MARINER ENERGY INC
Form 10-Q
November 05, 2010

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

Form 10-Q

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

For the quarterly period ended September 30, 2010

OR

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

Commission file number 1-32747

MARINER ENERGY, INC.
(Exact name of registrant as specified in its charter)

Delaware	**86-0460233**
(State or other jurisdiction of incorporation or organization)	*(I.R.S. Employer Identification Number)*

One BriarLake Plaza, Suite 2000
2000 West Sam Houston Parkway South
Houston, Texas 77042
(Address of principal executive offices and zip code)
(713) 954-5500
(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 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 þ No o

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

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

Large accelerated filer þ	Accelerated filer o	Non-accelerated filer o	Smaller reporting company o
		(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 o No þ

As of November 1, 2010, there were 103,268,257 shares issued and outstanding of the issuer s common stock, par value $0.0001 per share.

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PART I

Item 1. Unaudited Condensed Consolidated Financial Statements

MARINER ENERGY, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS (Unaudited)

(In thousands, except share data)

	September 30, 2010	December 31, 2009
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 9,846	$ 8,919
Receivables, net of allowances of $1,024 and $3,408 as of September 30, 2010 and December 31, 2009, respectively	128,719	148,725
Insurance receivables	7,681	8,452
Derivative financial instruments	42,809	2,239
Intangible assets	7,268	22,615
Prepaid expenses and other	28,384	11,667
Deferred income tax		9,704
Total current assets	224,707	212,321
Property and Equipment:		
Proved oil and gas properties, full cost method	5,472,404	5,117,273
Unproved properties, not subject to amortization	453,164	292,237
Total oil and gas properties	5,925,568	5,409,510
Other property and equipment	56,268	55,695
Accumulated depreciation, depletion and amortization:		
Proved oil and gas properties	(3,142,994)	(2,884,411)
Other property and equipment	(11,116)	(8,235)
Total accumulated depreciation, depletion and amortization	(3,154,110)	(2,892,646)
Total property and equipment, net	2,827,726	2,572,559
Derivative Financial Instruments	33,366	902
Deferred Income Tax		12,491
Other Assets, net of amortization	75,858	68,932
TOTAL ASSETS	$ 3,161,657	$ 2,867,205
LIABILITIES AND STOCKHOLDERS EQUITY		
Current Liabilities:		
Accounts payable	$ 6,320	$ 3,579
Accrued liabilities	127,460	137,206
Accrued capital costs	94,200	140,941
Deferred income tax	12,649	
Abandonment liability	80,249	54,915

Accrued interest	28,533	8,262
Derivative financial instruments	7,329	27,708
Total current liabilities	356,740	372,611
Long-Term Liabilities:		
Abandonment liability	301,569	362,972
Deferred income tax	18,052	
Derivative financial instruments	3,613	15,017
Long-term debt	1,463,930	1,194,850
Other long-term liabilities	35,431	38,800
Total long-term liabilities	1,822,595	1,611,639

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CONDENSED CONSOLIDATED BALANCE SHEETS

	September 30, 2010	December 31, 2009
Commitments and Contingencies (see Note 9)		
Stockholders Equity:		
Preferred stock, $.0001 par value; 20,000,000 shares authorized, no shares issued and outstanding at September 30, 2010 and December 31, 2009		
Common stock, $.0001 par value; 180,000,000 shares authorized, 103,227,031 shares issued and outstanding at September 30, 2010; 180,000,000 shares authorized, 101,806,825 shares issued and outstanding at December 31, 2009	10	10
Additional paid-in capital	1,272,043	1,257,526
Accumulated other comprehensive income (loss)	40,107	(25,955)
Accumulated deficit	(329,838)	(348,626)
Total stockholders equity	982,322	882,955
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	$ 3,161,657	$ 2,867,205

The accompanying notes are an integral part of these condensed consolidated financial statements

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MARINER ENERGY, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (Unaudited)
(In thousands except share data)

