

Bonanza Creek Energy, Inc.
Form 10-Q
May 10, 2013

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 March 31, 2013

or

- 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: 001-35371

Bonanza Creek Energy, Inc.

(Exact name of registrant as specified in its charter)

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Delaware
(State or other jurisdiction of
incorporation or organization)

61-1630631
(I.R.S. Employer
Identification No.)

410 17th Street, Suite 1400
Denver, Colorado
(Address of principal executive offices)

80202
(Zip Code)

(720) 440-6100

(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
(Do not check if a smaller reporting company)

Smaller reporting company

SEC 1296 (01-12) **Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB control number.**

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date. 40,263,316 shares of common stock were outstanding as of April 29, 2013.

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements.

BONANZA CREEK ENERGY, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(unaudited)

	March 31, 2013	December 31, 2012
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 3,170,403	\$ 4,267,667
Accounts receivable:		
Oil and gas sales	43,842,227	38,600,436
Joint interest and other	7,154,967	5,484,620
Prepaid expenses and other	2,950,855	3,031,815
Inventory of oilfield equipment	3,956,611	1,740,934
Derivative asset	696,195	2,178,064
Total current assets	61,771,258	55,303,536
OIL AND GAS PROPERTIES using the successful efforts method of accounting:		
Proved properties	841,450,815	811,000,239
Unproved properties	73,286,904	72,928,364
Wells in progress	104,331,607	75,031,806
	1,019,069,326	958,960,409
Less: accumulated depreciation, depletion and amortization	(111,949,634)	(89,669,725)
	907,119,692	869,290,684
NATURAL GAS PLANT		
	74,276,579	73,087,603
Less: accumulated depreciation	(4,016,914)	(3,403,817)
	70,259,665	69,683,786
PROPERTY AND EQUIPMENT		
	6,476,164	5,089,795
Less: accumulated depreciation	(1,245,821)	(890,093)
	5,230,343	4,199,702
OIL AND GAS PROPERTIES HELD FOR SALE LESS ACCUMULATED DEPRECIATION, DEPLETION, AND AMORTIZATION		
	572,079	582,388
LONG-TERM DERIVATIVE ASSET		
	534,993	
OTHER ASSETS, net		
	3,262,256	3,429,711
TOTAL ASSETS	\$ 1,048,750,286	\$ 1,002,489,807
LIABILITIES AND STOCKHOLDERS EQUITY		
CURRENT LIABILITIES:		
Accounts payable and accrued expenses	\$ 62,292,672	\$ 72,850,272
Oil and gas revenue distribution payable	11,503,132	12,552,655
Contractual obligation for land acquisition	11,999,877	11,999,877
Derivative liability	8,145,564	5,200,202

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Total current liabilities	93,941,245	102,603,006
LONG-TERM LIABILITIES:		
Bank revolving credit	191,500,000	158,000,000
Contractual obligation for land acquisition	33,461,957	33,271,631
Ad valorem taxes	12,259,384	11,179,370
Derivative liability	924,520	1,208,106
Deferred income taxes, net	117,424,350	110,376,606
Asset retirement obligations	7,995,594	7,333,584
TOTAL LIABILITIES	457,507,050	423,972,303
COMMITMENTS AND CONTINGENCIES (Notes 6)		
STOCKHOLDERS EQUITY:		
Preferred stock, \$.001 par value, 25,000,000 shares authorized, 0 outstanding		
Common stock, \$.001 par value, 225,000,000 shares authorized, 40,269,003 and 40,115,536 issued and outstanding, respectively	40,269	40,116
Additional paid-in capital	520,895,119	519,425,356
Retained earnings	70,307,848	59,052,032
Total stockholders equity	591,243,236	578,517,504
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	\$ 1,048,750,286	\$ 1,002,489,807

See accompanying notes to these consolidated financial statements.

