Diamondback Energy, Inc.
Form 10-Q
November 08, 2016

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

FORM 10-Q

ý QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE QUARTERLY PERIOD ENDED September 30, 2016
OR
o TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF SECURITIES EXCHANGE ACT OF 1934
Commission File Number 001-35700

Diamondback Energy, Inc.
(Exact Name of Registrant As Specified in Its Charter)

Delaware (State or Other Jurisdiction of Incorporation or Organization)	45-4502447 (IRS Employer Identification Number)
500 West Texas, Suite 1200 Midland, Texas (Address of Principal Executive Offices)	79701 (Zip Code)

(432) 221-7400
(Registrant Telephone Number, Including Area Code)

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 past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ý 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 during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ý 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. (Check One):
Large Accelerated Filer ý Accelerated Filer o

Non-Accelerated Filer o Smaller Reporting Company o

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

As of November 3, 2016, 78,066,147 shares of the registrant's common stock were outstanding.

DIAMONDBACK ENERGY, INC.
FORM 10-Q
FOR THE QUARTER ENDED SEPTEMBER 30, 2016
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GLOSSARY OF OIL AND NATURAL GAS TERMS

The following is a glossary of certain oil and gas terms that are used in this Quarterly Report on Form 10-Q (this “report”):

Basin	A large depression on the earth’s surface in which sediments accumulate.
Bbl	Stock tank barrel, or 42 U.S. gallons liquid volume, used in this report in reference to crude oil or other liquid hydrocarbons.
Bbls/d	Bbls per day.
BOE	Barrels of oil equivalent, with six thousand cubic feet of natural gas being equivalent to one barrel of oil.
BOE/d	BOE per day.
British Thermal Unit or Btu	The quantity of heat required to raise the temperature of one pound of water by one degree Fahrenheit.
Completion	The process of treating a drilled well followed by the installation of permanent equipment for the production of natural gas or oil, or in the case of a dry hole, the reporting of abandonment to the appropriate agency.
Crude oil	Liquid hydrocarbons retrieved from geological structures underground to be refined into fuel sources.
Finding and development costs	Capital costs incurred in the acquisition, exploitation and exploration of proved oil and natural gas reserves divided by proved reserve additions and revisions to proved reserves.
Gross acres or gross wells	The total acres or wells, as the case may be, in which a working interest is owned.
Horizontal drilling	A drilling technique used in certain formations where a well is drilled vertically to a certain depth and then drilled at a right angle with a specified interval.
Horizontal wells	Wells drilled directionally horizontal to allow for development of structures not reachable through traditional vertical drilling mechanisms.
Mcf	Thousand cubic feet of natural gas.
Mcf/d	Mcf per day.
Mineral interests	The interests in ownership of the resource and mineral rights, giving an owner the right to profit from the extracted resources.
MMBtu	Million British Thermal Units.
Net acres or net wells	The sum of the fractional working interest owned in gross acres.
Oil and natural gas properties	Tracts of land consisting of properties to be developed for oil and natural gas resource extraction.
Play	A set of discovered or prospective oil and/or natural gas accumulations sharing similar geologic, geographic and temporal properties, such as source rock, reservoir structure, timing, trapping mechanism and hydrocarbon type.
Plugging and abandonment	Refers to the sealing off of fluids in the strata penetrated by a well so that the fluids from one stratum will not escape into another or to the surface. Regulations of all states require plugging of abandoned wells.
Prospect	A specific geographic area which, based on supporting geological, geophysical or other data and also preliminary economic analysis using reasonably anticipated prices and costs, is deemed to have potential for the discovery of commercial hydrocarbons.
Proved reserves	The estimated quantities of oil, natural gas and natural gas liquids which geological and engineering data demonstrate with reasonable certainty to be commercially recoverable in future years from known reservoirs under existing economic and operating conditions.
Reserves	The estimated remaining quantities of oil and natural gas and related substances anticipated to be economically producible, as of a given date, by application of development projects to known

accumulations. In addition, there must exist, or there must be a reasonable expectation that there will exist, the legal right to produce or a revenue interest in the production, installed means of delivering oil and natural gas or related substances to the market and all permits and financing required to implement the project. Reserves are not assigned to adjacent reservoirs isolated by major, potentially sealing, faults until those reservoirs are penetrated and evaluated as economically producible. Reserves should not be assigned to areas that are clearly separated from a known accumulation by a non-productive reservoir (i.e., absence of reservoir, structurally low reservoir or negative test results). Such areas may contain prospective resources (i.e., potentially recoverable resources from undiscovered accumulations).

Reservoir	A porous and permeable underground formation containing a natural accumulation of producible natural gas and/or oil that is confined by impermeable rock or water barriers and is separate from other reservoirs.
Royalty interest	An interest that gives an owner the right to receive a portion of the resources or revenues without having to carry any costs of development.
Spacing	The distance between wells producing from the same reservoir. Spacing is often expressed in terms of acres (e.g., 40-acre spacing) and is often established by regulatory agencies.
Working interest	An operating interest that gives the owner the right to drill, produce and conduct operating activities on the property and receive a share of production and requires the owner to pay a share of the costs of drilling and production operations.

GLOSSARY OF CERTAIN OTHER TERMS

The following is a glossary of certain other terms that are used in this report.

2012 Plan	The Company’s 2012 Equity Incentive Plan.
Company	Diamondback Energy, Inc., a Delaware corporation.
Exchange Act	The Securities Exchange Act of 1934, as amended.
GAAP	Accounting principles generally accepted in the United States.
General Partner	Viper Energy Partners GP LLC, a Delaware limited liability company and the General Partner of the Partnership.
Indenture	The indenture relating to the Senior Notes, dated as of September 18, 2013, among the Company, the subsidiary guarantors party thereto and Wells Fargo, as the trustee, as supplemented.
NYMEX	New York Mercantile Exchange.
Partnership	Viper Energy Partners LP, a Delaware limited partnership.
Partnership agreement	The first amended and restated agreement of limited partnership, dated June 23, 2014, entered into by the General Partner and Diamondback in connection with the closing of the Viper Offering.
SEC	United States Securities and Exchange Commission.
Securities Act	The Securities Act of 1933, as amended.
Senior Notes	The Company’s 7.625% senior unsecured notes due 2021 in the aggregate principal amount of $450 million.
Viper LTIP	Viper Energy Partners LP Long Term Incentive Plan.
Viper Offering	The Partnerships’ initial public offering.
Wells Fargo	Wells Fargo Bank, National Association.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

