016.

On the basis of this evaluation, as of December 31, 2016, a valuation allowance of approximately $601.0 million has been recorded to record only the portion of the deferred tax asset that is more likely than not to be realized. The Company will continue to assess the need for a valuation allowance against deferred tax assets considering all available information obtained in future reporting periods.

The Company files income tax returns in the U.S. and various state jurisdictions. Sanchez is no longer subject to examination by federal income tax authorities prior to 2013. State statues vary by jurisdiction.

As of December 31, 2016, 2015 and 2014, the Company had no material uncertain tax positions.

Note 9. Related Party Transactions

SOG, headquartered in Houston, Texas, is a private full service oil and natural gas company engaged in the exploration and development of oil and natural gas primarily in the South Texas and onshore Gulf Coast areas on behalf of its affiliates.

The Company does not have any employees. On December 19, 2011 it entered into a services agreement with SOG pursuant to which specified employees of SOG provide certain services with respect to the Company's business under the direction, supervision and control of SOG. Pursuant to this arrangement, SOG performs centralized corporate functions for the Company, such as general and administrative services, geological, geophysical and reserve engineering,

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Notes to the Consolidated Financial Statements (Continued)

lease and land administration, marketing, accounting, operational services, information technology services, compliance, insurance maintenance and management of outside professionals. The Company compensates SOG for the services at a price equal to SOG's cost of providing such services, including all direct costs and indirect administrative and overhead costs (including the allocable portion of salary, bonus, incentive compensation and other amounts paid to persons that provide the services on SOG's behalf) allocated in accordance with SOG's regular and consistent accounting practices, including for any such costs arising from amounts paid directly by other members of the Sanchez Group on SOG's behalf or borrowed by SOG from other members of the Sanchez Group, in each case, in connection with the performance by SOG of services on the Company's behalf. The Company also reimburses SOG for sales, use or other taxes, or other fees or assessments imposed by law in connection with the provision of services to the Company (other than income, franchise or margin taxes measured by SOG's net income or margin and other than any gross receipts or other privilege taxes imposed on SOG) and for any costs and expenses arising from or related to the engagement or retention of third party service providers.

Salaries and associated benefits of SOG employees and are allocated to the Company based on a fixed percentage that is reviewed quarterly and adjusted, if needed, based on a detailed analysis of actual time spent by the professional staff on Company projects and activities. General and administrative expenses such as office rent, utilities, supplies and other overhead costs, are allocated on the same percentages as the SOG employee salaries. Expenses allocated to the Company for general and administrative expenses for the years ended December 31, 2016, 2015 and 2014 are as follows (in thousands):

	Year Ended December 31,		
	2016	2015	2014
Administrative fees	$ 40,901	$ 30,430	$ 33,610
Third-party expenses	5,001	5,427	4,515
Total included in general and administrative expenses	$ 45,902	$ 35,857	$ 38,125

As of December 31, 2016 and December 31, 2015, the Company had a net receivable from SOG and other members of the Sanchez Group of $6.4 million and $3.7 million, respectively, which are reflected as "Accounts receivable—related entities" and "Accounts payable—related entities," respectively, in the consolidated balance sheets. The net receivable as of December 31, 2016 and December 31, 2015 consists primarily of advances paid related to leasehold and other costs paid to SOG. In addition, the net receivable as of December 31, 2016 and December 31, 2015 includes approximately $0.7 million and $0.7 million, respectively, of net receivable from Sanchez Resources, LLC ("Sanchez Resources").

As of December 31, 2016, the Company had a net payable to SPP of approximately $9.0 million that consists primarily of the November and December accrual for fees associated with the Gathering Agreement (see Note 3, “Acquisitions and Divestitures” for further discussion), which is reflected in the “Other Accrued liabilities” account on the consolidated balance sheets.

Production Asset Transaction

On November 22, 2016, we completed the Production Asset Transaction discussed above to SPP, which is a related party (see Note 3, “Acquisitions and Divestitures”).

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Notes to the Consolidated Financial Statements (Continued)

Carnero Processing Disposition

On November 22, 2016, we sold our membership interests in Carnero Processing, LLC ("Carnero Processing"), to SPP, which is a related party (see Note 16, "Investments").

Carnero Gathering Disposition

On July 5, 2016, we sold our membership interests in Carnero Gathering, LLC ("Carnero Gathering") to SPP, which is a related party (see Note 16, "Investments").

Palmetto Disposition

On March 31, 2015, we completed the Palmetto Disposition discussed above to a subsidiary of SPP, which is a related party (see Note 3, "Acquisitions and Divestitures").

Western Catarina Midstream Divestiture

On October 14, 2015, we completed the Western Catarina Midstream Divestiture discussed above to SPP, which is a related party (see Note 3, "Acquisitions and Divestitures").

TMS Asset Purchase

In August 2013, we acquired rights to approximately 40,000 net undeveloped acres in what we believe to be the core of the TMS (the "TMS Transaction") for cash and shares of our common stock. In connection with the TMS Transaction, we established an Area of Mutual Interest (''AMI'') in the TMS with SR Acquisition I, LLC (''SR''), a subsidiary of our affiliate Sanchez Resources, which transaction included a carry on drilling costs for up to 6 gross (3 net) wells. Sanchez Resources is indirectly owned, in part, by our Chief Executive Officer and the Executive Chairman of the Board, who each also serve on our Board. Eduardo Sanchez, Patricio Sanchez and Ana Lee Sanchez Jacobs, each an immediate family member of our Chief Executive Officer and the Executive Chairman of our Board, collectively, either directly or indirectly, own a majority of the equity interests of Sanchez Resources. Sanchez Resources is managed by Eduardo Sanchez, who is the brother of our Chief Executive Officer and the son of our Executive Chairman of the Board. In addition, Eduardo Sanchez was named President of Sanchez Energy, effective as of October 1, 2015.

As part of the transaction, we acquired our working interests in the AMI owned at closing from three sellers (two third parties and one related party of the Company, SR) resulting in our owning an undivided 50% working interest across the AMI through the TMS.

Total consideration for the transactions consisted of approximately $70 million in cash and the issuance of 342,760 common shares of the Company, valued at approximately $7.5 million. The total cash consideration provided to SR, an affiliate of the Company, was $14.4 million, before consideration of any well carries. The acquisitions were accounted for as the purchase of assets at cost at the acquisition date. We also committed, as a part of the total consideration, to carry SR for its 50% working interest in an initial 3 gross (1.5 net) TMS wells to be drilled within the AMI (the "Initial Well Carry") with an option to drill an additional 6 gross (3 net) TMS wells ("Additional Wells") within the AMI. In August 2015, after completing the Initial Well Carry, the Company signed an agreement with SR whereby the Company paid SR approximately $8 million in lieu of drilling the remaining two Additional Wells (the "Buyout Agreement"). The Buyout Agreement stipulates that SN has earned full rights to all acreage stated in the TMS Transaction and effectively terminates any future well carry commitments.

Sanchez Energy Corporation

Notes to the Consolidated Financial Statements (Continued)

Note 10. Derivative Instruments

To reduce the impact of fluctuations in oil and natural gas prices on the Company's revenues, or to protect the economics of property acquisitions, the Company periodically enters into derivative contracts with respect to a portion of its projected oil and natural gas production through various transactions that fix or modify the future prices to be realized. The derivative contracts may include fixed-for-floating price swaps (whereby, on the settlement date, the Company will receive or pay an amount based on the difference between a pre-determined fixed price and a variable market price for a notional quantity of production), put options (whereby the Company pays a cash premium in order to establish a fixed floor price for a notional quantity of production and, on the settlement date, receives the excess, if any, of the fixed price floor over a variable market price), and costless collars (whereby, on the settlement date, the Company receives the excess, if any, of a variable market price over a fixed floor price up to a fixed ceiling price for a notional quantity of production). In addition, the Company periodically enters into call swaptions as a way to achieve greater downside price protection than offered under prevailing fixed-for-floating price swaps by agreeing to expand the notional quantity hedged under a fixed-for-floating price swap at the counterparty's election on a designated date.