BONANZA CREEK ENERGY, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

(unaudited)

	Three Months Ended March 31,	
	2013	2012
NET REVENUES		
Oil and gas sales	\$ 78,307,013	\$ 47,830,431
OPERATING EXPENSES:		
Lease operating	11,130,685	7,107,331
Severance and ad valorem taxes	4,812,754	3,595,809
Exploration	562,312	1,190,123
Depreciation, depletion and amortization	23,363,065	11,001,043
General and administrative (including \$4,378,287 and \$670,564, respectively, of stock compensation)	13,166,062	5,964,718
Total operating expenses	53,034,878	28,859,024
INCOME FROM OPERATIONS	25,272,135	18,971,407
OTHER INCOME (EXPENSE):		
Realized (loss) on settled commodity derivatives	(1,507,120)	(1,211,139)
Interest expense	(1,962,718)	(561,516)
Unrealized (loss) in fair value of commodity derivatives	(3,608,652)	(3,375,831)
Other income (loss)	136,933	(37,727)
Total other (loss)	(6,941,557)	(5,186,213)
INCOME FROM CONTINUING OPERATIONS BEFORE TAXES	18,330,578	13,785,194
Income tax expense	(7,058,146)	(5,307,300)
INCOME FROM CONTINUING OPERATIONS	\$ 11,272,432	\$ 8,477,894
DISCONTINUED OPERATIONS (Note 3)		
(Loss) income from operations associated with oil and gas properties held for sale	(27,018)	110,990
Income tax benefit (expense)	10,402	(42,731)
(Loss) income associated with oil and gas properties held for sale	(16,616)	68,259
NET INCOME	\$ 11,255,816	\$ 8,546,153
COMPREHENSIVE INCOME	\$ 11,255,816	\$ 8,546,153
BASIC AND DILUTED INCOME PER SHARE		
Income from continuing operations	\$ 0.28	\$ 0.22
Income (loss) from discontinued operations	\$	\$
Net income per common share	\$ 0.28	\$ 0.22
WEIGHTED AVERAGE NUMBER OF SHARES OF COMMON STOCK BASIC AND DILUTED	40,084,811	39,477,584

See accompanying notes to these consolidated financial statements.

BONANZA CREEK ENERGY, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited)

	Three Months Ended	
	2013	March 31, 2012
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 11,255,816	\$ 8,546,153
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, depletion and amortization	23,467,406	11,827,980
Deferred income taxes	7,047,744	5,350,031
Stock-based compensation	4,378,287	670,564
Exploration	351,464	
Amortization of deferred financing costs	218,691	288,494
Accretion of contractual obligation for land acquisition	190,326	
Valuation decrease in commodity derivatives	3,608,652	3,375,831
Other	73,342	45,000
(Increase) decrease in operating assets:		
Accounts receivable	(6,912,138)	(14,542,748)
Prepaid expenses and other assets	80,960	(106,250)
(Decrease) increase in operating liabilities:		
Accounts payable and accrued liabilities	(5,418,908)	2,230,988
Settlement of asset retirement obligations	(49,163)	(749)
Net cash provided by operating activities	38,292,479	17,685,294
CASH FLOWS FROM INVESTING ACTIVITIES:		
Acquisition of oil and gas properties	(934,054)	(294,127)
Exploration and development of oil and gas properties	(64,334,333)	(27,464,392)
Natural gas plant capital expenditures	(3,275,378)	(6,246,577)
Decrease (increase) in restricted cash		(139,375)
Additions to property and equipment non oil and gas	(1,386,369)	(595,439)
Net cash (used) in investing activities	(69,930,134)	(34,739,910)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Increase in bank revolving credit	33,500,000	15,000,000
Common stock returned for tax withholdings	(2,908,373)	
Deferred financing costs	(51,236)	(35,058)
Net cash provided by financing activities	30,540,391	14,964,942
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(1,097,264)	(2,089,674)
CASH AND CASH EQUIVALENTS:		
Beginning of period	4,267,667	2,089,674
End of period	\$ 3,170,403	\$
SUPPLEMENTAL CASH FLOW DISCLOSURE:		
Cash paid for interest	\$ 1,469,356	\$ 243,201
Changes in working capital related to drilling expenditures, natural gas plant expenditures, and property acquisition	\$ (5,459,665)	\$ 26,102,288

See accompanying notes to these consolidated financial statements.