Various statements contained in this report that express a belief, expectation, or intention, or that are not statements of historical fact, are forward-looking statements within the meaning of Section 27A of the Securities Act, and Section 21E of the Exchange Act. These forward-looking statements are subject to a number of risks and uncertainties, many of which are beyond our control. All statements, other than statements of historical fact, regarding our strategy, future operations, financial position, estimated revenues and losses, projected costs, prospects, plans and objectives of management are forward-looking statements. When used in this report, the words “could,” “believe,” “anticipate,” “intend,” “estimate,” “expect,” “may,” “continue,” “predict,” “potential,” “project” and similar expressions are intended to identify forward-looking statements, although not all forward-looking statements contain such identifying words. In particular, the factors discussed in this report and detailed under Part II, Item 1A. Risk Factors in this report and our Annual Report on Form 10–K for the year ended December 31, 2015 could affect our actual results and cause our actual results to differ materially from expectations, estimates or assumptions expressed, forecasted or implied in such forward-looking statements.

Forward-looking statements may include statements about our:

- business strategy;
- exploration and development drilling prospects, inventories, projects and programs;
- oil and natural gas reserves;
- acquisitions, including our recently announced pending acquisition in the Southern Delaware Basin;
- identified drilling locations;
- ability to obtain permits and governmental approvals;
- technology;
- financial strategy;
- realized oil and natural gas prices;
- production;
- lease operating expenses, general and administrative costs and finding and development costs;
- future operating results; and
- plans, objectives, expectations and intentions.

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

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Diamondback Energy, Inc. and Subsidiaries
Consolidated Balance Sheets
(Unaudited)

	September 30, 2016	December 31, 2015
	(In thousands, except par values and share data)	
Assets		
Current assets:		
Cash and cash equivalents	$167,269	$20,115
Restricted cash	500	500
Accounts receivable:		
Joint interest and other	33,030	41,309
Oil and natural gas sales	52,471	36,004
Related party	13	1,591
Inventories	1,969	1,728
Derivative instruments	—	4,623
Prepaid expenses and other	3,018	2,875
Total current assets	258,270	108,745
Property and equipment:		
Oil and natural gas properties, full cost method of accounting ($1,702,426 and $1,106,816 excluded from amortization at September 30, 2016 and December 31, 2015, respectively)	4,942,193	3,955,373
Pipeline and gas gathering assets	8,362	7,174
Other property and equipment	58,205	48,621
Accumulated depletion, depreciation, amortization and impairment	(1,784,780)	(1,413,543)
Net property and equipment	3,223,980	2,597,625
Other assets	43,430	44,349
Total assets	$3,525,680	$2,750,719
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable-trade	$38,834	$20,008
Accounts payable-related party	2	217
Accrued capital expenditures	47,807	59,937
Other accrued liabilities	64,393	44,293
Revenues and royalties payable	17,561	16,966
Derivative instruments	6,428	—
Total current liabilities	175,025	141,421
Long-term debt	497,813	487,807
Derivative instruments	1,807	—
Asset retirement obligations	15,740	12,518
Total liabilities	690,385	641,746
Commitments and contingencies (Note 15)		
Stockholders' equity:		
Common stock, $0.01 par value, 100,000,000 shares authorized, 78,066,147 issued and outstanding at September 30, 2016; 66,797,041 issued and outstanding at December 31,	781	668

2015		
Additional paid-in capital	3,059,080	2,229,664
Accumulated deficit	(544,992)	(354,360)
Total Diamondback Energy, Inc. stockholders’ equity	2,514,869	1,875,972
Non-controlling interest	320,426	233,001
Total equity	2,835,295	2,108,973
Total liabilities and equity	$3,525,680	$2,750,719

See accompanying notes to combined consolidated financial statements.

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Diamondback Energy, Inc. and Subsidiaries
Consolidated Statements of Operations
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
	(In thousands, except per share amounts)			
Revenues:				
Oil sales	$126,353	$101,307	$306,698	$301,850
Natural gas sales	6,334	5,673	14,465	14,431
Natural gas liquid sales	9,444	4,966	20,932	16,129
Total revenues	142,131	111,946	342,095	332,410
Costs and expenses:				
Lease operating expenses	22,180	22,189	59,080	65,117
Production and ad valorem taxes	9,123	8,966	25,244	25,036
Gathering and transportation	2,843	1,688	8,064	4,343
Depreciation, depletion and amortization	44,746	52,375	126,686	169,148
Impairment of oil and natural gas properties	46,368	273,737	245,536	597,188
General and administrative expenses (including non-cash equity-based compensation, net of capitalized amounts, of $6,265 and $4,402 for the three months ended September 30, 2016 and 2015, respectively, and $20,643 and $13,659 for the nine months ended September 30, 2016 and 2015, respectively)	9,908	7,526	32,411	23,446
Asset retirement obligation accretion expense	270	238	770	588
Total costs and expenses	135,438	366,719	497,791	884,866
Income (loss) from operations	6,693	(254,773)	(155,696)	(552,456)
Other income (expense):				
Interest income (expense)	(10,234)	(10,633)	(30,266)	(31,404)
Other income	907	300	1,647	1,248
Gain (loss) on derivative instruments, net	2,034	27,603	(8,665)	26,834
Total other expense, net	(7,293)	17,270	(37,284)	(3,322)
Loss before income taxes	(600)	(237,503)	(192,980)	(555,778)
Provision for (benefit from) income taxes	—	(81,461)	368	(194,823)
Net loss	(600)	(156,042)	(193,348)	(360,955)
Net income (loss) attributable to non-controlling interest	1,630	739	(2,716)	2,264
Net loss attributable to Diamondback Energy, Inc.	$(2,230)	$(156,781)	$(190,632)	$(363,219)
Earnings per common share:				
Basic	$(0.03)	$(2.40)	$(2.60)	$(5.88)
Diluted	$(0.03)	$(2.40)	$(2.60)	$(5.88)
Weighted average common shares outstanding:				
Basic	77,167	65,251	73,318	61,727
Diluted	77,167	65,251	73,318	61,727

See accompanying notes to combined consolidated financial statements.

