Resolute Energy Corp
Form 10-Q
August 06, 2018
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D. C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2018

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934
Commission File No. 001-34464

RESOLUTE ENERGY CORPORATION

(Exact Name of Registrant as Specified in its Charter)

Delaware (State or other Jurisdiction of Incorporation or Organization)	27-0659371 (I.R.S. Employer Identification Number)
1700 Lincoln Street, Suite 2800 Denver, CO (Address of Principal Executive Offices)	80203 (Zip Code)

(303) 534-4600

(Registrant’s 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 preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

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

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

Large accelerated filer		Accelerated filer
Non-accelerated filer	(Do not check if a small reporting company)	Smaller reporting company
Emerging growth company		

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

As of July 31, 2018, 23,166,491 shares of the Registrant's $0.0001 par value Common Stock were outstanding.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q contains “forward-looking statements” as that term is defined in the Private Securities Litigation Reform Act of 1995. The use of any statements containing the words “expect,” “estimate,” “project,” “budget,” “forecast,” “anticipate,” “intend,” “plan,” “may,” “will,” “could,” “should,” “poised,” “believes,” “predicts,” “potent similar expressions are intended to identify such statements; however the absence of these words does not mean the statements are not forward-looking. Forward-looking statements included in this report relate to, among other things, anticipated production in 2018; anticipated capital expenditures and activity in 2018; future leverage ratios; the impact and amount of contingency payments from the parent of the Aneth Field purchaser; potential proceeds from a midstream transaction with the Bronco properties; future earnout payments; future infrastructure and other capital projects; our financial condition and management of the Company in the current commodity price environment, including expectations regarding price and basis differential fluctuations; future financial and operating results; liquidity and availability of capital; future borrowing base adjustments and the effect thereof; future pad drilling timing and plans and expected resulting cost savings and production impact; future production, reserve growth and decline rates; our plans and expectations regarding our development activities including drilling and completing wells, the number of such potential projects, locations and anticipated acreage held by production by the end of 2018; the potential impact of well interference and the effectiveness of operational adjustments to mitigate it; the prospectivity of our properties and acreage; and the anticipated accounting treatment of various activities. Although we believe that these statements are based upon reasonable current assumptions, no assurance can be given that the future results covered by the forward-looking statements will be achieved. Forward-looking statements can be subject to risks, uncertainties and other factors that could cause actual results to differ materially from future results expressed or implied by the forward-looking statements. The forward-looking statements in this report are primarily, although not exclusively, located under the heading “Risk Factors.” All forward-looking statements speak only as of the date made. All subsequent written and oral forward-looking statements attributable to us, or persons acting on our behalf, are expressly qualified in their entirety by the cautionary statements. Except as required by law, we undertake no obligation to update any forward-looking statement. Factors that could cause actual results to differ materially from our expectations include, among others, those factors referenced in the “Risk Factors” section of this report, if any, in our Annual Report on Form 10-K for the year ended December 31, 2017, as amended (“Form 10-K”), and such things as:

- the Company’s ability to successfully implement its strategy to create long-term stockholder value;
- volatility of oil and gas prices, including extended periods of depressed prices that would adversely affect our revenue, income, cash flow from operations and liquidity and the discovery, estimation and development of, and our ability to replace oil and gas reserves;
- a lack of available capital and financing, including the capital needed to pursue our operations and other development plans for our properties, on acceptable terms, including as a result of a reduction in the borrowing base under our revolving credit facility;
- increases in the differentials between index oil on gas prices and the prices we receive;
- disruptions to, capacity constraints in or other limitations on the pipeline systems that deliver our oil, NGL and gas and other processing and transportation considerations;
- the success of the development plan for and production from our oil and gas properties;
- the completion, timing and success of drilling on our properties;
- the potential for downspacing, infill or multi-lateral drilling in the Permian Basin or obstacles thereto;
- the completion and success of exploratory drilling on our properties;
- the timing and amount of future production of oil and gas;
- changes in our production mix of oil and gas;
- risks related to our level of indebtedness;
- our ability to fulfill our obligations under our revolving credit facility, the senior notes and any additional indebtedness we may incur;
- constraints imposed on our business and operations by our revolving credit facility and senior notes which may limit our ability to execute our business strategy;

- future write downs of reserves and the carrying value of our oil and gas properties;
- potential operational disruption caused by the actions of stockholder activists;
- acquisitions and other business opportunities (or lack thereof) that may be presented to and pursued by us, and the risk that any opportunity currently being pursued will fail to consummate or encounter material complications;
- risks associated with unanticipated liabilities assumed, or title, environmental or other problems resulting from, our acquisitions;
- our future cash flow, liquidity and financial position;

- the success of our business and financial strategy, hedging strategies and plans;
- risks associated with rising interest rates;
- inaccuracies in reserve estimates;
- operational problems, or uninsured or underinsured losses affecting our operations or financial results;
- the amount, nature and timing of our capital expenditures, including future development costs;
- the impact of any U.S. or global economic recession;
- the ability to sell or otherwise monetize assets at values and on terms that are advantageous to us;
- our ability to achieve the growth and benefits we expect from our acquisitions;
- availability of, or delays related to, drilling, completion and production, personnel, supplies and equipment;
- risks and uncertainties in the application of available horizontal drilling and completion techniques;
- uncertainty surrounding occurrence and timing of identifying drilling locations and necessary capital to drill such locations;
- our ability to fund and develop our estimated proved undeveloped reserves and resources;
- the effect of third party activities on our oil and gas operations, including our dependence on third party-owned water sourcing, gathering and disposal, oil gathering and gas gathering and processing systems;
- the concentration of our credit risk as the result of depending on one primary oil purchaser and one primary gas purchaser in the Delaware Basin;
- our operating costs and other expenses;
- our success in marketing oil and gas;
- the impact and costs related to compliance with, or changes in, laws or regulations governing our oil and gas operations and the potential for increased regulation of drilling and completion techniques, underground injection or fracing operations;
- our relationship with the local communities in the areas where we operate;
- the availability of water and our ability to adequately treat and dispose of water while and after drilling and completing wells;
- potential regulation of waste water injection intended to address seismic activity;
- the concentration of our producing properties in a single geographic area;
- potential changes to regulations affecting derivatives instruments;
- environmental liabilities under existing or future laws and regulations;
- the impact of climate change regulations on oil and gas production and demand;
- potential changes in income tax deductions and credits currently available to the oil and gas industry;
- the impact of weather and the occurrence of disasters, such as fires, explosions, floods and other events and natural disasters;
- competition in the oil and gas industry and failure to keep pace with technological development;
- actions, announcements and other developments in OPEC and in other oil and gas producing countries;
- risks relating to our joint interest partners' and other counterparties' inability to fulfill their contractual commitments;
- loss of senior management or key technical personnel;
- the impact of long-term incentive programs, including performance-based awards and stock appreciation rights;
- timing of issuance of permits and rights of way, including the effects of any government shut-downs;
- potential power disruptions or supply limitations in the electrical infrastructure serving our operations;
- timing of installation of gathering infrastructure in areas of new exploration and development;
- potential breakdown of equipment and machinery relating to the gathering and compression infrastructure;
- losses possible from pending or future litigation;
- cybersecurity risks;
- the risk of a transaction that could trigger a change of control under our debt agreements;
- risks related to our common stock, potential declines in stock prices and potential future dilution to stockholders;
- risk factors discussed or referenced in this report; and
- other factors, many of which are beyond our control.