These hedging activities, which are governed by the terms of our Second Amended and Restated Credit Agreement, are intended to support oil and natural gas prices at targeted levels and manage exposure to oil and natural gas price fluctuations. It is our policy to enter into derivative contracts only with counterparties that are creditworthy and competitive market makers. All of our derivatives with lenders, or affiliates of lenders, in our Second Amended and Restated Credit Agreement are collateralized by the assets securing our Second Amended and Restated Credit Agreement and, therefore, do not currently require the posting of cash collateral. Our existing derivatives with non-lender counterparties, as designated under the Second Amended and Restated Credit Agreement, are unsecured and do not require the posting of cash collateral. It is never the Company's intention to enter into derivative contracts for speculative trading purposes.

All of our derivatives are accounted for as mark-to-market activities. Under ASC Topic 815, "Derivatives and Hedging," these instruments are recorded on the condensed consolidated balance sheets at fair value as either short term or long term assets or liabilities based on their anticipated settlement date. The Company nets derivative assets and liabilities by commodity for counterparties where a legal right to such offset exists. Changes in the derivatives' fair values are recognized in current earnings since the Company has elected not to designate its current derivative contracts as cash flow hedges for accounting purposes.

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The following table presents derivative positions for the periods indicated as of December 31, 2016:

	January 1 - December 31, 2017	2018	2019
Oil positions:			
Fixed-for-floating price swaps (NYMEX WTI):			
Hedged volume (Bbls)	1,825,000	-	-
Average price ($/Bbl)	$ 51.70	$ -	$ -
Collars (NYMEX WTI):			
Hedged volume (Bbls)	730,000	-	-
Average long put price ($/Bbl)	$ 45.00	$ -	$ -
Average short call price ($/Bbl)	$ 62.00	$ -	$ -
Natural gas positions:			
Fixed-for-floating price swaps (NYMEX Henry Hub):			
Hedged volume (MMBtu)	40,805,000	29,532,500	7,300,000
Average price ($/MMBtu)	$ 3.07	$ 3.02	$ 3.02

The following table sets forth a reconciliation of the changes in fair value of the Company’s commodity derivatives for the years ended December 31, 2016, 2015, and 2014 (in thousands):

	Year Ended December 31,		
	2016	2015	2014
Beginning fair value of commodity derivatives	$ 178,283	$ 123,316	$ (3,397)
Net gains (losses) on crude oil derivatives	(47,389)	170,592	115,602
Net gains (losses) on natural gas derivatives	(30,307)	26,843	21,603
Net settlements on derivative contracts:			
Crude oil	(135,491)	(123,946)	(4,503)
Natural gas	(24,657)	(18,522)	(1,097)
Net premiums on derivative contracts:			

Crude oil	24,547	—	(4,892)
Ending fair value of commodity derivatives	$ (35,014)	$ 178,283	$ 123,316

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Sanchez Energy Corporation

Notes to the Consolidated Financial Statements (Continued)

Balance Sheet Presentation

The Company's derivatives are presented on a net basis as "Fair value of derivative instruments" on the consolidated balance sheets. The following information summarizes the gross fair values of derivative instruments, presenting the impact of offsetting the derivative assets and liabilities on the Company's consolidated balance sheets (in thousands):

	December 31, 2016		
	Gross Amount of Recognized Assets and Liabilities	Gross Amounts Offset in the Consolidated Balance Sheets	Net Amounts Presented in the Consolidated Balance Sheets
Offsetting Derivative Assets:			
Current asset	$ 844	$ (844)	$ —
Long-term asset	1,426	(1,426)	—
Total asset	$ 2,270	$ (2,270)	$ —
Offsetting Derivative Liabilities:			
Current liability	$ 32,622	$ (844)	$ 31,778
Long-term liability	4,662	(1,426)	3,236
Total liability	$ 37,284	$ (2,270)	$ 35,014

	December 31, 2015		
	Gross Amount of Recognized Assets and Liabilities	Gross Amounts Offset in the Consolidated Balance Sheets	Net Amounts Presented in the Consolidated Balance Sheets
Offsetting Derivative Assets:			
Current asset	$ 172,518	$ (24)	$ 172,494
Long-term asset	5,821	(32)	5,789
Total asset	$ 178,339	$ (56)	$ 178,283
Offsetting Derivative Liabilities:			

Current liability	$ 24	$ (24)	$ —
Long-term liability	32	(32)	—
Total liability	$ 56	$ (56)	$ —

Note 11. Fair Value of Financial Instruments

Measurements of fair value of derivative instruments are classified according to the fair value hierarchy, which prioritizes the inputs to the valuation techniques used to measure fair value. Fair value is the price that would be received upon the sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements are classified and disclosed in one of the following categories:

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Notes to the Consolidated Financial Statements (Continued)

Level 1: Measured based on unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities. Active markets are considered those in which transactions for the assets or liabilities occur in sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2: Measured based on quoted prices in markets that are not active, or inputs which are observable, either directly or indirectly, for substantially the full term of the asset or liability. This category includes those derivative instruments that can be valued using observable market data. Substantially all of these inputs are observable in the marketplace throughout the term of the derivative instrument, can be derived from observable data, or supported by observable levels at which transactions are executed in the marketplace.

Level 3: Measured based on prices or valuation models that require inputs that are both significant to the fair value measurement and less observable from objective sources (i.e. supported by little or no market activity). The valuation models used to value derivatives associated with the Company’s oil and natural gas production are primarily industry standard models that consider various inputs including: (a) quoted forward prices for commodities, (b) time value, and (c) current market and contractual prices for the underlying instruments, as well as other relevant economic measures. Although third party quotes are utilized to assess the reasonableness of the prices and valuation techniques, there is not sufficient corroborating evidence to support classifying these assets and liabilities as Level 2.

Financial assets and liabilities are classified based on the lowest level of input that is significant to the fair value measurement. Management’s assessment of the significance of a particular input to the fair value measurement requires judgment, and may affect the valuation of the fair value of assets and liabilities and their placement within the fair value hierarchy levels.

