

Diamondback Energy, Inc.  
Form 424B5  
November 08, 2013  
**Table of Contents**

Filed Pursuant to Rule 424(b)(5)  
SEC File No. 333-192099

PROSPECTUS SUPPLEMENT TO PROSPECTUS DATED NOVEMBER 5, 2013

2,000,000 Shares

## Diamondback Energy, Inc.

### Common Stock

The selling stockholder identified in this prospectus supplement is offering 2,000,000 shares of our common stock. We will not receive any proceeds from the sale of shares of our common stock in this offering.

Our common stock is listed on the NASDAQ Global Select Market under the symbol FANG. The last reported sales price of our common stock on the NASDAQ Global Select Market on November 6, 2013 was \$53.46 per share.

The underwriters have an option to purchase a maximum of 300,000 additional shares of our common stock from the selling stockholder at the public offering price less underwriting discounts and commissions.

**We are an emerging growth company under applicable Securities and Exchange Commission rules and are subject to reduced public company reporting requirements. Investing in our common stock involves risks. See Risk Factors beginning on page S-19.**

	Price to Public	Underwriting Discounts and Commissions(1)	Proceeds to Selling Stockholder
Per Share	\$53.46	\$2.071575	\$51.388425
Total	\$106,920,000	\$4,143,150	\$102,776,850

(1) We refer you to *Underwriting* beginning on page S-58 of this prospectus supplement for additional information regarding underwriting compensation.

Delivery of the shares of common stock will be made on or about November 13, 2013.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus supplement is truthful or complete. Any representation to the contrary is a criminal offense.

**Credit Suisse**

**Raymond James**  
**Simmons & Company International**

**Suntrust Robinson Humphrey**

**Tudor, Pickering, Holt & Co.**

**Wells Fargo Securities**

**Scotiabank / Howard Weil**

**Sterne Agee**

**Capital One Securities**

**IBERIA Capital Partners L.L.C.**

**Brean Capital**

**Miller Tabak**

**Wunderlich Securities**

The date of this prospectus supplement is November 6, 2013.

**Table of Contents**

**TABLE OF CONTENTS**  
**PROSPECTUS SUPPLEMENT**

	<b>Page</b>
<u>ABOUT THIS PROSPECTUS SUPPLEMENT</u>	S-1
<u>PROSPECTUS SUPPLEMENT SUMMARY</u>	S-2
<u>RISK FACTORS</u>	S-19
<u>CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS</u>	S-48
<u>USE OF PROCEEDS</u>	S-50
<u>DIVIDEND POLICY</u>	S-50
<u>CAPITALIZATION</u>	S-51
<u>PRICE RANGE OF COMMON STOCK</u>	S-52
<u>SELLING STOCKHOLDER</u>	S-53
<u>MATERIAL U.S. FEDERAL INCOME AND ESTATE TAX CONSIDERATIONS FOR NON-U.S. HOLDERS</u>	S-54
<u>UNDERWRITING</u>	S-58
<u>LEGAL MATTERS</u>	S-63
<u>EXPERTS</u>	S-63
<u>INFORMATION INCORPORATED BY REFERENCE</u>	S-63
<u>GLOSSARY OF OIL AND NATURAL GAS TERMS</u>	A-1
<u>RESERVE REPORT OF RYDER SCOTT COMPANY, L.P.</u>	B-1

**PROSPECTUS**

	<b>Page</b>
<u>ABOUT THIS PROSPECTUS</u>	ii
<u>CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS</u>	ii
<u>OUR COMPANY</u>	1
<u>ABOUT SUBSIDIARY GUARANTORS</u>	1
<u>RISK FACTORS</u>	1
<u>USE OF PROCEEDS</u>	6
<u>RATIO OF EARNINGS (DEFICIT) TO FIXED CHARGES</u>	7
<u>SELLING SECURITY HOLDERS</u>	8
<u>DESCRIPTION OF DEBT SECURITIES AND GUARANTEES</u>	11
<u>DESCRIPTION OF CAPITAL STOCK</u>	29
<u>PLAN OF DISTRIBUTION</u>	32
<u>WHERE YOU CAN FIND MORE INFORMATION</u>	35
<u>INFORMATION INCORPORATED BY REFERENCE</u>	35
<u>LEGAL MATTERS</u>	36
<u>EXPERTS</u>	36

**Table of Contents**

**ABOUT THIS PROSPECTUS SUPPLEMENT**

This document is in two parts. The first part is this prospectus supplement, which describes the specific terms of this offering. The second part, the accompanying prospectus, gives more general information, some of which may not apply to this offering. You should read the entire prospectus supplement, as well as the accompanying prospectus and the documents incorporated by reference that are described under *Where You Can Find More Information* in the accompanying prospectus and *Information Incorporated by Reference* in this prospectus supplement. In the event that the description of this offering varies between this prospectus supplement and the accompanying prospectus, you should rely on the information contained in this prospectus supplement.

**You should rely only on the information contained or incorporated by reference in this prospectus supplement and the accompanying prospectus or to which we have referred you. We have not, and the selling stockholder and the underwriters have not, authorized any other person to provide you with information different from that contained in this prospectus supplement and the accompanying prospectus. If anyone provides you with different or inconsistent information, you should not rely on it. You should read this entire prospectus supplement and the accompanying prospectus, as well as the documents incorporated by reference herein and therein that are described under *Where You Can Find More Information* in the accompanying prospectus and *Information Incorporated by Reference* in this prospectus supplement. The selling stockholder and the underwriters are only offering to sell, and only seeking offers to buy, shares of our common stock in jurisdictions where offers and sales are permitted.**

**The information contained in this prospectus supplement and the accompanying prospectus or in any document incorporated herein or therein is accurate and complete only as of the date hereof or thereof, respectively, regardless of the time of delivery of this prospectus supplement and the accompanying prospectus or of any sale of our common stock by the selling stockholder or the underwriters. Our business, financial condition, results of operations and prospects may have changed since those dates.**

**Industry and Market Data**

This prospectus supplement includes industry data and forecasts that we obtained from internal company surveys, publicly available information and industry publications and surveys. Our internal research and forecasts are based on management's understanding of industry conditions, and such information has not been verified by independent sources. Industry publications and surveys generally state that the information contained therein has been obtained from sources believed to be reliable.

Unless the context otherwise requires, the information in this prospectus supplement assumes that the underwriters will not exercise their option to purchase additional shares.

## **Table of Contents**

### **PROSPECTUS SUPPLEMENT SUMMARY**

*Diamondback Energy, Inc., or Diamondback, was incorporated in Delaware on December 30, 2011, and did not conduct any material business operations until October 11, 2012 when Diamondback merged with its parent entity, Diamondback Energy LLC, with Diamondback continuing as the surviving entity. Prior to the merger, Diamondback Energy LLC was a holding company and did not conduct any material business operations other than its ownership of Diamondback's common stock and the membership interests in Diamondback O&G LLC, or Diamondback O&G (formerly known as Windsor Permian LLC, or Windsor Permian). As a result of the merger, Windsor Permian became a wholly-owned subsidiary of Diamondback. Also on October 11, 2012, Wexford Capital LP, or Wexford, our equity sponsor, caused all of the outstanding equity interests in Windsor UT LLC, or Windsor UT, to be contributed to Windsor Permian prior to the merger in a transaction we refer to as the Windsor UT Contribution. In this prospectus supplement, the combined consolidated historical financial information, operational data and reserve information for Diamondback present the assets and liabilities of Diamondback and its subsidiaries, including Windsor UT, as if they were combined for all periods presented. Although the financial and other information is reported on a combined consolidated basis, such presentation is not necessarily indicative of the results that would have been obtained if Diamondback had owned and operated such subsidiaries from their inception. In this prospectus supplement, we refer to Diamondback, together with its consolidated subsidiaries, as we, us, our or the Company. This prospectus supplement includes certain terms commonly used in the oil and natural gas industry, which are defined elsewhere in this prospectus supplement in the Glossary of Oil and Natural Gas Terms.*

### **Diamondback Energy, Inc.**

#### **Overview**

We are an independent oil and natural gas company currently focused on the acquisition, development, exploration and exploitation of unconventional, onshore oil and natural gas reserves in the Permian Basin in West Texas. This basin, which is one of the major producing basins in the United States, is characterized by an extensive production history, a favorable operating environment, mature infrastructure, long reserve life, multiple producing horizons, enhanced recovery potential and a large number of operators.

We began operations in December 2007 with our acquisition of 4,174 net acres with production at the time of acquisition of approximately 800 BOE/d from 34 gross (16.8 net) wells in the Permian Basin. Subsequently, we have acquired approximately 61,976 additional net acres, which brought our total net acreage position in the Permian Basin to 66,150 net acres at September 30, 2013. We are the operator of approximately 99% of this acreage. As of September 30, 2013, we had drilled 250 gross (226 net) wells, and participated in an additional 22 gross (nine net) non-operated wells, in the Permian Basin. Of these 272 gross (235 net) wells, 259 were completed as producing wells and 13 were in various stages of completion. As discussed in more detail under *Recent Developments*, we recently completed acquisitions of mineral interests underlying approximately 15,000 gross (12,500 net) acres in Midland County, Texas and approximately 11,150 additional net (13,900 gross) leasehold acres in Martin County, Texas and Dawson County, Texas, which acquisitions we refer to in this prospectus supplement as the recently completed acquisitions. In the aggregate, as of September 30, 2013, we held interests in 343 gross (299 net) producing wells in the Permian Basin, including 50 gross (41 net) producing wells acquired in the recently completed acquisitions.

Our activities are primarily focused on the Clearfork, Spraberry, Wolfcamp, Cline, Strawn and Atoka formations, which we refer to collectively as the Wolfberry play. The Wolfberry play is characterized by high oil and liquids rich natural gas, multiple vertical and horizontal target horizons, extensive production history, long-lived reserves and high drilling success rates. The Wolfberry play is a modification and extension of the

## Table of Contents

Spraberry play, the majority of which is designated in the Spraberry trend area field. According to the U.S. Energy Information Administration, the Spraberry trend area ranked as the second largest oilfield in the United States, based on 2009 reserves.

As of September 1, 2013, our estimated proved oil and natural gas reserves were 47,135 MBOE based on a reserve report prepared by our internal reserve engineers and audited by Ryder Scott Company, L.P., or Ryder Scott, our independent reserve engineer. Of these reserves, approximately 39.0% are classified as proved developed producing, or PDP. Proved undeveloped, or PUD, reserves included in this estimate are from 279 vertical gross well locations on 40-acre spacing and 11 gross horizontal well locations. As of September 1, 2013, these proved reserves were approximately 64% oil, 21% natural gas liquids and 15% natural gas. As of September 1, 2013, our estimated proved reserves, pro forma for the recently completed acquisitions, were 57,876 MBOE based on our reserve report audited by Ryder Scott. Of these reserves, approximately 43.0% are classified as PDP, and approximately 65% were oil, 20% were natural gas liquids and 15% were natural gas.

Based on our evaluation of applicable geologic and engineering data as of September 30, 2013, we had 857 identified potential vertical drilling locations on 40-acre spacing, an additional 1,128 identified potential vertical drilling locations based on 20-acre downspacing and we had also identified 1,281 potential horizontal drilling locations in multiple horizons on our acreage. We intend to continue to grow our reserves and production through development drilling, exploitation and exploration activities on this multi-year project inventory of identified potential drilling locations and through additional acquisitions that meet our strategic and financial objectives, targeting oil-weighted reserves. The gross estimated ultimate recoveries, or EURs, from our future PUD vertical wells on 40-acre spacing, as estimated by Ryder Scott as of December 31, 2012, range from 102 MBOE per well, consisting of 46 MBbls of oil, 151 MMcf of natural gas and 31 MBbls of natural gas liquids, to 158 MBOE per well, consisting of 112 MBbls of oil, 114 MMcf of natural gas and 27 MBbls of natural gas liquids, with an average EUR per well of 133 MBOE, consisting of 91 MBbls of oil, 101 MMcf of natural gas and 25 MBbls of natural gas liquids. We also intend to continue to refine our drilling pattern and completion techniques in an effort to increase our average EUR per well from vertical wells drilled on 40-acre spacing. We currently anticipate a reduction of approximately 20% in our EURs from vertical wells drilled on 20-acre spacing.

The following table summarizes certain operating information of our properties. The information is as of September 30, 2013 except as otherwise noted.

Basin	Net Acreage	Average Working Interest	Identified Potential Drilling Locations(1)		2013 Budget			Estimated Net Proved Reserves at September 1, 2013(2)		Average Daily Production (BOE/d)(5)
			Gross	Net	Gross Wells(3)	Net Wells(3)	Capex (In millions)	MBOE	% Developed	
Permian	66,150	86%	2,138	1,795	76	65	\$ 290.0 \$320.0	47,135	40.3	10,500

- (1) Reflects 857 gross (800 net) identified potential vertical drilling locations on 40-acre spacing, and 1,281 gross (994 net) identified potential horizontal drilling locations ranging in length from 4,500 feet to 9,500 feet in various horizons from the Clearfork to the Cline based on our evaluation of applicable geologic and engineering data. Some of these horizontal drilling locations require pooling acreage with other operators. We have an additional 1,128 gross (1,031 net) identified potential vertical drilling locations based on 20-acre downspacing. The drilling locations on which we actually drill wells will ultimately depend on the availability of capital, regulatory approvals, oil and natural gas prices, costs, actual drilling results and other factors.
- (2) Our estimated proved reserves as of September 1, 2013, pro forma for the recently completed acquisitions, were 57,876 MBOE, of which 43% were developed. The aggregate estimated proved reserves of 10,741 MBOE attributable to the recently completed acquisitions are derived as follows: (a) Martin County acreage: estimated proved reserves of 1,199 MBOE (73% oil), of which 93% are developed; (b) Dawson County acreage: estimated proved reserves of 907 MBOE (81% oil), of which 95% are developed; and (c) mineral interests in Midland County: estimated proved reserves of 8,635 MBOE (66% oil), of which 53% are developed.
- (3) Includes 38 gross (33 net) operated vertical wells, 33 gross (30 net) operated horizontal wells, two gross (one net) non-operated vertical wells and three gross (one net) non-operated horizontal well.
- (5) During the period October 1, 2013 to October 26, 2013.

---

## **Table of Contents**

### **Our Business Strategy**

Our business strategy is to increase stockholder value through the following:

**Grow production and reserves by developing our oil-rich resource base.** We intend to actively drill and develop our acreage base in an effort to maximize its value and resource potential. Through the conversion of our undeveloped reserves to developed reserves, we will seek to increase our production, reserves and cash flow while generating favorable returns on invested capital. As of September 30, 2013, we had 857 identified potential vertical drilling locations and 1,281 identified potential horizontal drilling locations on our acreage in the Permian Basin based on 40-acre spacing and an additional 1,128 vertical locations based on 20-acre downspacing. We were operating a one vertical rig drilling program as of September 30, 2013, as we increase our focus on horizontal wells.

**Focus on increasing hydrocarbon recovery through horizontal drilling and increased well density.** We believe there are opportunities to target various intervals in the Wolfberry play with horizontal wells. Our initial horizontal focus has been on the Wolfcamp B interval in Midland and Upton Counties. Our first two horizontal wells were completed in 2012 and had lateral lengths of less than 4,000 feet. Subsequently, through September 30, 2013 we drilled 28 gross (25 net) additional horizontal wells as operator and participated in four gross (two net) additional horizontal well as a non-operator, all of which are Wolfcamp B wells except for one Clearfork well, one Middle Spraberry well and one Lower Spraberry well. These wells have had lateral lengths ranging from approximately 4,000 feet to 10,300 feet. In the future, we expect that our optimal average lateral lengths will be in the range of 7,500 feet to 8,000 feet, although the actual length will vary depending on the layout of our acreage and other factors. We expect that longer lateral lengths will result in higher per well recoveries and lower development costs per BOE. During the three months ended September 30, 2013, we were able to drill our horizontal wells with approximately 7,500 foot lateral lengths to total depth in an average of 14 days, with one well reaching TD in 12 days. Our future horizontal drilling program is designed to further capture the upside potential that may exist on our properties. We also believe our horizontal drilling program may significantly increase our recoveries per section as compared to drilling vertical wells alone. Horizontal drilling may also be economical in areas where vertical drilling is currently not economical or logistically viable. In addition, we believe increased well density opportunities may exist across our acreage base. We closely monitor industry trends with respect to higher well density, which could increase the recovery factor per section and enhance returns since infrastructure is typically in place. We were using three horizontal drilling rigs as of September 30, 2013, we have added a fourth horizontal rig in the fourth quarter of 2013, and are currently contemplating adding one or two additional horizontal drilling rigs in 2014.

**Leverage our experience operating in the Permian Basin.** Our executive team, which has an average of over 25 years of industry experience per person and significant experience in the Permian Basin, intends to continue to seek ways to maximize hydrocarbon recovery by refining and enhancing our drilling and completion techniques. The time to reach total depth, or TD, for our vertical Wolfberry wells decreased from an average of 18 days during the second quarter of 2011 to an average of 14 days during the period from April 2012 through August 2012 to an average of 11 days during the fourth quarter of 2012 to an average of 7.6 days during the third quarter of 2013. Our focus on efficient drilling and completion techniques, and the reduction in time to reach TD, is an important part of the continuous drilling program we have planned for our significant inventory of identified potential drilling locations. We believe that the experience of our executive team in deviated and horizontal drilling and completions should help reduce the execution risk normally associated with these complex well paths. In addition, our completion techniques are continually evolving as we evaluate hydraulic fracturing practices that may potentially increase recovery and reduce completion costs. Our executive team regularly evaluates our operating results against those of other operators in the area in an effort to benchmark our performance against the best performing operators and evaluate and adopt best practices.