Additionally, the Securities and Exchange Commission ("SEC") requires oil and gas companies, in filings made with the SEC, to disclose proved reserves, which are those quantities of oil and gas, which, by analysis of geoscience and engineering data, can be estimated with reasonable certainty to be economically producible from a given date forward, from known reservoirs, under existing economic conditions, operating methods and governmental regulations. The SEC permits the optional disclosure of probable and possible reserves. From time to time, we may elect to disclose "probable" reserves and "possible" reserves, excluding their valuation, in our SEC filings, press releases and investor presentations. The SEC defines "probable" reserves as "those additional reserves that are less certain to be recovered than proved reserves but which, together with proved reserves, are likely as not to be recovered." The SEC defines "possible" reserves as "those additional reserves that are less certain to be recovered than probable reserves." The Company applies these definitions when estimating probable and possible reserves. Statements of reserves are only estimates and may not correspond to the ultimate quantities of oil and gas recovered. Any reserves estimates or potential resources disclosed in our public filings, press releases and investor presentations that are not specifically designated as being estimates of proved reserves may include estimated reserves not necessarily calculated in accordance with, or contemplated by, the SEC's reserves reporting guidelines.

SEC rules prohibit us from including resource estimates in our public filings with the SEC. Our potential resource estimates include estimates of hydrocarbon quantities for (i) new areas for which we do not have sufficient information to date to classify as proved, probable or possible reserves, (ii) other areas to take into account the level of certainty of recovery of the resources and (iii) uneconomic proved, probable or possible reserves. Potential resource estimates do not take into account the certainty of resource recovery and are therefore not indicative of the expected future recovery and should not be relied upon for such purpose. Potential resources might never be recovered and are contingent on exploration success, technical improvements in drilling access, commerciality and other factors. In our press releases and investor presentations, we sometimes include estimates of quantities of oil and gas using certain terms, such as "resource," "resource potential," "EUR," "oil in place," or other descriptions of volumes of reserves, which terms include quantities of oil and gas that may not meet the SEC definition of proved, probable and possible reserves. These estimates are by their nature more speculative than estimates of proved reserves and accordingly are subject to substantially greater risk of being recovered by Resolute. The Company believes its potential resource estimates are reasonable, but such estimates have not been reviewed by independent engineers. Furthermore, estimates of potential resources may change significantly as development provides additional data, and actual quantities that are ultimately recovered may differ substantially from prior estimates.

Production rates, including "early time" rates, 24-hour peak IP rates, 30-day peak IP rates, 60-day peak IP rates, 90-day peak IP rates, 120-day peak IP rates and 150-day peak IP rates for both our wells and for those wells that are located near to our properties are limited data points in each well's productive history and represent three stream gross production. These rates are sometimes actual rates and sometimes extrapolated or normalized rates. As such, the rates for a particular well may change as additional data becomes available. Peak production rates are not necessarily indicative or predictive of future production rates, EUR or economic rates of return from such wells and should not be relied upon for such purpose. Equally, the way we calculate and report peak IP rates and the methodologies employed by others may not be consistent, and thus the values reported may not be directly and meaningfully comparable. Lateral lengths described are indicative only. Actual completed lateral lengths depend on various considerations such as lease line offsets. Standard length laterals, sometimes referred to as 5,000 foot laterals, are laterals with completed length generally between 4,000 feet and 5,500 feet. Mid length laterals, sometimes referred to as 7,500 foot laterals, are laterals with completed length generally between 6,000 feet and 8,000 feet. Long laterals, sometimes referred to as 10,000 foot laterals, are laterals with completed length generally longer than 8,000 feet.

You are urged to consider closely the disclosure in this Form 10-Q and in our Form 10-K, in particular the factors described under "Risk Factors."

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RESOLUTE ENERGY CORPORATION

Condensed Consolidated Balance Sheets (Unaudited)

(in thousands, except share amounts)

	June 30, 2018	December 31, 2017
Assets		
Current assets:		
Cash and cash equivalents	$815	$ 3,762
Accounts receivable	61,395	63,420
Commodity derivative instruments	12,030	526
Contingent payment derivative instrument	3,204	8,311
Prepaid expenses and other current assets	2,713	1,856
Total current assets	80,157	77,875
Property and equipment, at cost:		
Oil and gas properties, full cost method of accounting		
Unproved	272,600	248,059
Proved	2,227,757	2,030,316
Other property and equipment	13,367	12,879
Accumulated depletion, depreciation and amortization	(1,783,350)	(1,737,116)
Net property and equipment	730,374	554,138
Other assets:		
Contingent payment derivative instrument	15,823	9,635
Other assets	274	274
Total assets	$826,628	$ 641,922
Liabilities and Stockholders' Deficit		
Current liabilities:		
Accounts payable	$30,165	$ 16,077
Accrued expenses	100,176	53,754
Accrued revenue payable	28,196	28,255
Accrued cash-settled incentive awards	31,251	34,317
Accrued interest payable	8,680	7,574
Commodity derivative instruments	33,715	20,822
Total current liabilities	232,183	160,799
Long-term liabilities:		
Revolving credit facility	71,090	27,487
Senior notes	597,709	523,240
Commodity derivative instruments	4,503	990
Other long-term liabilities	3,918	3,815
Total liabilities	909,403	716,331
Stockholders' deficit:		
Convertible preferred stock, $0.0001 par value; 1,000,000 shares authorized; issued and outstanding 62,500 shares at June 30, 2018 and December 31, 2017; $62.5 million liquidation preference	—	—
Common stock, $0.0001 par value; 45,000,000 shares authorized; issued and outstanding	2	2

23,181,746 and 22,527,652 shares at June 30, 2018 and December 31, 2017, respectively		
Additional paid-in capital	968,188	957,426
Accumulated deficit	(1,050,965)	(1,031,837)
Total stockholders’ deficit	(82,775)	(74,409)
Total liabilities and stockholders’ deficit	$826,628	$641,922

See notes to condensed consolidated financial statements

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RESOLUTE ENERGY CORPORATION

Condensed Consolidated Statements of Operations (Unaudited)