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Diamondback Energy, Inc. and Subsidiaries
Consolidated Statements of Stockholders' Equity
(Unaudited)

	Common Stock		Additional Paid-in Capital	Retained Earnings (Accumulated Deficit)	Non-Controlling Interest	Total
	Shares	Amount				
	(In thousands)					
Balance December 31, 2014	56,888	$ 569	$ 1,554,174	$ 196,268	$ 234,202	$ 1,985,213
Unit-based compensation		—	—	—	2,956	2,956
Stock-based compensation		—	15,827	—	—	15,827
Distribution to non-controlling interest		—	—	—	(6,113)	(6,113)
Common shares issued in public offering, net of offering costs	9,488	94	649,979	—	—	650,073
Exercise of stock options and vesting of restricted stock units	281	4	2,715	—	—	2,719
Net income (loss)		—	—	(363,219)	2,264	(360,955)
Balance September 30, 2015	66,656	$ 667	$ 2,222,695	$ (166,951)	$ 233,309	$ 2,289,720
Balance December 31, 2015	66,797	$ 668	$ 2,229,664	$ (354,360)	$ 233,001	$ 2,108,973
Net proceeds from issuance of common units - Viper Energy Partners LP		—	—	—	93,564	93,564
Unit-based compensation		—	—	—	2,974	2,974
Stock-based compensation		—	23,193	—	—	23,193
Distribution to non-controlling interest		—	—	—	(6,397)	(6,397)
Common shares issued in public offering, net of offering costs	10,925	109	805,728	—	—	805,837
Exercise of stock options and vesting of restricted stock units	344	4	495	—	—	499
Net loss		—	—	(190,632)	(2,716)	(193,348)
Balance September 30, 2016	78,066	$ 781	$ 3,059,080	$ (544,992)	$ 320,426	$ 2,835,295

See accompanying notes to combined consolidated financial statements.

Diamondback Energy, Inc. and Subsidiaries
Consolidated Statements of Cash Flows
(Unaudited)

	Nine Months Ended September 30,	
	2016	2015
	(In thousands)	
Cash flows from operating activities:		
Net loss	$(193,348)	$(360,955)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Benefit from deferred income taxes	—	(194,790)
Impairment of oil and natural gas properties	245,536	597,188
Asset retirement obligation accretion expense	770	588
Depreciation, depletion, and amortization	126,686	169,148
Amortization of debt issuance costs	2,023	1,918
Change in fair value of derivative instruments	12,858	77,532
Income from equity investment	(65)	—
Equity-based compensation expense	20,643	13,659
(Gain) loss on sale of assets, net	37	(91)
Changes in operating assets and liabilities:		
Accounts receivable	(7,600)	13,112
Accounts receivable-related party	1,578	—
Inventories	(241)	225
Prepaid expenses and other	(2,064)	569
Accounts payable and accrued liabilities	10,590	22,756
Accounts payable and accrued liabilities-related party	(216)	—
Accrued interest	8,564	8,324
Revenues and royalties payable	595	(9,579)
Net cash provided by operating activities	226,346	339,604
Cash flows from investing activities:		
Additions to oil and natural gas properties	(241,609)	(326,441)
Additions to oil and natural gas properties-related party	(637)	(26)
Acquisition of royalty interests	(137,782)	(32,291)
Acquisition of leasehold interests	(591,785)	(425,507)
Additions to pipeline and gas gathering assets	(1,188)	(2)
Purchase of other property and equipment	(9,805)	(992)
Proceeds from sale of assets	1,566	97
Equity investments	(800)	(2,702)
Net cash used in investing activities	(982,040)	(787,864)
Cash flows from financing activities:		
Proceeds from borrowings under credit facility	98,000	392,501
Repayment under credit facility	(89,000)	(577,001)
Debt issuance costs	(128)	(303)
Public offering costs	(800)	(586)
Proceeds from public offerings	900,675	650,688
Proceeds from exercise of stock options	498	2,718
Distribution to non-controlling interest	(6,397)	(6,113)
Net cash provided by financing activities	902,848	461,904

Net increase in cash and cash equivalents	147,154	13,644
Cash and cash equivalents at beginning of period	20,115	30,183
Cash and cash equivalents at end of period	$167,269	$43,827

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Diamondback Energy, Inc. and Subsidiaries
Consolidated Statements of Cash Flows - Continued
(Unaudited)

	Nine Months Ended September 30,	
	2016	2015
	(In thousands)	
Supplemental disclosure of cash flow information:		
Interest paid, net of capitalized interest	$19,845	$21,117
Supplemental disclosure of non-cash transactions:		
Change in accrued capital expenditures	$(12,130)	$(70,579)
Capitalized stock-based compensation	$5,525	$5,125

See accompanying notes to combined consolidated financial statements.

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Diamondback Energy, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
(Unaudited)

1. DESCRIPTION OF THE BUSINESS AND BASIS OF PRESENTATION

Organization and Description of the Business

Diamondback Energy, Inc. (“Diamondback” or the “Company”), together with its subsidiaries, is an independent oil and gas company currently focused on the acquisition, development, exploration and exploitation of unconventional, onshore oil and natural gas reserves in the Permian Basin in West Texas. Diamondback was incorporated in Delaware on December 30, 2011.

The wholly-owned subsidiaries of Diamondback, as of September 30, 2016, include Diamondback E&P LLC, a Delaware limited liability company, Diamondback O&G LLC, a Delaware limited liability company, Viper Energy Partners GP LLC, a Delaware limited liability company, and White Fang Energy LLC, a Delaware limited liability company. The consolidated subsidiaries include the wholly-owned subsidiaries as well as Viper Energy Partners LP, a Delaware limited partnership (the “Partnership”), and the Partnership’s wholly-owned subsidiary Viper Energy Partners LLC, a Delaware limited liability company.

Basis of Presentation

The consolidated financial statements include the accounts of the Company and its subsidiaries after all significant intercompany balances and transactions have been eliminated upon consolidation.

The Partnership is consolidated in the financial statements of the Company. As of September 30, 2016, the Company owned approximately 83% of the common units of the Partnership and the Company’s wholly-owned subsidiary, Viper Energy Partners GP LLC, is the General Partner of the Partnership.