Bonanza Creek Energy, Inc.

Notes to the Consolidated Financial Statements as of March 31, 2013 (unaudited)

1. ORGANIZATION AND BUSINESS:

Bonanza Creek Energy, Inc. (the Company or BCEI) is engaged primarily in acquiring, developing, exploiting and producing oil and gas properties. As of March 31, 2013, the Company's assets and operations are concentrated primarily in the Wattenberg Field in the Rocky Mountains and in Southern Arkansas. The Company completed its initial public offering of common stock in December 2011 (the IPO) pursuant to which 10,000,000 shares of common stock were sold.

2. BASIS OF PRESENTATION:

These statements have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). The quarterly financial statements included herein do not necessarily include all of the disclosures as may be required under generally accepted accounting principles. The readers of these quarterly financial statements should also read the audited consolidated financial statements and related notes of BCEI that were included in BCEI's Annual Report on Form 10-K filed with the SEC on March 15, 2013. These consolidated financial statements include all of the adjustments, which, in the opinion of management, are necessary for a fair presentation of the financial position and results of operations. All such adjustments are of a normal recurring nature only. The results of operations for the quarterly periods are not necessarily indicative of the results to be expected for the full fiscal year.

Principles of Consolidation The consolidated balance sheets include the accounts of the Company and its wholly owned subsidiaries, Bonanza Creek Energy Operating Company, LLC, Bonanza Creek Energy Resources, LLC, Holmes Eastern Company, LLC, Bonanza Creek Energy Upstream LLC, and Bonanza Creek Energy Midstream, LLC. All significant intercompany accounts and transactions have been eliminated.

Oil and Gas Producing Activities The Company follows the successful efforts method of accounting for its oil and gas properties. Under this method of accounting, all property acquisition costs and costs of exploratory and development wells will be capitalized at cost when incurred, pending determination of whether the well has found proved reserves. If an exploratory well has not found proved reserves, the costs of drilling the well and other associated costs will be charged to expense. The costs of development wells will be capitalized whether productive or nonproductive. Costs incurred to maintain wells and related equipment and lease and well operating costs are charged to expense as incurred. Gains and losses arising from sales of properties will be included in income. However, sales that do not significantly affect a field's unit-of-production depletion rate will be accounted for as normal retirements with no gain or loss recognized. Geological and geophysical costs of exploratory prospects and the costs of carrying and retaining unproved properties are expensed as incurred.

Depletion, depreciation and amortization (DD&A) of capitalized costs of proved oil and gas properties are provided for on a field-by-field basis using the units of production method based upon proved reserves. The computation of DD&A takes into consideration the anticipated proceeds from equipment salvage and the Company's expected cost to abandon its well interests.

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The Company assesses its proved oil and gas properties for impairment whenever events or circumstances indicate that the carrying value of the assets may not be recoverable. The impairment test compares undiscounted future net cash flows to the assets' net book value. If the net capitalized costs exceed future net cash flows, then the cost of the property will be written down to fair value. Fair value for oil and natural gas properties is generally determined based on discounted future net cash flows.

3. DISCONTINUED OPERATIONS:

During June of 2012, the Company began marketing, with an intent to sell, all of its oil and gas properties in California. Assets are classified as held for sale when the Company commits to a plan to sell the assets and there is reasonable certainty that the sale will take place within one year. The Company determined that its intent to sell these properties qualifies for discontinued operations. The carrying amounts of the major classes of assets and liabilities related to the operation of the remaining property that is held for sale as of March 31, 2013 and December 31, 2012 are presented below:

	As of March 31, 2013	As of December 31, 2012
PROPERTY AND EQUIPMENT:		
Oil and gas properties, successful efforts method:		
Proved properties	\$ 1,721,265	\$ 1,721,265
Unproved properties	629	629
Wells in progress	100,936	39,245
Total property and equipment	1,822,830	1,761,139
Less accumulated depletion and depreciation	(1,250,751)	(1,178,751)
Net property and equipment	\$ 572,079	\$ 582,388

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The current assets and liabilities related to the properties are immaterial. The total revenues and costs and expenses, and the income associated with the operation of the oil and gas properties held for sale are presented below.