## **Table of Contents**

**Enhance returns through our low cost development strategy of resource conversion, capital allocation and continued improvements in operational and cost efficiencies.** In the current commodity price environment, our oil and liquids rich asset base provides attractive returns. Our acreage position in the Wolfberry play is generally in contiguous blocks, which allows us to develop this acreage efficiently with a manufacturing strategy that takes advantage of economies of scale and uses centralized production and fluid handling facilities. We are the operator of approximately 99% of our acreage. This operational control allows us to more efficiently manage the pace of development activities and the gathering and marketing of our production and control operating costs and technical applications, including horizontal development. Our average 86% working interest in our acreage allows us to realize the majority of the benefits of these activities and cost efficiencies.

**Pursue strategic acquisitions with exceptional resource potential.** We have a proven history of acquiring leasehold positions in the Permian Basin that have substantial oil-weighted resource potential and can achieve attractive returns on invested capital. Our executive team, with its extensive experience in the Permian Basin, has what we believe is a competitive advantage in identifying acquisition targets and a proven ability to evaluate resource potential. We regularly review acquisition opportunities and intend to pursue acquisitions that meet our strategic and financial targets. In September 2013, as discussed in more detail under *Recent Developments*, we acquired mineral interests underlying approximately 15,000 gross (12,500 net) acres in Midland County, Texas and approximately 11,150 additional net (13,900 gross) leasehold acres in Martin County, Texas and Dawson County, Texas.

**Maintain financial flexibility.** We seek to maintain a conservative financial position. Upon completion of our initial public offering in October 2012, we used a portion of the net proceeds from the offering to repay the entire balance outstanding under our revolving credit facility. On December 28, 2012, the borrowing base under our revolving credit facility was redetermined, resulting in an increase in our availability to \$135.0 million, and it was redetermined again on May 6, 2013, resulting in an increase in availability to \$180.0 million. We used a portion of the net proceeds of our May 2013 common stock offering to repay all borrowings outstanding under our revolving credit facility. Upon the completion on September 18, 2013 of our offering of \$450.0 million in aggregate principal amount of 7.625% senior notes due 2020, which we refer to in this prospectus supplement as the senior notes, our borrowing base was reduced to \$67.5 million. On November 1, 2013, our borrowing base was increased to \$225.0 million, all of which is currently available for borrowing.

### **Our Strengths**

We believe that the following strengths will help us achieve our business goals:

**Oil rich resource base in one of North America's leading resource plays.** All of our leasehold acreage is located in one of the most prolific oil plays in North America, the Permian Basin in West Texas. The majority of our current properties are well positioned in the core of the Wolfberry play. We believe that our historical vertical development success will be complemented with horizontal drilling locations that could ultimately translate into an increased recovery factor on a per section basis. Our production for the nine months ended September 30, 2013 was approximately 74% oil, 14% natural gas liquids and 12% natural gas. As of September 1, 2013, our pro forma estimated net proved reserves were comprised of approximately 65% oil and 20% natural gas liquids, which allows us to benefit from the currently more favorable pricing of oil and natural gas liquids as compared to natural gas.

**Multi-year drilling inventory in one of North America's leading oil resource plays.** We have identified a multi-year inventory of potential drilling locations for our oil-weighted reserves that we believe provides attractive growth and return opportunities. As of September 30, 2013, we had 857 identified potential vertical drilling locations based on 40-acre spacing and an additional 1,128 identified



## **Table of Contents**

potential vertical drilling locations based on 20-acre downspacing. We also believe that there are a significant number of horizontal locations that could be drilled on our acreage. Based on our initial results and those of other operators in the area to date, combined with our interpretation of various geologic and engineering data, we have identified 1,281 potential horizontal locations on our existing acreage. These locations exist across most of our acreage blocks and in multiple horizons. Of the 1,281 existing locations, 309 are in the Wolfcamp B horizon, with the remaining locations in either the Wolfcamp A, Clearfork, Middle Spraberry, Lower Spraberry, Wolfcamp C or Cline horizons. Our current horizontal location count is based on 880 foot spacing between wells in the Wolfcamp B horizon in Midland, Upton, Martin and Dawson Counties and in the Middle and Lower Spraberry in Midland County. For all other zones and areas, our horizontal location count is based on 1,320 foot spacing between wells. The ultimate inter-well spacing may be less than these amounts, which would result in a higher location count. Based on horizontal wells drilled to date, we currently estimate that EURs for our Wolfcamp B horizontal wells will be approximately 550 to 650 MBOE for lateral lengths averaging 7,500 feet. In addition, we have approximately 182 square miles of proprietary 3-D seismic data covering our acreage. This data facilitates the evaluation of our existing drilling inventory and provides insight into future development activity, including horizontal drilling opportunities and strategic leasehold acquisitions.

**Experienced, incentivized and proven management team.** Our executive team has an average of over 25 years of industry experience per person, most of which is focused on resource play development. This team has a proven track record of executing on multi-rig development drilling programs and extensive experience in the Permian Basin. In addition, our executive team has significant experience with both drilling and completing horizontal wells as well as horizontal well reservoir and geologic expertise, which will be of strategic importance as we expand our horizontal drilling activity. Prior to joining us, our Chief Executive Officer held management positions at Apache Corporation, Laredo Petroleum Holdings, Inc. and Burlington Resources.

**Favorable and stable operating environment.** We have focused our drilling and development operations in the Permian Basin, one of the oldest hydrocarbon basins in the United States, with a long and well-established production history and developed infrastructure. With approximately 380,000 wells drilled in the Permian Basin since the 1940s, we believe that the geological and regulatory environment is more stable and predictable, and that we are faced with less operational risks, in the Permian Basin as compared to emerging hydrocarbon basins.

**High degree of operational control.** We are the operator of approximately 99% of our Permian Basin acreage. This operating control allows us to better execute on our strategies of enhancing returns through operational and cost efficiencies and increasing ultimate hydrocarbon recovery by seeking to continually improve our drilling techniques, completion methodologies and reservoir evaluation processes. Additionally, as the operator of substantially all of our acreage, we retain the ability to adjust our capital expenditure program based on commodity price outlooks. This operating control also enables us to obtain data needed for efficient exploration of horizontal prospects.

**Financial flexibility to fund expansion.** We have a conservative balance sheet. We will seek to maintain financial flexibility to allow us to actively develop our drilling, exploitation and exploration activities in the Wolfberry play and maximize the present value of our oil-weighted resource potential. As of the date of this prospectus supplement, we had no borrowings outstanding under our revolving credit facility and available borrowing capacity of \$225.0 million.

### **Recent Developments**

*Midland County Mineral Interest Acquisition.* On September 19, 2013, we purchased mineral interests underlying approximately 15,000 gross (12,500 net) acres in Midland County, Texas in the Permian Basin for \$440.0 million, subject to certain adjustments. We are the operator of approximately 50% of the acreage

## **Table of Contents**

associated with these mineral interests. The mineral interests entitle us to receive an average 19.5% royalty interest on all production from this acreage with no additional future capital or operating expense required. As of September 1, 2013, there were 183 vertical wells and eight horizontal wells on this acreage and net production attributable to the acquired mineral interests was approximately 1,600 net BOE per day during June 2013. The acquisition price was funded with the net proceeds from our offering of senior notes discussed below under *Our History*. The free cash flow attributable to these mineral interests was approximately \$3.7 million in June 2013.

*Martin and Dawson County Leasehold Acquisitions.* In September 2013, we completed two separate acquisitions of additional leasehold interests in the Permian Basin from unrelated third party sellers for an aggregate purchase price of \$165.0 million, subject to certain adjustments. The first of these acquisitions closed on September 4, 2013 when we acquired certain assets located in northwestern Martin County, Texas, consisting of a 100% working interest (80% net revenue interest) in 4,506 gross and net acres, with 18 gross and net producing vertical wells and one well waiting on completion, an estimated 1,199 MBOE of proved developed reserves (including 88 MBOE attributable to one PDNP well) as of September 1, 2013 and 457 gross (365 net) BOE per day of production during July 2013. The second of these acquisitions closed on September 26, 2013, when we acquired certain assets located primarily in southwestern Dawson County, Texas, consisting of a 70% working interest (54% net revenue interest) in 9,390 gross (6,638 net) acres, with 32 gross (23 net) producing vertical wells, an estimated 907 MBOE of proved developed reserves (including 45 MBOE attributable to one PDNP well) as of September 1, 2013 and 777 gross (417 net) BOE per day of production during June 2013. These acquisitions were funded with a portion of the net proceeds from our August 2013 equity offering discussed below under *Our History*.

*Horizontal Wells.* During the three months ended September 30, 2013, we drilled 11 gross (9.7 net) horizontal wells with an average lateral length of 6,664 feet and participated in an additional three gross (one net) non-operated horizontal wells in the Permian Basin, primarily targeting the Wolfcamp B shale in Midland and Upton Counties. During this period, the cost of our 7,500 foot laterals averaged approximately \$7.2 million, down from \$7.6 million in the previous quarter, and averaged approximately 14 days from spud to TD, with one well reaching TD in 12 days.

Our third quarter 2013 horizontal wells include the following. The Sarah Ann 3814H well, a non-operated well in Midland County, is our first horizontal Middle Spraberry test well. It has recently come on production with a peak 24 hour initial production, or IP, rate of 733 BOE/d (90% oil) on electric submersible pump. The well was completed with a 5,041 foot lateral and a 16 stage frac, with early oil production rates comparable to the rates for Wolfcamp B wells. We believe this Middle Spraberry test well defines a new horizontal bench that has increased our identified potential Spraberry horizontal drilling locations to 360 gross (276 net) from 181 gross (139 net). The ST S 501H well in Midland County, completed with an 8,926 foot lateral and 36 stage frac, achieved a peak naturally flowing 24 hour IP rate of 1,033 BOE/d (90% oil). As of the date of this prospectus supplement, this well has flowed for 38 days, with average daily production in excess of 800 BOE/d for the last 30 days, which is encouraging since the natural flowback period is longer than any other horizontal well we have completed to date. We have typically experienced a significant increase in production rates from artificial lift. The ST NW 3602H well in Midland County, completed with a 5,020 foot lateral and a 21 stage frac, achieved a peak 24 hour IP rate of 1,069 BOE/d (94% oil) and is currently on gas lift. The ST NW 3603H well in Midland County, completed with a 5,105 foot lateral and a 21 stage frac, achieved a peak 24 hour IP rate of 934 BOE/d (89% oil) and is currently on gas lift. The ST 4105H and ST 4106H wells, drilled from our first two-well pad, were completed with a total drilling and completion cost for both wells in the range of \$10.5 million to \$11.0 million. These wells were completed using the zipper frac technique, which is a process of alternately fracture stimulating two wells located on the same drilling pad, with no operational issues. The ST 4105H was completed with a 5,041 foot lateral length and a 22 stage frac while the ST 4106H was completed with a 4,801 foot lateral length and a 21 stage frac. Flowback operations on both wells are underway. We anticipate drilling over 50% of our wells on multi-well pads in 2014, and shifting to three well pads.

---

**Table of Contents**

*Vertical Wells.* During the three months ended September 30, 2013, we drilled nine gross (7.7 net) vertical wells and did not participate in any non-operated vertical wells. We reached TD for these wells in an average of 7.6 days (a decrease from an average of eight days in the previous quarter), with four of these wells reaching TD in less than seven days. Our vertical well costs averaged \$1.9 million per well during the three months ended September 30, 2013.

*Capital Expenditures.* We currently estimate our 2013 capital budget for drilling and infrastructure will be approximately \$290.0 million to \$320.0 million. We intend to allocate these expenditures approximately as follows:

\$267.6 million for the drilling and completion of operated wells, of which approximately 65% is allocated to horizontal wells;

\$9.0 million for our participation in the drilling and completion of non-operated wells; and

\$25.0 million for the construction of infrastructure to support production, including investments in water disposal infrastructure and gathering line projects.

During the nine months ended September 30, 2013, our aggregate capital expenditures for drilling and infrastructure were \$190.1 million. We do not have a specific acquisition budget since the timing and size of acquisitions cannot be accurately forecasted. During the nine months ended September 30, 2013, we spent \$625.2 million on acquisitions.

In October 2013, our Board of Directors approved a 2014 capital expenditures budget for drilling and infrastructure in an estimated range of \$425.0 million to \$475.0 million, representing an increase of 48% over 2013. We estimate that, of these expenditures, approximately 85% will be spent on 65 to 75 gross operated horizontal wells focused in Midland, Andrews, Martin and Dawson Counties, 8% will be spent on 20 to 25 gross operated vertical wells (with an assumed average working interest of 90%) focused in Midland County, 5% will be spent on infrastructure and 2% will be spent on non-operated drilling. The amount and timing of these capital expenditures is largely discretionary and within our control. We could choose to defer a portion of these planned capital expenditures depending on a variety of factors, including but not limited to the success of our drilling activities, prevailing and anticipated prices for oil and natural gas, the availability of necessary equipment, infrastructure and capital, the receipt and timing of required regulatory permits and approvals, seasonal conditions, drilling and acquisition costs and the level of participation by other interest owners.

Based upon current oil and natural gas price expectations for 2014, we believe that our cash flow from operations, proceeds from our September 2013 offering of senior notes and borrowings under our revolving credit facility will be sufficient to fund our operations through year-end 2014. However, future cash flows are subject to a number of variables, including the level of oil and natural gas production and prices, and significant additional capital expenditures will be required to more fully develop our properties. Further, our 2014 capital expenditure budget does not allocate any funds for leasehold interest and property acquisitions.

We monitor and adjust our projected capital expenditures in response to success or lack of success in drilling activities, changes in prices, availability of financing, drilling and acquisition costs, industry conditions, the timing of regulatory approvals, the availability of rigs, contractual obligations, internally generated cash flow and other factors both within and outside our control. If we require additional capital, we may seek such capital through traditional reserve base borrowings, joint venture partnerships, production payment financing, asset sales, offerings of debt and or equity securities or other means. We cannot assure you that the needed capital will be available on acceptable terms or at all. If we are unable to obtain funds when needed or on acceptable terms, we may be required to curtail our drilling programs, which could result in a loss of acreage through lease expirations. In addition, we may not be able to complete acquisitions that may be favorable to us or finance the capital expenditures necessary to replace our reserves.

## **Table of Contents**

### **Risk Factors**

Investing in our common stock involves risks that include the speculative nature of oil and natural gas exploration, competition, volatile oil and natural gas prices and other material factors. You should read carefully the section entitled *Risk Factors* in this prospectus supplement and the accompanying prospectus for an explanation of these risks before investing in our common stock. In particular, the following considerations may offset our competitive strengths or have a negative effect on our strategy or operating activities, which could cause a decrease in the price of our common stock and a loss of all or part of your investment:

Our business is difficult to evaluate because of our limited operating history.

Difficulties managing the growth of our business may adversely affect our financial condition and results of operations.

Failure to develop our undeveloped acreage could adversely affect our future cash flow and income.

Our exploration and development operations require substantial capital that we may be unable to obtain, which could lead to a loss of properties and a decline in our reserves.

Our future success depends on our ability to find, develop or acquire additional oil and natural gas reserves.

The volatility of oil and natural gas prices due to factors beyond our control greatly affects our profitability.

Our estimated reserves are based on many assumptions that may turn out to be inaccurate. Any material inaccuracies in these reserve estimates or underlying assumptions will materially affect the quantities and present values of our reserves.

Our producing properties are located in the Permian Basin of West Texas, making us vulnerable to risks associated with a concentration of operations in a single geographic area. In addition, we have a large amount of proved reserves attributable to a small number of producing horizons within this area.

We depend upon several significant purchasers for the sale of most of our oil and natural gas production. The loss of one or more of these purchasers could limit our access to suitable markets for the oil and natural gas we produce.

Our operations are subject to various governmental regulations which require compliance that can be burdensome and expensive.

Any failure by us to comply with applicable environmental laws and regulations, including those relating to hydraulic fracturing, could result in governmental authorities taking actions that adversely affect our operations and financial condition.

Our operations are subject to operational hazards for which we may not be adequately insured.

## Edgar Filing: Diamondback Energy, Inc. - Form 424B5

Our failure to successfully identify, complete and integrate future acquisitions of properties or businesses could reduce our earnings and slow our growth.

Our two largest stockholders control a significant percentage of our common stock and their interests may conflict with yours. For a discussion of other considerations that could negatively affect us, see *Risk Factors* beginning on page S-19 and *Cautionary Note Regarding Forward-Looking Statements* on page S-48 of this prospectus supplement.