(in thousands, except per share data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Revenue:				
Oil	$58,395	$60,703	$118,046	$118,362
Gas	5,670	6,468	12,030	10,819
Natural gas liquids	9,315	3,089	18,022	5,671
Total revenue	73,380	70,260	148,098	134,852
Operating expenses:				
Lease operating	15,366	19,890	27,031	38,246
Production and ad valorem taxes	5,521	5,565	11,061	11,534
Depletion, depreciation and amortization	23,494	22,333	47,031	38,368
General and administrative	15,875	9,472	36,942	19,887
Cash-settled incentive awards	(47)	(1,413)	11,294	4,014
Total operating expenses	60,209	55,847	133,359	112,049
Income from operations	13,171	14,413	14,739	22,803
Other income (expense):				
Interest expense, net	(8,515)	(8,779)	(16,083)	(26,476)
Commodity derivative instruments gain (loss)	(12,120)	7,458	(21,522)	18,298
Contingent payment derivative instrument gain	3,703	—	6,282	—
Other income (expense)	29	136	(5)	76
Total other expense	(16,903)	(1,185)	(31,328)	(8,102)
Net income (loss)	(3,732)	13,228	(16,589)	14,701
Preferred stock dividends	(1,270)	(2,538)	(2,539)	(3,935)
Net income (loss) available to common stockholders	$(5,002)	$10,690	$(19,128)	$10,766
Net income (loss) per common share:				
Basic	$(0.22)	$0.49	$(0.86)	$0.49
Diluted	$(0.22)	$0.47	$(0.86)	$0.47
Weighted average common shares outstanding:				
Basic	22,306	21,917	22,194	21,828
Diluted	22,306	22,894	22,194	22,836

See notes to condensed consolidated financial statements

RESOLUTE ENERGY CORPORATION

Condensed Consolidated Statements of Stockholders' Deficit (Unaudited)

(in thousands)

	Common Shares	Stock Amount	Preferred Stock Shares	Amount	Additional Paid-in Capital	Accumulated Deficit	Total Stockholders' Deficit
Balance as of January 1, 2018	22,528	$ 2	63	$ —	$ 957,426	$ (1,031,837)	$ (74,409)
Issuance of stock, restricted stock and stock-based compensation	559	—	—	—	13,339	—	13,339
Redemption of restricted stock for employee income tax and restricted stock forfeitures	(75)	—	—	—	(2,893)	—	(2,893)
Exercise of employee options to purchase common stock	170	—	—	—	316	—	316
Preferred stock dividend	—	—	—	—	—	(2,539)	(2,539)
Net loss	—	—	—	—	—	(16,589)	(16,589)
Balance as of June 30, 2018	23,182	$ 2	63	$ —	$ 968,188	$ (1,050,965)	$ (82,775)

See notes to condensed consolidated financial statements

RESOLUTE ENERGY CORPORATION

Condensed Consolidated Statements of Cash Flows (Unaudited)

(in thousands)

	Six Months Ended June 30,	
	2018	2017
Operating activities:		
Net income (loss)	$(16,589)	$14,701
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depletion, depreciation and amortization	47,031	38,368
Amortization of deferred financing costs and long-term debt premium and discount	1,150	8,263
Stock-based compensation	13,339	5,951
Commodity derivative instruments (gain) loss	21,522	(18,298)
Commodity derivative settlement gain (loss)	(16,620)	1,406
Unrealized contingent payment derivative instrument gain	(6,282)	—
Change in operating assets and liabilities:		
Accounts receivable	7,114	(11,366)
Other current assets	(857)	(113)
Accounts payable and accrued expenses	9,375	11,252
Accrued interest payable	1,106	1,995
Net cash provided by operating activities	60,289	52,159
Investing activities:		
Oil and gas exploration and development expenditures	(180,735)	(118,484)
Proceeds from sale of oil and gas properties	7,738	20,292
Purchase of oil and gas properties	—	(161,264)
Purchase of other property and equipment	(2,045)	(2,396)
Restricted cash	—	(25)
Other long-term assets	—	8
Net cash used in investing activities	(175,042)	(261,869)
Financing activities:		
Proceeds from bank borrowings	237,000	213,000
Repayments of bank borrowings	(194,000)	(123,000)
Proceeds from issuance of senior notes	74,625	126,875
Repayment of term loan	—	(128,303)
Payment of financing costs	(703)	(5,068)
Payment of preferred dividend	(2,539)	(2,666)
Redemption of restricted stock for employee income taxes	(2,893)	(3,295)
Proceeds from exercise of employee options to purchase common stock	316	177
Net cash provided by financing activities	111,806	77,720
Net decrease in cash and cash equivalents	(2,947)	(131,990)
Cash and cash equivalents at beginning of period	3,762	133,089
Cash and cash equivalents at end of period	$815	$1,099

See notes to condensed consolidated financial statements

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RESOLUTE ENERGY CORPORATION

Notes to Condensed Consolidated Financial Statements

Note 1 — Organization and Nature of Business

Resolute Energy Corporation ("Resolute" or the "Company") is an independent oil and gas company engaged in the exploitation, development, exploration for and acquisition of oil and gas properties. The Company's operating assets are comprised of properties in the Delaware Basin in west Texas (the "Delaware Basin Properties"). The Company closed on the sale of Aneth Field, located in the Paradox Basin in southeast Utah (the "Aneth Field Properties" or "Aneth Field"), on November 6, 2017. All 2017 periods presented include the results related to Aneth Field, prior to the disposition. The Company conducts all of its activities in the United States of America.

Resolute Energy Corporation, the stand-alone parent entity, has insignificant independent assets and no operations. Its guarantees are full and unconditional and joint and several, and there are no subsidiaries of the parent company other than the Guarantors (defined below). There are no restrictions on the Company's ability to obtain cash dividends or other distributions of funds from its subsidiaries, except those imposed by applicable law.

Note 2 — Basis of Presentation and Summary of Significant Accounting Policies

Basis of Presentation

The unaudited condensed consolidated financial statements include Resolute and its subsidiaries, and have been prepared in accordance with accounting principles generally accepted in the United States ("GAAP") and Regulation S-X for interim financial reporting. Except as disclosed herein, there has been no material change in our basis of presentation from the information disclosed in the notes to Resolute's consolidated financial statements for the year ended December 31, 2017. In the opinion of management, all adjustments consisting of normal recurring accruals considered necessary for a fair presentation of the interim financial information have been included. Operating results for the periods presented are not necessarily indicative of the results that may be expected for the full year. All intercompany transactions have been eliminated upon consolidation. Certain prior period amounts have been reclassified to conform to the current period presentation.

In connection with the preparation of the condensed consolidated financial statements, Resolute evaluated subsequent events that occurred after the balance sheet date, through the date of filing.

Significant Accounting Policies

The significant accounting policies followed by Resolute are set forth in Resolute's consolidated financial statements for the year ended December 31, 2017. These unaudited condensed consolidated financial statements are to be read in conjunction with the consolidated financial statements appearing in Resolute's Form 10-K and related notes.

Effective January 1, 2018, Resolute adopted ASC 606, Revenue from Contracts with Customers, utilizing the modified retrospective method. See Note 9 for further details related to the Company's adoption of this standard and revenue recognition accounting policy.