Fair Value on a Recurring Basis

The following tables set forth, by level within the fair value hierarchy, the Company’s financial assets and liabilities that were accounted for at fair value on a recurring basis as of December 31, 2016 and 2015 (in thousands):

	As of December 31, 2016			
	Active Market for Identical Assets (Level 1)	Observable Inputs (Level 2)	Unobservable Inputs (Level 3)	Total Carrying Value
Cash and cash equivalents:				
Money market funds	$ 443,648	$ —	$ —	$ 443,648
Equity investment:				
Investment in SPP	26,818	—	—	26,818
Oil derivative instruments:				
Swaps	—	(8,291)	—	(8,291)
Collars	—	(572)	—	(572)
Gas derivative instruments:				
Swaps	—	(26,151)	—	(26,151)
Total	$ 470,466	$ (35,014)	$ —	$ 435,452

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Notes to the Consolidated Financial Statements (Continued)

	As of December 31, 2015			
	Active Market for Identical Assets (Level 1)	Observable Inputs (Level 2)	Unobservable Inputs (Level 3)	Total Carrying Value
Cash and cash equivalents:				
Money market funds	$ 399,448	$ —	$ —	$ 399,448
Oil derivative instruments:				
Swaps	—	72,887	—	72,887
Puts	—	76,583	—	76,583
Gas derivative instruments:	—	—	—	—
Swaps	—	28,813	—	28,813
Total	$ 399,448	$ 178,283	$ —	$ 577,731

Financial Instruments: The Level 1 instruments presented in the tables above consist of money market funds included in cash and cash equivalents on the Company’s consolidated balance sheets as of December 31, 2016 and 2015. The Company’s money market funds represent cash equivalents backed by the assets of high quality banks and financial institutions. The Company identified the money market funds as Level 1 instruments due to the fact that the money market funds have daily liquidity, quoted prices for the underlying investments can be obtained and there are active markets for the underlying investments. In addition, the Level 1 instruments include the Company’s equity investment in common units of SPP as further discussed in Note 16, “Investments.” The investment in SPP is being accounting for under the fair value option, included in investments on the Company’s balance sheet as of December 31, 2016. The Company identified the common units in SPP as a Level 1 instruments due to the fact that SPP is a publicly traded company on the NYSE MKT with daily quoted prices that can be easily obtained.

The Company’s derivative instruments, which consist of swaps, collars and puts, are classified as Level 2 as of December 31, 2016 and 2015, in the table above. The fair values of the Company’s derivatives are based on third-party pricing models which utilize inputs that are either readily available in the public market, such as forward curves, or can be corroborated from active markets of broker quotes. Swaps and collars generally have no unobservable inputs and they are classified as Level 2. Puts and call swaption derivatives have inputs which are observable, either directly or indirectly, using market data. As of December 31, 2016 and 2015, the Company believes that substantially all of the inputs required to calculate the fair value of puts and call swaptions are observable in the marketplace throughout the term of these derivative instruments or supported by observable levels at which transactions are executed in the marketplace, and are, therefore, classified as Level 2. Derivative instruments are also subject to the risk that counterparties will be unable to meet their obligations. Such non-performance risk is considered in the valuation of the Company’s derivative instruments, but to date has not had a material impact on estimates of fair values. Significant

changes in the quoted forward prices for commodities and changes in market volatility generally lead to corresponding changes in the fair value measurement of the Company’s derivative instruments.

There were no derivative instruments classified as Level 3 as of December 31, 2016 or December 31, 2015. The fair values of the Company’s derivative instruments classified as Level 3 as of December 31, 2014 were $75.5 million. The significant unobservable inputs for Level 3 contracts as of December 31, 2014 include unpublished forward prices of commodities, market volatility and credit risk of counterparties.

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The following table sets forth a reconciliation of changes in the fair value of the Company's derivative instruments classified as Level 3 in the fair value hierarchy (in thousands):

	(Level 3) Year Ended December 31,		
	2016	2015	2014
Beginning balance	$ —	$ 75,523	$ (519)
Total gains (losses) included in earnings	—	418	81,404
Net settlements on derivative contracts(1)	—	(14,277)	(5,362)
Derivative contracts transferred to Level 2	—	(61,664)	—
Ending balance	$ —	$ —	$ 75,523
Gains (losses) included in earnings related to derivatives still held as of December 31, 2016, 2015, and 2014	$ —	$ (940)	$ 76,760

(1) Includes ($12,919) of net settlements in Level 2 that were transferred from Level 3 during 2015.

Fair Value on a Non Recurring Basis

The Company follows the provisions of ASC 820 10 for nonfinancial assets and liabilities measured at fair value on a non recurring basis. Fair value measurements of assets acquired and liabilities assumed in business combinations are based on inputs that are not observable in the market and thus represent Level 3 inputs. The fair value of acquired properties is based on market and cost approaches. Our purchase price allocations for the Catarina Acquisition is presented in Note 3, "Acquisitions and Divestitures." Liabilities assumed include asset retirement obligations existing at the date of acquisition. Asset retirement obligation estimates are derived from historical costs as well as management's expectation of future cost environments. As there is no corroborating market activity to support the assumptions, the Company has designated these liabilities as Level 3. A reconciliation of the beginning and ending balances of the Company's asset retirement obligations is presented in Note 12, "Asset Retirement Obligations."

In connection with the exchange agreements entered into in February, May and August 2014 by the Company with certain holders of the Company's Series A Preferred Stock and Series B Preferred Stock, the Company issued common stock according to the conversion rate pursuant to each agreement and additional shares to induce the holders of the

preferred stock to convert prior to the date the Company could mandate conversion. In addition, on November 20, 2015, a holder of our Series B Preferred Stock exercised its right to convert 4,500 shares our Series B Preferred Stock, at the prescribed initial conversion rate of 2.337 shares of common stock per share of Series B Preferred Stock, in exchange for 10,517 shares of our common stock. The fair value of the common stock issued is based on the price of the Company's common stock on the date of issuance. There were no conversions of Series A Preferred Stock or Series B Preferred Stock into shares of the Company's common stock during the year ended December 31, 2016. As there is an active market for the Company's common stock, the Company has designated this fair value measurement as Level 1. A detailed description of the Company's common stock and preferred stock issuances and redemptions is presented in Note 6, ''Stockholders' Equity.''

Fair Value of Other Financial Instruments

Financial instruments not carried at fair value consist of oil and natural gas receivables, accounts payable and accrued liabilities and long-term debt. The carrying amounts of our oil and natural gas receivables, accounts payable and accrued liabilities approximate fair value due to the highly liquid nature of these short term instruments. The registered 7.75% Notes are traded in an active market, and as such, are classified as Level 1 financial instruments. The estimated

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fair value of the 7.75% Notes was $612.0 million as of December 31, 2016, and was calculated using quoted market prices based on trades of such debt as of that date. The Company uses a market approach to determine fair value of its unregistered 6.125% Notes using observable market data. However, as the market for the 6.125% Notes is far less active than that of the 7.75% Notes, the Company also uses comparable market values for similar instruments, which results in a Level 2 fair value measurement. The estimated fair value of the 6.125% Notes was $1,098.3 million as of December 31, 2016.

Note 12. Asset Retirement Obligations

The Company's asset retirement obligations represent the present value of the estimated cash flows expected to be incurred to plug, abandon and remediate producing properties, excluding salvage values, at the end of their productive lives in accordance with applicable laws. Revisions in estimated liabilities during the period relate primarily to changes in estimates of asset retirement costs. Revisions in estimated liabilities can also include, but are not limited to, revisions of estimated inflation rates, changes in property lives, and the expected timing of settlement. The changes in the asset retirement obligation for the years ended December 31, 2016 and 2015 were as follows (in thousands):

	December 31,	
	2016	2015
Abandonment liability as of January 1,	$ 25,907	$ 25,694
Liabilities incurred during period	1,492	6,021
Acquisitions	219	—
Divestitures	(4,433)	(379)
Revisions	(172)	(7,623)
Accretion expense	2,074	2,194
Abandonment liability as of December 31,	$ 25,087	$ 25,907

Note 13. Accrued Liabilities

The following information summarizes accrued liabilities as of December 31, 2016 and 2015 (in thousands):

	As of December 31,	
	2016	2015
Capital expenditures	$ 35,154	$ 51,983
Other:		
General and administrative costs	14,738	5,214
Production taxes	2,396	2,532
Ad valorem taxes	2,756	886
Lease operating expenses	23,942	27,077
Interest payable	34,266	34,265
Preferred stock dividends and other	4,360	—
Total accrued liabilities	$ 117,612	$ 121,957

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Notes to the Consolidated Financial Statements (Continued)

Note 14. Commitments and Contingencies

Litigation

From time to time, the Company may be involved in lawsuits that arise in the normal course of its business. We are not aware of any material governmental proceedings against us or contemplated to be brought against us.