These financial statements have been prepared by the Company without audit, pursuant to the rules and regulations of the SEC. They reflect all adjustments that are, in the opinion of management, necessary for a fair statement of the results for interim periods, on a basis consistent with the annual audited financial statements. All such adjustments are of a normal recurring nature. Certain information, accounting policies and footnote disclosures normally included in financial statements prepared in accordance with GAAP have been omitted pursuant to such rules and regulations, although the Company believes the disclosures are adequate to make the information presented not misleading. This Quarterly Report on Form 10–Q should be read in conjunction with the Company’s most recent Annual Report on Form 10–K for the fiscal year ended December 31, 2015, which contains a summary of the Company’s significant accounting policies and other disclosures.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Use of Estimates

Certain amounts included in or affecting the Company’s consolidated financial statements and related disclosures must be estimated by management, requiring certain assumptions to be made with respect to values or conditions that cannot be known with certainty at the time the consolidated financial statements are prepared. These estimates and assumptions affect the amounts the Company reports for assets and liabilities and the Company’s disclosure of contingent assets and liabilities at the date of the consolidated financial statements. Actual results could differ from those estimates.

The Company evaluates these estimates on an ongoing basis, using historical experience, consultation with experts and other methods the Company considers reasonable in the particular circumstances. Nevertheless, actual results may differ significantly from the Company's estimates. Any effects on the Company's business, financial position or results of operations resulting from revisions to these estimates are recorded in the period in which the facts that give rise to the revision become known. Significant items subject to such estimates and assumptions include estimates of proved oil and natural gas reserves and related present value estimates of future net cash flows therefrom, the carrying value of oil and natural gas properties, asset retirement obligations, the fair value determination of acquired assets and liabilities, equity-based compensation, fair value estimates of commodity derivatives and estimates of income taxes.

Diamondback Energy, Inc. and Subsidiaries
Notes to Consolidated Financial Statements-(Continued)
(Unaudited)

New Accounting Pronouncements

In April 2015, the Financial Accounting Standards Board issued Accounting Standards Update 2015-03, “Interest–Imputation of Interest”. This update requires that debt issuance costs related to a recognized debt liability (except costs associated with revolving debt arrangements) be presented in the balance sheet as a direct deduction from that debt liability, consistent with the presentation of a debt discount, to simplify the presentation of debt issuance costs. This update is effective for financial statements issued for fiscal years beginning after December 15, 2015. The Company retrospectively adopted this new standard effective January 1, 2016. Adoption of this standard only affects the presentation of the Company’s consolidated balance sheets and did not have a material impact on its consolidated financial statements.

In January 2016, the Financial Accounting Standards Board issued Accounting Standards Update 2016-01, “Financial Instruments–Overall”. This update applies to any entity that holds financial assets or owes financial liabilities. This update requires equity investments (except for those accounted for under the equity method or those that result in consolidation of the investee) to be measured at fair value with changes in fair value recognized in net income. This update will be effective for public entities for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years, with early adoption permitted. Entities should apply the amendments by means of a cumulative-effect adjustment to the balance sheet as of the beginning of the fiscal year of adoption. While this update will not have a direct impact on the Company, the Partnership will be required to mark its cost method investment to fair value with the adoption of this update.

In February 2016, the Financial Accounting Standards Board issued Accounting Standards Update 2016-02, “Leases”. This update applies to any entity that enters into a lease, with some specified scope exemptions. Under this update, a lessee should recognize in the statement of financial position a liability to make lease payments (the lease liability) and a right-of-use asset representing its right to use the underlying asset for the lease term. While there were no major changes to the lessor accounting, changes were made to align key aspects with the revenue recognition guidance. This update will be effective for public entities for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years, with early adoption permitted. Entities will be required to recognize and measure leases at the beginning of the earliest period presented using a modified retrospective approach. The Company is currently evaluating the impact that the adoption of this update will have on the Company’s financial position, results of operations and liquidity.

In March 2016, the Financial Accounting Standards Board issued Accounting Standards Update 2016-08, “Revenue from Contracts with Customers - Principal versus Agent Considerations (Reporting Revenue Gross versus Net)”. Under this update, an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This update will be effective for annual and interim reporting periods beginning after December 15, 2017, with early application not permitted. This update allows for either full retrospective adoption, meaning this update is applied to all periods presented in the financial statements, or modified retrospective adoption, meaning this update is applied only to the most current period presented. The Company is currently evaluating the impact, if any, that the adoption of this update will have on the Company’s financial position, results of operations and liquidity.

In March 2016, the Financial Accounting Standards Board issued Accounting Standards Update 2016-09, "Compensation - Stock Compensation". This update applies to all entities that issue equity-based payment awards to their employees. Under this update, there were several areas that were simplified including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. This update will be effective for financial statements issued for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years with early adoption permitted. The Company is currently evaluating the impact that the adoption of this update will have on the Company's financial position, results of operations and liquidity.

In April 2016, the Financial Accounting Standards Board issued Accounting Standards Update 2016-10, “Revenue from Contracts with Customers - Identifying Performance Obligations and Licensing”. This update clarifies two principles of Accounting Standards Codification Topic 606: identifying performance obligations and the licensing implementation guidance. This standard has the same effective date as Accounting Standards Update 2016-08, the revenue recognition standard discussed above. The adoption of this standard is not expected to have a material impact on the Company's financial position, results of operations and liquidity.

Diamondback Energy, Inc. and Subsidiaries
Notes to Consolidated Financial Statements-(Continued)
(Unaudited)

In May 2016, the Financial Accounting Standards Board issued Accounting Standards Update 2016-12, “Revenue from Contracts with Customers - Narrow-Scope Improvements and Practical Expedients”. This update applies only to the following areas from Accounting Standards Codification Topic 606: assessing the collectability criterion and accounting for contracts that do not meet the criteria for step 1, presentation of sales taxes and other similar taxes collected from customers, noncash consideration, contract modification at transition, completed contracts at transition and technical correction. This standard has the same effective date as Accounting Standards Update 2016-08, the revenue recognition standard discussed above. The adoption of this standard is not expected to have a material impact on the Company's financial position, results of operations and liquidity.