Assumptions, Judgments and Estimates

The preparation of the condensed consolidated financial statements in conformity with GAAP requires management to make various assumptions, judgments and estimates to determine the reported amounts of assets, liabilities, revenue and expenses, and in the disclosures of commitments and contingencies. Changes in these assumptions, judgments and estimates will occur as a result of the passage of time and the occurrence of future events. Accordingly, actual results could differ from amounts previously established.

Significant estimates with regard to the condensed consolidated financial statements include proved oil and gas reserve volumes and the related present value of estimated future net cash flows used in the ceiling test applied to capitalized oil and gas properties; the estimated fair value and allocation of the purchase price related to business combinations; stock-based compensation expense; cash-settled long-term incentive expense; depletion, depreciation, and amortization; accrued liabilities; and revenue and related receivables.

Accounts Receivable

The Company's accounts receivable consist of the following as of the dates indicated (in thousands):

	June 30, 2018	December 31, 2017
Trade	$12,413	$ 18,079
Revenue	41,799	43,136
Contingent payment derivative	6,760	1,560
Other	423	645
Total accounts receivable	$61,395	$ 63,420

The Company's accounts receivable consist mainly of receivables from oil, gas and natural gas liquids ("NGL") purchasers and from joint interest owners on properties the Company operates. For receivables from joint interest owners, the Company typically has the ability to withhold future revenue disbursements to recover non-payment of joint interest billings. Generally, the Company's oil and gas receivables are due between fifteen and thirty days and are collected in less than two months, and the Company has had minimal bad debts.

The Company routinely assesses the recoverability of all material trade and other receivables to determine their collectability. As of June 30, 2018 and December 31, 2017, the Company had no allowance for doubtful accounts recorded.

Accrued Expenses

The Company's accrued expenses consist of the following as of the dates indicated (in thousands):

	June 30, 2018	December 31, 2017
Capital expenditures	$61,277	$ 15,503
General and administrative	12,547	14,510
Lease operating	11,887	14,809
Other	14,465	8,932
Total accrued expenses	$100,176	$ 53,754

The majority of the Company's accrued expenses consist of accrued capital expenditures related to the exploration and development of oil and gas properties.

Oil and Gas Properties

Pursuant to full cost accounting rules, Resolute is required to perform a quarterly "ceiling test" calculation to test its oil and gas properties for possible impairment. The primary components impacting the calculation are commodity prices, reserve quantities and associated production, overall exploration and development costs and depletion expense. If the net capitalized cost of the Company's oil and gas properties subject to amortization (the "carrying value") exceeds the ceiling limitation, the excess would be charged to expense. The ceiling limitation is equal to the sum of the present value discounted at 10% of estimated future net cash flows from proved reserves, the cost of properties not being amortized and all related income tax effects.

No impairment was recorded for the three and six months ended June 30, 2018 and 2017. If in future periods a negative factor affects one or more of the components of the calculation, including market prices of oil and gas (based on a trailing twelve-month unweighted average of the oil and gas prices in effect on the first day of each month), differentials from posted prices, future drilling and capital plans, operating costs or expected production, the Company may incur full cost ceiling impairment related to its oil and gas properties in such periods.

Recent Accounting Pronouncements

In January 2017, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2017-01, Business Combinations (Topic 805): Clarifying the Definition of a Business, which clarifies the definition of a business to assist entities with evaluating when a set of transferred assets and activities is deemed to be a business. Determining whether a transferred set constitutes a business is important because the accounting for a business combination differs from that of an asset acquisition. The definition of a business also affects the accounting for dispositions. Under the new standard, when substantially all of the fair value of assets acquired is concentrated in a single asset, or a group of similar assets, the assets acquired would not represent a business and business combination accounting would not be required. The Company adopted this standard in the second quarter of 2017.

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In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606). ASC 606 requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The new standard became effective for the Company and was adopted on January 1, 2018. The Company elected the modified retrospective transition method. The adoption of this standard had no impact on the Company's consolidated financial statements. See Note 9 for further details related to the Company's adoption of this standard.

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842), which requires lessees to present nearly all leasing arrangements on the balance sheet as liabilities along with a corresponding right-of-use asset. The ASU will replace most existing lease guidance in GAAP when it becomes effective for the Company on January 1, 2019. Although early application is permitted, the Company does not plan to early adopt the ASU. The Company is evaluating the effect that ASU 2016-02 will have on its consolidated financial statements and related disclosures. We believe that adoption of the standard will result in increases to our assets and liabilities on our consolidated balance sheet. However, we have not yet determined the extent of the adjustments that will be required upon implementation of the standard. We continue to monitor relevant industry guidance regarding the implementation of ASU 2016-02 and will adjust our implementation strategies as necessary.

Note 3 — Acquisitions and Divestitures

Acquisition of Reeves County Properties in the Delaware Basin

In May 2017, Resolute Natural Resources Southwest, LLC ("Resolute Southwest"), a wholly owned subsidiary of the Company, closed on a Purchase and Sale Agreement with CP Exploration II, LLC and Petrocap CPX, LLC pursuant to which Resolute Southwest acquired certain undeveloped and developed oil and gas properties in the Delaware Basin in Reeves County, Texas (the "Delaware Basin Bronco Acquisition").

The acquisition was accounted for as an asset acquisition, and therefore, the properties were recorded based on the fair value of the total consideration transferred on the acquisition date and transaction costs were capitalized as a component of the cost of the assets acquired. The Company acquired these properties for $161.3 million, which it financed substantially with proceeds received from the offering of $125 million of 8.50% Senior Notes due 2020 (as defined in Note 5) that closed in May 2017. The Company recorded $144.8 million of the consideration as unproved oil and gas property.

The properties acquired included approximately 4,600 net acres in Reeves County, Texas, which were considered predominantly unproved, consisting of 2,187 net acres adjacent to the Company's existing operating area in Reeves County and 2,405 net acres in southern Reeves County.

Divestiture of Aneth Field

In November 2017, Resolute and certain of its wholly-owned subsidiaries closed on a Purchase and Sale Agreement pursuant to which the Company sold their respective equity interests in Resolute Aneth, LLC, the entity which holds all of Resolute's interest in Aneth Field, and certain other assets associated with Aneth Field operations, to an affiliate of Elk Petroleum Limited ("Elk Petroleum") (the "Aneth Field Sale").