S-9

## **Table of Contents**

### **Our Equity Sponsor**

We were formed by our equity sponsor, Wexford Capital LP, or Wexford, which is a Greenwich, Connecticut-based SEC-registered investment advisor with approximately \$4.9 billion under management as of December 31, 2012. Wexford has made public and private equity investments in many different sectors and has particular expertise in the energy and natural resources sector. As of the date of this prospectus supplement, Wexford beneficially owned approximately 25.0% of our common stock. As a result, Wexford exercises significant control over all matters requiring stockholder approval, including the election of directors, changes to our organizational documents and significant corporate transactions. In connection with our initial public offering in October 2012, we entered into an advisory services agreement with Wexford under which Wexford provides us with financial and strategic advisory services related to our business. We are also party to certain other agreements with Wexford and its affiliates. For a description of the advisory services agreement and other agreements with Wexford and its affiliates, see *Certain Relationships and Related Party Transactions* in our definitive proxy statement on Schedule 14A, which information is incorporated by reference herein. Although our management believes that the terms of these related party agreements are reasonable, it is possible that we could have negotiated more favorable terms for such transactions with unrelated third parties. The existence of these related party agreements may give Wexford the ability to further influence and maintain control over many matters affecting us.

### **Our History**

Diamondback was incorporated in Delaware on December 30, 2011, and did not conduct any material business operations until October 11, 2012 when Diamondback merged with its parent entity, Diamondback Energy LLC, with Diamondback continuing as the surviving entity. Prior to the merger, Diamondback Energy LLC was a holding company and did not conduct any material business operations other than its ownership of Diamondback's common stock and the membership interests in Windsor Permian LLC, or Windsor Permian. As a result of the merger, Windsor Permian became a wholly-owned subsidiary of Diamondback. Also on October 11, 2012, Wexford, our equity sponsor, caused all of the outstanding equity interests in Windsor UT to be contributed to Windsor Permian prior to the merger in a transaction we refer to as the

Windsor UT Contribution. The Windsor UT Contribution was treated as a combination of entities under common control with assets and liabilities transferred at their carrying amounts in a manner similar to a pooling of interests. The operations of Windsor Permian and Windsor UT, as limited liability companies, were not subject to federal income taxes. On the date of the merger, a corresponding first day tax expense to net income from continuing operations was recorded to establish a net deferred tax liability for differences between the tax and book basis of Diamondback's assets and liabilities. This charge was \$54,142,000. We refer to the historical results of Windsor Permian and Windsor UT prior to October 11, 2012 as our Predecessors.

Immediately after the merger on October 11, 2012, we acquired from Gulfport Energy Corporation, or Gulfport, all of Gulfport's oil and natural gas interests in the Permian Basin, which we refer to as the Gulfport properties, in exchange for shares of our common stock and a promissory note, in a transaction we refer to as the Gulfport transaction. The Gulfport transaction was treated as a business combination accounted for under the acquisition method of accounting with the identifiable assets and liabilities recognized at fair value on the date of transfer. For more information regarding the Gulfport transaction, see *Certain Relationships and Related Party Transactions* in our definitive proxy statement on Schedule 14A, which information is incorporated by reference herein.

On October 17, 2012, we completed our initial public offering of 14,375,000 shares of common stock, which included 1,875,000 shares of common stock issued pursuant to an option to purchase additional shares exercised by the underwriters. The stock was priced at \$17.50 per share and we received net proceeds of approximately \$234.1 million from the sale of these shares of common stock, net of offering expenses and underwriting discounts and commissions.

---

## **Table of Contents**

On May 21, 2013, we completed an underwritten primary public offering of 5,175,000 shares of common stock, including 675,000 shares of common stock issued pursuant to an option to purchase additional shares granted to the underwriters, which offering we refer to in this prospectus supplement as the May 2013 equity offering. The stock was sold to the public at \$29.25 per share and we received net proceeds of approximately \$144.4 million from the sale of these shares of common stock, net of offering expenses and underwriting discounts and commissions.

On June 24, 2013, Gulfport and certain entities controlled by Wexford completed an underwritten secondary public offering of 6,000,000 shares of our common stock and, on July 5, 2013, the underwriters purchased an additional 869,222 shares of our common stock from these selling stockholders pursuant to an option to purchase such additional shares granted to the underwriters. The shares were sold to the public at \$34.75 per share and the selling stockholders received all proceeds from the sale of their shares after deducting the underwriters' discounts and commissions. We refer to this offering in this prospectus supplement as the June 2013 secondary equity offering.

In August 2013, we completed an underwritten primary public offering of 4,600,000 shares of our common stock, including 600,000 shares of our common stock pursuant to an option to purchase additional shares that we granted to the underwriters. The public offering price for the shares sold in this offering, which we refer to in this prospectus supplement as the August 2013 equity offering, was \$40.25 per share, and we received net proceeds of approximately \$177.4 million, after underwriting discounts and commissions and estimated expenses.

On September 18, 2013, we completed an offering of \$450.0 million in aggregate principal amount of 7.625% senior unsecured notes due 2021, which we refer to in this prospectus supplement as the senior notes. The senior notes bear interest at the rate of 7.625% per annum, payable semi-annually, in arrears on April 1 and October 1 of each year, commencing on April 1, 2014, and will mature on October 21, 2021. The senior notes are fully and unconditionally guaranteed by our subsidiaries. The net proceeds from the offering of the senior notes were used to fund the acquisition of mineral interests underlying approximately 15,000 gross (12,500 net) acres in Midland County, Texas in the Permian Basin described above under *Recent Developments*.

## **Emerging Growth Company**

We are, and through December 31, 2013 will remain, an emerging growth company within the meaning of the federal securities laws. For as long as we are an emerging growth company, we will not be required to comply with certain requirements that are applicable to other public companies that are not emerging growth companies including, but not limited to, not being required to comply with the auditor attestation requirements of Section 404 of the Sarbanes-Oxley Act, the reduced disclosure obligations regarding executive compensation in our periodic reports and proxy statements and the exemptions from the requirements of holding a nonbinding advisory vote on executive compensation and stockholder approval of any golden parachute payments not previously approved. We intend to take advantage of these reporting exemptions until we are no longer an emerging growth company. For a description of the qualifications and other requirements applicable to emerging growth companies and certain elections that we have made due to our status as an emerging growth company, see *Risk Factors Risks Related to this Offering and our Common Stock We are an emerging growth company and we cannot be certain if the reduced disclosure requirements applicable to emerging growth companies will make our common stock less attractive to investors* on page S-45 of this prospectus supplement.

## **Our Offices**

Our principal executive offices are located at 500 West Texas, Suite 1225, Midland, Texas, and our telephone number at that address is (432) 221-7400. We also lease additional office space in Midland and in Oklahoma City, Oklahoma. Our website address is [www.diamondbackenergy.com](http://www.diamondbackenergy.com). Information contained on our website does not constitute part of this prospectus supplement.

---

**Table of Contents**

**The Offering**

Common stock offered by the selling stockholder	2,000,000 shares (2,300,000 shares if the underwriters' option to purchase additional shares is exercised in full).
Option to purchase additional shares	The selling stockholder has granted the underwriters a 30-day option to purchase up to an aggregate of 300,000 additional shares of our common stock.
Common stock to be outstanding immediately after completion of this offering	47,067,116 shares. The number of shares of common stock outstanding will not change as a result of this offering.
Use of proceeds	We will not receive any proceeds from the sale of shares of common stock by the selling stockholder. See <i>Use of Proceeds</i> on page S-50 of this prospectus supplement.
Dividend policy	We currently anticipate that we will retain all future earnings, if any, to finance the growth and development of our business. We do not intend to pay cash dividends in the foreseeable future.
NASDAQ Global Select Market symbol	FANG
Risk Factors	You should carefully read and consider the information set forth under heading <i>Risk Factors</i> beginning on page S-19 of this prospectus supplement and all other information included or incorporated by reference in this prospectus supplement and the accompanying prospectus before deciding to invest in our common stock.
Except as otherwise indicated, all share information contained in this prospectus supplement assumes the underwriters do not exercise their option to purchase additional shares of our common stock.	



## Table of Contents

### Summary Combined Consolidated Historical and Pro Forma Financial Data

The following table sets forth our summary historical combined consolidated financial data as of and for each of the periods indicated. The summary historical combined consolidated financial data as of December 31, 2012 and 2011 and for the years ended December 31, 2012, 2011 and 2010 are derived from our historical audited combined consolidated financial statements appearing in our Annual Report on Form 10-K for the year ended December 31, 2012 incorporated by reference into this prospectus supplement and the accompanying prospectus. The summary historical combined consolidated balance sheet data as of December 31, 2010 are derived from our audited consolidated balance sheets of the Predecessors as of that date, which are not included in this prospectus supplement. The consolidated statements of operations data for the nine months ended September 30, 2013 and September 30, 2012 and the consolidated balance sheet data at September 30, 2013 are derived from our unaudited consolidated financial statements appearing in our Quarterly Report on Form 10-Q for the quarter ended September 30, 2013 incorporated by reference into this prospectus supplement and accompanying prospectus. The consolidated balance sheet data at September 30, 2012 are derived from our unaudited consolidated financial statements that are not included in this prospectus supplement.

The unaudited pro forma financial data give effect to (a) the Gulfport transaction and (b) the distribution by Windsor Permian to its equity holder of its minority equity interests in Bison Drilling and Field Services LLC, or Bison, and Muskie Holdings LLC, or Muskie, as described in our Annual Report on Form 10-K for the year ended December 31, 2012 and our Quarterly Reports on Form 10-Q and under the caption *Certain Relationships and Related Party Transactions* in our most recent proxy statement on Schedule 14A, each of which is incorporated by reference herein, as if these transactions occurred on January 1, 2012, and do not give effect to the recently completed acquisitions as described under the heading *Prospectus Supplement Summary Recent Developments*. The unaudited pro forma C Corporation financial data presented give effect to income taxes assuming we operated as a taxable corporation since inception for the 2011 and 2010 historical columns and since December 31, 2011 for the 2012 historical and pro forma columns.

Operating results for the periods presented below are not necessarily indicative of results that may be expected for any future periods. You should review this information together with *Risk Factors*, *Use of Proceeds*, *Capitalization* and *Management's Discussion and Analysis of Financial Condition and Results of Operations* and our combined consolidated historical financial statements and their related notes included, as applicable, in this prospectus supplement and our Annual Report on Form 10-K for the year ended December 31, 2012 and Quarterly Reports on Form 10-Q incorporated by reference into this prospectus supplement and the accompanying prospectus, and the statements of revenues and direct operating expenses of certain property interests of Gulfport and their related notes and the unaudited pro forma condensed consolidated financial statement prepared to show the effect of the Gulfport transaction included in our Registration Statement on Form S-1 (File No. 333-190462) and incorporated by reference into this prospectus supplement and the accompanying prospectus.

	Historical Nine Months Ended September 30,		Pro Forma Year Ended December 31,		Historical Year Ended December 31,	
	2013	2012(1)	2012	2012(2)	2011(1)	2010(1)
<b>Statement of Operations Data:</b>						
Oil and natural gas revenues	\$ 132,094,000	\$ 49,195,000	\$ 97,455,000	\$ 74,962,000	\$ 47,875,000	\$ 26,442,000
Other revenues					1,491,000	811,000
<b>Expenses:</b>						
Lease operating expense	15,367,000	9,508,000	21,059,000	16,793,000	9,931,000	4,020,000
Production and ad valorem taxes	8,295,000	3,191,000	7,030,000	3,691,000	3,032,000	1,916,000
Gathering and transportation	641,000	264,000	523,000	424,000	202,000	106,000
Oil and natural gas services					1,733,000	811,000
Depreciation, depletion and amortization	42,976,000	16,552,000	34,205,000	26,273,000	15,601,000	8,145,000

S-14

## Table of Contents

	As of September 30,		As of December 31,		
	2013	2012(1)	2012(2)	2011(1)	2010(1)
Current liabilities	109,451,000	60,072,000	79,232,000	42,298,000	19,070,000
Note payable-long term	85,000	230,000	193,000		
Note payable-credit facility-long term		90,000,000		85,000,000	44,767,000
Note payable-related party-long term		30,045,000			
7.625% senior notes due 2021	450,000,000				
Derivative instruments-long term	\$	\$ 1,556,000	\$ 388,000	\$ 6,139,000	\$ 1,374,000
Asset retirement obligations	2,878,000	1,293,000	2,125,000	1,104,000	742,000
Deferred income taxes	80,544,000		62,695,000		
Member s/stockholders equity	822,938,000	138,966,000	462,068,000	129,037,000	115,362,000
<b>Total liabilities and member s/stockholders equity</b>	<b>\$ 1,465,896,000</b>	<b>\$ 322,162,000</b>	<b>\$ 606,701,000</b>	<b>\$ 263,578,000</b>	<b>\$ 181,315,000</b>

	Historical Three Months Ended September 30,		Historical Nine Months Ended September 30,		Pro Forma Year Ended December 31,	Historical Year Ended December 31,		
	2013	2012	2013	2012	2012	2012(2)	2011(1)	2010(1)
<b>Other financial data:</b>								
Adjusted EBITDA(4)	\$ 47,653,000	\$ 11,064,000	\$ 103,052,000	\$ 33,870,000	\$ 63,003,000	\$ 48,223,000	\$ 31,758,000	\$ 17,398,000

- The years ended December 31, 2011 and 2010 and the nine months ended September 30, 2012 reflect the combined historical financial data of Windsor Permian LLC and Windsor UT LLC due to the transfer of a business between entities under common control. See Note 1 to our combined consolidated financial statements appearing in our Annual Report on Form 10-K for the year ended December 31, 2012 and our Quarterly Report on Form 10-Q for the quarter ended September 30, 2013, in each case incorporated by reference into this prospectus supplement and accompanying prospectus.
- The year ended December 31, 2012 reflects (a) the combined historical financial data of Windsor Permian LLC and Windsor UT LLC due to the transfer of a business between entities under common control and (b) the results of operations attributable to the acquisition of properties from Gulfport Energy Corporation beginning October 11, 2012, the closing date of the property acquisition. See Note 1 and Note 2 to our combined consolidated financial statements appearing in our Annual Report on Form 10-K for the year ended December 31, 2012 incorporated by reference into this prospectus supplement and accompanying prospectus.
- Diamondback was formed as a holding company on December 30, 2011, and did not conduct any material business operations until October 11, 2012 when Diamondback merged with its parent entity, Diamondback Energy LLC, with Diamondback continuing as the surviving entity. Diamondback is a C-Corp under the Internal Revenue Code and is subject to income taxes. The Company computed a pro forma income tax provision for 2012 as if the Company and the Predecessors were subject to income taxes since December 31, 2011. For 2011 and 2010 comparative purposes, we have included pro forma financial data to give effect to income taxes assuming the earnings of the Company and the Predecessors had been subject to federal income tax as a subchapter C corporation since inception. If the earnings of the Company and the Predecessors had been subject to federal income tax as a subchapter C corporation since inception, we would have incurred net operating losses for income tax purposes in each period. We would have been in a net deferred tax asset, or DTA, position as a result of such tax losses and would have recorded a valuation allowance to reduce each period's DTA balance to zero. A valuation allowance to reduce each period's DTA would have resulted in an equal and offsetting credit for the respective expenses or an equal and offsetting debit for the respective benefits for income taxes, with the resulting tax expenses for each 2011 and 2010 of zero. The unaudited pro forma data is presented for informational purposes only, and does not purport to project our results of operations for any future period or our financial position as of any future date. The pro forma tax provision has been calculated at a rate based upon a federal corporate level tax rate and a state tax rate, net of federal benefit, incorporating permanent differences. See Note 1 to our combined consolidated financial statements appearing in our Annual Report on Form 10-K for the year ended December 31, 2012 incorporated by reference into this prospectus supplement and accompanying prospectus.
- Adjusted EBITDA is a supplemental non-GAAP financial measure that is used by management and external users of our financial statements, such as industry analysts, investors, lenders and rating agencies. We define Adjusted EBITDA as net income (loss) before income taxes, gain/loss on derivative instruments, interest expense, depreciation, depletion and amortization, impairment of oil and gas properties, non-cash equity based compensation and asset retirement obligation accretion expense. Adjusted EBITDA is not a measure of net income (loss) as determined by United States generally accepted accounting principles, or GAAP. Management believes Adjusted EBITDA is useful because it allows it to more effectively evaluate our operating performance and compare the results of our operations from period to period without regard to our financing methods or capital structure. We exclude the items listed above from net income (loss) in arriving at Adjusted EBITDA because these amounts can vary substantially from company to company within our industry depending upon accounting methods and book values of assets, capital structures and the method by which the assets were acquired. Adjusted EBITDA should not be considered as an alternative to, or more meaningful than, net income (loss) as determined in accordance with GAAP or as an indicator of our operating performance or liquidity. Certain items excluded from Adjusted EBITDA are significant components in understanding and assessing a company's financial performance, such as a company's cost of capital and tax structure, as well as the historic costs of depreciable assets, none of which are components of Adjusted EBITDA. Our computations of Adjusted EBITDA may not be comparable to other similarly titled measures of other companies or to similar measures in our revolving credit facility and the indenture governing the senior notes.

## Table of Contents

The following presents a reconciliation of the non-GAAP financial measure of Adjusted EBITDA to the GAAP financial measure of net income (loss).