On December 4, 2013, and December 16, 2013, three derivative actions were filed in the Court of Chancery of the State of Delaware against the Company, certain of its officers and directors, Sanchez Resources, Altpoint Capital Partners LLC and Altpoint Sanchez Holdings, LLC (Friedman v. A.R. Sanchez, Jr. et al., No. 9158; City of Roseville Employees' Retirement System v. A.R. Sanchez, Jr. et al., No. 9132; and Delaware County Employees Retirement Fund v. A.R. Sanchez, Jr. et al., No. 9165 (collectively, the "Consolidated Derivative Actions")).

On December 20, 2013, the Consolidated Derivative Actions were consolidated, co-lead counsel for the plaintiffs was appointed and the plaintiffs were ordered to file an amended consolidated complaint (In re Sanchez Energy Derivative Litigation, Consolidated C.A. No. 9132-VCG, hereinafter, the "Delaware Derivative Action"). On January 28, 2014, a verified consolidated stockholder derivative complaint was filed. The Consolidated Derivative Actions concern the Company's purchase of working interests in the TMS from SR. Plaintiffs alleged breaches of fiduciary duty against the individual defendants as directors of the Company; breaches of fiduciary duty against Antonio R. Sanchez, III as an executive director of the Company; aiding and abetting breaches of fiduciary duty against SR, Eduardo Sanchez, Altpoint Capital Partners LLC and Altpoint Sanchez Holdings, LLC; and unjust enrichment against A.R. Sanchez, Jr. and Antonio R. Sanchez, III. All of the defendants filed a motion to dismiss on April 1, 2014. Briefing concerning the motions to dismiss concluded on June 27, 2014. A hearing was held on August 11, 2014, on the motions to dismiss, and the court subsequently granted the motions to dismiss. The plaintiffs appealed the case to the Delaware Supreme Court for which the parties fully briefed the appeal and provided oral argument. On October 2, 2015, the Delaware Supreme Court reversed the motions to dismiss and remanded the case to the Court of Chancery of the State of Delaware. The Consolidated Derivative Actions are currently in the early stages of discovery. A mediation in connection with the matter was held on July 7, 2016. The Company is unable to reasonably predict an outcome or to reasonably estimate a range of possible loss.

On January 9, 2014, a derivative action was filed in 333rd district court in Harris County, Texas against the Company and certain of its officers and directors, styled Martin v. Sanchez, No. 2014-01028 (333rd Dist. Harris County, Texas). The complaint alleged a breach of fiduciary duty, corporate waste and unjust enrichment against various officers and directors. No action has been taken to date and damages are unspecified. On March 14, 2014, this action was stayed following a ruling on the motion to dismiss in the Delaware Derivative Action. After the motions to dismiss were granted in the Delaware Derivative Action, the parties entered into another agreed stay pending the appeal of the Delaware Derivative Action to the Delaware Supreme Court. This stay was entered by the court on February 5, 2015. This action is in its preliminary stages, and the Company is unable to reasonably predict an outcome or to estimate a range of reasonably possible loss.

Defendants believe that the allegations contained in the matters described above are without merit and intend to vigorously defend themselves against the claims raised.

Catarina Drilling Obligation

In connection with the Catarina Acquisition, the 77,000 acres of undeveloped acreage that were included in the acquisition are subject to a continuous drilling obligation. Such drilling obligation requires us to drill (i) 50 wells in each

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Notes to the Consolidated Financial Statements (Continued)

annual period commencing on July 1, 2014 and (ii) at least one well in any consecutive 120 - day period in order to maintain rights to any future undeveloped acreage. Up to 30 wells drilled in excess of the minimum 50 wells in a given annual period can be carried over to satisfy part of the 50 well requirement in the subsequent annual period on a well for well basis. The lease also created a customary security interest in the production therefrom in order to secure royalty payments to the lessor and other lease obligations. Our current capital budget and plans include the drilling of at least the minimum number of wells required to maintain access to such undeveloped acreage.

Lease Payment Obligations

As of December 31, 2016, the Company had $216.4 million in lease payment obligations that satisfy operating lease criteria. These obligations include: (i) $158.6 million in payments due with respect to firm commitment of oil and natural gas volumes under the Gathering Agreement contract signed with SPP as part of the Western Catarina Midstream Divestiture that commenced on October 14, 2015 and continues until October 13, 2020, (ii) $45.7 million for a corporate office lease that commenced in the fourth quarter of 2014 and has an expiration date in March 2025, (iii) $6.2 million for a ground lease agreement for land owned by the Calhoun Port Authority that commenced during the third quarter of 2014 and has an expiration date in August 2024 and (iv) $5.9 million for a 10 year acreage lease agreement for a promotional ranch managed by the Company in Kenedy County, Texas.

The lease agreement for the acreage in Kenedy County, Texas includes a contractual requirement for the Company to spend a minimum of $4 million to make permanent improvements over the ten year life of the lease. The lease agreement does not specify the timing for such improvements to be made within the lease term. The Company has the right to terminate the lease obligation without penalty at any time with nine months advanced written notice and payment of any accrued leasehold expenses.

The Company’s ground lease with the Calhoun Port Authority is terminable upon 180 days written notice by the Company to the lessor in addition to a $1 million termination payment.

Note 15. Subsidiary Guarantors

The Company filed registration statements on Form S 3 with the SEC, which became effective January 14, 2013 and June 11, 2014 and April 25, 2016 and registered, among other securities, debt securities. The subsidiaries of the Company named therein are co registrants with the Company, and the registration statement registered guarantees of debt securities by such subsidiaries. As of December 31, 2016, such subsidiaries are 100 percent owned by the Company and any guarantees by these subsidiaries will be full and unconditional (except for customary release provisions). In the event that more than one of these subsidiaries provide guarantees of any debt securities issued by the Company, such guarantees will constitute joint and several obligations.

The Company also filed a registration statement on Form S-4 with the SEC, which became effective on June 20, 2014, pursuant to which the Company completed an offering of the 7.75% Notes, which are guaranteed by its subsidiaries named therein. As of December 31, 2016, such guarantor subsidiaries are 100 percent owned by the Company and the guarantees by these subsidiaries are full and unconditional (except for customary release provisions) and are joint and several. The Company also filed a registration statement on Form S-4 with the SEC, which became effective on January 23, 2015, pursuant to which the Company completed an offering of the 6.125% Notes, which are guaranteed by its subsidiaries named therein. As of December 31, 2016, such guarantor subsidiaries are 100 percent owned by the Company and the guarantees by these subsidiaries are full and unconditional (except for customary release provisions) and are joint and several.

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Notes to the Consolidated Financial Statements (Continued)

The rules of Regulation S-X Rule 3-10 require that condensed consolidating financial information be provided for a subsidiary that has guaranteed the debt of a registrant issued in a public offering, where the guarantee is full, unconditional and joint and several and where the voting interest of the subsidiary is 100% owned by the registrant. See Note 18, "Condensed Consolidating Financial Information" for further discussion regarding the condensed consolidating financial information for guarantor and non-guarantor subsidiaries.

The Company has no assets or operations independent of its subsidiaries and there are no significant restrictions upon the ability of its subsidiaries to distribute funds to the Company.