In August 2016, the Financial Accounting Standards Board issued Accounting Standards Update 2016-15, “Statement of Cash Flows - Classification of Certain Cash Receipts and Cash Payments”. This update apples to all entities that are required to present a statement of cash flows. This update provides guidance on eight specific cash flow issues: debt prepayment or debt extinguishment costs, settlement of zero-coupon debt instruments or other debt instruments with coupon interest rates that are insignificant in relation to the effective interest rate of the borrowing, contingent consideration payments made after a business combination, proceeds from the settlement of insurance claims, proceeds from the settlement of corporate-owned life insurance policies, including bank-owned life insurance policies, distributions received from equity method investees, beneficial interests in securitization transactions and separately identifiable cash flows and application of the predominance principle. This update will be effective for financial statements issued for fiscal years beginning after December 31, 2017, including interim periods within those fiscal years with early adoption permitted. This update should be applied using the retrospective transition method. Adoption of this standard will only affect the presentation of the Company’s cash flows and will not have a material impact on its consolidated financial statements.

3. ACQUISITIONS

2016 Activity

On September 1, 2016, the Company acquired from an unrelated third party leasehold interests and related assets in the Southern Delaware Basin for an aggregate purchase price of $560.0 million, subject to certain adjustments. This transaction included approximately 38,765 gross (19,180 net) acres primarily in Reeves and Ward counties, 19 gross producing vertical wells, 11 gross producing horizontal wells, saltwater disposal and gathering infrastructure and other related assets. The Company financed this acquisition with net proceeds from the July 2016 equity offering discussed in Note 9 and cash on hand.

2015 Activity

During the nine months ended September 30, 2015, the Company completed acquisitions from unrelated third parties of an aggregate of approximately 16,034 gross (12,396 net) acres in the Midland Basin, primarily in northwest Howard County, for an aggregate purchase price of approximately $426.1 million. The acquisitions were accounted for according to the acquisition method, which requires the recording of net assets acquired and consideration transferred at fair value. These acquisitions were funded with the net proceeds of the May 2015 equity offering discussed in Note 9 and borrowings under the Company’s revolving credit facility discussed in Note 8.

On July 9, 2015, the Company completed the sale of an approximate average 1.5% overriding royalty interest in certain of its acreage primarily located in Howard County, Texas to the Partnership for $31.1 million. The Partnership primarily funded this acquisition with borrowings under its revolving credit facility discussed in Note 8.

4. VIPER ENERGY PARTNERS LP

The Partnership is a publicly traded Delaware limited partnership, the common units of which are listed on the NASDAQ Global Market under the symbol “VNOM”. The Partnership was formed by Diamondback on February 27, 2014, to, among other things, own, acquire and exploit oil and natural gas properties in North America. The Partnership is currently focused on oil and natural gas properties in the Permian Basin. Viper Energy Partners GP LLC, a fully-consolidated subsidiary of Diamondback, serves as the general partner of, and holds a non-economic general partner interest in, the Partnership. As of September 30, 2016, the Company owned approximately 83% of the common units of the Partnership.

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Partnership Agreement

In connection with the closing of the Viper Offering, the General Partner and Diamondback entered into the first amended and restated agreement of limited partnership, dated June 23, 2014 (the “Partnership Agreement”). The Partnership Agreement requires the Partnership to reimburse the General Partner for all direct and indirect expenses incurred or paid on the Partnership’s behalf and all other expenses allocable to the Partnership or otherwise incurred by the General Partner in connection with operating the Partnership’s business. The Partnership Agreement does not set a limit on the amount of expenses for which the General Partner and its affiliates may be reimbursed. These expenses include salary, bonus, incentive compensation and other amounts paid to persons who perform services for the Partnership or on its behalf and expenses allocated to the General Partner by its affiliates. The General Partner is entitled to determine the expenses that are allocable to the Partnership.

Tax Sharing

In connection with the closing of the Viper Offering, the Partnership entered into a tax sharing agreement with Diamondback, dated June 23, 2014, pursuant to which the Partnership agreed to reimburse Diamondback for its share of state and local income and other taxes for which the Partnership’s results are included in a combined or consolidated tax return filed by Diamondback with respect to taxable periods including or beginning on June 23, 2014. The amount of any such reimbursement is limited to the tax the Partnership would have paid had it not been included in a combined group with Diamondback. Diamondback may use its tax attributes to cause its combined or consolidated group, of which the Partnership may be a member for this purpose, to owe less or no tax. In such a situation, the Partnership agreed to reimburse Diamondback for the tax the Partnership would have owed had the tax attributes not been available or used for the Partnership’s benefit, even though Diamondback had no cash tax expense for that period.

Other Agreements

See Note 11—Related Party Transactions for information regarding the advisory services agreement the Partnership and the General Partner entered into with Wexford Capital LP (“Wexford”).

The Partnership has entered into a secured revolving credit facility with Wells Fargo, as administrative agent sole book runner and lead arranger. See Note 8—Debt for a description of this credit facility.

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5. PROPERTY AND EQUIPMENT

Property and equipment includes the following:

	September 30, 2016	December 31, 2015
	(in thousands)	
Oil and natural gas properties:		
Subject to depletion	$3,239,767	$2,848,557
Not subject to depletion-acquisition costs		
Incurred in 2016	671,815	—
Incurred in 2015	420,039	433,769
Incurred in 2014	487,958	543,399
Incurred in 2013	61,871	68,351
Incurred in 2012	60,743	61,297
Total not subject to depletion	1,702,426	1,106,816
Gross oil and natural gas properties	4,942,193	3,955,373
Accumulated depletion	(636,771)	(512,144)
Accumulated impairment	(1,143,498)	(897,962)
Oil and natural gas properties, net	3,161,924	2,545,267
Pipeline and gas gathering assets	8,362	7,174
Other property and equipment	58,205	48,621
Accumulated depreciation	(4,511)	(3,437)
Property and equipment, net of accumulated depreciation, depletion, amortization and impairment	$3,223,980	$2,597,625

The Company uses the full cost method of accounting for its oil and natural gas properties. Under this method, all acquisition, exploration and development costs, including certain internal costs, are capitalized and amortized on a composite unit of production method based on proved oil, natural gas liquids and natural gas reserves. Internal costs capitalized to the full cost pool represent management's estimate of costs incurred directly related to exploration and development activities such as geological and other administrative costs associated with overseeing the exploration and development activities. All internal costs not directly associated with exploration and development activities were charged to expense as they were incurred. Capitalized internal costs were approximately $3.9 million and $4.0 million for the three months ended September 30, 2016 and 2015, respectively, and $13.0 million and $12.1 million for the nine months ended September 30, 2016 and 2015, respectively. Costs associated with unevaluated properties are excluded from the full cost pool until the Company has made a determination as to the existence of proved reserves. The inclusion of the Company's unevaluated costs into the amortization base is expected to be completed within three to five years. Sales of oil and natural gas properties, whether or not being amortized currently, are accounted for as adjustments of capitalized costs, with no gain or loss recognized, unless such adjustments would significantly alter the relationship between capitalized costs and proved reserves of oil, natural gas liquids and natural gas.