	Three Months Ended September 30, 2010	Three Months Ended September 30, 2009	Nine Months Ended September 30, 2010	Nine Months Ended September 30, 2009
Revenues:				
Natural gas	$ 92,655	$ 130,046	$ 302,581	$ 425,747
Oil	91,434	80,908	283,569	220,787
Natural gas liquids	22,808	15,736	70,634	30,398
Other revenues	3,780	656	7,778	25,720
Total revenues	210,677	227,346	664,562	702,652
Costs and Expenses:				
Lease operating expense	59,436	65,325	172,089	165,816
Severance and ad valorem taxes	6,691	4,406	19,711	11,668
Transportation expense	4,484	4,468	14,574	13,627
General and administrative expense	18,379	18,922	69,690	57,455
Depreciation, depletion and amortization	93,620	106,218	288,250	301,305
Full cost ceiling test impairment				704,731
Other miscellaneous expense	2,045	1,193	5,662	11,960
Total costs and expenses	184,655	200,532	569,976	1,266,562
OPERATING INCOME (LOSS)	26,022	26,814	94,586	(563,910)
Other Income (Expense):				
Interest income	4	56	773	443
Interest expense, net of amounts capitalized	(20,769)	(19,702)	(61,124)	(51,076)
Income (Loss) Before Taxes	5,257	7,168	34,235	(614,543)
(Provision) Benefit for Income Taxes	(3,436)	(2,946)	(15,447)	211,860
NET INCOME (LOSS)	$ 1,821	$ 4,222	$ 18,788	$ (402,683)
Net Income (Loss) per share:				
Basic	$ 0.02	$ 0.04	$ 0.19	$ (4.29)
Diluted	$ 0.02	$ 0.04	$ 0.18	$ (4.29)
Weighted average shares outstanding:				
Basic	101,521,119	100,752,532	101,296,525	93,848,859
Diluted	102,775,156	101,084,502	102,600,971	93,848,859

The accompanying notes are an integral part of these condensed consolidated financial statements

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MARINER ENERGY, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS EQUITY
(Unaudited)
(In thousands)
For the nine months ended September 30, 2010 and 2009

	Common Stock	Stock Amount	Additional Paid-In-Capital	Accumulated Other Comprehensive Income/ (Loss)	Accumulated Deficit	Total Stockholders Equity
Balance at December 31, 2009	101,807	$ 10	$ 1,257,526	$ (25,955)	$ (348,626)	$ 882,955
Common shares issued restricted stock	1,709					
Treasury stock bought and cancelled on same day	(300)		(5,838)			(5,838)
Forfeiture of restricted stock	(13)					
Share-based compensation			20,071			20,071
Stock options exercised	24		284			284
Comprehensive income:						
Net income					18,788	18,788
Change in fair value of derivative hedging instruments net of income taxes of $45,695				81,780		81,780
Hedge settlements reclassified to income net of income taxes of $(8,765)				(15,650)		(15,650)
Foreign currency translation adjustment				(68)		(68)
Total comprehensive income				66,062	18,788	84,850
Balance at September 30, 2010	103,227	$ 10	$ 1,272,043	$ 40,107	$ (329,838)	$ 982,322

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS EQUITY

	Common	Stock	Additional Paid-In-	Accumulated Other Comprehensive Income/	Accumulated	Total Stockholders

	Stock	Amount	Capital	(Loss)	Deficit	Equity
Balance at December 31, 2008	88,846	$ 9	$ 1,071,347	$ 78,181	$ (29,217)	$ 1,120,320
Common shares issued equity offering	11,500	1	159,673			159,674
Common shares issued restricted stock	1,709					
Treasury stock bought and cancelled on same day	(175)		(1,991)			(1,991)
Forfeiture of restricted stock	(25)					
Share-based compensation			21,114			21,114
Stock options exercised	1		8			8
Comprehensive loss:						
Net loss					(402,683)	(402,683)
Change in fair value of derivative hedging instruments net of income taxes of $30,595				53,797		53,797
Hedge settlements reclassified to income net of income taxes of $(68,115)				(121,780)		(121,780)
Total comprehensive loss				(67,983)	(402,683)	(470,666)
Balance at September 30, 2009	101,856	$ 10	$ 1,250,151	$ 10,198	$ (431,900)	$ 828,459