Under the terms of the Purchase and Sale Agreement, the buyer funded a performance deposit of $10 million which was credited against the purchase price. Resolute received additional cash consideration of $150 million at closing, subject to normal purchase price adjustments. Additionally, Resolute is entitled to receive additional cash consideration of up to $35 million if oil prices exceed certain levels in the three years after closing, as follows: Elk Petroleum, an affiliate of buyer, will pay Resolute $40,000 for each week day in the twelve months after closing that the WTI spot oil price exceeds $52.50 per barrel (up to $10 million); $50,000 for each week day in the twelve months following the first anniversary of closing that the oil price exceeds $55.00 per barrel (up to $10 million) and $60,000 for each week day in the twelve months following the second anniversary of closing that the oil price exceeds $60.00 per barrel (up to $15 million). As of closing, the fair value of the additional consideration was $16.0 million. The proceeds of the sale were used to reduce amounts outstanding under the Company's Revolving Credit Facility (as defined in Note 5) and for other corporate purposes. Under seller accounting for contingent consideration, the Company has determined that this arrangement meets the definition of a derivative. See Note 8 – Derivative Instruments, for additional information regarding the contingent payment derivative instrument. As the sale did not significantly alter the relationship between capital costs and proved reserves, no gain or loss was recognized.

In conjunction with the Aneth Field Sale, certain management members resigned from their positions effective January 1, 2018. In connection with their resignation, these individuals and the Company entered into separation agreements. The material terms of the separation agreements, including compensation payable thereunder and treatment of long-term incentive awards, are consistent with their respective employment agreements with the Company dated January 1, 2017, and various long-term incentive award agreements. Effective January 1, 2018, all awards held were modified contemporaneously with the termination of their employment.

Divestiture of Southeast New Mexico Properties in the Permian Basin

In February 2017, the Company closed on the sale of its Denton and South Knowles properties in the Northwest Shelf project area in Lea County, New Mexico (the “New Mexico Properties”), for approximately $14.5 million in cash, subject to customary purchase price adjustments.

Divestiture of Midstream Assets in the Delaware Basin

In 2016, in connection with the Purchase and Sale Agreement with Caprock Permian Processing LLC and Caprock Field Services LLC, as buyers (collectively, “Caprock”) of the Mustang and Appaloosa project areas in Reeve County, Texas (“Mustang” and “Appaloosa,” respectively), Resolute Southwest also entered into a definitive Earn-out Agreement (the “Earn-out Agreement”), pursuant to which Resolute Southwest will be entitled to receive certain earn-out payments based on drilling and completion activity in Appaloosa and Mustang through 2020 that will deliver gas and produced water into the system. Earn-out payments for each qualifying well will vary depending on the lateral length of the well and the year in which the well is drilled and completed. In March 2017, the Earn-out Agreement was amended by the parties to provide for an increase in earn-out payments for wells drilled and completed in 2017. Earn-out payments are contingent on future drilling, and therefore will be recognized when earned. As of June 30, 2018, we have earned $36.0 million of earn-out payments, $5.2 million and $7.4 million of this total was earned in the three and six months ended June 30, 2018, respectively.

In connection with the closing of the transactions contemplated by the Purchase and Sale Agreement related to the Mustang and Appaloosa project areas, Resolute Southwest entered into fifteen year commercial agreements with Caprock for gas gathering services and water handling and disposal services for all current and future gas and water produced by Resolute Southwest in Mustang and Appaloosa in exchange for customary fees based on the volume of gas and water produced and delivered. Resolute Southwest has agreed to dedicate and deliver all gas and water produced from its acreage in Mustang and Appaloosa to Caprock for gathering, processing, compression and disposal services for a term of fifteen years.

In April 2017, Resolute Southwest entered into a Crude Oil Connection and Dedication Agreement with Caprock Permian Crude LLC (“Caprock Crude”), an affiliate of Caprock. Pursuant to the agreement, Caprock Crude constructed the gathering systems, pipelines and other infrastructure for the gathering of crude oil from our Mustang and Appaloosa operating areas in exchange for customary fees based on the volume of crude oil produced and delivered. Resolute Southwest has agreed to dedicate and deliver all crude oil produced from its acreage in Mustang and Appaloosa to Caprock Crude for gathering for a term through July 31, 2031, coterminous with our other commercial agreements with Caprock. For the first five years of the agreement, the crude oil will be delivered to Midland Station under a joint tariff arrangement between Caprock Crude and Plains Pipeline, L.P. In April 2017, Resolute Southwest also entered into a Crude Oil Purchase Contract with Plains Marketing, L.P. (“Plains”) providing for the sale to Plains of substantially all of the crude oil produced from the Mustang and Appaloosa areas for a price equal to an indexed market price less a $1.75 differential that will cover the joint tariff payable to Caprock Crude under the Crude Oil Connection and Dedication Agreement.

Pro Forma Financial Information

The unaudited pro forma financial information for the three and six months ended June 30, 2017 reflects Resolute’s results as if the Aneth Field Sale had occurred on January 1, 2017 (in thousands, except per share amounts):

	Three Months Ended June 30, 2017	Six Months Ended June 30, 2017

Revenue	$48,506	$89,737
Income from operations	13,522	18,968
Net income available to common stockholders	10,585	7,890
Net income per share		
Basic	$0.48	$0.36
Diluted	$0.46	$0.35
Weighted average common shares outstanding		
Basic	21,917	21,828
Diluted	22,894	22,836

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Note 4 — Earnings per Share

The Company computes basic net income (loss) per share using the weighted average number of shares of common stock outstanding during the period. Diluted net income (loss) per share is computed using the weighted average number of shares of common stock and, if dilutive, potential shares of common stock outstanding during the period. Net income (loss) available to common stockholders is computed by deducting both the dividends declared in the period on preferred stock and the dividends accumulated for the period on cumulative preferred stock from net income (loss). Potentially dilutive shares consist of the incremental shares and options issuable under the Company's 2009 Performance Incentive Plan (the "Incentive Plan") as well as common shares issuable upon the assumed conversion of the Convertible Preferred Stock (as defined in Note 7). The treasury stock method is used to measure the dilutive impact of potentially dilutive shares.

The following table details the potential weighted average dilutive and anti-dilutive securities for the periods presented (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Potential dilutive securities	4,016	3,782	3,955	3,704
Anti-dilutive securities	4,016	2,116	3,955	2,116

The following table sets forth the computation of basic and diluted net income (loss) per share of common stock for the periods presented (in thousands, except per share amounts):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Net income (loss) available to common stockholders	$(5,002)	$10,690	$(19,128)	$10,766
Basic weighted average common shares outstanding	22,306	21,917	22,194	21,828
Add: dilutive effect of non-vested restricted stock	—	118	—	138
Add: dilutive effect of options	—	859	—	870
Diluted weighted average common shares outstanding	22,306	22,894	22,194	22,836
Basic net income (loss) per common share	$(0.22)	$0.49	$(0.86)	$0.49
Diluted net income (loss) per common share	(0.22)	0.47	(0.86)	0.47

Note 5 — Long Term Debt

As of the dates indicated, the Company's long-term debt consisted of the following (in thousands):

	Principal	Unamortized net premium	Unamortized deferred financing costs	June 30, 2018

Revolving credit facility	$73,000	$ —	$ (1,910)	$71,090
8.50% senior notes	600,000	1,439	(3,730)	597,709
Total long-term debt	$673,000	$ 1,439	$ (5,640)	$668,799