Under this method of accounting, the Company is required to perform a ceiling test each quarter. The test determines a limit, or ceiling, on the book value of the proved oil and gas properties. Net capitalized costs are limited to the lower of unamortized cost net of deferred income taxes, or the cost center ceiling. The cost center ceiling is defined as the sum of (a) estimated future net revenues, discounted at 10% per annum, from proved reserves, based on the trailing 12-month unweighted average of the first-day-of-the-month price, adjusted for any contract provisions or financial derivatives, if any, that hedge the Company’s oil and natural gas revenue, and excluding the estimated abandonment costs for properties with asset retirement obligations recorded on the balance sheet, (b) the cost of properties not being amortized, if any, and (c) the lower of cost or market value of unproved properties included in the cost being amortized, including related deferred taxes for differences between the book and tax basis of the oil and natural gas properties. If the net book value, including related deferred taxes, exceeds the ceiling, an impairment or non-cash writedown is required.

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As a result of the decline in prices, the Company recorded non-cash impairments for the nine months ended September 30, 2016 and 2015 of $245.5 million and $597.2 million, respectively, which are included in accumulated depletion. The impairment charge affected the Company’s reported net income but did not reduce its cash flow. In addition to commodity prices, the Company’s production rates, levels of proved reserves, future development costs, transfers of unevaluated properties and other factors will determine its actual ceiling test calculation and impairment analysis in future periods.

6. ASSET RETIREMENT OBLIGATIONS

The following table describes the changes to the Company’s asset retirement obligation liability for the following periods:

	Nine Months Ended September 30,	
	2016	2015
	(in thousands)	
Asset retirement obligation, beginning of period	$12,711	$8,486
Additional liability incurred	406	448
Liabilities acquired	3,022	3,123
Liabilities settled	(402)	(4)
Accretion expense	770	588
Revisions in estimated liabilities	25	60
Asset retirement obligation, end of period	16,532	12,701
Less current portion	792	39
Asset retirement obligations - long-term	$15,740	$12,662

The Company’s asset retirement obligations primarily relate to the future plugging and abandonment of wells and related facilities. The Company estimates the future plugging and abandonment costs of wells, the ultimate productive life of the properties, a risk-adjusted discount rate and an inflation factor in order to determine the current present value of this obligation. To the extent future revisions to these assumptions impact the present value of the existing asset retirement obligation liability, a corresponding adjustment is made to the oil and natural gas property balance.

7. EQUITY METHOD INVESTMENTS

In October 2014, the Company paid $0.6 million for a 25% interest in HMW Fluid Management LLC, which was formed to develop, own and operate an integrated water management system to gather, store, process, treat, distribute and dispose of water to exploration and production companies operating in Midland, Martin and Andrews Counties, Texas. The board of this entity may also authorize the entity to offer these services to other counties in the Permian Basin and to pursue other business opportunities. The Company has committed to invest an aggregate amount of $5.0 million in this entity. During the nine months ended September 30, 2016, the Company invested $0.8 million in this entity bringing its total investment to $4.1 million at September 30, 2016. The Company will retain a minority interest after all commitments are received. The entity was formed as a limited liability company and maintains a specific ownership account for each investor, similar to a partnership capital account structure. Therefore, the Company accounts for this investment under the equity method of accounting.

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8. DEBT

Long-term debt consisted of the following as of the dates indicated:

	September 30, 2016	December 31, 2015
	(in thousands)	
7.625 % Senior Notes due 2021	$450,000	$450,000
Unamortized debt issuance	(6,687)	(7,693)
Revolving credit facility	—	11,000
Partnership revolving credit facility	54,500	34,500
Total long-term debt	$497,813	$487,807

Senior Notes

On September 18, 2013, the Company completed an offering of $450.0 million in aggregate principal amount of 7.625% senior unsecured notes due 2021 (the “2021 Senior Notes”). The 2021 Senior Notes bear interest at the rate of 7.625% per annum, payable semi-annually, in arrears on April 1 and October 1 of each year, commencing on April 1, 2014 and will mature on October 1, 2021. On June 23, 2014, in connection with the Viper Offering, the Company designated the Partnership, the General Partner and Viper Energy LLC as unrestricted subsidiaries and, upon such designation, Viper Energy LLC, which was a guarantor under the indenture governing of the 2021 Senior Notes, was released as a guarantor under the indenture. As of September 30, 2016, the 2021 Senior Notes are fully and unconditionally guaranteed by Diamondback O&G LLC, Diamondback E&P LLC and White Fang Energy LLC and will also be guaranteed by any future restricted subsidiaries of Diamondback. The net proceeds from the 2021 Senior Notes were used to fund the acquisition of mineral interests underlying approximately 14,804 gross (12,687 net) acres in Midland County, Texas in the Permian Basin.

The 2021 Senior Notes were issued under, and are governed by, an indenture among the Company, the subsidiary guarantors party thereto and Wells Fargo Bank, National Association (“Wells Fargo”), as the trustee, as supplemented (the “Indenture”). The Indenture contains certain covenants that, subject to certain exceptions and qualifications, among other things, limit the Company’s ability and the ability of the restricted subsidiaries to incur or guarantee additional indebtedness, make certain investments, declare or pay dividends or make other distributions on, or redeem or repurchase, capital stock, prepay subordinated indebtedness, sell assets including capital stock of subsidiaries, agree to payment restrictions affecting the Company’s restricted subsidiaries, consolidate, merge, sell or otherwise dispose of all or substantially all of its assets, enter into transactions with affiliates, incur liens, engage in business other than the oil and gas business and designate certain of the Company’s subsidiaries as unrestricted subsidiaries. If the Company experiences certain kinds of changes of control or if it sells certain of its assets, holders of the 2021 Senior Notes may have the right to require the Company to repurchase their 2021 Senior Notes.

