

PRIMEENERGY CORP
Form 10-Q
May 07, 2014
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the Quarterly Period Ended March 31, 2014

Or

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

For the Transition Period From _____ to _____

Commission File Number 0-7406

PrimeEnergy Corporation

(Exact name of registrant as specified in its charter)

Delaware **84-0637348**
(State or other jurisdiction of **(I.R.S. employer**
incorporation or organization) **Identification No.)**
9821 Katy Freeway, Houston, Texas 77024

(Address of principal executive offices)

(713) 735-0000

(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filings required for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

Large accelerated filer Accelerated filer
Non-accelerated filer (Do not check if smaller reporting company) Smaller reporting company
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

The number of shares outstanding of each class of the Registrant's Common Stock as of May 2, 2014 was: Common Stock, \$0.10 par value 2,366,891 shares.

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(Thousands of dollars, except per share amounts)

	March 31, 2014	December 31, 2013
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 10,486	\$ 9,526
Restricted cash and cash equivalents	2,065	2,065
Accounts receivable, net	17,864	17,693
Other current assets	2,757	3,391
Total Current Assets	33,172	32,675
Property and Equipment, at cost		
Oil and gas properties (successful efforts method), net	197,458	195,023
Field and office equipment, net	13,450	13,402
Total Property and Equipment, Net	210,908	208,425
Other Assets	1,566	1,822
Total Assets	\$ 245,646	\$ 242,922
LIABILITIES AND EQUITY		
Current Liabilities		
Accounts payable	\$ 17,390	\$ 16,249
Accrued liabilities	7,485	6,832
Current portion of long-term debt	1,888	1,870
Current portion of asset retirement and other long-term obligations	3,303	3,310
Derivative liability short-term	3,564	2,194
Due to related parties	76	23
Total Current Liabilities	33,706	30,478
Long-Term Bank Debt	115,544	120,023
Asset Retirement Obligations	7,316	7,227
Derivative Liability Long-Term	85	94
Deferred Income Taxes	33,219	31,962

Total Liabilities		189,870	189,784
Commitments and Contingencies			
Equity			
Common stock, \$.10 par value; Authorized: 4,000,000 shares, issued: 3,836,397 shares		383	383
Paid-in capital		6,855	6,803
Retained earnings		81,425	78,616
Accumulated other comprehensive loss, net		(126)	(123)
Treasury stock, at cost; 1,468,225 shares and 1,447,613 shares		(41,297)	(40,251)
Total Stockholders Equity	PrimeEnergy	47,240	45,428
Non-controlling interest		8,536	7,710
Total Equity		55,776	53,138
Total Liabilities and Equity		\$ 245,646	\$ 242,922

The accompanying Notes are an integral part of these Condensed Consolidated Financial Statements

Table of Contents**PRIMEENERGY CORPORATION****CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS** Unaudited

Three Months Ended March 31, 2014 and 2013

(Thousands of dollars, except per share amounts)

	2014	2013
Revenues		
Oil and gas sales	\$ 24,201	\$ 21,359
Realized gain (loss) on derivative instruments, net	(997)	240
Field service income	6,772	5,331
Administrative overhead fees	2,284	2,117
Unrealized loss on derivative instruments, net	(1,982)	(2,083)
Other income	107	6
Total Revenues	30,385	26,970
Costs and Expenses		
Lease operating expense	11,906	9,983
Field service expense	5,527	4,535
Depreciation, depletion, amortization and accretion on discounted liabilities	5,353	4,883
General and administrative expense	4,446	4,040
Exploration costs		1
Total Costs and Expenses	27,232	23,442
Gain on Sale and Exchange of Assets	3,173	1,060
Income from Operations	6,326	4,588
Other Income and Expenses		
Less: Interest expense	1,079	1,073
Add: Interest income		2
Income Before Provision for Income Taxes	5,247	3,517
Provision for Income Taxes	1,478	1,153
Net Income	3,769	2,364
Less: Net Income Attributable to Non-Controlling Interests	960	106
Net Income Attributable to PrimeEnergy	\$ 2,809	\$ 2,258
Basic Income Per Common Share	\$ 1.18	\$ 0.90
Diluted Income Per Common Share	\$ 0.90	\$ 0.70

The accompanying Notes are an integral part of these Condensed Consolidated Financial Statements

Table of Contents**PRIMEENERGY CORPORATION****CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME** Unaudited

Three Months Ended March 31, 2014 and 2013

(Thousands of dollars)

	2014	2013
Net Income	\$ 3,769	\$ 2,364
Other Comprehensive Loss, net of taxes:		
Changes in fair value of hedge positions, net of taxes of \$2 and \$16, respectively	(3)	(26)
Total other comprehensive loss	(3)	(26)
Comprehensive Income	3,766	2,338
Less: Comprehensive Income Attributable to Non-Controlling Interest	960	106
Comprehensive Income Attributable to PrimeEnergy	\$ 2,806	\$ 2,232

The accompanying Notes are an integral part of these Condensed Consolidated Financial Statements