	Principal	Unamortized net premium	Unamortized deferred financing costs	December 31, 2017
Revolving credit facility	$30,000	$ —	$ (2,513)	$ 27,487
8.50% senior notes	525,000	2,222	(3,982)	523,240
Total long-term debt	$555,000	$ 2,222	$ (6,495)	$ 550,727

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For the three months ended June 30, 2018 and 2017, the Company incurred net interest expense on long-term debt of $8.5 million and $8.8 million, respectively. For the six months ended June 30, 2018 and 2017, the Company incurred net interest expense on long-term debt of $16.1 million and $26.5 million, respectively. Approximately $9.7 million in interest expense was incurred in 2017 as a result of the extinguishment of the Secured Term Loan Facility (defined below) on January 3, 2017. The Company capitalized $5.6 million and $3.7 million of interest expense during the three months ended June 30, 2018 and 2017, respectively. The Company capitalized $10.8 million and $6.2 million of interest expense during the six months ended June 30, 2018 and 2017, respectively. During the three months ended June 30, 2018 and 2017, the Company paid cash for interest (net of amounts capitalized) in the amount of $18.0 million and $14.7 million, respectively. During the six months ended June 30, 2018 and 2017, the Company paid cash for interest (net of amounts capitalized) in the amount of $13.8 million and $16.2 million, respectively.

Revolving Credit Facility

In February 2017, the Company entered into the Third Amended and Restated Credit Agreement with a syndicate of banks led by Bank of Montreal, as Administrative Agent, Capital One, National Association, as syndication agent, and Barclays Bank PLC, ING Capital LLC and SunTrust Bank, as co-documentation agents (the "Revolving Credit Facility"). In connection with entering into the Revolving Credit Facility, the Company repaid all amounts outstanding under the Second Amended and Restated Credit Agreement, dated as of April 15, 2015, by and among Resolute Energy Corporation, as borrower, all subsidiaries of Resolute Energy Corporation, as Guarantors (defined below), Wells Fargo Bank, National Association, as administrative agent, and the lenders party thereto, as amended, and terminated that agreement.

The Revolving Credit Facility specifies a maximum borrowing base as determined by the lenders' sole discretion. The determination of the borrowing base takes into consideration the estimated value of Resolute's oil and gas properties in accordance with the lenders' customary practices for oil and gas loans. The borrowing base is redetermined semi-annually, and the amount available for borrowing could be increased or decreased as a result of such redeterminations. Under certain circumstances, either Resolute or the lenders may request an interim redetermination. The Revolving Credit Facility matures in February 2021, unless there is a maturity of material indebtedness prior to such date.

The Revolving Credit Facility includes covenants that require, among other things, Resolute to maintain a ratio of current assets to current liabilities of no less than 1.00 to 1.00 and a ratio of funded debt to EBITDA (as defined in the Revolving Credit Facility) of no more than 4.25 to 1.00 as of June 30, 2018, moving to 4.00 to 1.00 as of September 30, 2018 and thereafter. The Revolving Credit Facility also includes customary additional terms and covenants that place limitations on certain types of activities, hedging, the payment of dividends, and that require satisfaction of certain financial tests.

In March 2018, the Company entered into the Third Amendment to the Third Amended and Restated Credit Agreement. The Third Amendment, among other things, amended the definition of Applicable Margin so that if the ratio of total funded debt to EBITDA for the period ending June 30, 2018, exceeds 4.00:1.00, then each applicable rate per annum shall be increased by 0.25% per annum until the date such ratio is calculated for the quarter ending September 30, 2018. It also amended the definition of EBITDA to include certain costs incurred by the Company in connection with activist investor campaigns and provides for certain amendments to the calculation of EBITDA, and amended the covenant governing the ratio of funded debt to EBITDA. Lastly, the Third Amendment also provided that the borrowing base shall automatically be reduced by 25% of all unsecured indebtedness of the Company in excess of $600 million. In April 2018, the borrowing base was reaffirmed at $210.0 million. Resolute was in compliance with the terms and covenants of the Revolving Credit Facility at June 30, 2018.

As of June 30, 2018, outstanding borrowings under the Revolving Credit Facility were $73.0 million with a weighted average interest rate of 5.55%, under a borrowing base of $210 million. The borrowing base availability has been reduced by $2.6 million in conjunction with a letter of credit issued at June 30, 2018.

To the extent that the borrowing base, as adjusted from time to time, exceeds the outstanding balance, no repayments of principal are required prior to maturity. However, should the borrowing base be set at a level below the outstanding balance, Resolute would be required to eliminate that excess within 120 days following that determination. The Revolving Credit Facility is guaranteed by all of Resolute's subsidiaries and is collateralized by substantially all of the assets of the Company and its wholly-owned subsidiaries.

Each base rate borrowing under the Revolving Credit Facility accrues interest at either (a) the London Interbank Offered Rate ("LIBOR"), plus a margin that ranges from 3.0% to 4.0% or (b) the Alternative Base Rate defined as the greater of (i) the Administrative Agent's Prime Rate, (ii) the Federal Funds effective Rate plus 0.5% or (iii) an adjusted London Interbank Offered Rate plus a margin that ranges from 2.0% to 3.0%, except that all borrowings will be an additional 0.25% per annum until the date the EBITDA ratio is calculated for the quarter ended September 30, 2018. Each such margin is based on the level of utilization under the borrowing base.

Secured Term Loan Agreement

In December 2014, Resolute and all of its subsidiaries, as guarantors, entered into a second lien Secured Term Loan Agreement with Bank of Montreal, as administrative agent, and the lenders party thereto, pursuant to which the Company borrowed $150 million (the “Secured Term Loan Facility”). In May 2015, Resolute and certain of its subsidiaries, as guarantors, entered into an Amendment to the Secured Term Loan Agreement and Increased Facility Activation Notice-Incremental Term Loans (the “Amendment”) with Bank of Montreal, as administrative agent, and the lenders party thereto, pursuant to which the Company borrowed an additional $50 million of second lien term debt (the “Incremental Term Loans”) under its Secured Term Loan Facility.

In December 2015, the Company retired $70 million of the amount outstanding under the Secured Term Loan Facility following the sale of certain properties in the Midland Basin in accordance with mandatory prepayment provisions stipulated in the Secured Term Loan Facility. In January 2017, the Company repaid approximately $132 million constituting all amounts due under the Secured Term Loan Facility (including prepayment fees), with a portion of the proceeds from its common stock offering that closed on December 23, 2016. The Secured Term Loan Facility was terminated in connection with the repayment.

Senior Notes

In 2012, the Company consummated two private placements of senior notes with principal totaling $400 million (the “Original Senior Notes”). The Original Senior Notes are due May 1, 2020, and bear an annual interest rate of 8.50% with the interest on the Original Senior Notes payable semiannually in cash on May 1 and November 1 of each year.