	Three Months Ended March 31, 2013	Three Months Ended March 31, 2012
NET REVENUES:		
Oil and gas sales	\$ 437,945	\$ 1,711,898
OPERATING EXPENSES:		
Lease operating	303,271	667,743
Severance and ad valorem taxes	193	95,626
Exploration	57,158	10,602
Depreciation, depletion and amortization	104,341	826,937
TOTAL COSTS AND EXPENSES	464,963	1,600,908
INCOME (LOSS) FROM OPERATIONS ASSOCIATED WITH OIL AND GAS PROPERTIES HELD FOR SALE		
	\$ (27,018)	\$ 110,990

4. ACCOUNTS PAYABLE AND ACCRUED EXPENSES:

Accounts payable and accrued expenses contain the following:

	As of March 31, 2013	As of December 31, 2012
Drilling and completion costs	\$ 46,239,017	\$ 51,698,682
Accounts payable trade	407,591	10,049,131
Accrued general and administrative cost	5,142,425	5,078,059
Lease operating expense	4,047,200	2,824,300
Accrued reclamation cost	400,000	400,000
Accrued interest	303,839	219,494
Accrued oil and gas hedging	433,616	238,365
Production taxes and other	5,318,984	2,342,241
	\$ 62,292,672	\$ 72,850,272

5. SENIOR SECURED REVOLVING CREDIT FACILITY:

The Company's senior secured revolving Credit Agreement (the "Revolver"), dated March 29, 2011, as amended, with a syndication of banks, including KeyBank National Association as the administrative agent and issuing lender, provides for borrowings of up to \$600 million. The Revolver provides for interest rates plus an applicable margin to be determined based on the London Interbank Offered Rate ("LIBOR") or a bank base rate ("Base Rate"), at the Company's election. LIBOR borrowings bear interest at LIBOR plus 1.75% to 2.75% depending on the utilization level, and the Base Rate borrowings bear interest at the Bank Prime Rate, as defined plus .75% to 1.75%.

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The borrowing base under the Revolver was \$325 million as of March 31, 2013 (See Note 10 for a discussion of a new debt issuance subsequent to the end of the first quarter which reduced the borrowing base to \$250 million). The borrowing base is redetermined semiannually by May 15 and November 15 and may be redetermined up to one additional time between such scheduled determinations upon request by the Company or lenders holding 66 and 2/3% of the aggregate commitments. A letter of credit that was issued to the Colorado State Board of Land Commissioners in connection with the Company's lease of acreage in the Wattenberg Field reduces the borrowing base under the Revolver by approximately \$48 million. The Revolver provides for commitment fees ranging from 0.375% to 0.50%, depending on utilization, and restricts, among other items, the payment of dividends, certain additional indebtedness, sale of assets, loans and certain investments and mergers. The Revolver also contains certain financial covenants, which require the maintenance of a minimum current ratio and a minimum debt coverage ratio, as defined. The Company was in compliance with these

covenants as of March 31, 2013. The Revolver is collateralized by substantially all the Company's assets and matures on September 15, 2016. As of March 31, 2013, there was \$191.5 million outstanding and a \$48.0 million letter of credit issued under the Revolver, and the Company had \$85.5 million available for future borrowings under the Revolver.

6. COMMITMENTS AND CONTINGENT LIABILITIES:

Contingent Liabilities From time to time, the Company is involved in various commercial and regulatory claims, litigation and other legal proceedings that arise in the ordinary course of its business. The Company assesses these claims in an effort to determine the degree of probability and range of possible loss for potential accrual in its consolidated financial statements. In accordance with ASC 450, *Contingencies*, an accrual is recorded for a loss contingency when its occurrence is probable and damages can be reasonably estimated based on the anticipated most likely outcome or the minimum amount within a range of possible outcomes. Because legal proceedings are inherently unpredictable and unfavorable resolutions could occur, assessing contingencies is highly subjective and requires judgments about uncertain future events. When evaluating contingencies, the Company may be unable to provide a meaningful estimate due to a number of factors, including the procedural status of the matter in question, the presence of complex or novel legal theories, and/or the ongoing discovery and development of information important to the matters. The Company regularly reviews contingencies to determine the adequacy of its accruals and related disclosures.

