

Resolute Energy Corp  
Form 10-Q  
November 23, 2009

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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 September 30, 2009**

**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)

**1675 Broadway, Suite 1950  
Denver, CO, 80202**

(Address of Principal Executive Offices)

**80202**

(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 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 ☐  
(Do not check if a smaller reporting company)

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

As of November 20, 2009, 53,154,883 shares of the Registrant's \$0.0001 par value Common Stock were outstanding.

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**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 anticipate, intend, believe, estimate, project, expect, plan, should or similar expressions are intended to identify such statements. Forward-looking statements included in this report relate to, among other things, expected future production, expenses and cash flows in 2009 and 2010, the nature, timing and results of capital expenditure projects, amounts of future capital expenditures, our future debt levels and liquidity and future compliance with covenants under our revolving credit facility. Although we believe that the expectations reflected in such forward-looking statements are reasonable, those expectations may prove to be incorrect. Disclosure of important factors that could cause actual results to differ materially from our expectations, or cautionary statements, are included under the heading Risk Factors in this report and our Registration Statement on Form S-4, as amended (Registration No. 333-161076). 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 and our Registration Statement on Form S-4, as amended, and such things as:

- volatility of oil and gas prices including reductions in prices that would adversely affect our revenues, income, cash flow from operations, liquidity and reserves;

- a continuation of, or further deterioration in, currently adverse conditions in global credit markets and in economic conditions generally;

- discovery, estimation, development and our ability to replace oil and gas reserves;

- our future cash flow, liquidity and financial position of the Company;

- the success of our business and financial strategy, hedging strategies and plans of the Company;

- the amount, nature and timing of our capital expenditures, including future development costs;

- a lack of available capital and financing;

- the effectiveness of our CO<sub>2</sub> flood program;

- the timing and amount of future production of oil and gas;

- availability of drilling and production equipment;

- inaccuracy in reserve estimates and expected production rates;

- our operating costs and other expenses;

- the success in marketing oil and gas;

- competition in the oil and gas industry;

- uninsured or underinsured losses in, or operational problems affecting our operations;

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the impact and costs related to compliance with or changes in laws or regulations governing our oil and natural gas operations;

our relationship with the Navajo Nation and Navajo Nation Oil and Gas, as well as the timing of when certain purchase rights held by Navajo Nation Oil and Gas become exercisable;

the impact of weather and the occurrence of disasters, such as fires, floods and other events and natural disasters;

environmental liabilities;

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risks related to our level of indebtedness;

developments in oil-producing and gas-producing countries;

the success of strategic plans, expectations and objectives of our future operations;

loss of senior management or technical personnel;

acquisitions and other business opportunities (or the lack thereof) that may be presented to and pursued by us;

risk factors discussed or referenced in this report; and

other factors, many of which are beyond our control.

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**RESOLUTE ENERGY CORPORATION**  
**Condensed Consolidated Balance Sheets (UNAUDITED)**  
**(in thousands, except share amounts)**

|  | <b>September<br/>30,<br/>2009<br/>(Unaudited)</b> | <b>December<br/>31,<br/>2008</b> |
|--|---|----------------------------------|
| <b>Assets</b>  |   |                                  |
| Current assets:  |   |                                  |
| Cash and cash equivalents                              | \$ 2,627  | \$ 819                           |
| Cash and cash equivalents held in trust                | 137   | 250,024                          |
| Restricted cash  | 149   |                                  |
| Accounts receivable:                                   |   |                                  |
| Trade receivables                                      | 20,557  |                                  |
| Derivative receivable                                  | 320   |                                  |
| Other receivables                                      | 788   |                                  |
| Marketable securities held in trust                    |   | 290,117                          |
| Deferred income taxes                                  | 3,040   |                                  |
| Derivative instruments                                 | 7,239   |                                  |
| Prepaid expenses and other current assets              | 1,110   | 68                               |
| Total current assets                                   | 35,967  | 541,028                          |
| Property and equipment, at cost:                       |   |                                  |
| Oil and gas properties, full cost method of accounting |   |                                  |
| Unproved   | 11,144  |                                  |
| Proved   | 618,267   |                                  |
| Accumulated depletion and amortization                 | (627)   |                                  |
| Net oil and gas properties                             | 628,784   |                                  |
| Other property and equipment                           | 2,188   |                                  |
| Accumulated depreciation                               | (10)  |                                  |
| Net other property and equipment                       | 2,178   |                                  |
| Net property and equipment                             | 630,962   |                                  |
| Other assets:  |   |                                  |
| Restricted cash  | 12,965  |                                  |
| Notes receivable affiliated entities                   | 56  |                                  |
| Derivative instruments                                 | 4,538   |                                  |
| Deferred income taxes                                  |   | 269                              |
| Deferred acquisition costs                             |   | 3,500                            |
| Other noncurrent assets                                | 675   |                                  |