	Three Months Ended September 30,		Nine Months Ended September 30,			Year Ended December 31,			
	2013	2012	2013	2012	2012(2)	2011(1)	2010(1)	2009	2008
<b>Net income (loss):</b>	\$ 14,596,000	\$ 452,000	\$ 34,463,000	\$ 15,553,000	\$ (36,521,000)	\$ (386,000)	\$ 8,231,000	\$ (2,706,000)	\$ (93,949,000)
(Gain) loss on derivative instruments	4,910,000	3,148,000	1,881,000	(2,017,000)	(2,617,000)	13,009,000	148,000	4,068,000	9,528,000
Interest expense	1,089,000	1,130,000	2,109,000	3,184,000	3,610,000	2,528,000	836,000	11,000	
Depreciation, depletion and amortization	17,423,000	6,136,000	42,976,000	16,552,000	26,273,000	16,104,000	8,145,000	3,216,000	10,200,000
Impairment of oil and gas properties									83,164,000
Non-cash equity based compensation expense	490,000	176,000	1,426,000	535,000	2,477,000	438,000			
Asset retirement obligation accretion expense	46,000	22,000	134,000	63,000	98,000	65,000	38,000	28,000	24,000
Deferred income tax provision	9,099,000		20,063,000		54,903,000				
<b>Adjusted EBITDA</b>	<b>\$ 47,653,000</b>	<b>\$ 11,064,000</b>	<b>\$ 103,052,000</b>	<b>\$ 33,870,000</b>	<b>\$ 48,223,000</b>	<b>\$ 31,758,000</b>	<b>\$ 17,398,000</b>	<b>\$ 4,617,000</b>	<b>\$ 8,967,000</b>

## Table of Contents

### Summary Reserve Data

The following table sets forth estimates of our net proved oil and natural gas reserves (i) as of September 1, 2013, based on a reserve report prepared by our reserve engineers and audited by Ryder Scott, (ii) as of September 1, 2013 on a pro forma basis after giving effect to the recently completed acquisitions, based on a reserve report prepared by our reserve engineers and audited by Ryder Scott, (iii) as of December 31, 2012 and 2011, based on the reserve reports prepared by Ryder Scott, and (iv) as of December 31, 2010, based on the reserve report prepared by Pinnacle Energy Services, LLC, or Pinnacle. Each reserve report was prepared in accordance with the rules and regulations of the SEC. A copy of Ryder Scott's audit letter as of September 1, 2013 is attached to this prospectus supplement as Appendix B and Ryder Scott's report as of December 31, 2012 is included in our Annual Report on Form 10-K for the year ended December 31, 2012 incorporated by reference in this prospectus supplement and the accompanying prospectus, respectively. You should refer to *Risk Factors*, *Business*, *Oil and Natural Gas Data*, *Proved Reserves*, *Business*, *Oil and Natural Gas Production Prices and Production Costs*, *Production and Price History*, *Management's Discussion and Analysis of Financial Condition and Results of Operations* and our audited consolidated financial statements and notes thereto included, as applicable, in this prospectus supplement and our Annual Report on Form 10-K for the year ended December 31, 2012 incorporated by reference into this prospectus supplement and the accompanying prospectus, in evaluating the material presented below.

	Pro Forma As of September 1, 2013	As of September 1, 2013	Historical As of December 31,		
			2012	2011	2010
<b>Estimated proved developed reserves:</b>					
Oil (Bbls)	16,043,800	11,505,300	7,189,367	3,949,099	3,371,460
Natural gas (Mcf)	26,489,300	19,039,900	12,864,941	5,285,945	4,336,720
Natural gas liquids (Bbls)	5,270,700	4,316,000	2,999,440	1,263,710	1,126,431
<b>Total (BOE)</b>	<b>25,729,500</b>	<b>18,994,600</b>	<b>12,332,964</b>	<b>6,093,800</b>	<b>5,220,678</b>
<b>Estimated proved undeveloped reserves:</b>					
Oil (Bbls)	21,309,900	18,520,400	19,007,492	14,151,337	16,258,700
Natural gas (Mcf)	27,282,700	24,290,500	21,705,207	15,265,522	18,358,360
Natural gas liquids (Bbls)	6,289,900	5,571,800	5,251,989	3,785,849	4,706,536
<b>Total (BOE)</b>	<b>32,146,900</b>	<b>28,140,600</b>	<b>27,877,016</b>	<b>20,481,440</b>	<b>24,024,963</b>
<b>Estimated Net Proved Reserves:</b>					
Oil (Bbls)	37,353,700	30,025,700	26,196,859	18,100,436	19,630,160
Natural gas (Mcf)	53,772,000	43,330,400	34,570,148	20,551,467	22,695,080
Natural gas liquids (Bbls)	11,560,600	9,887,800	8,251,429	5,049,559	5,832,967
<b>Total (BOE)(1)(2)</b>	<b>57,876,400</b>	<b>47,135,200</b>	<b>40,209,979</b>	<b>26,575,240</b>	<b>29,245,641</b>
Percent proved developed	44.5%	40.3%	30.7%	22.9%	17.9%
PV-10 value(3)	\$ 952,331,000	\$ 647,222,000			
Standardized measure(4)	\$ 750,163,000	\$ 496,127,000			

- (1) Estimates of reserves as of September 1, 2013 and as of December 31, 2012, 2011 and 2010 were prepared using an average price equal to the unweighted arithmetic average of hydrocarbon prices received on a field-by-field basis on the first day of each month within the 12-month periods ended September 1, 2013 and December 31, 2012, 2011 and 2010, respectively, in accordance with revised SEC guidelines applicable to reserve estimates as of the end of such periods. The unweighted arithmetic average first day of the month prices were \$95.04 per Bbl for oil, \$38.05 per Bbl for NGLs and \$3.74 per Mcf for natural gas at

**Table of Contents**

September 1, 2013 and \$88.13 per Bbl for oil, \$43.88 per Bbl for NGLs and \$2.86 per Mcf for gas at December 31, 2012. Reserve estimates do not include any value for probable or possible reserves that may exist, nor do they include any value for undeveloped acreage. The reserve estimates represent our net revenue interest in our properties. Although we believe these estimates are reasonable, actual future production, cash flows, taxes, development expenditures, operating expenses and quantities of recoverable oil and natural gas reserves may vary substantially from these estimates.

- (2) The aggregate estimated proved reserves of 10,741 MBOE attributable to the recently completed acquisitions are derived as follows: (a) Martin County acreage: estimated proved reserves of 1,199 MBOE (73% oil), of which 93% are developed; (b) Dawson County acreage: estimated proved reserves of 907 MBOE (81% oil), of which 95% are developed; and (c) mineral interests in Midland County: estimated proved reserves of 8,635 MBOE (66% oil), of which 53% are developed.
- (3) Represents present value, discounted at 10% per annum, of estimated future net revenue before income tax of our estimated proven reserves. The estimated future net revenues set forth above were determined by using reserve quantities of proved reserves and the periods in which they are expected to be developed and produced based on certain prevailing economic conditions. The estimated future production in our reserve report as of September 1, 2013 is priced based on the 12-month unweighted arithmetic average of the first-day-of-the month price for each month within such period, unless such prices were defined by contractual arrangements, as required by SEC regulations.

PV-10 is a non-GAAP measure because it excludes income tax effects. Management believes that the presentation of the non-GAAP financial measure of PV-10 provides useful information to investors because it is widely used by professional analysts and sophisticated investors in evaluating oil and gas companies. PV-10 is not a measure of financial or operating performance under GAAP. PV-10 should not be considered as an alternative to the standardized measure as defined under GAAP. We have included a reconciliation of PV-10 to the most directly comparable GAAP measure-standardized measure of discounted future net cash flows. The following table reconciles the standardized measure of future net cash flows to the PV-10 value:

	<b>Pro Forma September 1, 2013</b>	<b>Historical September 1, 2013</b>
Standardized measure of discounted future net cash flows	\$ 750,163,000	\$ 496,127,000
Add: Present value of future income tax discounted at 10%	\$ 202,168,000	\$ 151,095,000
<b>PV-10 value</b>	<b>\$ 952,331,000</b>	<b>\$ 647,222,000</b>

- (4) The standardized measure represents the present value of estimated future cash inflows from proved oil and natural gas reserves, less future development, abandonment, production and income tax expenses, discounted at 10% per annum to reflect timing of future cash flows and using the same pricing assumptions as were used to calculate PV-10. Standardized measure differs from PV-10 because standardized measure includes the effect of future income taxes.

## **Table of Contents**

### **RISK FACTORS**

*An investment in our common stock involves a high degree of risk. You should carefully consider the following risks and all of the other information contained in or incorporated by reference into this prospectus supplement and the accompanying prospectus before deciding to invest in our common stock. Our business, financial condition and results of operations could be materially and adversely affected by any of these risks. The risks described below are not the only ones facing us. Additional risks not presently known to us or which we currently consider immaterial also may adversely affect us.*

#### **Risks Related to the Oil and Natural Gas Industry and Our Business**

##### **Our business is difficult to evaluate because we have a limited operating history.**

Diamondback Energy, Inc. was incorporated in Delaware on December 30, 2011. Prior to October 11, 2012, all of our historical oil and natural gas assets, operations and results described in this prospectus supplement were those of Windsor Permian and Windsor UT which, prior to our initial public offering, were entities controlled by our equity sponsor, Wexford. Immediately prior to the effectiveness of the registration statement relating to our initial public offering, Windsor Permian became our wholly-owned subsidiary and we acquired the oil and natural gas assets of Gulfport located in the Permian Basin in the Gulfport transaction. The oil and natural gas properties described in this prospectus supplement have been acquired by Windsor Permian, Gulfport and Windsor UT since December 2007. As a result, there is only limited historical financial and operating information available upon which to base your evaluation of our performance.

##### **We may have difficulty managing growth in our business, which could adversely affect our financial condition and results of operations.**

As a recently-formed company, growth in accordance with our business plan, if achieved, could place a significant strain on our financial, technical, operational and management resources. As we expand our activities and increase the number of projects we are evaluating or in which we participate, there will be additional demands on our financial, technical, operational and management resources. The failure to continue to upgrade our technical, administrative, operating and financial control systems or the occurrences of unexpected expansion difficulties, including the failure to recruit and retain experienced managers, geologists, engineers and other professionals in the oil and natural gas industry, could have a material adverse effect on our business, financial condition and results of operations and our ability to timely execute our business plan.

##### **A significant portion of our net leasehold acreage is undeveloped, and that acreage may not ultimately be developed or become commercially productive, which could cause us to lose rights under our leases as well as have a material adverse effect on our oil and natural gas reserves and future production and, therefore, our future cash flow and income.**

A significant portion of our net leasehold acreage is undeveloped, or acreage on which wells have not been drilled or completed to a point that would permit the production of commercial quantities of oil and natural gas regardless of whether such acreage contains proved reserves. In addition, many of our oil and natural gas leases require us to drill wells that are commercially productive, and if we are unsuccessful in drilling such wells, we could lose our rights under such leases. Our future oil and natural gas reserves and production and, therefore, our future cash flow and income are highly dependent on successfully developing our undeveloped leasehold acreage.

##### **Our development and exploration operations require substantial capital and we may be unable to obtain needed capital or financing on satisfactory terms or at all, which could lead to a loss of properties and a decline in our oil and natural gas reserves.**

The oil and natural gas industry is capital intensive. We make and expect to continue to make substantial capital expenditures in our business and operations for the exploration for and development, production and

## **Table of Contents**

acquisition of oil and natural gas reserves. During the nine months ended September 30, 2013 and the year ended December 31, 2012, our total capital expenditures, including expenditures for leasehold acquisitions, drilling and infrastructure, were approximately \$199.8 million and \$111.8 million, respectively. Our 2013 capital budget for drilling, completion and infrastructure, including investments in water disposal infrastructure and gathering line projects, is currently estimated to be approximately \$290.0 million to \$320.0 million. In October 2013, our Board of Directors approved a 2014 capital expenditures budget for drilling and infrastructure in an estimated range of \$425.0 million to \$475.0 million, representing an increase of 48% over 2013. To date, we have financed capital expenditures primarily with funding from Wexford, our equity sponsor, borrowings under our revolving credit facility, cash generated by operations and the net proceeds of our public offerings of our common stock and the senior notes. Neither Wexford nor any of its affiliates has made any commitment to provide us additional funding, and you should not assume that any of them will provide any debt or equity funding to us in the future.

In the near term, we intend to finance our capital expenditures with cash flow from operations, proceeds from the May 2013 equity offering, the August 2013 equity offering and the senior notes offering and borrowings under our revolving credit facility. Our cash flow from operations and access to capital are subject to a number of variables, including:

our proved reserves;

the volume of oil and natural gas we are able to produce from existing wells;

the prices at which our oil and natural gas are sold; and

our ability to acquire, locate and produce new reserves.

We cannot assure you that our operations and other capital resources will provide cash in sufficient amounts to maintain planned or future levels of capital expenditures. Further, our actual capital expenditures in 2013 and 2014 could exceed our capital expenditure budgets. In the event our capital expenditure requirements at any time are greater than the amount of capital we have available, we could be required to seek additional sources of capital, which may include traditional reserve base borrowings, debt financing, joint venture partnerships, production payment financings, sales of assets, offerings of debt or equity securities or other means. We cannot assure you that we will be able to obtain debt or equity financing on terms favorable to us, or at all.

If we are unable to fund our capital requirements, we may be required to curtail our operations relating to the exploration and development of our prospects, which in turn could lead to a possible loss of properties and a decline in our oil and natural gas reserves, or we may be otherwise unable to implement our development plan, complete acquisitions or take advantage of business opportunities or respond to competitive pressures, any of which could have a material adverse effect on our production, revenues and results of operations. In addition, a delay in or the failure to complete proposed or future infrastructure projects could delay or eliminate potential efficiencies and related cost savings.

### **Our success depends on finding, developing or acquiring additional reserves.**

Our future success depends upon our ability to find, develop or acquire additional oil and natural gas reserves that are economically recoverable. Our proved reserves will generally decline as reserves are depleted, except to the extent that we conduct successful exploration or development activities or acquire properties containing proved reserves, or both. To increase reserves and production, we undertake development, exploration and other replacement activities or use third parties to accomplish these activities. We have made, and expect to make in the future, substantial capital expenditures in our business and operations for the development, production, exploration and acquisition of oil and natural gas reserves. We may not have sufficient resources to acquire additional reserves or to undertake exploration, development, production or other replacement activities, such activities may not result in significant additional reserves and we may not have success drilling productive wells at low finding and development costs. Furthermore, although our revenues may increase if prevailing oil and natural gas prices increase significantly, our finding costs for additional reserves could also increase.



## **Table of Contents**

### **Our failure to successfully identify, complete and integrate acquisitions of properties or businesses could reduce our earnings and slow our growth.**

There is intense competition for acquisition opportunities in our industry. Competition for acquisitions may increase the cost of, or cause us to refrain from, completing acquisitions. Our ability to complete acquisitions is dependent upon, among other things, our ability to obtain debt and equity financing and, in some cases, regulatory approvals. Further, these acquisitions may be in geographic regions in which we do not currently operate, which could result in unforeseen operating difficulties and difficulties in coordinating geographically dispersed operations, personnel and facilities. In addition, if we enter into new geographic markets, we may be subject to additional and unfamiliar legal and regulatory requirements. Compliance with regulatory requirements may impose substantial additional obligations on us and our management, cause us to expend additional time and resources in compliance activities and increase our exposure to penalties or fines for non-compliance with such additional legal requirements. Completed acquisitions could require us to invest further in operational, financial and management information systems and to attract, retain, motivate and effectively manage additional employees. The inability to effectively manage the integration of acquisitions, including our recently completed acquisitions, could reduce our focus on subsequent acquisitions and current operations, which, in turn, could negatively impact our earnings and growth. Our financial position and results of operations may fluctuate significantly from period to period, based on whether or not significant acquisitions are completed in particular periods.

### **Properties we acquire may not produce as projected, and we may be unable to determine reserve potential, identify liabilities associated with the properties that we acquire or obtain protection from sellers against such liabilities.**

Acquiring oil and natural gas properties requires us to assess reservoir and infrastructure characteristics, including recoverable reserves, development and operating costs and potential environmental and other liabilities. Such assessments are inexact and inherently uncertain. In connection with the assessments, we perform a review of the subject properties, but such a review will not necessarily reveal all existing or potential problems. In the course of our due diligence, we may not inspect every well or pipeline. We cannot necessarily observe structural and environmental problems, such as pipe corrosion, when an inspection is made. We may not be able to obtain contractual indemnities from the seller for liabilities created prior to our purchase of the property. We may be required to assume the risk of the physical condition of the properties in addition to the risk that the properties may not perform in accordance with our expectations.

### **We may incur losses as a result of title defects in the properties in which we invest.**

It is our practice in acquiring oil and natural gas leases or interests not to incur the expense of retaining lawyers to examine the title to the mineral interest. Rather, we rely upon the judgment of oil and gas lease brokers or landmen who perform the fieldwork in examining records in the appropriate governmental office before attempting to acquire a lease in a specific mineral interest.