In May 2017, the Company consummated a private placement of senior notes totaling an additional $125 million aggregate principal amount of the Company’s 8.50% Senior Notes due 2020 (the “Incremental Senior Notes”), under the same Indenture as the Original Senior Notes that were previously issued. The net proceeds of the offering of the Incremental Senior Notes, after reflecting the purchasers’ discounts and commissions, and offering expenses, were approximately $125.1 million.

In April 2018, the Company consummated a private placement of senior notes totaling an additional $75 million aggregate principal amount of the Company’s 8.50% Senior Notes due 2020 (the “Second Incremental Senior Notes”), under the same Indenture as the Original Senior Notes that were previously issued. The net proceeds of the offering of the Second Incremental Senior Notes, after reflecting the purchasers’ discounts and commissions, and offering expenses, were approximately $73.9 million.

The Original Senior Notes, Incremental Senior Notes and Second Incremental Senior Notes (collectively referred to as the “Senior Notes”) were issued under an Indenture (the “Indenture”) among the Company and all of the Company’s subsidiaries, each of which is 100% owned by the Company (the “Guarantors”), in a private transaction not subject to the registration requirements of the Securities Act of 1933. In March 2013, July 2017 and June 2018 the Company registered the exchange of the Original Senior Notes, the Incremental Senior Notes and the Second Incremental Senior Notes, respectively, with the SEC pursuant to registration statements on Form S-4 that enabled holders of the Senior Notes to exchange the privately placed Senior Notes for registered Senior Notes with substantially identical terms. All of the Senior Notes have been exchanged for publicly registered Senior Notes. The Indenture contains affirmative and negative covenants that, among other things, limit the Company’s and the Guarantors’ ability to make investments, incur additional indebtedness or issue certain types of preferred stock, create liens, sell assets, enter into agreements that restrict dividends or other payments by restricted subsidiaries, consolidate, merge or transfer all or substantially all of the assets of the Company, engage in transactions with the Company’s affiliates, pay dividends or make other distributions on capital stock or prepay subordinated indebtedness and create unrestricted subsidiaries. The Indenture also contains customary events of default. Upon occurrence of events of default arising from certain events of bankruptcy or insolvency, the Senior Notes shall become due and payable immediately without any declaration or other act of the trustee or the holders of the Senior Notes. Upon the occurrence of certain other events of default, the trustee or the holders of the Senior Notes may declare all outstanding Senior Notes to be due and payable immediately. The Company was in compliance with all financial covenants under its Senior Notes as of June 30, 2018.

The Senior Notes are general unsecured senior obligations of the Company and guaranteed on a senior unsecured basis by the Guarantors. The Senior Notes rank equally in right of payment with all existing and future senior indebtedness of the Company, will be subordinated in right of payment to all existing and future senior secured indebtedness of the Guarantors, will rank senior in right of payment to any future subordinated indebtedness of the Company and will be fully and unconditionally guaranteed by the Guarantors on a senior basis.

The Senior Notes are redeemable by the Company at par. If a change of control occurs, each holder of the Senior Notes will have the right to require that the Company purchase all of such holder's Senior Notes in an amount equal to 101% of the principal of such Senior Notes, plus accrued and unpaid interest, if any, to the date of the purchase.

The fair value of the Senior Notes at June 30, 2018, was estimated to be $599.4 million based upon data from independent market makers (Level 2 fair value measurement).

Note 6 — Income Taxes

Income tax benefit (expense) during interim periods is based on applying an estimated annual effective income tax rate to year-to-date income (loss), plus any significant, unusual or infrequently occurring items that are recorded in the interim period. The provision for income taxes for the three and six months ended June 30, 2018 and 2017, differs from the amount that would be provided by applying the statutory U.S. federal income tax rate of 21% and 35%, respectively, to income before income taxes. This difference relates primarily to the valuation allowance established, in addition to state income taxes and estimated permanent differences.

There was no provision for income taxes during the three and six months ended June 30, 2018 and 2017.

The Company had no reserve for uncertain tax positions as of June 30, 2018 or December 31, 2017. The Company assesses the recoverability of its deferred tax assets each period by considering whether it is more likely than not that all or a portion of the deferred tax assets will be realized. The Company considers all available evidence (both positive and negative) in determining whether a valuation allowance is required. As a result of the Company's analysis, it was concluded that as of June 30, 2018 a valuation allowance should be established against the Company's deferred tax asset. The Company recorded a valuation allowance as of June 30, 2018 and December 31, 2017 of $198.8 million and $193.1 million, respectively, on its deferred tax asset. The Company will continue to monitor facts and circumstances in the reassessment of the likelihood that the deferred tax assets will be realized.

Note 7 — Stockholders’ Equity and Long-term Employee Incentive Plan

Preferred Stock

The Company is authorized to issue up to 1,000,000 shares of preferred stock, par value $0.0001 with such designations, voting and other rights and preferences as may be determined from time to time by the Company’s Board of Directors (the “Board”). At June 30, 2018 and December 31, 2017, the Company had 62,500 shares of preferred stock issued and outstanding.

In October 2016, the Company entered into a preferred stock purchase agreement pursuant to which the Company issued and sold 62,500 shares of the Company’s 8 % Series B Cumulative Perpetual Convertible Preferred Stock, par value $0.0001 per share (the “Convertible Preferred Stock”).

Each holder has the right at any time, at its option, to convert, any or all of such holder’s shares of Convertible Preferred Stock at an initial conversion rate of 33.8616 shares of fully paid and nonassessable shares of common stock of the Company, per share of Convertible Preferred Stock. Additionally, at any time on or after October 15, 2021, the Company shall have the right, at its option, to elect to cause all, and not part, of the outstanding shares of Convertible Preferred Stock to be automatically converted into that number of shares of common stock for each share of Convertible Preferred Stock equal to the conversion rate in effect on the mandatory conversion date as such terms are defined in the Certificate of Designation.

A preferred dividend of $1.3 million was declared on June 20, 2018, and paid on July 16, 2018, to holders of record at the close of business on July 1, 2018.

Common Stock

The authorized common stock of the Company consists of 45,000,000 shares. The holders of the common shares are entitled to one vote for each share of common stock. In addition, the holders of the common stock are entitled to receive dividends when, as and if declared by the Board. At June 30, 2018 and December 31, 2017, the Company had 23,181,746 and 22,527,652 shares of common stock issued and outstanding, respectively.

In May 2016, Resolute adopted a stockholder rights plan and in connection with such plan declared a dividend of one preferred share purchase right (a “Right”) for each outstanding share of common stock, par value $0.0001 per share. The Rights trade with, and are inseparable from, the common stock until such time as they become exercisable on the distribution date. The Rights are evidenced only by certificates that represent shares of common stock and not by separate certificates. New Rights will accompany any new shares of common stock issued after May 27, 2016, until the earlier of the distribution date and the redemption or expiration of the Rights.