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|                    |            |            |
|--------------------|------------|------------|
| Total other assets | 18,234     | 3,769      |
| Total assets       | \$ 685,163 | \$ 544,797 |

**Liabilities and Stockholders Equity**

|  |            |            |
|--|------------|------------|
| Current liabilities:   |            |            |
| Accounts payable and accrued expenses  | 43,013     | 1,839      |
| Accounts payable related party   | 1,247      | 64         |
| Asset retirement obligations   | 2,565      |            |
| Derivative instruments   | 9,651      |            |
| Deferred underwriters commission   |            | 17,388     |
| Other current liabilities  | 233        |            |
| Total current liabilities  | 56,709     | 19,291     |
| Noncurrent liabilities:  |            |            |
| Long term debt   | 100,500    |            |
| Asset retirement obligations   | 6,787      |            |
| Derivative instruments   | 30,152     |            |
| Deferred income taxes  | 74,465     |            |
| Other noncurrent liabilities   |            |            |
| Total long term liabilities  | 211,904    |            |
| Total liabilities  | 268,613    | 19,291     |
| Common stock, subject to possible redemption: 16,559,999 shares at \$9.71 per share  |            | 160,798    |
| Deferred interest attributable to common stock subject to possible redemption (net of taxes of \$1,314 at December 31, 2008)   |            | 2,509      |
| Commitments and contingencies  |            |            |
| Stockholders equity:   |            |            |
| Preferred stock \$0.0001 par value; 1,000,000 shares authorized; none issued or outstanding at September 30, 2009 and December 31, 2008, respectively                |            |            |
| Common stock, \$0.0001 par value; 225,000,000 shares authorized; issued and outstanding 53,154,883 and 69,000,000 shares at September 30, 2009 and December 31, 2008 | 5          | 5          |
| Additional paid-in capital   | 432,434    | 357,999    |
| Accumulated (deficit) retained earnings  | (15,889)   | 4,195      |
| Total stockholders equity  | 416,550    | 362,199    |
| Total liabilities and stockholders equity  | \$ 685,163 | \$ 544,797 |

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)

|  | <b>Three Months Ended<br/>September 30,</b> |             | <b>Nine Months Ended<br/>September 30,</b> |             |
|--|---|-------------|--|-------------|
|  | <b>2009</b>                                 | <b>2008</b> | <b>2009</b>                                | <b>2008</b> |
| Revenue:   |   |             |  |             |
| Oil  | \$ 1,969                                    | \$          | \$ 1,969                                   | \$          |
| Gas  | 230   |             | 230  |             |
| Other  | 71  |             | 71   |             |
| Total revenue  | 2,270                                       |             | 2,270                                      |             |
| Operating expenses:  |   |             |  |             |
| Lease operating  | 1,354                                       |             | 1,354                                      |             |
| Depletion, depreciation, amortization, and asset retirement obligation accretion             | 670   |             | 670  |             |
| General and administrative   | 11,367                                      | 366         | 11,984                                     | 1,038       |
| Write-off of deferred acquisition costs  |   |             | 3,500                                      |             |
| Total operating expenses   | 13,391                                      | 366         | 17,508                                     | 1,038       |
| Loss from operations   | (11,121)                                    | (366)       | (15,238)                                   | (1,038)     |
| Other income (expense):  |   |             |  |             |
| Interest income  | 124   | 1,944       | 772  | 6,481       |
| Interest expense   | (310)                                       |             | (310)                                      |             |
| Loss on derivative instruments   | (13,127)                                    |             | (13,127)                                   |             |
| Other income   | (1)   |             | (1)  |             |
| Total other (expense) income   | (13,314)                                    | 1,944       | (12,666)                                   | 6,481       |
| (Loss) Income before income taxes  | (24,435)                                    | 1,578       | (27,904)                                   | 5,443       |
| Income tax benefit (expense)   | 4,711                                       | (551)       | 5,890                                      | (1,905)     |
| Net (loss) income  | (19,724)                                    | 1,027       | (22,014)                                   | 3,538       |
| Deferred interest, net of taxes, attributable to common stock subject to possible redemption | 2,072                                       | (379)       | 1,930                                      | (1,271)     |
| Net (loss) income attributable to Resolute Energy Corporation                                | \$ (17,652)                                 | \$ 648      | \$ (20,084)                                | \$ 2,267    |
| Basic and diluted (loss) income per common share   | \$ (0.34)                                   | \$ 0.01     | \$ (0.38)                                  | \$ 0.04     |