Prior to the drilling of an oil or natural gas well, however, it is the normal practice in our industry for the person or company acting as the operator of the well to obtain a preliminary title review to ensure there are no obvious defects in title to the well. Frequently, as a result of such examinations, certain curative work must be done to correct defects in the marketability of the title, and such curative work entails expense. Our failure to cure any title defects may delay or prevent us from utilizing the associated mineral interest, which may adversely impact our ability in the future to increase production and reserves. Additionally, undeveloped acreage has greater risk of title defects than developed acreage. If there are any title defects or defects in the assignment of leasehold rights in properties in which we hold an interest, we will suffer a financial loss.

### **Our project areas, which are in various stages of development, may not yield oil or natural gas in commercially viable quantities.**

Our project areas are in various stages of development, ranging from project areas with current drilling or production activity to project areas that consist of recently acquired leasehold acreage or that have limited

## **Table of Contents**

drilling or production history. From inception through September 30, 2013, we drilled a total of 250 gross wells and participated in an additional 22 gross non-operated wells, of which 259 wells were completed as producing wells and 13 wells were in various stages of completion. If the wells in the process of being completed do not produce sufficient revenues to return a profit or if we drill dry holes in the future, our business may be materially affected.

**Our identified potential drilling locations, which are part of our anticipated future drilling plans, are susceptible to uncertainties that could materially alter the occurrence or timing of their drilling.**

As of September 30, 2013, we had 857 gross (800 net) identified potential vertical drilling locations on our existing acreage based on 40-acre spacing, an additional 1,128 gross (1,031 net) identified potential vertical drilling locations based on 20-acre downspacing and we have also identified 1,281 gross (994 net) potential horizontal drilling locations in multiple horizons on our acreage. As of September 1, 2013, only 279 of our gross identified potential vertical drilling locations and 11 of our identified potential horizontal drilling locations were attributed to proved reserves. These drilling locations, including those without proved undeveloped reserves, represent a significant part of our growth strategy. Our ability to drill and develop these locations depends on a number of uncertainties, including the availability of capital, construction of infrastructure, inclement weather, regulatory changes and approvals, oil and natural gas prices, costs, drilling results and the availability of water. Further, our identified potential drilling locations are in various stages of evaluation, ranging from locations that are ready to drill to locations that will require substantial additional interpretation. We cannot predict in advance of drilling and testing whether any particular drilling location will yield oil or natural gas in sufficient quantities to recover drilling or completion costs or to be economically viable or whether wells drilled on 20-acre downspacing will produce at the same rates as those on 40-acre spacing. The use of technologies and the study of producing fields in the same area will not enable us to know conclusively prior to drilling whether oil or natural gas will be present or, if present, whether oil or natural gas will be present in sufficient quantities to be economically viable. Even if sufficient amounts of oil or natural gas exist, we may damage the potentially productive hydrocarbon bearing formation or experience mechanical difficulties while drilling or completing the well, possibly resulting in a reduction in production from the well or abandonment of the well. If we drill additional wells that we identify as dry holes in our current and future drilling locations, our drilling success rate may decline and materially harm our business. While through September 30, 2013 we are the operator of or have participated in a total of 34 horizontal wells on our acreage, we cannot assure you that the analogies we draw from available data from these or other wells, more fully explored locations or producing fields will be applicable to our drilling locations. Further, initial production rates reported by us or other operators in the Permian Basin may not be indicative of future or long-term production rates. Because of these uncertainties, we do not know if the potential drilling locations we have identified will ever be drilled or if we will be able to produce oil or natural gas from these or any other potential drilling locations. As such, our actual drilling activities may materially differ from those presently identified, which could adversely affect our business.

**Our acreage must be drilled before lease expiration, generally within three to five years, in order to hold the acreage by production. In a highly competitive market for acreage, failure to drill sufficient wells to hold acreage may result in a substantial lease renewal cost or, if renewal is not feasible, loss of our lease and prospective drilling opportunities.**

Leases on oil and natural gas properties typically have a term of three to five years, after which they expire unless, prior to expiration, production is established within the spacing units covering the undeveloped acres. As of December 31, 2012, we had leases representing 581 net acres expiring in 2013, 2,157 net acres expiring in 2014, 17,826 net acres expiring in 2015, 6,893 net acres expiring in 2016 and 1,820 net acres expiring in 2017. The cost to renew such leases may increase significantly, and we may not be able to renew such leases on commercially reasonable terms or at all. Any reduction in our current drilling program, either through a reduction in capital expenditures or the unavailability of drilling rigs, could result in the loss of acreage through lease expirations. In addition, in order to hold our current leases expiring in 2014 and 2015, we will need to operate at

## **Table of Contents**

least a four-rig program. We cannot assure you that we will have the liquidity to deploy these rigs in this time frame, or that commodity prices will warrant operating such a drilling program. Any such losses of leases could materially and adversely affect the growth of our asset basis, cash flows and results of operations.

### **The volatility of oil and natural gas prices due to factors beyond our control greatly affects our profitability.**

Our revenues, operating results, profitability, future rate of growth and the carrying value of our oil and natural gas properties depend significantly upon the prevailing prices for oil and natural gas. Historically, oil and natural gas prices have been volatile and are subject to fluctuations in response to changes in supply and demand, market uncertainty and a variety of additional factors that are beyond our control, including:

the domestic and foreign supply of oil and natural gas;

the level of prices and expectations about future prices of oil and natural gas;

the level of global oil and natural gas exploration and production;

the cost of exploring for, developing, producing and delivering oil and natural gas;

the price of foreign imports;

political and economic conditions in oil producing countries, including the Middle East, Africa, South America and Russia;

the ability of members of the Organization of Petroleum Exporting Countries to agree to and maintain oil price and production controls;

speculative trading in crude oil and natural gas derivative contracts;

the level of consumer product demand;

weather conditions and other natural disasters;

risks associated with operating drilling rigs;

technological advances affecting energy consumption;

domestic and foreign governmental regulations and taxes;

## Edgar Filing: Diamondback Energy, Inc. - Form 424B5

the continued threat of terrorism and the impact of military and other action, including U.S. military operations in the Middle East;

the proximity and capacity of oil and natural gas pipelines and other transportation facilities;

the price and availability of alternative fuels; and

overall domestic and global economic conditions.

These factors and the volatility of the energy markets make it extremely difficult to predict future oil and natural gas price movements with any certainty. For example, during the past five years, the posted price for West Texas intermediate light sweet crude oil, which we refer to as West Texas Intermediate or WTI, has ranged from a low of \$30.28 per barrel, or Bbl, in December 2008 to a high of \$145.31 per Bbl in July 2008. The Henry Hub spot market price of natural gas has ranged from a low of \$1.82 per million British thermal units, or MMBtu, in April 2012 to a high of \$13.31 per MMBtu in July 2008. During 2012, West Texas Intermediate prices ranged from \$77.72 to \$109.39 per Bbl and the Henry Hub spot market price of natural gas ranged from \$1.82 to \$3.77 per MMBtu. On November 1, 2013, the West Texas Intermediate posted price for crude oil was \$94.61 per Bbl and the Henry Hub spot market price of natural gas was \$3.51 per MMBtu. Any substantial decline in the price of oil and natural gas will likely have a material adverse effect on our operations, financial condition and level of expenditures for the development of our oil and natural gas reserves. In addition, lower oil and natural gas prices may reduce the amount of oil and natural gas that we can produce economically. This may

S-23

## **Table of Contents**

result in our having to make substantial downward adjustments to our estimated proved reserves. If this occurs or if our production estimates change or our exploration or development results deteriorate, full cost accounting rules may require us to write down, as a non-cash charge to earnings, the carrying value of our oil and natural gas properties.

**We have entered into price swap derivatives and may in the future enter into forward sale contracts or additional price swap derivatives for a portion of our production, which may result in our making cash payments or prevent us from receiving the full benefit of increases in prices for oil and natural gas.**

We use price swap derivatives to reduce price volatility associated with certain of our oil sales. Under these swap contracts, we receive a fixed price per barrel of oil and pay a floating market price per barrel of oil to the counterparty based on New York Mercantile Exchange Light Sweet Crude Oil pricing, Argus Louisiana light sweet pricing or Inter-Continental Exchange pricing. The fixed-price payment and the floating-price payment are offset, resulting in a net amount due to or from the counterparty. For the purpose of locking-in the value of a swap, we enter into counter-swaps from time to time. Under the counter-swap, we receive a floating price for the hedged commodity and pay a fixed price to the counterparty. The counter-swap is effective in locking-in the value of a swap since subsequent changes in the market value of the swap are entirely offset by subsequent changes in the market value of the counter-swap.

In December 2007, we placed a swap contract covering 1,680,000 Bbls of crude oil for the period from January 2008 to December 2012 at various fixed prices. In April 2008, we entered into a series of counter-swaps to lock-in the value of certain of these swaps settling 1,188,000 Bbls of crude oil swaps. In June 2009, we entered into an additional series of counter-swaps to lock-in the value of most of the remaining swaps settling 324,000 Bbls of crude oil swaps. Locking in the value of our swaps with counter-swaps, without entering into new swaps, exposes us to commodity price risks on the originally swapped position. As of December 31, 2010 and 2009, all of our swap contracts were locked-in with counter swaps. In October 2011, we placed a swap contract covering 1,000 Bbls per day of WTI crude oil for the period from January 1, 2012 through December 31, 2013 at a fixed price of \$78.50 per barrel for 2012 and \$80.55 per barrel for 2013. In February 2013, we entered into swap contract at a fixed price of \$109.70 per barrel covering 365,000 Bbls of crude oil from May 2013 to April 2014 that will settle against the average of the prompt month Brent Crude futures price. In June 2013, we entered into a swap contract at a fixed price of \$100.20 per barrel covering 365,000 Bbls of LLS crude oil from July 2013 to June 2014. In August 2013, we entered into a swap contract at a fixed price of \$101.00 per barrel covering 365,000 Bbls of LLS crude oil from February 2014 to January 2015. Our current goal is to hedge from 40% to 70% of our production. The contracts described above and any future hedging arrangements may expose us to risk of financial loss in certain circumstances, including instances where production is less than expected or oil prices increase. In addition, these arrangements may limit the benefit to us of increases in the price of oil. Accordingly, our earnings may fluctuate significantly as a result of changes in the fair value of our derivative instruments.

**Our hedging transactions expose us to counterparty credit risk.**

Our hedging transactions expose us to risk of financial loss if a counterparty fails to perform under a derivative contract. Disruptions in the financial markets could lead to sudden decreases in a counterparty's liquidity, which could make them unable to perform under the terms of the derivative contract and we may not be able to realize the benefit of the derivative contract.

**The inability of one or more of our customers to meet their obligations may adversely affect our financial results.**

In addition to credit risk related to receivables from commodity derivative contracts, our principal exposure to credit risk is through receivables from joint interest owners on properties we operate (approximately \$7.9 million at September 30, 2013) and receivables from purchasers of our oil and natural gas production

## **Table of Contents**

(approximately \$21.1 million at September 30, 2013). Joint interest receivables arise from billing entities that own partial interests in the wells we operate. These entities participate in our wells primarily based on their ownership in leases on which we wish to drill. We are generally unable to control which co-owners participate in our wells.

We are also subject to credit risk due to the concentration of our oil and natural gas receivables with several significant customers. For the nine months ended September 30, 2013, two purchasers accounted for more than 10% of our revenue: Plains Marketing, L.P. (52%); and Shell Trading (US) Company (20%). For the year ended December 31, 2012, three purchasers accounted for more than 10% of our revenue: Plains Marketing, L.P. (53%); Occidental Energy Marketing, Inc. (16%); and Andrews Oil Buyers, Inc. (10%). For the years ended December 31, 2011 and 2010, one purchaser, Windsor Midstream LLC, an entity controlled by Wexford, our equity sponsor, accounted for approximately 79% of our revenue in both periods. No other customer accounted for more than 10% of our revenue during these periods. This concentration of customers may impact our overall credit risk in that these entities may be similarly affected by changes in economic and other conditions. Current economic circumstances may further increase these risks. We do not require our customers to post collateral. The inability or failure of our significant customers or joint working interest owners to meet their obligations to us or their insolvency or liquidation may materially adversely affect our financial results.

### **Our method of accounting for investments in oil and natural gas properties may result in impairment of asset value.**

We account for our oil and natural gas producing activities using the full cost method of accounting. Accordingly, all costs incurred in the acquisition, exploration and development of proved oil and natural gas properties, including the costs of abandoned properties, dry holes, geophysical costs and annual lease rentals are capitalized. We also capitalize direct operating costs for services performed with internally owned drilling and well servicing equipment. All general and administrative corporate costs unrelated to drilling activities are expensed as incurred. Sales or other dispositions of oil and natural gas properties are accounted for as adjustments to capitalized costs, with no gain or loss recorded unless the ratio of cost to proved reserves would significantly change. Income from services provided to working interest owners of properties in which we also own an interest, to the extent they exceed related costs incurred, are accounted for as reductions of capitalized costs of oil and natural gas properties. Depletion of evaluated oil and natural gas properties is computed on the units of production method, whereby capitalized costs plus estimated future development costs are amortized over total proved reserves. The average depletion rate per barrel equivalent unit of production was \$24.76 and \$23.96 for the nine months ended September 30, 2013 and 2012, respectively. The average depletion rate per barrel equivalent unit of production was \$23.90, \$25.41 and \$17.78 for the years ended December 31, 2012, 2011 and 2010, respectively. Depreciation, depletion and amortization expense for oil and natural gas properties for the nine months ended September 30, 2013 and 2012 were \$43.0 million and \$16.6 million, respectively. Depreciation, depletion and amortization expense for oil and natural gas properties for the years ended December 31, 2012, 2011 and 2010 was \$25.8 million, \$15.4 million and \$7.4 million, respectively.

The net capitalized costs of proved oil and natural gas properties are subject to a full cost ceiling limitation in which the costs are not allowed to exceed their related estimated future net revenues discounted at 10%. To the extent capitalized costs of evaluated oil and natural gas properties, net of accumulated depreciation, depletion, amortization and impairment, exceed the discounted future net revenues of proved oil and natural gas reserves, the excess capitalized costs are charged to expense. Beginning December 31, 2009, we have used the unweighted arithmetic average first day of the month price for oil and natural gas for the 12-month period preceding the calculation date in estimating discounted future net revenues.

No impairment on proved oil and natural gas properties was recorded for the nine months ended September 30, 2013 or the years ended December 31, 2012, 2011 and 2010. We may, however, experience ceiling test write downs in the future. See *Management's Discussion and Analysis of Financial Condition and Results of Operations Critical Accounting Policies and Estimates Method of accounting for oil and natural*

---

**Table of Contents**

*gas properties* in our Annual Report on Form 10-K for the year ended December 31, 2012 incorporated by reference into this prospectus supplement and the accompanying prospectus for a more detailed description of our method of accounting.

**Our estimated reserves are based on many assumptions that may turn out to be inaccurate. Any material inaccuracies in these reserve estimates or underlying assumptions will materially affect the quantities and present value of our reserves.**

Oil and natural gas reserve engineering is not an exact science and requires subjective estimates of underground accumulations of oil and natural gas and assumptions concerning future oil and natural gas prices, production levels, ultimate recoveries and operating and development costs. As a result, estimated quantities of proved reserves, projections of future production rates and the timing of development expenditures may be incorrect. Our historical and pro forma estimates of proved reserves and related valuations as of September 1, 2013, were prepared by our reserve engineers and audited by Ryder Scott, an independent petroleum engineering firm. Our historical estimates of proved reserves as of December 31, 2012 and 2011 are based on reports prepared by Ryder Scott. Our historical estimates of proved reserves and related valuations as of December 31, 2010 are based on a report prepared by Pinnacle, an independent petroleum engineering firm. Ryder Scott and Pinnacle, as applicable, conducted a well-by-well review of all our properties for the periods covered by their respective reserve reports using information provided by us. Over time, we may make material changes to reserve estimates taking into account the results of actual drilling, testing and production. Also, certain assumptions regarding future oil and natural gas prices, production levels and operating and development costs may prove incorrect. Any significant variance from these assumptions to actual figures could greatly affect our estimates of reserves, the economically recoverable quantities of oil and natural gas attributable to any particular group of properties, the classifications of reserves based on risk of recovery and estimates of future net cash flows. A substantial portion of our reserve estimates are made without the benefit of a lengthy production history, which are less reliable than estimates based on a lengthy production history. Numerous changes over time to the assumptions on which our reserve estimates are based, as described above, often result in the actual quantities of oil and natural gas that we ultimately recover being different from our reserve estimates.

The estimates of reserves as of September 1, 2013 and as of December 31, 2012, 2011 and 2010 included in this prospectus supplement were prepared using an average price equal to the unweighted arithmetic average of hydrocarbon prices received on a field-by-field basis on the first day of each month within the 12-month periods ended September 1, 2013 and December 31, 2012, 2011 and 2010, respectively, in accordance with the revised SEC guidelines applicable to reserve estimates for such periods. Reserve estimates do not include any value for probable or possible reserves that may exist, nor do they include any value for unproved undeveloped acreage. The reserve estimates represent our net revenue interest in our properties. Our pro forma estimates of proved reserves as of September 1, 2013 include reserves from our recently completed acquisitions.

The timing of both our production and our incurrence of costs in connection with the development and production of oil and natural gas properties will affect the timing of actual future net cash flows from proved reserves.