Environmental The Company is engaged in oil and gas exploration and production and may become subject to certain liabilities as they relate to environmental cleanup of well sites or other environmental restoration procedures as they relate to the drilling of oil and gas wells and associated operations. Relative to the Company's acquisition of existing or previously drilled well bores, the Company may not be aware of what environmental safeguards were taken at the time such wells were drilled or during such time the wells were operated. Should it be determined that a liability exists with respect to any environmental cleanup or restoration, the liability to cure such a violation could fall upon the Company. Management believes its properties are operated in conformity with local, state and federal regulations. No claims have been made, nor is the Company aware of any uninsured liability which the Company may have, as it relates to any environmental cleanup, restoration or the violation of any rules or regulations.

Legal Proceedings From time to time, the Company is subject to legal proceedings and claims that arise in the ordinary course of business. Like other gas and oil producers and marketers, the Company's operations are subject to extensive and rapidly changing federal and state environmental, health and safety and other laws and regulations governing air emissions, wastewater discharges and solid and hazardous waste management activities. As of the date of this filing, there are no material pending or overtly threatened legal actions against the Company of which it is aware.

Commitments The Company rents office facilities under various noncancelable operating lease agreements. The Company's noncancelable operating lease agreements result in total future minimum noncancelable lease payments are presented below. The Company also has principal payment requirements for its line of credit which is also presented below:

	Office Leases	Wattenberg Field Lease Acquisition	Line of Credit	Total
2013	1,058,711	11,999,877		13,058,588
2014	1,496,803	11,999,877		13,496,680
2015	1,539,865	11,999,877		13,539,742
2016	1,185,363	11,999,877	191,500,000	204,685,240
2017 and thereafter	1,391,894			1,391,894
	\$ 6,672,636	\$ 47,999,508	\$ 191,500,000	\$ 246,172,144

7. FAIR VALUE MEASUREMENTS AND ASSET RETIREMENT OBLIGATION:

The Company defines fair value under a framework for using fair value to measure assets and liabilities, and expands disclosures about fair value measurements. A hierarchy for inputs is used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are inputs that market participants would use in pricing the asset or liability developed based on market data obtained from sources independent of the Company. Unobservable inputs are inputs that reflect the Company's assumptions of what market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. The hierarchy is broken down into three levels based on the reliability of the inputs as follows:

Level 1: Quoted prices are available in active markets for identical assets or liabilities;

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Level 2: Quoted prices in active markets for similar assets and liabilities that are observable for the asset or liability; or

Level 3: Unobservable pricing inputs that are generally less observable from objective sources, such as discounted cash flow models or valuations.

ASC 820 requires financial assets and liabilities to be classified based on the lowest level of input that is significant to the fair value measurement. The Company's assessment of the significance of a particular input to the fair value measurement requires judgment, and may affect the valuation of the fair value of assets and liabilities and their placement within the fair value hierarchy levels.

The Company's commodity swaps are valued using a market approach based on several factors, including observable transactions for the same or similar commodity options using the NYMEX futures index, and are designated a Level 2 within the valuation hierarchy. The Company's collars, which are designated as Level 3 within the valuation hierarchy, are also valued using a market approach, but are not validated by observable transactions with respect to volatility. As of March 31, 2013, four of the five counterparties in the Company's commodity derivative financial instruments are lenders on the Company's Senior Secured Revolving Credit facility (Note 6).