Note 16. Investments

On November 22, 2016, a subsidiary of the Company purchased 2,272,727 common units of SPP for $25.0 million as part of a private equity issuance. As of December 31, 2016, this ownership represents approximately 16.9% of SPP's common units outstanding. Rather than accounting for the investment under the equity method, the Company elected the fair value option to account for its interest in SPP. The Company records the equity investment in SPP at fair value at the end of each reporting period. Any gains or losses are recorded as a component of other income (expense) in the consolidated statement of operations. The Company recorded gains related to the investment in SPP for the twelve months ended December 31, 2016 of approximately $1.8 million.

On October 2, 2015, the Company, via SN Catarina, purchased from a subsidiary of Targa a 10% undivided interest in the Silver Oak II Gas Processing Facility (the "SOII Facility") in Bee County, Texas for a purchase price of $12.5 million. Targa owns the remaining undivided 90% interest in the SOII Facility, which is operated by Targa. Concurrently with the execution of the purchase and sale agreement for the SOII Facility, the Company entered into a firm gas processing agreement, whereby Targa is processing a firm quantity, 125,000 Mcf/d, until the in-service date of the Carnero Processing Plant discussed below. The Company is accounting for the investment in the SOII Facility as an equity method investment as Targa is the operator and majority interest owner of the SOII Facility. As of December 31, 2016, the Company had invested capital of $12.5 million in the SOII Facility. The Company recorded earnings from the SOII Facility investment of approximately $1.2 million from equity investments during 2016.

On November 22, 2016, SN Midstream sold its membership interests in Carnero Processing to SPP for an initial payment of $55.5 million and the assumption by SPP of remaining capital commitments to Carnero Processing, which

are estimated at approximately $24.5 million (the "Carnero Processing Disposition"). The Company was accounting for this joint venture as an equity method investment as Targa is the operator of the joint ventures and has the most influence with respect to the normal day-to-day construction and operating decisions. Prior to the sale, the Company had invested approximately $48.0 million in Carnero Processing joint venture. The membership interests disposed of constitute 50% of the outstanding membership interests in Carnero Processing. The remaining 50% membership interests of Carnero Processing are owned by an affiliate of Targa. Prior to the sale of Carnero Processing, the Company recorded losses of approximately $0.1 million from equity investments during 2016. The Company recorded a deferred gain of approximately $7.5 million included in "Other Liabilities" as a result of the firm gas processing agreement that remains between the Company and Targa. This deferred gain will be amortized periodically over the term of this firm gas processing agreement according to volumes processed through the Carnero Processing facility.

On July 5, 2016, SN Midstream sold its membership interests in Carnero Gathering to SPP for an initial payment of approximately $37.0 million and the assumption by SPP of remaining capital commitments to Carnero Gathering, estimated at approximately $7.4 million (the "Carnero Gathering Disposition"). The Company was accounting for this joint venture as an equity method investment as Targa is the operator of the joint ventures and has the most influence with respect to the normal day-to-day construction and operating decisions. Prior to the sale, the

Company had invested approximately $26.0 million in Carnero Gathering joint venture. As part of the Carnero Gathering Disposition, SPP is required to pay SN Midstream a monthly earnout based on gas received at Carnero Gathering’s receipt points from SN Catarina and gas delivered and processed at the Processing Plant by other producers. The membership interests disposed of constitute 50% of the outstanding membership interests in Carnero Gathering. The remaining 50% membership interests of Carnero Gathering are owned by an affiliate of Targa. Prior to the sale of Carnero Gathering, the Company recorded earnings of approximately $2.3 million from equity investments during 2016. The Company recorded a deferred gain of approximately $8.7 million included in “Other Liabilities” as a result of the firm gas gathering agreement that remains between the Company and Targa and a transportation services agreement between Targa and Carnero Gathering. This deferred gain will be amortized periodically over the term of this firm gas gathering agreement according to volumes delivered through the Carnero Gathering pipelines.

Note 17. Variable Interest Entities

During the first quarter of 2016, the Company adopted ASU 2015-02, “Consolidation—Amendments to the Consolidation Analysis,” which introduces a separate analysis for determining if limited partnerships and similar entities are variable interest entities (“VIEs”) and clarifies the steps a reporting entity would have to take to determine whether the voting rights of stockholders in a corporation or similar entity are substantive.

As noted above in Note 16, “Investments,” the Company, through SN Midstream, entered into joint venture agreements with an affiliate of Targa in October 2015 to, among other things, construct the Processing Plant and associated high pressure gathering pipelines near the Company’s Catarina asset in South Texas. In addition, the Company, via SN Catarina, purchased from a subsidiary of Targa a 10% undivided interest in the SOII Facility. As noted above in Note 16, “Investments,” on July 5, 2016 and November 22, 2016, the Company sold its interests, and any remaining commitment to invest in Carnero Gathering and Carnero Processing, respectively, to SPP. The Company determined that ownership in the SOII Facility are more similar to limited partnerships than corporations. Under the revised guidance of ASU 2015-02, a limited partnership or similar entity with equity at risk will not be a VIE if they are able to exercise kick-out rights over the general partner(s) or they are able to exercise substantive participating rights. We concluded that the investment in SOII Facility is a VIE under the revised guidance because we cannot remove Targa as operator and we do not have substantive participating rights. In addition, Targa has the discretion to direct activities of the VIEs regarding the risks associated with price, operations, and capital investment which have the most significant impact on the VIEs economic performance.

The Company’s investment in the SOII Facility represents a VIE that could expose the Company to losses. The amount of losses the Company could be exposed to from the investment in the SOII Facility is limited to the equity in the investment at any point in time.

As of December 31, 2016, the Company had invested capital of $12.5 million in the SOII Facility, and recorded earnings from the equity investment of $0.3 million. As of December 31, 2016, no debt has been incurred by the SOII Facility. The Company is accounting for the VIE as an equity method investment and determined that Targa is the primary beneficiary of the VIE as Targa is the operator of the SOII Facility and has the most influence with respect to the normal day-to-day operating decisions of the facility. We have included the VIE in the “Other Assets - Investments” long-term asset line on the balance sheet.

As noted above in Note 16, “Investments,” in November 2016, the Company purchased common units of SPP for $25.0 million as part of a private equity issuance. Rather than accounting for the investment under the equity method, the Company elected the fair value option to account for its interest in SPP. The Company’s investment in SPP represents a VIE that could expose the Company to losses limited to the equity in the investment at any point in time.

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Sanchez Energy Corporation

Notes to the Consolidated Financial Statements (Continued)

The carrying amounts of the investment in SPP and the Company's maximum exposure to loss as of December 31, 2016, was approximately $26.8 million.

Below is a tabular comparison of the carrying amounts of the assets and liabilities of the VIE and the Company's maximum exposure to loss as of December 31, 2016 and December 31, 2015 (in thousands):

	December 31, 2016	December 31, 2015
Capital investments	$ 37,527	$ 49,985
Earnings in equity investments	311	—
Gain (loss) from change in fair value of investment in SPP	1,818	—
Equity in equity investments	$ 39,656	$ 49,985

	December 31, 2016	December 31, 2015
Equity in equity investments	$ 39,656	$ 49,985
Guarantees of capital investments	—	65,526
Maximum exposure to loss	$ 39,656	$ 115,511

Note 18. Condensed Consolidating Financial Information

As noted above, the rules of the SEC require that condensed consolidating financial information be provided for a subsidiary that has guaranteed the debt of a registrant issued in a public offering, where the guarantee is full, unconditional and joint and several and where the voting interest of the subsidiary is 100% owned by the registrant. The Company is, therefore, presenting condensed consolidating financial information on a parent company, combined guarantor subsidiaries, combined non-guarantor subsidiaries and consolidated basis (in thousands) and should be read in conjunction with the consolidated financial statements. The financial information may not necessarily be indicative of results of operations, cash flows, or financial position had such guarantor subsidiaries operated as independent entities.