The Company will have the option to redeem the 2021 Senior Notes, in whole or in part, at any time on or after October 1, 2016 at the redemption prices (expressed as percentages of principal amount) of 105.719% for the 12-month period beginning on October 1, 2016, 103.813% for the 12-month period beginning on October 1, 2017, 101.906% for the 12-month period beginning on October 1, 2018 and 100.000% beginning on October 1, 2019 and at any time thereafter with any accrued and unpaid interest to, but not including, the date of redemption. See Note 16.

Subsequent Events–Tender Offer and Redemption–Existing 2021 Senior Notes.

The Company’s Credit Facility

On June 9, 2014, Diamondback O&G LLC, as borrower, entered into a first amendment and on November 13, 2014, Diamondback O&G LLC entered into a second amendment to the second amended and restated credit agreement, dated November 1, 2013 (the “credit agreement”). The first amendment modified certain provisions of the credit agreement to, among other things, allow one or more of the Company’s subsidiaries to be designated as “Unrestricted Subsidiaries” that are not subject to certain restrictions contained in the credit agreement. In connection with the Viper Offering, the Partnership, the General Partner and Viper Energy Partners LLC were designated as unrestricted subsidiaries under the credit agreement. As of September 30, 2016, the credit agreement was guaranteed

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by Diamondback, Diamondback E&P LLC and White Fang Energy LLC and will also be guaranteed by any future restricted subsidiaries of Diamondback. The credit agreement is also secured by substantially all of the assets of Diamondback O&G LLC, the Company and the other guarantors.

The second amendment increased the maximum amount of the credit facility to $2.0 billion, modified the dates and deadlines of the credit agreement relating to the scheduled borrowing base redeterminations based on the Company's oil and natural gas reserves and other factors and added new provisions that allow the Company to elect a commitment amount that is less than its borrowing base as determined by the lenders. The borrowing base is scheduled to be re-determined semi-annually with effective dates of May 1st and November 1st. In addition, the Company may request up to three additional redeterminations of the borrowing base during any 12-month period. As of September 30, 2016, the borrowing base was set at $700.0 million, of which the Company had elected a commitment amount of $500.0 million, and the Company had no outstanding borrowings.

The outstanding borrowings under the credit agreement bear interest at a rate elected by the Company that is equal to an alternative base rate (which is equal to the greatest of the prime rate, the Federal Funds effective rate plus 0.5% and 3-month LIBOR plus 1.0%) or LIBOR, in each case plus the applicable margin. The applicable margin ranges from 0.50% to 1.50% in the case of the alternative base rate and from 1.50% to 2.50% in the case of LIBOR, in each case depending on the amount of the loan outstanding in relation to the borrowing base. The Company is obligated to pay a quarterly commitment fee ranging from 0.375% to 0.500% per year on the unused portion of the borrowing base, which fee is also dependent on the amount of the loan outstanding in relation to the borrowing base. Loan principal may be optionally repaid from time to time without premium or penalty (other than customary LIBOR breakage), and is required to be repaid (a) to the extent that the loan amount exceeds the borrowing base, whether due to a borrowing base redetermination or otherwise (in some cases subject to a cure period), (b) in an amount equal to the net cash proceeds from the sale of property when a borrowing base deficiency or event of default exists under the credit agreement and (c) at the maturity date of November 1, 2018.

The credit agreement contains various affirmative, negative and financial maintenance covenants. These covenants, among other things, limit additional indebtedness, additional liens, sales of assets, mergers and consolidations, dividends and distributions, transactions with affiliates and entering into certain swap agreements and require the maintenance of the financial ratios described below.

Financial Covenant	Required Ratio
Ratio of total debt to EBITDAX	Not greater than 4.0 to 1.0
Ratio of current assets to liabilities, as defined in the credit agreement	Not less than 1.0 to 1.0

The covenant prohibiting additional indebtedness allows for the issuance of unsecured debt of up to $750.0 million in the form of senior or senior subordinated notes and, in connection with any such issuance, the reduction of the borrowing base by 25% of the stated principal amount of each such issuance. A borrowing base reduction in connection with such issuance may require a portion of the outstanding principal of the loan to be repaid. As of September 30, 2016, the Company had $450.0 million in aggregate principal amount of senior unsecured notes outstanding. See Note 16. Subsequent Events–Tender Offer and Redemption–Existing 2021 Senior Notes.

As of September 30, 2016 and December 31, 2015, the Company was in compliance with all financial covenants under its revolving credit facility, as then in effect. The lenders may accelerate all of the indebtedness under the Company's revolving credit facility upon the occurrence and during the continuance of any event of default. The credit agreement contains customary events of default, including non-payment, breach of covenants, materially incorrect representations, cross-default, bankruptcy and change of control. There are no cure periods for events of default due to non-payment of principal and breaches of negative and financial covenants, but non-payment of interest and breaches of certain affirmative covenants are subject to customary cure periods.

The Partnership's Credit Agreement

On July 8, 2014, the Partnership entered into a secured revolving credit agreement with Wells Fargo, as the administrative agent, sole book runner and lead arranger. The credit agreement, as amended, provides for a revolving credit facility in the maximum amount of $500.0 million, subject to scheduled semi-annual and other elective collateral borrowing base redeterminations based on the Partnership's oil and natural gas reserves and other factors. The borrowing base is scheduled to be re-determined semi-annually with effective dates of April 1st and October 1st. In addition, the

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Partnership may request up to three additional redeterminations of the borrowing base during any 12-month period. As of September 30, 2016, the borrowing base was set at $175.0 million. On August 5, 2016, the Partnership repaid $78.0 million of its outstanding borrowings with a portion of the proceeds from its August 2016 public offering of common units and, as of September 30, 2016, the Partnership had $54.5 million outstanding under its credit agreement.