The following tables present the Company's financial assets and liabilities that were accounted for at fair value on a recurring basis as of March 31, 2013 and December 31, 2012 by level within the fair value hierarchy:

	Fair Value Measurements Using		
	Level 1	Level 2	Level 3
<u>March 31, 2013</u>			
Commodity derivative assets	\$	\$ 250,220	\$ 980,968
Commodity derivative liabilities	\$	\$ 6,723,170	\$ 2,346,914

<u>December 31, 2012</u>			
Commodity derivative assets	\$	\$ 450,872	\$ 1,727,192
Commodity derivative liabilities	\$	\$ 5,173,140	\$ 1,235,168

The following table reflects the activity for the commodity derivatives measured at fair value using Level 3 inputs during the period from January 1, 2013 through March 31, 2013:

	Derivative Asset	Derivative Liability
Beginning balance	\$ 1,727,192	\$ 1,235,168
Net (decrease) increase in fair value	(2,021,643)	69,269
Net realized (gain) on settlement		430
New derivatives	1,275,419	1,042,047
Ending balance	\$ 980,968	\$ 2,346,914

As of March 31, 2013, the Company's derivative commodity contracts are as follows:

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Contract Term	Notional Volume	Average Floor	Average Ceiling	Average Fixed Price per Unit
April 1 - December 31, 2013	3,164 Bbl./Day	\$ 88.38	\$ 101.58	
January 1 - December 31, 2014	3,589 Bbl./Day	\$ 86.72	\$ 95.53	
April 1 - December 31, 2013	2,809 Bbl./Day			\$ 88.69
January 1 - December 31, 2014	625 Bbl./Day			\$ 90.80
April 1 - October 31, 2013	504 MMBTU/Day			\$ 6.40

The table below contains a summary of all the Company's derivative positions reported on the consolidated balance sheet as of March 31, 2013:

Derivatives	Balance Sheet Location	Fair Value
<i>Asset</i>		
Commodity derivatives	Current derivative assets	\$ 696,195
Commodity derivatives	Long-term derivative assets	534,993
<i>Liability</i>		
Commodity derivatives	Current derivative liability	(8,145,564)
Commodity derivatives	Long-term derivative liability	(924,520)
Total		\$ (7,838,896)

Realized gains and losses on commodity derivatives and the unrealized gains or losses are recorded in other income (expense).

Proved Oil and Gas Properties Proved oil and gas property costs are evaluated for impairment and reduced to fair value when there is an indication that the carrying costs exceed the sum of the undiscounted cash flows. The Company uses Level 3 inputs and the income valuation technique, which converts future amounts to a single present value amount, to measure the fair value of proved properties through an application of discount rates and price forecasts selected by the Company's management. The calculation of the discount rate is a significant management estimate based on the best information available and estimated to be 10 percent for the three months ended March 31, 2013 and 2012. Management believes that the discount rate is representative of current market conditions and reflects the following factors: estimate of future cash payments, expectations of possible variations in the amount and/or timing of cash flows, the risk premium, and nonperformance risk. The price forecast is based on New York Mercantile Exchange (NYMEX) strip pricing, adjusted for basis differentials. Future operating costs are also adjusted as deemed appropriate for these estimates.

Asset Retirement Obligation Upon completion of wells and natural gas plants, the Company records an asset retirement obligation at fair value using Level 3 assumptions.

8. STOCKHOLDERS EQUITY:

Management Incentive Plan On December 23, 2010, the Company established the Management Incentive Plan (the Plan or MIP) for the benefit of certain employees, officers and other individuals performing services for the Company. 10,000 shares of Class B common stock were available under the Plan and these shares were converted into 437,787 shares of restricted common stock upon completion of the IPO. The conversion rate was determined based on a formula factoring in the rate of return to the pre-IPO common stockholders. The 437,787 shares of common stock that were granted to employees were valued at \$17.00 per share on the grant date and vest over a three year period. Non-cash compensation expense of approximately \$569,000 was recorded during the three months ended March 31, 2013 and there was approximately \$3,896,000 of unrecognized compensation costs related to the unvested restricted common stock granted under the MIP. That cost is expected to be recognized over a period of 1.75 years. The MIP has been terminated such that there will be no future grants thereunder.

BCEC Investment Trust The BCEC Investment Trust was formed to hold shares of our common stock received by Bonanza Creek Energy Company, LLC, our predecessor, in connection with our December 23, 2010 corporate restructuring. On February 5, 2013, 13,825 previously issued shares of our common stock that were fully vested and held by the BCE