**The standardized measure of our estimated proved reserves and our PV-10 are not necessarily the same as the current market value of our estimated proved oil reserves.**

The present value of future net cash flow from our proved reserves, or standardized measure, and our related PV-10 calculation, may not represent the current market value of our estimated proved oil reserves. In accordance with SEC requirements, we base the estimated discounted future net cash flow from our estimated proved reserves on the 12-month average oil index prices, calculated as the unweighted arithmetic average for the first-day-of-the-month price for each month and costs in effect as of the date of the estimate, holding the prices and costs constant throughout the life of the properties.

---

## **Table of Contents**

Actual future prices and costs may differ materially from those used in the net present value estimate, and future net present value estimates using then current prices and costs may be significantly less than current estimates. In addition, the 10% discount factor we use when calculating discounted future net cash flow for reporting requirements in compliance with the Financial Accounting Standard Board Codification 932,

Extractive Activities Oil and Gas, may not be the most appropriate discount factor based on interest rates in effect from time to time and risks associated with us or the oil and natural gas industry in general.

### **SEC rules could limit our ability to book additional proved undeveloped reserves in the future.**

SEC rules require that, subject to limited exceptions, proved undeveloped reserves may only be booked if they relate to wells scheduled to be drilled within five years after the date of booking. This requirement has limited and may continue to limit our ability to book additional proved undeveloped reserves as we pursue our drilling program. Moreover, we may be required to write down our proved undeveloped reserves if we do not drill those wells within the required five-year timeframe.

### **The development of our proved undeveloped reserves may take longer and may require higher levels of capital expenditures than we currently anticipate.**

Approximately 60% of our total estimated proved reserves as of September 1, 2013, without including the estimated proved reserves for the recently announced acquisitions, were proved undeveloped reserves and may not be ultimately developed or produced. Recovery of proved undeveloped reserves requires significant capital expenditures and successful drilling operations. The reserve data included in the reserve reports of our independent petroleum engineers assume that substantial capital expenditures are required to develop such reserves. We cannot be certain that the estimated costs of the development of these reserves are accurate, that development will occur as scheduled or that the results of such development will be as estimated. Delays in the development of our reserves or increases in costs to drill and develop such reserves will reduce the future net revenues of our estimated proved undeveloped reserves and may result in some projects becoming uneconomical. In addition, delays in the development of reserves could force us to reclassify certain of our proved reserves as unproved reserves.

### **Our producing properties are located in the Permian Basin of West Texas, making us vulnerable to risks associated with operating in a single geographic area. In addition, we have a large amount of proved reserves attributable to a small number of producing horizons within this area.**

All of our producing properties are geographically concentrated in the Permian Basin of West Texas. As a result of this concentration, we may be disproportionately exposed to the impact of regional supply and demand factors, delays or interruptions of production from wells in this area caused by governmental regulation, processing or transportation capacity constraints, availability of equipment, facilities, personnel or services market limitations or interruption of the processing or transportation of crude oil, natural gas or natural gas liquids. In addition, the effect of fluctuations on supply and demand may become more pronounced within specific geographic oil and natural gas producing areas such as the Permian Basin, which may cause these conditions to occur with greater frequency or magnify the effects of these conditions. Due to the concentrated nature of our portfolio of properties, a number of our properties could experience any of the same conditions at the same time, resulting in a relatively greater impact on our results of operations than they might have on other companies that have a more diversified portfolio of properties. Such delays or interruptions could have a material adverse effect on our financial condition and results of operations.

In addition to the geographic concentration of our producing properties described above, as of September 1, 2013, all of our proved reserves were attributable to the Wolfberry play. This concentration of assets within a small number of producing horizons exposes us to additional risks, such as changes in field-wide rules and regulations that could cause us to permanently or temporarily shut-in all of our wells within a field.



---

## **Table of Contents**

**We depend upon several significant purchasers for the sale of most of our oil and natural gas production. The loss of one or more of these purchasers could, among other factors, limit our access to suitable markets for the oil and natural gas we produce.**

The availability of a ready market for any oil and/or natural gas we produce depends on numerous factors beyond the control of our management, including but not limited to the extent of domestic production and imports of oil, the proximity and capacity of natural gas pipelines, the availability of skilled labor, materials and equipment, the effect of state and federal regulation of oil and natural gas production and federal regulation of natural gas sold in interstate commerce. In addition, we depend upon several significant purchasers for the sale of most of our oil and natural gas production. For the nine months ended September 30, 2013, two purchasers accounted for more than 10% of our revenue: Plains Marketing, L.P. (52%); and Shell Trading (US) Company (20%). For the year ended December 31, 2012, three purchasers accounted for more than 10% of our revenue: Plains Marketing, L.P. (53%); Occidental Energy Marketing, Inc. (16%); and Andrews Oil Buyers, Inc. (10%). For the years ended December 31, 2011 and 2010, one purchaser, Windsor Midstream LLC, an entity controlled by Wexford, our equity sponsor, accounted for approximately 79% of our revenue in both periods. No other customer accounted for more than 10% of our revenue during these periods. We cannot assure you that we will continue to have ready access to suitable markets for our future oil and natural gas production.

**The unavailability, high cost or shortages of rigs, equipment, raw materials, supplies or personnel may restrict our operations.**

The oil and natural gas industry is cyclical, which can result in shortages of drilling rigs, equipment, raw materials (particularly sand and other proppants), supplies and personnel. When shortages occur, the costs and delivery times of rigs, equipment and supplies increase and demand for, and wage rates of, qualified drilling rig crews also rise with increases in demand. In accordance with customary industry practice, we rely on independent third party service providers to provide most of the services necessary to drill new wells. If we are unable to secure a sufficient number of drilling rigs at reasonable costs, our financial condition and results of operations could suffer, and we may not be able to drill all of our acreage before our leases expire. In addition, we do not have long-term contracts securing the use of our existing rigs, and the operator of those rigs may choose to cease providing services to us. In addition, although we intend to increase the number of rigs we have operating in 2014, we cannot guarantee that we will be able to do so. Shortages of drilling rigs, equipment, raw materials (particularly sand and other proppants), supplies, personnel, trucking services, tubulars, fracking and completion services and production equipment could delay or restrict our exploration and development operations, which in turn could impair our financial condition and results of operations.

**Our operations are substantially dependent on the availability of water. Restrictions on our ability to obtain water may have an adverse effect on our financial condition, results of operations and cash flows.**

Water is an essential component of deep shale oil and natural gas production during both the drilling and hydraulic fracturing processes. Historically, we have been able to purchase water from local land owners for use in our operations. During the last two years, Texas has experienced extreme drought conditions. As a result of this severe drought, some local water districts have begun restricting the use of water subject to their jurisdiction for hydraulic fracturing to protect local water supply. If we are unable to obtain water to use in our operations from local sources, or we are unable to effectively utilize flowback water, we may be unable to economically drill for or produce oil and natural gas, which could have an adverse effect on our financial condition, results of operations and cash flows.

**Declining general economic, business or industry conditions may have a material adverse effect on our results of operations, liquidity and financial condition.**

Concerns over global economic conditions, energy costs, geopolitical issues, inflation, the availability and cost of credit, the European debt crisis, the United States mortgage market and a weak real estate market in the United States have contributed to increased economic uncertainty and diminished expectations for the global

## **Table of Contents**

economy. These factors, combined with volatile prices of oil, natural gas and natural gas liquids, declining business and consumer confidence and increased unemployment, have precipitated an economic slowdown and a recession. In addition, continued hostilities in the Middle East and the occurrence or threat of terrorist attacks in the United States or other countries could adversely affect the economies of the United States and other countries. Concerns about global economic growth have had a significant adverse impact on global financial markets and commodity prices. If the economic climate in the United States or abroad deteriorates further, worldwide demand for petroleum products could diminish, which could impact the price at which we can sell our oil, natural gas and natural gas liquids, affect the ability of our vendors, suppliers and customers to continue operations and ultimately adversely impact our results of operations, liquidity and financial condition.

### **We have incurred losses from operations during certain periods since our inception and may do so in the future.**

We incurred a net loss of \$36.5 million for the year ended December 31, 2012. Our development of and participation in an increasingly larger number of drilling locations has required and will continue to require substantial capital expenditures. The uncertainty and risks described in this prospectus supplement may impede our ability to economically find, develop and acquire oil and natural gas reserves. As a result, we may not be able to achieve or sustain profitability or positive cash flows from our operating activities in the future.

### **Part of our strategy involves drilling in existing or emerging shale plays using the latest available horizontal drilling and completion techniques; therefore, the results of our planned exploratory drilling in these plays are subject to risks associated with drilling and completion techniques and drilling results may not meet our expectations for reserves or production.**

Our operations involve utilizing the latest drilling and completion techniques as developed by us and our service providers. Risks that we face while drilling include, but are not limited to, landing our well bore in the desired drilling zone, staying in the desired drilling zone while drilling horizontally through the formation, running our casing the entire length of the well bore and being able to run tools and other equipment consistently through the horizontal well bore. Risks that we face while completing our wells include, but are not limited to, being able to fracture stimulate the planned number of stages, being able to run tools the entire length of the well bore during completion operations and successfully cleaning out the well bore after completion of the final fracture stimulation stage. In addition, certain of the new techniques we are adopting, such as infill drilling and multi-well pad drilling, may cause irregularities or interruptions in production due to, in the case of infill drilling, offset wells being shut in and, in the case of multi-well pad drilling, the time required to drill and complete multiple wells before any such wells begin producing. The results of our drilling in new or emerging formations are more uncertain initially than drilling results in areas that are more developed and have a longer history of established production. Newer or emerging formations and areas often have limited or no production history and consequently we are less able to predict future drilling results in these areas.

Ultimately, the success of these drilling and completion techniques can only be evaluated over time as more wells are drilled and production profiles are established over a sufficiently long time period. If our drilling results are less than anticipated or we are unable to execute our drilling program because of capital constraints, lease expirations, access to gathering systems, and/or declines in natural gas and oil prices, the return on our investment in these areas may not be as attractive as we anticipate. Further, as a result of any of these developments we could incur material write-downs of our oil and natural gas properties and the value of our undeveloped acreage could decline in the future.

### **Conservation measures and technological advances could reduce demand for oil and natural gas.**

Fuel conservation measures, alternative fuel requirements, increasing consumer demand for alternatives to oil and natural gas, technological advances in fuel economy and energy generation devices could reduce demand for oil and natural gas. The impact of the changing demand for oil and natural gas services and products may have a material adverse effect on our business, financial condition, results of operations and cash flows.

## **Table of Contents**

**The marketability of our production is dependent upon transportation and other facilities, certain of which we do not control. If these facilities are unavailable, our operations could be interrupted and our revenues reduced.**

The marketability of our oil and natural gas production depends in part upon the availability, proximity and capacity of transportation facilities owned by third parties. Our oil production is transported from the wellhead to our tank batteries by our gathering system. Our purchasers then transport the oil by truck to a pipeline for transportation. Our natural gas production is generally transported by our gathering lines from the wellhead to an interconnection point with the purchaser. We do not control these trucks and other third party transportation facilities and our access to them may be limited or denied. Insufficient production from our wells to support the construction of pipeline facilities by our purchasers or a significant disruption in the availability of our or third party transportation facilities or other production facilities could adversely impact our ability to deliver to market or produce our oil and natural gas and thereby cause a significant interruption in our operations. For example, on certain occasions we have experienced high line pressure at our tank batteries with occasional flaring due to the inability of the gas gathering systems in the areas in which we operate to support the increased production of natural gas in the Permian Basin. If, in the future, we are unable, for any sustained period, to implement acceptable delivery or transportation arrangements or encounter production related difficulties, we may be required to shut in or curtail production. In addition, the amount of oil and natural gas that can be produced and sold may be subject to curtailment in certain other circumstances outside of our control, such as pipeline interruptions due to maintenance, excessive pressure, ability of downstream processing facilities to accept unprocessed gas, physical damage to the gathering or transportation system or lack of contracted capacity on such systems. The curtailments arising from these and similar circumstances may last from a few days to several months, and in many cases, we are provided with limited, if any, notice as to when these circumstances will arise and their duration. Any such shut in or curtailment, or an inability to obtain favorable terms for delivery of the oil and natural gas produced from our fields, would adversely affect our financial condition and results of operations.

**Our operations are subject to various governmental laws and regulations which require compliance that can be burdensome and expensive.**

Our oil and natural gas operations are subject to various federal, state and local governmental regulations that may be changed from time to time in response to economic and political conditions. Matters subject to regulation include discharge permits for drilling operations, drilling bonds, reports concerning operations, the spacing of wells, unitization and pooling of properties and taxation. From time to time, regulatory agencies have imposed price controls and limitations on production by restricting the rate of flow of oil and natural gas wells below actual production capacity to conserve supplies of oil and gas. In addition, the production, handling, storage, transportation, remediation, emission and disposal of oil and natural gas, by-products thereof and other substances and materials produced or used in connection with oil and natural gas operations are subject to regulation under federal, state and local laws and regulations primarily relating to protection of human health and the environment. Failure to comply with these laws and regulations may result in the assessment of sanctions, including administrative, civil or criminal penalties, permit revocations, requirements for additional pollution controls and injunctions limiting or prohibiting some or all of our operations. Moreover, these laws and regulations have continually imposed increasingly strict requirements for water and air pollution control and solid waste management. Significant expenditures may be required to comply with governmental laws and regulations applicable to us. We believe the trend of more expansive and stricter environmental legislation and regulations will continue. See *Business Regulation* in our Annual Report on Form 10-K for the year ended December 31, 2012 incorporated by reference herein for a description of the laws and regulations that affect us.

**Federal and state legislative and regulatory initiatives relating to hydraulic fracturing could result in increased costs and additional operating restrictions or delays.**

Hydraulic fracturing is an important common practice that is used to stimulate production of hydrocarbons, particularly natural gas, from tight formations, including shales. The process involves the injection of water, sand

## **Table of Contents**

and chemicals under pressure into formations to fracture the surrounding rock and stimulate production. The federal Safe Drinking Water Act, or SDWA, regulates the underground injection of substances through the Underground Injection Control, or UIC, program. Hydraulic fracturing is generally exempt from regulation under the UIC program, and the hydraulic fracturing process is typically regulated by state oil and natural gas commissions. The Environmental Protection Agency, or EPA, however, has recently taken the position that hydraulic fracturing with fluids containing diesel fuel is subject to regulation under the UIC program, specifically as Class II UIC wells. At the same time, the White House Council on Environmental Quality is conducting an administration-wide review of hydraulic fracturing practices and the EPA has commenced a study of the potential environmental impacts of hydraulic fracturing activities. Moreover, the EPA announced on October 20, 2011 that it is also launching a study regarding wastewater resulting from hydraulic fracturing activities and currently plans to propose standards by 2014 that such wastewater must meet before being transported to a treatment plant. As part of these studies, the EPA has requested that certain companies provide them with information concerning the chemicals used in the hydraulic fracturing process. These studies, depending on their results, could spur initiatives to regulate hydraulic fracturing under the SDWA or otherwise.

Legislation to amend the SDWA to repeal the exemption for hydraulic fracturing from the definition of underground injection and require federal permitting and regulatory control of hydraulic fracturing, as well as legislative proposals to require disclosure of the chemical constituents of the fluids used in the fracturing process, were proposed in recent sessions of Congress.

On August 16, 2012, the EPA published final regulations under the federal Clean Air Act that establish new air emission controls for oil and natural gas production and natural gas processing operations. Specifically, the EPA's rule package includes New Source Performance Standards to address emissions of sulfur dioxide and volatile organic compounds, or VOCs, and a separate set of emission standards to address hazardous air pollutants frequently associated with oil and natural gas production and processing activities. The final rule seeks to achieve a 95% reduction in VOCs emitted by requiring the use of reduced emission completions or green completions on all hydraulically-fractured wells constructed or refractured after January 1, 2015. The rules also establish specific new requirements regarding emissions from compressors, controllers, dehydrators, storage tanks and other production equipment. These rules will require a number of modifications to our operations, including the installation of new equipment to control emissions from our wells by January 1, 2015. The EPA received numerous requests for reconsideration of these rules from both industry and the environmental community, and court challenges to the rules were also filed. The EPA intends to issue revised rules in 2013 that are likely responsive to some of these requests. For example, on April 12, 2013, the EPA published a proposed amendment extending compliance dates for certain storage vessels. The final revised rules could require modifications to our operations or increase our capital and operating costs without being offset by increased product capture. At this point, we cannot predict the final regulatory requirements or the cost to comply with such requirements with any certainty. In addition, the U.S. Department of the Interior published a revised proposed rule on May 24, 2013 that would update existing regulation of hydraulic fracturing activities on federal lands, including requirements for disclosure, well bore integrity and handling of flowback water.

In addition, there are certain governmental reviews either underway or being proposed that focus on environmental aspects of hydraulic fracturing practices. The federal government is currently undertaking several studies of hydraulic fracturing's potential impacts, the results of which are expected between later in 2013 and 2014.

