

VAALCO ENERGY INC /DE/
Form 10-Q
August 06, 2014

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2014

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

For the transition period from _____ to _____

Commission file number 1-32167

VAALCO Energy, Inc.

(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	76-0274813 (I.R.S. Employer Identification No.)
4600 Post Oak Place Suite 300 Houston, Texas	77027

(Address of principal executive offices) (Zip code)

(713) 623-0801

(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 Exchange Act 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 No .

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, 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 No .

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

Large accelerated filer Accelerated filer

Non-accelerated filer Smaller reporting company

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

As of July 31, 2014, there were outstanding 56,958,108 shares of common stock, \$0.10 par value per share, of the registrant.

VAALCO ENERGY, INC. AND SUBSIDIARIES

Table of Contents

PART I. FINANCIAL INFORMATION

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

<u>Condensed Consolidated Balance Sheets</u> <u>June 30, 2014 and December 31, 2013</u>	3
<u>Condensed Statements of Consolidated Operations</u> <u>Three and Six months ended June 30, 2014 and 2013</u>	4
<u>Condensed Consolidated Statements of Changes in Equity</u> <u>Six months ended June 30, 2014</u>	5
<u>Condensed Statements of Consolidated Cash Flows</u> <u>Six months ended June 30, 2014 and 2013</u>	6
<u>Notes to Unaudited Condensed Consolidated Financial Statements</u>	7
<u>ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS</u>	11
-	
<u>ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK</u>	17
<u>ITEM 4. CONTROLS AND PROCEDURES</u>	17
<u>PART II. OTHER INFORMATION</u>	19
<u>ITEM 1A. RISK FACTORS</u>	19
<u>ITEM 6. EXHIBITS</u>	19

VAALCO ENERGY, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)

(in thousands of dollars, except number of shares and par value amounts)

	June 30, 2014	December 31, 2013
Current Assets:		
Cash and cash equivalent	\$118,567	\$130,529
Restricted cash	12,301	12,366
Receivables:		
Trade	21,585	16,972
Accounts with partners, net of allowance of zero at June 30, 2014 and \$7.6 million at December 31, 2013	1,490	307
Other	5,494	4,435
Crude oil inventory	305	352
Materials and supplies	503	164
Prepayments and others	2,528	2,339
Total current assets	162,773	167,464
Property and equipment - successful efforts method		
Wells, platforms and other production facilities	218,422	215,701
Undeveloped acreage	22,133	23,705
Work in progress	102,858	64,489
Equipment and other	6,864	6,831
	350,277	310,726
Accumulated depreciation, depletion and amortization	(182,825)	(172,202)
Net property and equipment	167,452	138,524
Other assets:		
Restricted cash	830	830
Deferred tax assets	1,349	1,349
Deferred finance charge	1,913	-
Total Assets	\$334,317	\$308,167
Current Liabilities:		
Accounts payable and other liabilities	\$49,739	\$42,561
Accounts with partners	1,618	3,268
Total current liabilities	51,357	45,829
Asset retirement obligations	11,732	11,464

Total Liabilities	63,089	57,293
Commitments and Contingencies (note 4)		
Owners' Equity		
Common stock, \$0.10 par value, 100,000,000 authorized shares, 64,052,813 and 64,012,914 shares issued with 7,094,705 and 7,162,573 shares in treasury at June 30, 2014 and December 31, 2013 respectively	6,415	6,408
Additional paid-in capital	57,755	55,455
Retained earnings	242,118	224,442
Less treasury stock, at cost	(35,061)	(35,431)
Total Equity	271,227	250,874
Total Liabilities and Owners' Equity	\$334,317	\$308,167

See notes to unaudited condensed consolidated financial statements.

VAALCO ENERGY, INC. AND SUBSIDIARIES

CONDENSED STATEMENTS OF CONSOLIDATED OPERATIONS

(unaudited)

(in thousands of dollars, except per share amounts)

	Three months ended June 30,		Six months ended June 30,	
	2014	2013	2014	2013
Revenues:				
Oil and gas sales	\$52,098	\$29,118	\$80,172	\$73,255
Operating costs and expenses				
Production expense	4,848	7,015	14,498	15,399
Exploration expense	3,293	4,280	14,616	10,386
Depreciation, depletion and amortization	6,995	3,431	11,155	7,057
General and administrative expense	3,134	2,464	6,722	6,102
Bad debt expense and other expense	-	262	-	1,141
Total operating cost and expenses	18,270	17,452	46,991	40,085
Operating income	33,828	11,666	33,181	33,170
Other income (expenses):				
Interest income	17	16	46	41
Other, net	(125)	(2)	(416)	(96)
Total other income (expenses)	(108)	14	(370)	(55)
Income before income taxes	33,720	11,680	32,811	33,115
Income tax expense	(9,009)	(4,559)	(15,135)	(18,805)
Net income	24,712	7,121	17,676	14,310
Earnings per share - basic:				
Basic net income per share attributable to VAALCO Energy, Inc. common shareholders	\$0.43	\$0.12	\$0.31	\$0.25
Earnings per share - diluted:				
Diluted net income per share attributable to VAALCO Energy, Inc. common shareholders	\$0.43	\$0.12	\$0.31	\$0.24
Basic weighted-average shares outstanding	56,951	57,901	56,906	57,904
Diluted weighted-average shares outstanding	57,537	58,560	57,393	58,786

See notes to unaudited condensed consolidated financial statements.

VAALCO ENERGY, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(unaudited)

(in thousands of dollars)

	VAALCO ENERGY, Inc. Shareholders				
	Common Stock	Additional Paid-In Capital	Retained Earnings	Treasury Stock	Total
Balance at January 1, 2014	\$6,408	\$ 55,455	\$224,442	\$(35,431)	\$250,874
Proceeds from stock issuance	7	613			620
Stock based compensation		2,057		-	2,057
Reissuance of treasury stock under stock based compensation plans		(370)	-	370	-
Net income			17,676		17,676
Ending balance at June 30, 2014	6,415	57,755	242,118	(35,061)	271,227

VAALCO ENERGY, INC. AND SUBSIDIARIES

CONDENSED STATEMENTS OF CONSOLIDATED CASH FLOWS

(Unaudited)

(in thousands of dollars)

	Six months ended June 30,	
	2014	2013
Operating Activities:		
Net income	\$17,676	\$14,310
Adjustments to reconcile net income to net cash used in operating activities		
Depreciation, depletion and amortization	11,155	7,057
Unrealized foreign exchange loss	22	22
Dry hole costs and impairment loss on unproved leasehold	13,273	8,836
Stock based compensation	2,057	2,238
Bad debt expense	-	1,141
Change in operating assets and liabilities:		
Trade receivables	(4,613)	(18,266)
Accounts with partners	(2,834)	(20,010)