The outstanding borrowings under the credit agreement bear interest at a rate elected by the Partnership that is equal to an alternative base rate (which is equal to the greatest of the prime rate, the Federal Funds effective rate plus 0.5% and 3-month LIBOR plus 1.0%) or LIBOR, in each case plus the applicable margin. The applicable margin ranges from 0.5% to 1.50% in the case of the alternative base rate and from 1.50% to 2.50% in the case of LIBOR, in each case depending on the amount of the loan outstanding in relation to the borrowing base. The Partnership is obligated to pay a quarterly commitment fee ranging from 0.375% to 0.500% per year on the unused portion of the borrowing base, which fee is also dependent on the amount of the loan outstanding in relation to the borrowing base. Loan principal may be optionally repaid from time to time without premium or penalty (other than customary LIBOR breakage), and is required to be repaid (a) to the extent that the loan amount exceeds the borrowing base, whether due to a borrowing base redetermination or otherwise (in some cases subject to a cure period) and (b) at the maturity date of July 8, 2019. The loan is secured by substantially all of the assets of the Partnership and its subsidiaries.

The credit agreement contains various affirmative, negative and financial maintenance covenants. These covenants, among other things, limit additional indebtedness, purchases of margin stock, additional liens, sales of assets, mergers and consolidations, dividends and distributions, transactions with affiliates and entering into certain swap agreements and require the maintenance of the financial ratios described below.

Financial Covenant	Required Ratio
Ratio of total debt to EBITDAX	Not greater than 4.0 to 1.0
Ratio of current assets to liabilities, as defined in the credit agreement	Not less than 1.0 to 1.0

The covenant prohibiting additional indebtedness allows for the issuance of unsecured debt of up to $250.0 million in the form of senior unsecured notes and, in connection with any such issuance, the reduction of the borrowing base by 25% of the stated principal amount of each such issuance. A borrowing base reduction in connection with such issuance may require a portion of the outstanding principal of the loan to be repaid.

The lenders may accelerate all of the indebtedness under the Partnership's credit agreement upon the occurrence and during the continuance of any event of default. The Partnership's credit agreement contains customary events of default, including non-payment, breach of covenants, materially incorrect representations, cross-default, bankruptcy and change of control. There are no cure periods for events of default due to non-payment of principal and breaches of negative and financial covenants, but non-payment of interest and breaches of certain affirmative covenants are subject to customary cure periods.

9. CAPITAL STOCK AND EARNINGS PER SHARE

During the nine months ended September 30, 2016 and 2015, Diamondback completed the following equity offerings:

In January 2016, the Company completed an underwritten public offering of 4,600,000 shares of common stock, which included 600,000 shares of common stock issued pursuant to an option to purchase additional shares granted to the underwriter. The stock was sold to the underwriter at $55.33 per share and the Company received proceeds of approximately $254.5 million from the sale of these shares of common stock, net of offering expenses and underwriting discounts and commissions.

In July 2016, the Company completed an underwritten public offering of 6,325,000 shares of common stock, which included 825,000 shares of common stock issued pursuant to an option to purchase additional shares granted to the underwriters. The stock was sold to the underwriters at $87.24 per share and the Company received proceeds of approximately $551.8 million from the sale of these shares of common stock, net of estimated offering expenses and underwriting discounts and commissions.

In January 2015, the Company completed an underwritten public offering of 2,012,500 shares of common stock, which included 262,500 shares of common stock issued pursuant to an option to purchase additional shares

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granted to the underwriter. The stock was sold to the underwriter at $59.34 per share and the Company received proceeds of approximately $119.4 million from the sale of these shares of common stock, net of offering expenses and underwriting discounts and commissions.

In May 2015, the Company completed an underwritten public offering of 4,600,000 shares of common stock, which included 600,000 shares of common stock issued pursuant to an option to purchase additional shares granted to the underwriter. The stock was sold to the underwriter at $72.53 per share and the Company received proceeds of approximately $333.6 million from the sale of these shares of common stock, net of offering expenses and underwriting discounts and commissions.

In August 2015, the Company completed an underwritten public offering of 2,875,000 shares of common stock, which included 375,000 shares of common stock issued pursuant to an option to purchase additional shares granted to the underwriter. The stock was sold to the underwriter at $68.74 per share and the Company received proceeds of approximately $197.6 million from the sale of these shares of common stock, net of offering expenses and underwriting discounts and commissions.

Earnings Per Share

The Company's basic earnings per share amounts have been computed based on the weighted-average number of shares of common stock outstanding for the period. Diluted earnings per share include the effect of potentially dilutive shares outstanding for the period. Additionally, for the diluted earnings per share computation, the per share earnings of the Partnership are included in the consolidated earnings per share computation based on the consolidated group's holdings of the subsidiary.

A reconciliation of the components of basic and diluted earnings per common share is presented in the table below:

	Three Months Ended September 30,					
	2016			2015		
	Income	Shares	Per Share	Income	Shares	Per Share
	(in thousands, except per share amounts)					
Basic:						
Net income (loss) attributable to common stock	$(2,230)	77,167	$(0.03)	$(156,781)	65,251	$(2.40)
Effect of Dilutive Securities:						
Dilutive effect of potential common shares issuable	$—	0		—	0	
Diluted:						
Net income (loss) attributable to common stock	$(2,230)	77,167	$(0.03)	$(156,781)	65,251	$(2.40)

	Nine Months Ended September 30,					
	2016			2015		
	Income	Shares	Per Share	Income	Shares	Per Share
Basic:						
Net income (loss) attributable to common stock	(190,632)	73,318	(2.60)	(363,219)	61,727	(5.88)
Effect of Dilutive Securities:						
Dilutive effect of potential common shares issuable	—	0		—	0	

Diluted:						
Net income (loss) attributable to common stock	(190,632)	73,318	(2.60)	(363,219)	61,727	(5.88)

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For the three months and nine months ended September 30, 2016, there were 192,155 shares and 288,739 shares, respectively, that were not included in the computation of diluted earnings per share because their inclusion would have been anti-dilutive for the periods presented. These shares could dilute basic earnings per share in future periods.

10. EQUITY-BASED COMPENSATION

The following table presents the effects of the equity compensation plans and related costs:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
General and administrative expenses	$6,265	$4,402	$20,643	$13,659
Equity-based compensation capitalized pursuant to full cost method of accounting for oil and natural gas properties	916	1,534	5,525	5,125

Stock Options

The following table presents the Company’s stock option activity under the Company’s 2012 Equity Incentive Plan (“2012 Plan”) for the nine months ended September 30, 2016.

Options	Weighted Average Exercise Price	Weighted Average Remaining Term	Intrinsic Value