Table of Contents**PRIMEENERGY CORPORATION****CONDENSED CONSOLIDATED STATEMENT OF EQUITY** Unaudited

Three Months Ended March 31, 2014

(Thousands of dollars)

	Common Stock Shares	Common Stock Amount	Additional Paid in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock	Total Stockholders Equity PrimeEnergy	Non-Controlling Interest	Total Equity
Balance at December 31, 2013	3,836,397	\$ 383	\$ 6,803	\$ 78,616	\$ (123)	\$ (40,251)	\$ 45,428	\$ 7,710	\$ 53,138
Repurchase 20,612 shares of common stock						(1,046)	(1,046)		(1,046)
Net income				2,809			2,809	960	3,769
Other comprehensive loss, net of taxes					(3)		(3)		(3)
Repurchase of non-controlling interests			52				52	(100)	(48)
Distributions to non-controlling interests								(34)	(34)
Balance at March 31, 2014	3,836,397	\$ 383	\$ 6,855	\$ 81,425	\$ (126)	\$ (41,297)	\$ 47,240	\$ 8,536	\$ 55,776

The accompanying Notes are an integral part of these Condensed Consolidated Financial Statements

Table of Contents**PRIMEENERGY CORPORATION****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS** Unaudited

Three Months Ended March 31, 2014 and 2013

(Thousands of dollars)

	2014	2013
Cash Flows from Operating Activities:		
Net income	\$ 3,769	\$ 2,364
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, depletion, amortization and accretion on discounted liabilities	5,353	4,883
Gain on sale of properties	(3,173)	(1,060)
Unrealized loss on derivative instruments, net	1,982	2,083
Provision for deferred income taxes	1,251	1,063
Changes in assets and liabilities:		
Increase in accounts receivable	(171)	(354)
Decrease in other assets	191	115
Increase in accounts payable	1,141	2,225
Increase in accrued liabilities	653	86
Increase in due to related parties	134	2
Net Cash Provided by Operating Activities	11,130	11,407
Cash Flows from Investing Activities:		
Capital expenditures, including exploration expense	(7,864)	(11,520)
Proceeds from sale of properties and equipment	3,283	1,182
Net Cash Used in Investing Activities	(4,581)	(10,338)
Cash Flows from Financing Activities:		
Purchase of stock for treasury	(1,046)	(1,625)
Purchase of non-controlling interests	(48)	(1)
Proceeds from long-term bank debt and other long-term obligations	14,750	15,500
Repayment of long-term bank debt and other long-term obligations	(19,211)	(15,500)
Distribution to non-controlling interests	(34)	(39)
Net Cash Used in Financing Activities	(5,589)	(1,665)
Net Increase (Decrease) in Cash and Cash Equivalents	960	(596)
Cash and Cash Equivalents at the Beginning of the Period	9,526	8,602
Cash and Cash Equivalents at the End of the Period	\$ 10,486	\$ 8,006

Supplemental Disclosures:

Income taxes paid	\$ 293	\$ 48
Interest paid	\$ 1,117	\$ 1,068

The accompanying Notes are an integral part of these Condensed Consolidated Financial Statements

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PRIMEENERGY CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2014

(Unaudited)

(1) Basis of Presentation:

The accompanying condensed consolidated financial statements of PrimeEnergy Corporation ("PEC" or the "Company") have not been audited by independent public accountants. Pursuant to applicable Securities and Exchange Commission ("SEC") rules and regulations, the accompanying interim financial statements do not include all disclosures presented in annual financial statements and the reader should refer to the Company's Form 10-K for the year ended December 31, 2013. In the opinion of management, the accompanying interim condensed consolidated financial statements contain all material adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of the Company's condensed consolidated balance sheets as of March 31, 2014 and December 31, 2013, the condensed consolidated results of operations, cash flows and equity for the three months ended March 31, 2014 and 2013. Certain amounts presented in prior period financial statements have been reclassified for consistency with current period presentation. The results for interim periods are not necessarily indicative of annual results. For purposes of disclosure in the condensed consolidated financial statements, subsequent events have been evaluated through the date the statements were issued.

Recently Issued Accounting Pronouncements

In July 2013, the FASB issued ASU 2013-11, "Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists." ASU 2013-11 provided guidance on the presentation of an unrecognized tax benefit when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists. This guidance requires entities to present unrecognized tax benefits as a decrease in a net operating loss, similar tax loss, or tax credit carryforward if certain criteria are met. The guidance will eliminate the diversity in practice in the presentation of unrecognized tax benefits but will not alter the way in which entities assess deferred tax assets for realizability. ASU No. 2013-11 is effective for annual and interim reporting periods beginning after December 15, 2013. The requirements of ASU 2013-11 did not have a material impact on the Company's condensed consolidated financial position, results of operations or cash flows.

(2) Acquisitions and Dispositions:

Historically the Company has repurchased the interests of the partners and trust unit holders in the eighteen oil and gas limited partnerships (the "Partnerships") and th