These ongoing or proposed studies, depending on their degree of pursuit and whether any meaningful results are obtained, could spur initiatives to further regulate hydraulic fracturing under the SDWA or other regulatory authorities. The U.S. Department of Energy has conducted an investigation into practices the agency could recommend to better protect the environment from drilling using hydraulic-fracturing completion methods. Additionally, certain members of Congress have called upon the U.S. Government Accountability Office to investigate how hydraulic fracturing might adversely affect water resources, the SEC to investigate the natural gas industry and any possible misleading of investors or the public regarding the economic feasibility of pursuing

## **Table of Contents**

natural gas deposits in shale formations by means of hydraulic fracturing, and the U.S. Energy Information Administration to provide a better understanding of that agency's estimates regarding natural gas reserves, including reserves from shale formations, as well as uncertainties associated with those estimates.

Several states, including Texas, have adopted or are considering adopting regulations that could restrict or prohibit hydraulic fracturing in certain circumstances and/or require the disclosure of the composition of hydraulic fracturing fluids. The Texas Railroad Commission recently adopted rules and regulations requiring that well operators disclose the list of chemical ingredients subject to the requirements of federal Occupational Safety and Health Act, or OSHA, to state regulators and on a public internet website. We plan to use hydraulic fracturing extensively in connection with the development and production of certain of our oil and natural gas properties and any increased federal, state, local, foreign or international regulation of hydraulic fracturing could reduce the volumes of oil and natural gas that we can economically recover, which could materially and adversely affect our revenues and results of operations.

There has been increasing public controversy regarding hydraulic fracturing with regard to the use of fracturing fluids, impacts on drinking water supplies, use of water and the potential for impacts to surface water, groundwater and the environment generally. A number of lawsuits and enforcement actions have been initiated across the country implicating hydraulic fracturing practices. If new laws or regulations are adopted that significantly restrict hydraulic fracturing, such laws could make it more difficult or costly for us to perform fracturing to stimulate production from tight formations as well as make it easier for third parties opposing the hydraulic fracturing process to initiate legal proceedings based on allegations that specific chemicals used in the fracturing process could adversely affect groundwater. In addition, if hydraulic fracturing is further regulated at the federal or state level, our fracturing activities could become subject to additional permitting and financial assurance requirements, more stringent construction specifications, increased monitoring, reporting and recordkeeping obligations, plugging and abandonment requirements and also to attendant permitting delays and potential increases in costs. Such legislative changes could cause us to incur substantial compliance costs, and compliance or the consequences of any failure to comply by us could have a material adverse effect on our financial condition and results of operations. At this time, it is not possible to estimate the impact on our business of newly enacted or potential federal or state legislation governing hydraulic fracturing.

### **Our operations may be exposed to significant delays, costs and liabilities as a result of environmental, health and safety requirements applicable to our business activities.**

We may incur significant delays, costs and liabilities as a result of federal, state and local environmental, health and safety requirements applicable to our exploration, development and production activities. These laws and regulations may, among other things: (i) require us to obtain a variety of permits or other authorizations governing our air emissions, water discharges, waste disposal or other environmental impacts associated with drilling, producing and other operations; (ii) regulate the sourcing and disposal of water used in the drilling, fracturing and completion processes; (iii) limit or prohibit drilling activities in certain areas and on certain lands lying within wilderness, wetlands, frontier and other protected areas; (iv) require remedial action to prevent or mitigate pollution from former operations such as plugging abandoned wells or closing earthen pits; and/or (v) impose substantial liabilities for spills, pollution or failure to comply with regulatory filings. In addition, these laws and regulations may restrict the rate of oil or natural gas production. These laws and regulations are complex, change frequently and have tended to become increasingly stringent over time. Failure to comply with these laws and regulations may result in the assessment of administrative, civil and criminal penalties, imposition of cleanup and site restoration costs and liens, the suspension or revocation of necessary permits, licenses and authorizations, the requirement that additional pollution controls be installed and, in some instances, issuance of orders or injunctions limiting or requiring discontinuation of certain operations. Under certain environmental laws that impose strict as well as joint and several liability, we may be required to remediate contaminated properties currently or formerly operated by us or facilities of third parties that received waste generated by our operations regardless of whether such contamination resulted from the conduct of others or from consequences of our own actions that were in compliance with all applicable laws at the time those actions were taken. In

## **Table of Contents**

addition, claims for damages to persons or property, including natural resources, may result from the environmental, health and safety impacts of our operations. In addition, the risk of accidental and/or unpermitted spills or releases from our operations could expose us to significant liabilities, penalties and other sanctions under applicable laws. Moreover, public interest in the protection of the environment has increased dramatically in recent years. The trend of more expansive and stringent environmental legislation and regulations applied to the crude oil and natural gas industry could continue, resulting in increased costs of doing business and consequently affecting profitability. To the extent laws are enacted or other governmental action is taken that restricts drilling or imposes more stringent and costly operating, waste handling, disposal and cleanup requirements, our business, prospects, financial condition or results of operations could be materially adversely affected.

### **Restrictions on drilling activities intended to protect certain species of wildlife may adversely affect our ability to conduct drilling activities in some of the areas where we operate.**

Oil and natural gas operations in our operating areas can be adversely affected by seasonal or permanent restrictions on drilling activities designed to protect various wildlife. Seasonal restrictions may limit our ability to operate in protected areas and can intensify competition for drilling rigs, oilfield equipment, services, supplies and qualified personnel, which may lead to periodic shortages when drilling is allowed. These constraints and the resulting shortages or high costs could delay our operations and materially increase our operating and capital costs. Permanent restrictions imposed to protect endangered species could prohibit drilling in certain areas or require the implementation of expensive mitigation measures. The designation of previously unprotected species in areas where we operate as threatened or endangered could cause us to incur increased costs arising from species protection measures or could result in limitations on our exploration and production activities that could have an adverse impact on our ability to develop and produce our reserves.

### **The adoption of derivatives legislation by the U.S. Congress could have an adverse effect on our ability to use derivative instruments to reduce the effect of commodity price, interest rate and other risks associated with our business.**

The adoption of derivatives legislation by the U.S. Congress could have an adverse effect on our ability to use derivative instruments to reduce the effect of commodity price, interest rate and other risks associated with our business. The U.S. Congress adopted the Dodd-Frank Wall Street Reform and Consumer Protection Act (HR 4173), which, among other provisions, establishes federal oversight and regulation of the over-the-counter derivatives market and entities that participate in that market. The legislation was signed into law by the President on July 21, 2010. In its rulemaking under the legislation, the Commodities Futures Trading Commission, or CFTC, has issued a final rule on position limits for certain futures and option contracts in the major energy markets and for swaps that are their economic equivalents (with exemptions for certain bona fide hedging transactions). The CFTC's final rule was set aside by the U.S. District Court for the District of Columbia on September 28, 2012 and remanded to the CFTC to resolve ambiguity as to whether statutory requirements for such limits to be determined necessary and appropriate were satisfied. As a result, the rule has not yet taken effect, although the CFTC has indicated that it intends to appeal the court's decision and that it believes the Dodd-Frank Act requires it to impose position limits. The impact of such regulations upon our business is not yet clear. Certain of our hedging and trading activities and those of our counterparties may be subject to the position limits, which may reduce our ability to enter into hedging transactions.

In addition, the Dodd-Frank Act does not explicitly exempt end users (such as us) from the requirement to use cleared exchanges, rather than hedging over-the-counter, and the requirements to post margin in connection with hedging activities. While it is not possible at this time to predict when the CFTC will finalize certain other related rules and regulations, the Dodd-Frank Act and related regulations may require us to comply with margin requirements and with certain clearing and trade-execution requirements in connection with our derivative activities, although whether these requirements will apply to our business is uncertain at this time. If the regulations ultimately adopted require that we post margin for our hedging activities or require our counterparties to hold margin or maintain capital levels, the cost of which could be passed through to us, or impose other

## **Table of Contents**

requirements that are more burdensome than current regulations, our hedging would become more expensive and we may decide to alter our hedging strategy. The financial reform legislation may also require us to comply with margin requirements and with certain clearing and trade-execution requirements in connection with our existing or future derivative activities, although the application of those provisions to us is uncertain at this time. The financial reform legislation may also require the counterparties to our derivative instruments to spin off some of their derivatives activities to separate entities, which may not be as creditworthy as the current counterparties. The new legislation and any new regulations could significantly increase the cost of derivative contracts (including through requirements to post collateral which could adversely affect our available liquidity), materially alter the terms of derivative contracts, reduce the availability of derivatives to protect against risks we encounter, reduce our ability to monetize or restructure our derivative contracts in existence at that time, and increase our exposure to less creditworthy counterparties. If we reduce or change the way we use derivative instruments as a result of the legislation and regulations, our results of operations may become more volatile and our cash flows may be less predictable, which could adversely affect our ability to plan for and fund capital expenditures. Finally, the legislation was intended, in part, to reduce the volatility of oil and natural gas prices, which some legislators attributed to speculative trading in derivatives and commodity instruments related to oil and natural gas. Our revenues could therefore be adversely affected if a consequence of the legislation and regulations is to lower commodity prices. Any of these consequences could have a material adverse effect on our consolidated financial position, results of operations or cash flows.

### **Proposed changes to U.S. tax laws, if adopted, could have an adverse effect on our business, financial condition, results of operations and cash flows.**

The U.S. President's Fiscal Year 2014 Budget Proposal includes provisions that would, if enacted, make significant changes to U.S. tax laws. These changes include, but are not limited to, (i) eliminating the immediate deduction for intangible drilling and development costs, (ii) eliminating the deduction from income for domestic production activities relating to oil and natural gas exploration and development, (iii) the repeal of the percentage depletion allowance for oil and natural gas properties, (iv) an extension of the amortization period for certain geological and geophysical expenditures and (v) implementing certain international tax reforms. These proposed changes in the U.S. tax laws, if adopted, or other similar changes that reduce or eliminate deductions currently available with respect to oil and natural gas exploration and development, could adversely affect our business, financial condition, results of operations and cash flows.

### **The adoption of climate change legislation by Congress could result in increased operating costs and reduced demand for the oil and natural gas we produce.**

In December 2009, the EPA issued an Endangerment Finding that determined that emissions of carbon dioxide, methane and other GHGs present an endangerment to public health and the environment because, according to the EPA, emissions of such gases contribute to warming of the earth's atmosphere and other climatic changes. These findings by the EPA allowed the agency to proceed with the adoption and implementation of regulations that would restrict emissions of GHGs under existing provisions of the federal Clean Air Act. Subsequently, the EPA adopted two sets of related rules, one of which purports to regulate emissions of GHGs from motor vehicles and the other of which regulates emissions of GHGs from certain large stationary sources of emissions such as power plants or industrial facilities. The EPA finalized the motor vehicle rule, which purports to limit emissions of GHGs from motor vehicles manufactured in model years 2012-2016, in April 2010 and it became effective in January 2011. A recent rulemaking proposal by the EPA and the Department of Transportation's National Highway Traffic Safety Administration seeks to expand the motor vehicle rule to include vehicles manufactured in model years 2017-2025. The EPA adopted the stationary source rule, also known as the Tailoring Rule, in May 2010, and it also became effective in January 2011. The Tailoring Rule establishes new GHG emissions thresholds that determine when stationary sources must obtain permits under the Prevention of Significant Deterioration, or PSD, and Title V programs of the Clean Air Act. Facilities required to obtain PSD permits for their GHG emissions also will be required to meet best available control technology standards, which will be established by the states or, in some instances, by the EPA on a

## **Table of Contents**

case-by-case basis. Additionally, in September 2009, the EPA issued a final rule requiring the reporting of GHG emissions from specified large GHG emission sources in the U.S., including natural gas liquids fractionators and local natural gas/distribution companies, beginning in 2011 for emissions occurring in 2010. In November 2010, the EPA expanded its existing GHG reporting rule to include onshore and offshore oil and natural gas production and onshore processing, transmission, storage and distribution facilities, which may include certain of our facilities, beginning in 2012 for emissions occurring in 2011.

The EPA has continued to adopt GHG regulations of other industries, such as the March 2012 proposed GHG rule restricting future development of coal-fired power plants. The proposed rule underwent an extended public comment process, which concluded on June 25, 2012. The EPA is also under a legal obligation pursuant to a consent decree with certain environmental groups to issue new source performance standards for refineries. The EPA is also considering additional regulation of greenhouse gases as air pollutants. As a result of this continued regulatory focus, future GHG regulations of the oil and gas industry remain a possibility. In addition, the U.S. Congress has from time to time considered adopting legislation to reduce emissions of greenhouse gases and almost one-half of the states have already taken legal measures to reduce emissions of greenhouse gases primarily through the planned development of greenhouse gas emission inventories and/or regional greenhouse gas cap and trade programs. Although the U.S. Congress has not adopted such legislation at this time, it may do so in the future and many states continue to pursue regulations to reduce greenhouse gas emissions. Most of these cap and trade programs work by requiring major sources of emissions, such as electric power plants, or major producers of fuels, such as refineries and gas processing plants, to acquire and surrender emission allowances corresponding with their annual emissions of GHGs. The number of allowances available for purchase is reduced each year until the overall GHG emission reduction goal is achieved. As the number of GHG emission allowances declines each year, the cost or value of allowances is expected to escalate significantly.

Restrictions on emissions of methane or carbon dioxide that may be imposed in various states could adversely affect the oil and natural gas industry. Currently, while we are subject to certain federal GHG monitoring and reporting requirements, our operations are not adversely impacted by existing federal, state and local climate change initiatives and, at this time, it is not possible to accurately estimate how potential future laws or regulations addressing greenhouse gas emissions would impact our business.

In addition, there has been public discussion that climate change may be associated with extreme weather conditions such as more intense hurricanes, thunderstorms, tornados and snow or ice storms, as well as rising sea levels. Another possible consequence of climate change is increased volatility in seasonal temperatures. Some studies indicate that climate change could cause some areas to experience temperatures substantially colder than their historical averages. Extreme weather conditions can interfere with our production and increase our costs and damage resulting from extreme weather may not be fully insured. However, at this time, we are unable to determine the extent to which climate change may lead to increased storm or weather hazards affecting our operations.

**A change in the jurisdictional characterization of some of our assets by federal, state or local regulatory agencies or a change in policy by those agencies may result in increased regulation of our assets, which may cause our revenues to decline and operating expenses to increase.**

Section 1(b) of the Natural Gas Act of 1938, or the NGA, exempts natural gas gathering facilities from regulation by the Federal Energy Regulatory Commission, or FERC. We believe that the natural gas pipelines in our gathering systems meet the traditional tests FERC has used to establish whether a pipeline performs a gathering function and therefore is exempt from FERC's jurisdiction under the NGA. However, the distinction between FERC regulated transmission services and federally unregulated gathering services is a fact-based determination. The classification of facilities as unregulated gathering is the subject of ongoing litigation, so the classification and regulation of our gathering facilities are subject to change based on future determinations by FERC, the courts or Congress, which could cause our revenues to decline and operating expenses to increase and may materially adversely affect our business, financial condition or results of operations. In addition, FERC has



## **Table of Contents**

adopted regulations that may subject certain of our otherwise non-FERC jurisdictional facilities to FERC annual reporting and daily scheduled flow and capacity posting requirements. Additional rules and legislation pertaining to those and other matters may be considered or adopted by FERC from time to time. Failure to comply with those regulations in the future could subject us to civil penalty liability, which could have a material adverse effect on our business, financial condition or results of operations.

### **We rely on a few key employees whose absence or loss could adversely affect our business.**

Many key responsibilities within our business have been assigned to a small number of employees. The loss of their services could adversely affect our business. In particular, the loss of the services of one or more members of our executive team, including our Chief Executive Officer, Travis D. Stice, could disrupt our operations. We have employment agreements with these executives which contain restrictions on competition with us in the event they cease to be employed by us. However, as a practical matter, such employment agreements may not assure the retention of our employees. Further, we do not maintain key person life insurance policies on any of our employees. As a result, we are not insured against any losses resulting from the death of our key employees.

### **A significant reduction by Wexford of its ownership interest in us could adversely affect us**

Prior to October 11, 2012, Wexford beneficially owned 100% of our equity interests. Upon completion of our initial public offering, Wexford beneficially owned approximately 44.4% of our common stock. As a result of the issuance of additional shares of common stock by us and sales of our common stock by affiliates of Wexford, as of November 1, 2013 Wexford beneficially owned approximately 25.0% of our common stock. Further, the Chairman of our Board of Directors is an affiliate of Wexford. We believe that Wexford's substantial ownership interest in us provides Wexford with an economic incentive to assist us to be successful. Wexford is not subject to any obligation to maintain its ownership interest in us and may elect at any time thereafter to sell all or a substantial portion of or otherwise reduce its ownership interest in us. If Wexford sells all or a substantial portion of its ownership interest in us, Wexford may have less incentive to assist in our success and its affiliate(s) that serve as members of our board of directors may resign. Such actions could adversely affect our ability to successfully implement our business strategies which could adversely affect our cash flows or results of operations. We also receive certain services, including drilling services from entities controlled by Wexford. These service contracts may generally be terminated on 30-days notice. In the event Wexford ceases to own a significant ownership interest in us, such services may not be available to us on terms acceptable to us, if at all.