The accompanying notes are an integral part of these condensed consolidated financial statements

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MARINER ENERGY, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)
(In thousands)

	Nine Months Ended September 30, 2010	Nine Months Ended September 30, 2009
Operating Activities:		
Net income (loss)	$ 18,788	$ (402,683)
Adjustments to reconcile net income to net cash provided by operating activities:		
Deferred income tax	15,447	(211,860)
Depreciation, depletion and amortization	288,250	301,305
Ineffectiveness of derivative instruments	(1,757)	812
Full cost ceiling test impairment		704,731
Share-based compensation	17,051	18,360
Derivative financial instruments		(14,128)
Other	4,393	7,046
Changes in operating assets and liabilities:		
Receivables	21,309	83,357
Insurance receivables	771	22,841
Cash from liquidation of hedges		52,562
Prepaid expenses and other	(37,005)	(26,222)
Intangible assets	1,847	888
Accounts payable and accrued liabilities	(26,972)	1,100
Net cash provided by operating activities	302,122	538,109
Investing Activities:		
Acquisitions and additions to oil and gas properties	(588,376)	(468,980)
Additions to other property and equipment	(573)	(2,141)
Proceeds from property conveyances	26,860	
Net cash used in investing activities	(562,089)	(471,121)
Financing Activities:		
Credit facility borrowings	551,000	350,221
Credit facility repayments	(283,000)	(855,221)
Repurchase of stock	(5,838)	(1,991)
Debt redetermination costs	(1,552)	(2,306)
Debt offering costs		(5,906)
Proceeds from equity offering		159,736
Proceeds from debt issuance		291,279
Proceeds from exercise of stock options	284	8
Net cash provided by (used in) financing activities	260,894	(64,180)
Increase in Cash and Cash Equivalents	927	2,808
Cash and Cash Equivalents at Beginning of Period	8,919	3,209

Cash and Cash Equivalents at End of Period	$ 9,846	$ 6,017
Supplemental Disclosure of Cash Flow Information:		
Cash paid during the year for:		
Interest (net of amount capitalized)	$ 37,301	$ 29,238

The accompanying notes are an integral part of these condensed consolidated financial statements

MARINER ENERGY, INC.
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

1. Summary of Significant Accounting Policies

Operations Mariner Energy, Inc. (Mariner or the Company) is an independent oil and gas exploration, development and production company with principal operations in the Permian Basin, Gulf Coast and in the Gulf of Mexico, both shelf and deepwater. Unless otherwise indicated, references to Mariner , the Company , we , our , ours us refer to Mariner Energy, Inc. and its subsidiaries collectively.

Interim Financial Statements The accompanying unaudited condensed consolidated financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (SEC). Certain information and footnote disclosures normally included in financial statements prepared in conformity with generally accepted accounting principles in the United States of America (GAAP) have been condensed or omitted pursuant to such rules and regulations. In the opinion of management, all adjustments (consisting of a normal and recurring nature) considered necessary for a fair presentation have been included. Operating results for interim periods are not necessarily indicative of the results that may be expected for the entire year. These unaudited condensed consolidated financial statements included herein should be read in conjunction with the Financial Statements and Notes included in the Company s Annual Report on Form 10-K for the year ended December 31, 2009.

Use of Estimates The preparation of the condensed consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements, and the reported amounts of revenues and expenses during the reporting periods. The Company s most significant financial estimates are based on remaining proved natural gas and oil reserves. Estimates of proved reserves are key components of Mariner s depletion rate for natural gas and oil properties, its unevaluated properties and its full cost ceiling test. In addition, estimates are used in computing taxes, preparing accruals of operating costs and production revenues, asset retirement obligations, fair value and effectiveness of derivative instruments and fair value of stock options and the related compensation expense. Because of the inherent nature of the estimation process, actual results could differ materially from these estimates.