Investments in subsidiaries are accounted for by the respective parent company using the equity method for purposes of this presentation. Results of operations of subsidiaries are, therefore, reflected in the parent company's investment accounts and earnings. The principal elimination entries set forth below eliminate investments in subsidiaries and intercompany balances and transactions. Typically, in a condensed consolidating financial statement, the net income and equity of the parent company equals the net income and equity of the consolidated entity.

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Notes to the Consolidated Financial Statements (Continued)

	December 31, 2016				
Assets	Parent Company	Combined Guarantor Subsidiaries	Combined Non-Guarantor Subsidiaries	Eliminations	Consolidated
Total current assets	$ 428,384	$ 157,154	$ 158,589	$ (181,322)	$ 562,805
Total oil and natural gas properties, net	-	658,588	-	-	658,588
Investment in subsidiaries	734,704	-	-	(734,704)	-
Other assets	14,376	15,221	35,290	-	64,887
Total Assets	$ 1,177,464	$ 830,963	$ 193,879	$ (916,026)	$ 1,286,280
Liabilities and Shareholders' Equity					
Current liabilities	$ 109,539	$ 78,344	$ 170,435	$ (181,321)	$ 176,997
Long-term liabilities	1,764,064	25,087	16,273	(1)	1,805,423
Total shareholders' equity (deficit)	(696,139)	727,532	7,171	(734,704)	(696,140)
Total Liabilities and Shareholders' Equity (deficit)	$ 1,177,464	$ 830,963	$ 193,879	$ (916,026)	$ 1,286,280

	December 31, 2015				
Assets	Parent Company	Combined Guarantor Subsidiaries	Combined Non-Guarantor Subsidiaries	Eliminations	Consolidated
Total current assets	$ 671,278	$ 37,005	$ 704	$ (42,369)	$ 666,618
Total oil and natural gas properties, net	-	756,103	-	-	756,103
Investment in subsidiaries	700,053	-	-	(700,053)	-
Other assets	14,481	17,737	46,365	-	78,583
Total Assets	$ 1,385,812	$ 810,845	$ 47,069	$ (742,422)	$ 1,501,304
Liabilities and Shareholders' Equity					
Current liabilities	$ 78,840	$ 88,666	$ 42,369	$ (42,369)	$ 167,506
Long-term liabilities	1,764,060	25,907	-	-	1,789,967
Total shareholders' equity (deficit)	(457,088)	696,272	4,700	(700,053)	(456,169)
Total Liabilities and Shareholders' Equity (deficit)	$ 1,385,812	$ 810,845	$ 47,069	$ (742,422)	$ 1,501,304

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Sanchez Energy Corporation

Notes to the Consolidated Financial Statements (Continued)

	Year Ended December 31, 2016				
	Parent Company	Combined Guarantor Subsidiaries	Combined Non-Guarantor Subsidiaries	Eliminations	Consolidated
Total revenues	$ -	$ 431,326	$ -	$ -	$ 431,326
Total operating costs and expenses	111,155	509,985	1,947	-	623,087
Other income (expense)	(177,710)	109,920	4,418	-	(63,372)
Income (loss) before income taxes	(288,865)	31,261	2,471	-	(255,133)
Income tax expense	1,825	-	-	-	1,825
Equity in income (loss) of subsidiaries	33,730	-	-	(33,730)	-
Net income (loss)	$ (256,960)	$ 31,261	$ 2,471	$ (33,730)	$ (256,958)

	Year Ended December 31, 2015				
	Parent Company	Combined Guarantor Subsidiaries	Combined Non-Guarantor Subsidiaries	Eliminations	Consolidated
Total revenues	$ -	$ 475,779	$ -	$ -	$ 475,779
Total operating costs and expenses	75,096	1,890,342	1,692	-	1,967,130
Other income (expense)	44,726	(402)	-	-	44,324
Loss before income taxes	(30,370)	(1,414,965)	(1,692)	-	(1,447,027)
Income tax expense	7,600	-	-	-	7,600
Equity in income (loss) of subsidiaries	(1,416,657)	-	-	1,416,657	-
Net income (loss)	$ (1,454,627)	$ (1,414,965)	$ (1,692)	$ 1,416,657	$ (1,454,627)

	Year Ended December 31, 2014				
	Parent Company	Combined Guarantor Subsidiaries	Combined Non-Guarantor Subsidiaries	Eliminations	Consolidated
Total revenues	$ -	$ 666,064	$ -	$ -	$ 666,064
Total operating costs and expenses	64,454	681,876	648	-	746,978
Other income (expense)	47,678	16	-	-	47,694

Loss before income taxes	(16,776)	(15,796)	(648)	-	(33,220)
Income tax benefit	(11,429)	-	-	-	(11,429)
Equity in income (loss) of subsidiaries	(16,443)	-	-	16,443	-
Net income (loss)	$ (21,790)	$ (15,796)	$ (648)	$ 16,443	$ (21,791)

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Sanchez Energy Corporation

Notes to the Consolidated Financial Statements (Continued)

	Year Ended December 31, 2016				
	Parent Company	Combined Guarantor Subsidiaries	Combined Non-Guarantor Subsidiaries	Eliminations	Consolidated
Net cash provided by (used in) operating activities	$ (38,646)	$ 219,266	$ 631	$ -	$ 181,251
Net cash provided by (used in) investing activities	(46,602)	(133,814)	55,571	16,208	(108,637)
Net cash provided by (used in) financing activities	(5,745)	(85,452)	101,660	(16,208)	(5,745)
Net increase (decrease) in cash and cash equivalents	(90,993)	-	157,862	-	66,869
Cash and cash equivalents, beginning of period	434,934	-	114	-	435,048
Cash and cash equivalents, end of period	$ 343,941	$ -	$ 157,976	$ -	$ 501,917

	Year Ended December 31, 2015				
	Parent Company	Combined Guarantor Subsidiaries	Combined Non-Guarantor Subsidiaries	Eliminations	Consolidated
Net cash provided by (used in) operating activities	$ (44,090)	$ 317,499	$ (1,384)	$ -	$ 272,025
Net cash provided by (used in) investing activities	21,670	(249,185)	(40,327)	(26,489)	(294,331)
Net cash provided by (used in) financing activities	(16,360)	(68,314)	41,825	26,489	(16,360)
Net increase (decrease) in cash and cash equivalents	(38,780)	-	114	-	(38,666)
Cash and cash equivalents, beginning of period	473,714	-	-	-	473,714
Cash and cash equivalents, end of period	$ 434,934	$ -	$ 114	$ -	$ 435,048

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Sanchez Energy Corporation

Notes to the Consolidated Financial Statements (Continued)

	Year Ended December 31, 2014				
	Parent Company	Combined Guarantor Subsidiaries	Combined Non-Guarantor Subsidiaries	Eliminations	Consolidated
Net cash provided by (used in) operating activities	$ (100,047)	$ 516,474	$ (1,092)	$ -	$ 415,335
Net cash provided by (used in) investing activities	(845,882)	(1,347,416)	(6,492)	838,526	(1,361,264)
Net cash provided by (used in) financing activities	1,266,112	830,942	7,584	(838,526)	1,266,112
Net increase (decrease) in cash and cash equivalents	320,183	-	-	-	320,183
Cash and cash equivalents, beginning of period	153,531	-	-	-	153,531
Cash and cash equivalents, end of period	$ 473,714	$ -	$ -	$ -	$ 473,714