Each Right allows its holder to purchase from the Company one one-thousandth of a share of Series A Junior Participating Preferred Stock (a "Preferred Share") for $4.50, once the Rights become exercisable. Prior to exercise, the Right does not give its holder any dividend, voting or liquidation rights. The Rights will not be exercisable until 10 days after the public announcement that a person or group has become an "Acquiring Person" by obtaining beneficial ownership of 20% or more of our outstanding common stock, or, if earlier, 10 business days (or a later date determined by the Board before any person or group becomes an Acquiring Person) after a person or group begins a tender or exchange offer which, if completed, would result in that person or group becoming an Acquiring Person. The stockholder rights plan was approved by the Company's stockholders at the 2017 annual meeting in May 2017.

Long Term Employee Incentive Plan

The Company accounts for stock-based compensation in accordance with FASB ASC Topic 718, Stock Compensation.

In July 2009, the Company adopted the Incentive Plan, providing for long-term stock-based awards intended as a means for the Company to attract, motivate, retain and reward directors, officers, employees and other eligible persons through the grant of awards and incentives for high levels of individual performance and improved financial performance of the Company. The stock-based awards are also intended to further align the interests of award recipients and the Company's stockholders. The maximum number of shares of common stock that may be issued under the Incentive Plan is 4,901,548 (which includes the additional 1,450,000 shares under Amendment No. 4 to the Incentive Plan approved by the Company's stockholders in May 2017).

For the three and six months ended June 30, 2018 and 2017, the Company recorded expense related to the Incentive Plan as follows (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Time-based restricted stock awards	$2,195	$1,551	$5,669	$3,051
TSR awards	2,182	1,387	3,894	2,303
Stock option awards	112	39	3,776	496
Total stock-based compensation expense	4,489	2,977	13,339	5,850
Time-based restricted cash awards	375	627	1,657	906
Performance-based restricted cash awards	146	698	954	1,205
Cash-settled stock appreciation awards	(568)	(2,738)	8,683	1,903
Total cash-based compensation expense	(47)	(1,413)	11,294	4,014
Total Incentive Plan compensation expense	$4,442	$1,564	$24,633	$9,864

As of June 30, 2018, the Company holds unrecognized stock-based compensation expense (in thousands) which is expected to be recognized over a weighted-average period as follows:

	Unrecognized Compensation Expense	Weighted Average Years Remaining
Time-based restricted stock awards	$ 16,517	2.0
TSR awards	11,314	2.4
Stock option awards	216	0.7
Total unrecognized compensation expense	$ 28,047	

Equity Awards

Equity awards consist of time-based and performance-based restricted stock and stock options under the Incentive Plan.

Time-Based Restricted Stock Awards

Shares of time-based restricted stock issued to employees generally vest in three equal annual installments at specified dates based on continued employment. Shares issued to non-employee directors vest in one year based on continued service. The compensation expense to be recognized for the time-based restricted stock awards was measured based on the Company's closing stock price on the dates of grant, utilizing estimated forfeiture rates between 0% and 15% which are updated periodically based on actual employee turnover. During the six months ended June 30, 2018, the Company granted 374,662 shares of time-based restricted stock to employees and non-employee directors, pursuant to the Incentive Plan.

The following table summarizes the changes in non-vested time-based restricted stock awards for the six months ended June 30, 2018:

	Shares	Weighted Average Grant Date Fair Value
Non-vested, beginning of period	407,487	$ 41.62
Granted	374,662	32.92
Vested	(182,274)	43.97
Forfeited	(12,470)	38.45
Non-vested, end of period	587,405	$ 35.41

The weighted average grant date fair value of shares granted during the six months ended June 30, 2018 and 2017 was $32.92 and $43.92, respectively.

TSR Awards

In February 2017 and 2018, the Board and its Compensation Committee awarded performance-based restricted shares to senior employees and executive officers of the Company under the Incentive Plan. The restricted stock grants vest only upon achievement of thresholds of cumulative total shareholder return ("TSR") as compared to a specified peer group (the "Performance-Vested Shares"). A TSR percentile (the "TSR Percentile") is calculated based on the change in the value of the Company's common stock between the grant date and the applicable vesting date, including any dividends paid during the period, as compared to the respective TSRs of a specified group of eleven peer companies in 2017 and fifteen companies in 2018. The Performance-Vested Shares vest in three installments to the extent that the applicable TSR Percentile ranking thresholds are met upon the one-, two- and three-year anniversaries of the grant date. Performance-Vested Shares that are eligible to vest on a vesting date, but do not qualify for vesting, become eligible for vesting again on the next vesting date. All Performance-Vested Shares that do not vest as of the final vesting date will be forfeited on such date.

The Board and its Compensation Committee also granted rights to earn additional shares of common stock upon achievement of a higher TSR Percentile ("Outperformance Shares"). The Outperformance Shares are earned in increasing increments based on a TSR Percentile attained over a specified threshold. Outperformance Shares may be earned on any vesting date to the extent that the applicable TSR Percentile ranking thresholds are met in three installments on the one-, two- and three-year anniversaries of the grant date. Outperformance Shares that are earned at a vesting date will be issued to the recipient; however, prior to such issuance, the recipient is not entitled to stockholder rights with respect to Outperformance Shares. Outperformance Shares that are eligible to be earned but remain unearned on a vesting date become eligible to be earned again on the next vesting date. The right to earn any unearned Outperformance Shares terminates immediately following the final vesting date. The Performance-Vested Shares and the Outperformance Shares are referred to as the “TSR Awards.”

The compensation expense to be recognized for the TSR Awards was measured based on the estimated fair value at the date of grant using a Monte Carlo simulation model and utilizes estimated forfeiture rates between 0% and 2% which are updated periodically based on actual employee turnover.

The valuation model for TSR Awards used the following assumptions:

Grant Year	Average Expected Volatility	Expected Dividend Yield	Risk-Free Interest Rate
2017	49.07% - 108.21%	0%	0.83% - 1.45%
2018	35.19% - 197.75%	0%	1.96% - 2.31%

The following table summarizes the changes in non-vested TSR Awards for the six months ended June 30, 2018:

	Shares	Weighted Average Grant Date Fair Value
Non-vested, beginning of period	130,444	$ 77.23
Granted	184,657	58.87
Vested	(37,391)	65.90
Non-vested, end of period	277,710	$ 66.55

No outperformance shares were earned or vested during the six months ended June 30, 2018, related to the TSR awards granted in 2017.

Stock Option Awards

Options issued to employees to purchase shares of common stock vest in three equal annual installments at specified dates based on continued employment with a ten year term. The compensation expense to be recognized for the option awards was measured based on the Company’s estimated fair value at the date of grant using a Black-Scholes pricing model as well as estimated forfeiture rates between 0% and 15%, no dividends, expected stock price volatility ranging from 63% to 67% and a risk-free rate ranging between 1.75% and 2.27%.

The following table summarizes the option award activity for the six months ended June 30, 2018:

Weighted	Weighted Average	Aggregate