Principles of Consolidation Mariner s condensed consolidated financial statements as of and for the period ended September 30, 2010 and consolidated financial statements as of and for the period ended December 31, 2009 include its accounts and the accounts of its subsidiaries. All inter-company balances and transactions have been eliminated.

Income Taxes The Company s provision for taxes includes both federal and state taxes. The Company records its federal income taxes using an asset and liability approach which results in the recognition of deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the book carrying amounts and the tax bases of assets and liabilities. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences and carryforwards are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. Valuation allowances are established when necessary to reduce deferred tax assets to the amount more likely than not to be recovered.

The Company had no uncertain tax positions during the nine months ended September 30, 2010 or for the year ended December 31, 2009.

Recent Accounting Pronouncements In July 2010, the Financial Accounting Standards Board (FASB) issued authoritative guidance which requires an entity to provide a greater level of disaggregated information about the credit quality of its financing receivables and its allowance for credit losses. In addition, an entity is required to disclose credit quality indicators, past due information, and modifications of its financing receivables. These disclosures are intended to help financial statement users assess an entity s credit risk exposures and evaluate the adequacy of its allowance for credit losses. The guidance is effective for interim and annual reporting periods ending on or after December 15, 2010. The Company is currently evaluating the potential impact of adopting the guidance.

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Mariner will begin complying with the disclosure requirements in its annual report on Form 10-K for the year ended December 31, 2010.

In April 2010, the FASB issued authoritative guidance which provides clarification that an employee share-based payment award with an exercise price denominated in the currency of a market in which a substantial portion of the entity s equity securities trade should not be considered to contain a condition that is not a market, performance or service condition. Therefore, the award would be classified as an equity award if it otherwise qualifies as equity. The guidance is effective for interim and annual reporting periods beginning on or after December 15, 2010. The Company is currently evaluating the potential impact of adopting the guidance.

In February 2010, the FASB issued authoritative guidance which requires additional information to be disclosed principally in respect of Level 3 fair value measurements and transfers to and from Level 1 and Level 2 measurements. In addition, enhanced disclosure is required concerning inputs and valuation techniques used to determine Level 2 and Level 3 fair value measurements. The guidance is generally effective for interim and annual reporting periods beginning after December 15, 2009; however, the requirements to disclose separately purchases, sales, issuances, and settlements in the Level 3 reconciliation are effective for fiscal years beginning after December 15, 2010 (and for interim periods within such years). The Company adopted the standard effective January 1, 2010. The adoption did not have a material impact on the Company s consolidated financial position, cash flows or results of operations.

2. Acquisitions and Dispositions

Onshore Acquisition On December 31, 2009, Mariner acquired the reorganized subsidiaries and operations of Edge Petroleum Corporation (Edge). The assets acquired consist primarily of (i) estimated proved reserves, (ii) undeveloped oil and gas property, primarily in Texas and New Mexico, (iii) exploration assets in the form of seismic data, and (iv) certain tax attributes of the acquired subsidiaries. The effective date of the acquisition was June 30, 2009 and the purchase price was $260.0 million, less adjustments which resulted in a net purchase price as of December 31, 2009 of approximately $213.6 million, subject to final adjustments. Mariner financed the net purchase price by borrowing under its secured revolving credit facility.

Pro Forma Financial Information: The unaudited pro forma information set forth below gives effect to the acquisition of the reorganized Edge subsidiaries as if it had been consummated as of the beginning of the applicable period. The unaudited pro forma information has been derived from the historical Consolidated Financial Statements of the Company and of Edge. The unaudited pro forma information is for illustrative purposes only. The financial results may have been different had each of the acquired Edge subsidiaries been an independent company and had the companies always been combined. No reliance should be placed on the pro forma financial information as being indicative of the historical results that would have been achieved had the acquisition occurred in the past or the future financial results that the Company will achieve after the acquisition.

	For the Three Months	**For the Nine Months**
	Ended September 30, 2009	
&n		