Note 19. Subsequent Events

On January 12, 2017, the Company, through two of our subsidiaries, SN EF UnSub, LP (“SN UnSub”) and SN EF Maverick, LLC (“SN Maverick”), along with an entity controlled by The Blackstone Group, L.P., Gavilan Resources, LLC (“Blackstone”), signed a purchase and sale agreement (the “Comanche Purchase Agreement”) to acquire assets (the “Comanche Assets”) from Anadarko E&P Onshore LLC and Kerr-McGee Oil and Gas Onshore LP for $2,275 million in cash, subject to customary closing adjustments (the “Comanche Acquisition”). The Comanche Assets are primarily located in the Western Eagle Ford Shale and are expected to significantly expand our asset base and production. The Comanche Assets consist of approximately 318,000 gross (155,000 net) acres comprised of 252,000 gross (122,000 net) Eagle Ford Shale acres and 66,000 gross (33,000 net) Pearsall Shale acres, with an approximate 49% average working interest therein, contain approximately 300 MMBoe of proved reserves (70% liquids, 75% proved developed), and had production of approximately 67,000 Boe/d (70% liquids) as of December 31, 2016. The Comanche Purchase Agreement provides that SN UnSub will pay approximately 37% of the purchase price (including through a $100 million cash contribution from the Company) and SN Maverick will pay approximately 13% of the purchase price and SN UnSub and SN Maverick would acquire half of the 49% working interest in and to the Comanche Assets in the aggregate (and approximately 50% and 0%, respectively, of the estimated total proved

developed producing reserves, 20% and 30%, respectively, of the estimated total proved developed non-producing reserves, and 20% and 30%, respectively, of the total proved undeveloped reserves), and Blackstone will pay 50% of the purchase price and would acquire the remaining half of the 49% working interest in and to the Comanche Assets (approximately 50% of the estimated total proved developed producing reserves, proved developed non-producing reserves and proved undeveloped reserves). We expect to close the Comanche Acquisition during the first quarter of 2017. The effective date of the transaction is July 1, 2016.

On February 6, 2017, the Company completed an underwritten public offering of 10,000,000 shares of the Company's common stock at a price of $12.50 per share ($11.7902 per share, net of underwriting discounts). The Company granted the Underwriters a 30-day option to purchase up to an additional 1,500,000 shares of the Company’s common stock on the same terms, which was exercised in full and closed on February 6, 2017. The Company received net proceeds of approximately $135.9 million (after deducting underwriting discounts of approximately $7.8 million) from the sale of the shares of common stock. The Company intends to use the net proceeds of the offering for general corporate purposes, including working capital.

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Sanchez Energy Corporation

Supplementary Quarterly Financial Results (Unaudited)

The following table presents the Company's unaudited quarterly financial information for 2016 and 2015 (in thousands, except per share amounts):

2016:	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Oil and natural gas revenue	$ 79,816	$ 110,968	$ 114,807	$ 125,735
Impairment of oil and natural gas properties	(22,084)	(87,380)	(59,582)	—
Operating costs and expenses	(115,081)	(118,432)	(107,505)	(113,023)
Operating income (loss)	(57,349)	(94,844)	(52,280)	12,712
Interest income	325	158	146	227
Other income (expense)	(414)	211	7	330
Gain on disposal of assets	—	—	—	112,294
Interest expense	(31,606)	(31,822)	(31,797)	(31,748)
Earnings from Equity Investments	512	2,179	463	312
Net gains (losses) on commodity derivatives	22,757	(58,750)	18,640	(35,796)
Other income (expense), net	(8,426)	(88,024)	(12,541)	45,619
Income (loss) before income taxes	(65,775)	(182,868)	(64,821)	58,331
Income tax expense (benefit)	—	—	1,441	384
Net income (loss)	(65,775)	(182,868)	(66,262)	57,947
Less:				
Preferred stock dividends	(3,987)	(3,987)	(3,987)	(3,987)
Net income allocable to participating securities (1) (2)	—	—	—	(5,601)
Net income (loss) attributable to common stockholders	$ (69,762)	$ (186,855)	$ (70,249)	$ 48,359
Basic income (loss) per share (3)	$ (1.20)	$ (3.20)	$ (1.19)	0.82
Weighted average common shares outstanding - basic	58,099	58,413	59,190	59,252
Diluted income (loss) per share (3)	$ (1.20)	$ (3.20)	$ (1.19)	$ 0.73
Weighted average common shares outstanding - diluted	58,099	58,413	59,190	71,772

(1) No losses are allocated to participating restricted stock. Such securities do not have a contractual obligation to share in the Company's losses.

(2)The sum of quarterly net income allocable to participating securities will not agree with total year net income allocable to participating securities as each quarterly computation is based on the allocation of net income for the quarter to the participating securities.

(3)The sum of quarterly net income per share may not agree with total year net income per share as each quarterly computation is based on the allocation of net income for the quarter to the participating securities and the weighted average shares outstanding

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2015:	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Oil and natural gas revenue	$ 110,593	$ 141,128	$ 114,526	$ 109,532
Impairment of oil and natural gas properties	(441,450)	(468,922)	(454,628)	—
Operating costs and expenses	(166,967)	(170,640)	(148,401)	(116,122)
Operating income	(497,824)	(498,434)	(488,503)	(6,590)
Interest and other income	(1,824)	773	(753)	(359)
Interest expense	(31,558)	(31,500)	(31,442)	(31,899)
Net gains (losses) on commodity derivatives	41,303	(33,749)	103,996	61,336
Other income (expense), net	7,921	(64,476)	71,801	29,078
Income (loss) before income taxes	(489,903)	(562,910)	(416,702)	22,488
Income tax expense (benefit)	7,442	—	158	—
Net income (loss)	(497,345)	(562,910)	(416,860)	22,488
Less:				
Preferred stock dividends	(3,991)	(3,991)	(3,991)	(4,035)
Net income allocable to participating securities (1) (2)	—	—	—	—
Net income (loss) attributable to common stockholders	$ (501,336)	$ (566,901)	$ (420,851)	$ 18,453
Basic income (loss) per share (3)	$ (8.83)	$ (9.91)	$ (7.33)	0.32
Weighted average common shares outstanding - basic	56,805	57,184	57,426	57,490
Diluted income (loss) per share (3)	$ (8.83)	$ (9.91)	$ (7.33)	$ 0.32
Weighted average common shares outstanding - diluted	56,805	57,184	57,426	57,490

(1)No losses are allocated to participating restricted stock. Such securities do not have a contractual obligation to share in the Company’s losses.

(2)The sum of quarterly net income allocable to participating securities will not agree with total year net income allocable to participating securities as each quarterly computation is based on the allocation of net income for the quarter to the participating securities.

(3)The sum of quarterly net income per share may not agree with total year net income per share as each quarterly computation is based on the allocation of net income for the quarter to the participating securities and the weighted average shares outstanding.

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Sanchez Energy Corporation
Supplemental Information on Oil and Natural Gas Exploration,
Development and Production Activities
(Unaudited)

The Company’s oil and natural gas properties are located within the United States of America, which constitutes one cost center.