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|                                      |        |        |        |        |
|--------------------------------------|--------|--------|--------|--------|
| Weighted average shares outstanding: | 52,275 | 52,440 | 52,384 | 52,440 |
|--------------------------------------|--------|--------|--------|--------|

See notes to condensed consolidated financial statements

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**RESOLUTE ENERGY CORPORATION**  
**Condensed Consolidated Statements of Stockholders' Equity (UNAUDITED)**  
(in thousands, except per share data)

|  | <b>Common</b> |               | <b>Additional</b> | <b>Accumulated</b> |                     |
|--|---------------|---------------|-------------------|--------------------|---------------------|
|  | <b>Stock</b>  | <b>Amount</b> | <b>Paid-in</b>    | <b>Deficit/</b>    | <b>Stockholders</b> |
|  | <b>Shares</b> |               | <b>Capital</b>    | <b>Retained</b>    | <b>Equity</b>       |
|  |               |               |                   | <b>Earnings</b>    |                     |
| Balance as of January 1, 2008                          | 69,000        | \$ 5          | \$ 357,999        | \$ 1,697           | \$ 359,701          |
| Net income attributable to common stock                |               |               |                   | 2,498              | 2,498               |
| Balance as of December 31, 2008                        | 69,000        | 5             | 357,999           | 4,195              | 362,199             |
| Proceeds subject to redemption of stock                |               | 2             | 160,796           |                    | 160,798             |
| Common stock redeemed on September 25, 2009            | (11,592)      | (1)           | (112,557)         |                    | (112,558)           |
| Forward purchase of common stock                       | (7,503)       | (1)           | (73,345)          |                    | (73,346)            |
| Cancellation of common stock                           | (7,335)       | (1)           |                   |                    | (1)                 |
| Conversion of 1,835,000 common stock to earnout shares |               |               |                   |                    |                     |
| Redemption of 27,600,000 warrants                      |               |               | (15,180)          |                    | (15,180)            |
| Forgiveness of underwriting fees                       |               |               | 11,738            |                    | 11,738              |
| Issuance of common stock for acquisition               | 9,200         | 1             | 88,779            |                    | 88,780              |
| Issuance of earnout shares for acquisition             | 1,385         |               | 10,024            |                    | 10,024              |
| Issuance of warrants for acquisition                   |               |               | 3,202             |                    | 3,202               |
| Common stock issued to employees                       |               |               | 978               |                    | 978                 |
| Net loss attributable to common stock                  |               |               |                   | (20,084)           | (20,084)            |
| Balance as of September 30, 2009                       | 53,155        | \$ 5          | \$ 432,434        | \$ (15,889)        | \$ 416,550          |

See notes to condensed consolidated financial statements

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**RESOLUTE ENERGY CORPORATION**  
**Condensed Consolidated Statements of Cash Flows (UNAUDITED)**  
**(in thousands)**