Capitalized Costs—Capitalized costs and accumulated depreciation, depletion and impairment relating to the Company’s oil and natural gas producing activities are summarized below as of the dates indicated (in thousands):

	As of December 31,		
	2016	2015	2014
Oil and Natural Gas Properties:			
Unproved	$ 231,424	$ 253,529	$ 385,827
Proved	3,164,115	2,914,867	2,582,441
Total Oil and Natural Gas Properties	3,395,539	3,168,396	2,968,268
Less Accumulated depreciation, depletion, amortization and impairment	(2,736,951)	(2,412,293)	(706,590)
Net oil and natural gas properties capitalized	$ 658,588	$ 756,103	$ 2,261,678

Costs Incurred—Costs incurred in oil and natural gas property acquisition, exploration and development activities are summarized below (in thousands):

	Year Ended December 31,		
	2016	2015	2014
Exploration costs	$ 379	$ 30,523	$ 64,534
Development costs	284,569	512,208	806,644
Acquisition and Divestiture costs:			
Proved properties	50	—	432,271
Unproved properties	13,430	8,508	122,224
Total Costs Incurred	$ 298,428	$ 551,239	$ 1,425,673
Seismic costs included in exploration costs	$ 379	$ 1,446	$ 833

Results of Operations—Results of operations for the Company’s oil, NGL and natural gas producing activities are summarized below (in thousands):

	Year Ended December 31,		
	2016	2015	2014
Oil, NGL, and natural gas revenue	$ 431,326	$ 475,779	$ 666,064
Less operating expenses:			
Oil, NGL, and natural gas production expenses	(164,567)	(156,528)	(93,581)
Production and ad valorem taxes	(19,633)	(26,870)	(37,787)
Depreciation, depletion, amortization and accretion	(159,760)	(344,572)	(338,097)
Impairment of oil and natural gas properties	(169,046)	(1,365,000)	(213,821)
Results of operations from oil and gas producing activities	$ (81,680)	$ (1,417,191)	$ (17,222)

Reserves—Proved reserves are those quantities of oil, NGL 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

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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 probalistic 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 the project within a reasonable time.

Proved developed reserves are proved reserves that can be expected to be recovered 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.

Proved undeveloped reserves ("PUDs") are reserves that are expected to be recovered from new wells on undrilled acreage or from existing wells where a relatively major expenditure is required. Reserves on undrilled acreage are 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 producing economic quantities at a greater distance. Only those undrilled locations that are scheduled to be drilled within five years pursuant to a development plan can be allocated to undeveloped reserves, unless the specific circumstances justify a longer time. As of December 31, 2016, the Company did not have any PUDs previously disclosed that have remained undeveloped for five years or more and no PUD locations included in the Company's proved oil reserves are scheduled to be drilled after five years.

Estimates of proved developed and undeveloped reserves for the periods presented are based on estimates made by the independent engineers, Ryder Scott.

Proved reserves for all periods presented were estimated in accordance with the guidelines established by the SEC and FASB. The rules require SEC reporting companies to prepare their reserve estimates based on the average prices during the 12 month period prior to the ending date of the period covered in the report, determined as the unweighted arithmetic average of the prices in effect on the first day of the month for each month within such period, unless prices were defined by contractual arrangements. The product prices used to determine the future gross revenues for each property reflect adjustments to the benchmark prices for gravity, quality, local conditions, and/or distance from the market. The pricing used for the estimates of the Company's reserves of oil and condensate as of December 31, 2016, 2015 and 2014 was based on unweighted twelve month average WTI posted prices of $42.75, $50.28, and $94.99, respectively. The pricing used for the estimates of the Company's reserves of natural gas as of December 31, 2016, 2015 and 2014 were based on an unweighted twelve month average Henry Hub spot natural gas prices average of $2.49, $2.58, and $4.35, respectively. The pricing used for the estimates of the Company's reserves of natural gas liquids as of December 31, 2016, 2015 and 2014 were based on an unweighted twelve month average Mt. Belvieu prices average of $19.97, $19.90, and $44.84, respectively.

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Net proved quantities summary

The following table sets forth the net proved, proved developed and proved undeveloped reserves activity for the years ended December 31, 2016, 2015 and 2014:

	Oil (MBbl)	Natural Gas Liquids (MBbl)	Natural Gas (MMcf)	MBoe (1)
Balance as of December 31, 2013	45,420	6,615	40,156	58,727
Revisions of previous estimates	1,261	3,901	6,412	6,231
Extensions and discoveries	12,107	6,612	32,691	24,168
Purchases of reserves in place	11,826	20,746	145,222	56,775
Production	(6,080)	(2,590)	(14,828)	(11,141)
Balance as of December 31, 2014	64,534	35,284	209,653	134,760
Revisions of previous estimates	(16,395)	(1,999)	3,427	(17,823)
Extensions and discoveries	14,369	10,091	63,860	35,103
Purchases of reserves in place	(3,578)	(824)	(4,871)	(5,213)
Production	(7,165)	(5,754)	(37,594)	(19,184)
Balance as of December 31, 2015	51,765	36,798	234,475	127,643
Revisions of previous estimates	(20,506)	(10,733)	(49,076)	(39,418)
Extensions and discoveries	42,778	39,237	278,715	128,467
Purchases (sales) of reserves in place	(3,090)	(675)	(3,760)	(4,392)
Production	(6,370)	(5,960)	(43,189)	(19,529)
Balance as of December 31, 2016	64,577	58,667	417,165	192,771
Proved developed reserves:				
As of December 31, 2014	27,460	18,554	110,543	64,438
As of December 31, 2015	21,718	20,803	132,911	64,672
As of December 31, 2016	18,245	21,060	149,029	64,143
Proved undeveloped reserves:				
As of December 31, 2014	37,074	16,730	99,110	70,322
As of December 31, 2015	30,048	15,995	101,564	62,970
As of December 31, 2016	46,332	37,606	268,136	128,627

(1)Oil equivalents are determined under the relative energy content method by using the ratio of 6.0 Mcf of gas to 1.0 Bbl of oil.

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Standardized Measure—The standardized measure of discounted future net cash flows relating to the Company's ownership interest in proved oil, NGL and natural gas reserves as of December 31, 2016, 2015 and 2014 is shown below (in thousands):

	As of December 31,		
Standardized Measure	2016	2015	2014
Future cash inflows	$ 4,300,728	$ 3,424,682	$ 7,835,812
Future production costs	(2,362,243)	(1,744,947)	(2,635,281)
Future development costs	(919,418)	(667,117)	(1,639,991)
Future income taxes	—	—	(407,193)
Discount to present value at 10% annual rate	(505,696)	(419,144)	(1,372,769)
Standardized measure of discounted future net cash flows	$ 513,371	$ 593,474	$ 1,780,578

The future cash flows are based on average first day of month prices during the prior 12 month period and cost rates in existence at the time of the projections.

Changes in standardized measure of discounted future net cash flows—Changes in standardized measure of discounted future net cash flows relating to proved oil, NGL and natural gas reserves for each of the three years in the period ended December 31, 2016 are summarized below (in thousands):

	Year Ended December 31,		
Summary of Changes	2016	2015	2014
Balance, beginning of period	$ 593,474	$ 1,780,578	$ 1,209,555
Net changes in prices and costs	(209,286)	(1,790,803)	(725,716)
Revisions of previous quantity estimates	(235,324)	(120,836)	130,752
Extensions, discoveries and improved recovery, less related costs	239,765	279,679	448,464
Sales of oil and gas - net of production costs	(247,126)	(292,382)	(535,580)
Net change in income taxes	—	142,761	113,008
Changes in development costs	456,565	426,246	629,403
Accretion of discount	59,347	178,058	120,955
Purchases of reserves in place	2,319	—	590,559
Sales of reserves in place	(49,738)	(136,828)	—
Change in production rates, timing, and other	(96,625)	127,001	(200,822)
Net change	(80,103)	(1,187,104)	571,023
Balance, end of period	$ 513,371	$ 593,474	$ 1,780,578