|  | <b>Nine Months Ended<br/>September 30,</b> |             |
|--|--|-------------|
|  | <b>2009</b>                                | <b>2008</b> |
| Operating activities:  |  |             |
| Net (loss) income  | \$ (20,084)                                | \$ 2,267    |
| Adjustments to reconcile net loss to net cash provided (used) by operating activities: |  |             |
| Depletion, depreciation and amortization   | 670  |             |
| Write-off of deferred acquisition costs  | 3,500                                      |             |
| Deferred interest attributable to common stock subject to possible redemption          | (1,930)                                    | 1,271       |
| Deferred income taxes  | (5,816)                                    | 56          |
| Equity-based compensation  | 930  |             |
| Unrealized loss on derivative instruments  | 13,134                                     |             |
| Change in operating assets and liabilities:  |  |             |
| Accounts receivable  | 1,459                                      |             |
| Other assets   | (212)                                      | (1,036)     |
| Accounts payable and accrued expenses  | (509)                                      | (328)       |
| Accounts payable related party   | (19)                                       | (103)       |
| Net cash (used in) provided by operating activities                                    | (8,877)                                    | 2,127       |
| Investing activities:  |  |             |
| Acquisition of subsidiary, net of cash acquired  | (323,322)                                  |             |
| Increase in cash and cash equivalents in trust   | 249,887                                    | 1,029       |
| Purchase of marketable securities held in trust  | (250,005)                                  |             |
| Sales of marketable securities   | 540,122                                    |             |
| Payment of proposed acquisition costs  |  | (1,914)     |
| Other  | 17   |             |
| Net cash provided by (used in) investing activities                                    | 216,699                                    | (885)       |
| Financing activities:  |  |             |
| Redemption of common stock and interest  | (113,139)                                  |             |
| Forward purchase of common stock   | (73,345)                                   |             |
| Redemption of warrants   | (15,180)                                   |             |
| Payment of underwriters fees   | (5,650)                                    |             |
| Proceeds from bank borrowings  | 1,300                                      |             |
| Net cash used in financing activities  | (206,014)                                  |             |
| Net increase in cash and cash equivalents  | 1,808                                      | 1,242       |
| Cash and cash equivalents at beginning of period                                       | 819  | 52          |
| Cash and cash equivalents at end of period   | \$ 2,627                                   | \$ 1,294    |

Supplemental disclosures of cash flow information:

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|  |           |          |
|--|-----------|----------|
| Cash paid during the period for:   |           |          |
| Interest   | \$ 2,273  | \$       |
| Income taxes   | \$ 1,004  | \$ 2,750 |
| Supplemental schedule of non-cash investing and financing activities:        |           |          |
| Deferred acquisition costs included in accounts payable and accrued expenses | \$        | \$ 1,366 |
| Capital expenditures financed through current liabilities                    | \$ 255    | \$       |
| Issuance of common stock for acquisition                                     | \$ 88,780 | \$       |
| Issuance of warrants for acquisition   | \$ 3,202  | \$       |
| Issuance of earnout shares for acquisition                                   | \$ 10,024 | \$       |
| Forgiveness of underwriter's fees  | \$ 11,738 | \$       |

See notes to condensed consolidated financial statements

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**RESOLUTE ENERGY CORPORATION**

**Notes to Condensed Consolidated Financial Statements (UNAUDITED)**

**Note 1 Organization and Nature of Business**

Resolute Energy Corporation ( Resolute or the Company ), a Delaware corporation incorporated on July 28, 2009, was formed to consummate a business combination with Hicks Acquisition Company I, Inc. ( HACI ), a Delaware corporation incorporated on February 26, 2007. Resolute is an independent oil and gas company engaged in the acquisition, exploration, development, and production of oil, gas and hydrocarbon liquids. The Company conducts its activities principally in the Paradox Basin in southeastern Utah and the Powder River Basin in Wyoming.

HACI was a blank check company that was formed to acquire through a merger, capital stock exchange, asset acquisition, stock purchase, reorganization or similar business combination, one or more businesses or assets. The registration statement for HACI's initial public offering (the Offering ) was declared effective September 27, 2007. The consummation of the Offering was on October 3, 2007, and HACI received proceeds of approximately \$529.1 million, net of underwriter's commissions of approximately \$21.3 million and offering costs and other expenses of \$1.6 million. Upon the consummation of the Resolute Transaction, described below, and HACI, \$11.7 million of underwriter's fees were forgiven and were recognized as additional paid in capital. HACI sold to the public 55,200,000 units at a price of \$10.00 per unit, including 7,200,000 units issued pursuant to the exercise of the underwriter's over-allotment option. Simultaneously with the consummation of the Offering, HACI consummated the private sale of 7,000,000 warrants (the S