### **Drilling for and producing oil and natural gas are high-risk activities with many uncertainties that may result in a total loss of investment and adversely affect our business, financial condition or results of operations.**

Our drilling activities are subject to many risks. For example, we cannot assure you that new wells drilled by us will be productive or that we will recover all or any portion of our investment in such wells. Drilling for oil and natural gas often involves unprofitable efforts, not only from dry wells but also from wells that are productive but do not produce sufficient oil or natural gas to return a profit at then realized prices after deducting drilling, operating and other costs. The seismic data and other technologies we use do not allow us to know conclusively prior to drilling a well that oil or natural gas is present or that it can be produced economically. The costs of exploration, exploitation and development activities are subject to numerous uncertainties beyond our control, and increases in those costs can adversely affect the economics of a project. Further, our drilling and producing operations may be curtailed, delayed, canceled or otherwise negatively impacted as a result of other factors, including:

unusual or unexpected geological formations;

loss of drilling fluid circulation;

title problems;

## **Table of Contents**

facility or equipment malfunctions;

unexpected operational events;

shortages or delivery delays of equipment and services;

compliance with environmental and other governmental requirements; and

adverse weather conditions.

Any of these risks can cause substantial losses, including personal injury or loss of life, damage to or destruction of property, natural resources and equipment, pollution, environmental contamination or loss of wells and other regulatory penalties.

### **Our development and exploratory drilling efforts and our well operations may not be profitable or achieve our targeted returns.**

Historically, we have acquired significant amounts of unproved property in order to further our development efforts and expect to continue to undertake acquisitions in the future. Development and exploratory drilling and production activities are subject to many risks, including the risk that no commercially productive reservoirs will be discovered. We acquire unproved properties and lease undeveloped acreage that we believe will enhance our growth potential and increase our earnings over time. However, we cannot assure you that all prospects will be economically viable or that we will not abandon our investments. Additionally, we cannot assure you that unproved property acquired by us or undeveloped acreage leased by us will be profitably developed, that new wells drilled by us in prospects that we pursue will be productive or that we will recover all or any portion of our investment in such unproved property or wells.

Drilling for oil and natural gas may involve unprofitable efforts, not only from dry wells but also from wells that are productive but do not produce sufficient commercial quantities to cover the drilling, operating and other costs. The cost of drilling, completing and operating a well is often uncertain, and many factors can adversely affect the economics of a well or property. Drilling operations may be curtailed, delayed or canceled as a result of unexpected drilling conditions, equipment failures or accidents, shortages of equipment or personnel, environmental issues and for other reasons. In addition, wells that are profitable may not meet our internal return targets, which are dependent upon the current and expected future market prices for oil and natural gas, expected costs associated with producing oil and natural gas and our ability to add reserves at an acceptable cost.

### **Operating hazards and uninsured risks may result in substantial losses and could prevent us from realizing profits.**

Our operations are subject to all of the hazards and operating risks associated with drilling for and production of oil and natural gas, including the risk of fire, explosions, blowouts, surface cratering, uncontrollable flows of natural gas, oil and formation water, pipe or pipeline failures, abnormally pressured formations, casing collapses and environmental hazards such as oil spills, gas leaks and ruptures or discharges of toxic gases. In addition, our operations are subject to risks associated with hydraulic fracturing, including any mishandling, surface spillage or potential underground migration of fracturing fluids, including chemical additives. The occurrence of any of these events could result in substantial losses to us due to injury or loss of life, severe damage to or destruction of property, natural resources and equipment, pollution or other environmental damage, clean-up responsibilities, regulatory investigations and penalties, suspension of operations and repairs required to resume operations.

We endeavor to contractually allocate potential liabilities and risks between us and the parties that provide us with services and goods, which include pressure pumping and hydraulic fracturing, drilling and cementing services and tubular goods for surface, intermediate and production casing. Under our agreements with our vendors, to the extent responsibility for environmental liability is allocated between the parties, (i) our vendors

## **Table of Contents**

generally assume all responsibility for control and removal of pollution or contamination which originates above the surface of the land and is directly associated with such vendors' equipment while in their control and (ii) we generally assume the responsibility for control and removal of all other pollution or contamination which may occur during our operations, including pre-existing pollution and pollution which may result from fire, blowout, cratering, seepage or any other uncontrolled flow of oil, gas or other substances, as well as the use or disposition of all drilling fluids. In addition, we generally agree to indemnify our vendors for loss or destruction of vendor-owned property that occurs in the well hole (except for damage that occurs when a vendor is performing work on a footage, rather than day work, basis) or as a result of the use of equipment, certain corrosive fluids, additives, chemicals or proppants. However, despite this general allocation of risk, we might not succeed in enforcing such contractual allocation, might incur an unforeseen liability falling outside the scope of such allocation or may be required to enter into contractual arrangements with terms that vary from the above allocations of risk. As a result, we may incur substantial losses which could materially and adversely affect our financial condition and results of operation.

In accordance with what we believe to be customary industry practice, we historically have maintained insurance against some, but not all, of our business risks. Our insurance may not be adequate to cover any losses or liabilities we may suffer. Also, insurance may no longer be available to us or, if it is, its availability may be at premium levels that do not justify its purchase. The occurrence of a significant uninsured claim, a claim in excess of the insurance coverage limits maintained by us or a claim at a time when we are not able to obtain liability insurance could have a material adverse effect on our ability to conduct normal business operations and on our financial condition, results of operations or cash flow. In addition, we may not be able to secure additional insurance or bonding that might be required by new governmental regulations. This may cause us to restrict our operations, which might severely impact our financial position. We may also be liable for environmental damage caused by previous owners of properties purchased by us, which liabilities may not be covered by insurance.

Since hydraulic fracturing activities are part of our operations, they are covered by our insurance against claims made for bodily injury, property damage and clean-up costs stemming from a sudden and accidental pollution event. However, we may not have coverage if we are unaware of the pollution event and unable to report the occurrence to our insurance company within the time frame required under our insurance policy. We have no coverage for gradual, long-term pollution events. In addition, these policies do not provide coverage for all liabilities, and we cannot assure you that the insurance coverage will be adequate to cover claims that may arise, or that we will be able to maintain adequate insurance at rates we consider reasonable. A loss not fully covered by insurance could have a material adverse effect on our financial position, results of operations and cash flows.

### **Competition in the oil and natural gas industry is intense, which may adversely affect our ability to succeed.**

The oil and natural gas industry is intensely competitive, and we compete with other companies that have greater resources than us. Many of these companies not only explore for and produce oil and natural gas, but also carry on midstream and refining operations and market petroleum and other products on a regional, national or worldwide basis. These companies may be able to pay more for productive oil and natural gas properties and exploratory prospects or define, evaluate, bid for and purchase a greater number of properties and prospects than our financial or human resources permit. In addition, these companies may have a greater ability to continue exploration activities during periods of low oil and natural gas market prices. Our larger competitors may be able to absorb the burden of present and future federal, state, local and other laws and regulations more easily than we can, which would adversely affect our competitive position. Our ability to acquire additional properties and to discover reserves in the future will be dependent upon our ability to evaluate and select suitable properties and to consummate transactions in a highly competitive environment. In addition, because we have fewer financial and human resources than many companies in our industry, we may be at a disadvantage in bidding for exploratory prospects and producing oil and natural gas properties.

---

## **Table of Contents**

**Our use of 2-D and 3-D seismic data is subject to interpretation and may not accurately identify the presence of oil and natural gas, which could adversely affect the results of our drilling operations.**

Even when properly used and interpreted, 2-D and 3-D seismic data and visualization techniques are only tools used to assist geoscientists in identifying subsurface structures and hydrocarbon indicators and do not enable the interpreter to know whether hydrocarbons are, in fact, present in those structures. In addition, the use of 3-D seismic and other advanced technologies requires greater predrilling expenditures than traditional drilling strategies, and we could incur losses as a result of such expenditures. As a result, our drilling activities may not be successful or economical.

**We will be subject to certain requirements of Section 404 of the Sarbanes-Oxley Act. If we are unable to timely comply with Section 404 or if the costs related to compliance are significant, our profitability, stock price and results of operations and financial condition could be materially adversely affected.**

We will be required to comply with certain provisions of Section 404 of the Sarbanes-Oxley Act of 2002 as of December 31, 2013. Section 404 requires that we document and test our internal control over financial reporting and issue management's assessment of our internal control over financial reporting. This section also requires that our independent registered public accounting firm opine on those internal controls if and when we become a large accelerated filer, as defined in the SEC rules, or if we otherwise cease to qualify for an exemption from the requirement to provide auditors' attestation on internal controls afforded to emerging growth companies under the Jumpstart Our Business Startups Act enacted by the U.S. Congress in April 2012. We are currently evaluating our existing controls against the standards adopted by the Committee of Sponsoring Organizations of the Treadway Commission. During the course of our ongoing evaluation and integration of our internal control over financial reporting, we may identify areas requiring improvement, and we may have to design enhanced processes and controls to address issues identified through this review.

We believe that the out-of-pocket costs, the diversion of management's attention from running the day-to-day operations and operational changes caused by the need to comply with the requirements of Section 404 of the Sarbanes-Oxley Act could be significant. If the time and costs associated with such compliance exceed our current expectations, our results of operations could be adversely affected.

We cannot be certain at this time that we will be able to successfully complete the procedures, certification and attestation requirements of Section 404 of the Sarbanes-Oxley Act or that we or our auditors will not identify material weaknesses in internal control over financial reporting. If we fail to comply with the requirements of Section 404 of the Sarbanes-Oxley Act or if we or our auditors identify and report such material weaknesses, the accuracy and timeliness of the filing of our annual and quarterly reports may be materially adversely affected and could cause investors to lose confidence in our reported financial information, which could have a negative effect on the trading price of our common stock. In addition, a material weakness in the effectiveness of our internal control over financial reporting could result in an increased chance of fraud and the loss of customers, reduce our ability to obtain financing and require additional expenditures to comply with these requirements, each of which could have a material adverse effect on our business, results of operations and financial condition.

**Increased costs of capital could adversely affect our business.**

Our business and operating results could be harmed by factors such as the availability, terms and cost of capital, increases in interest rates or a reduction in our credit rating. Changes in any one or more of these factors could cause our cost of doing business to increase, limit our access to capital, limit our ability to pursue acquisition opportunities, reduce our cash flows available for drilling and place us at a competitive disadvantage. Continuing disruptions and volatility in the global financial markets may lead to an increase in interest rates or a contraction in credit availability impacting our ability to finance our operations. We require continued access to capital. A significant reduction in the availability of credit could materially and adversely affect our ability to achieve our planned growth and operating results.

---

## **Table of Contents**

**We recorded stock-based compensation expense in 2012 and the first nine months of 2013 and we may incur substantial additional compensation expense related to our future grants of stock compensation which may have a material negative impact on our operating results for the foreseeable future.**

As a result of outstanding stock-based compensation awards, we recorded \$6.3 million of compensation expense in 2012 and \$1.4 million of compensation expense in the first nine months of 2013. In addition, our compensation expenses may increase in the future as compared to our historical expenses because of the costs associated with our existing and possible future incentive plans. These additional expenses could adversely affect our net income. The future expense will be dependent upon the number of share-based awards issued and the fair value of the options or shares of common stock at the date of the grant; however, they may be significant. We will recognize expenses for restricted stock awards and stock options generally over the vesting period of awards made to recipients.

**Loss of our information and computer systems could adversely affect our business.**

We are heavily dependent on our information systems and computer based programs, including our well operations information, seismic data, electronic data processing and accounting data. If any of such programs or systems were to fail or create erroneous information in our hardware or software network infrastructure, possible consequences include our loss of communication links, inability to find, produce, process and sell oil and natural gas and inability to automatically process commercial transactions or engage in similar automated or computerized business activities. Any such consequence could have a material adverse effect on our business.

**A terrorist attack or armed conflict could harm our business.**

Terrorist activities, anti-terrorist efforts and other armed conflicts involving the United States or other countries may adversely affect the United States and global economies and could prevent us from meeting our financial and other obligations. If any of these events occur, the resulting political instability and societal disruption could reduce overall demand for oil and natural gas, potentially putting downward pressure on demand for our services and causing a reduction in our revenues. Oil and natural gas related facilities could be direct targets of terrorist attacks, and our operations could be adversely impacted if infrastructure integral to our customers' operations is destroyed or damaged. Costs for insurance and other security may increase as a result of these threats, and some insurance coverage may become more difficult to obtain, if available at all.

## **Risks Related to Our Indebtedness**

**Our substantial level of indebtedness could adversely affect our financial condition and prevent us from fulfilling our obligations under the senior notes and our other indebtedness.**

As of September 30, 2013, we had total long-term debt of \$450.1 million, including \$450.0 million outstanding under the senior notes, and borrowing base availability of \$67.5 million under our revolving credit facility. On November 1, 2013, our borrowing base was increased to \$225.0 million. We may in the future incur significant additional indebtedness under our revolving credit facility or otherwise in order to make acquisitions, to develop our properties or for other purposes.

Our level of indebtedness could have important consequences to you and affect our operations in several ways, including the following:

a significant portion of our cash flows could be used to service the senior notes and our other indebtedness, which could reduce the funds available to us for operations and other purposes;

a high level of debt could increase our vulnerability to general adverse economic and industry conditions;

the covenants contained in the agreements governing our outstanding indebtedness will limit our ability to borrow additional funds, dispose of assets, pay dividends and make certain investments;

## **Table of Contents**

a high level of debt may place us at a competitive disadvantage compared to our competitors that are less leveraged and, therefore, may be able to take advantage of opportunities that our indebtedness would prevent us from pursuing;

our debt covenants may also limit management's discretion in operating our business and our flexibility in planning for, and reacting to, changes in the economy and in our industry;

a high level of debt may make it more likely that a reduction in our borrowing base following a periodic redetermination could require us to repay a portion of our then-outstanding bank borrowings;

limit our ability to access the capital markets to raise capital on favorable terms;

a high level of debt may impair our ability to obtain additional financing in the future for working capital, capital expenditures, acquisitions, general corporate or other purposes; and

we may be vulnerable to interest rate increases, as our borrowings under our revolving credit facility are at variable interest rates. A high level of indebtedness increases the risk that we may default on our debt obligations. Our ability to meet our debt obligations and to reduce our level of indebtedness depends on our future performance. General economic conditions, oil and natural gas prices and financial, business and other factors affect our operations and our future performance. Many of these factors are beyond our control. We may not be able to generate sufficient cash flows to pay the interest on our debt, and future working capital, borrowings or equity financing may not be available to pay or refinance such debt. Factors that will affect our ability to raise cash through an offering of our capital stock or a refinancing of our debt include financial market conditions, the value of our assets and our performance at the time we need capital.

### **Restrictive covenants in our revolving credit facility, the indenture governing the senior notes and future debt instruments may limit our ability to respond to changes in market conditions or pursue business opportunities.**

Our revolving credit facility and the indenture governing the senior notes contains, and the terms of any future indebtedness may contain, restrictive covenants that limit our ability to, among other things:

incur or guarantee additional indebtedness;

make certain investments;

create additional liens;

sell or transfer assets;

issue preferred stock;

merge or consolidate with another entity;

pay dividends or make other distributions;

designate certain of our subsidiaries as unrestricted subsidiaries;

create unrestricted subsidiaries;

engage in transactions with affiliates; and

enter into certain swap agreements.

We may be prevented from taking advantage of business opportunities that arise because of the limitations imposed on us by the restrictive covenants contained in our revolving credit facility and the indenture governing the senior notes. In addition, our revolving credit facility requires us to maintain certain financial ratios and tests. The requirement that we comply with these provisions may materially adversely affect our ability to react to

S-41

## **Table of Contents**

changes in market conditions, take advantage of business opportunities we believe to be desirable, obtain future financing, fund needed capital expenditures or withstand a continuing or future downturn in our business.

A breach of any of these restrictive covenants could result in default under our revolving credit facility. If default occurs, the lenders under our revolving credit facility may elect to declare all borrowings outstanding, together with accrued interest and other fees, to be immediately due and payable, which would result in an event of default under the indenture governing the senior notes. The lenders will also have the right in these circumstances to terminate any commitments they have to provide further borrowings. If we are unable to repay outstanding borrowings when due, the lenders under our revolving credit facility will also have the right to proceed against the collateral granted to them to secure the indebtedness. If the indebtedness under our revolving credit facility and the senior notes were to be accelerated, we cannot assure you that our assets would be sufficient to repay in full that indebtedness.

### **We may not have sufficient funds to repay borrowings under our revolving credit facility if required as a result of a borrowing base redetermination.**

On November 1, 2013, our borrowing base under our revolving credit facility was increased to \$225.0 million. The borrowing base is subject to scheduled semi-annual and other elective collateral borrowing base redeterminations based on our oil and natural gas reserves and other factors. Although we do not currently have any borrowings outstanding under our revolving credit facility, we intend to reborrow under our revolving credit facility in the future. If the outstanding borrowings under our revolving credit facility were to exceed the borrowing base as a result of any such recalculation, we would be required to repay the excess. We may not have sufficient funds to make such repayments. If we do not have sufficient funds and we are otherwise unable to negotiate renewals of our borrowings or arrange new financing, we may have to sell significant assets. Any such sale could have a material adverse effect on our business and financial results.

### **Servicing our indebtedness requires a significant amount of cash, and we may not have sufficient cash flow from our business to pay our substantial indebtedness.**

Our ability to make scheduled payments of the principal of, to pay interest on or to refinance our indebtedness, including the senior notes, depends on our future performance, which is subject to economic, financial, competitive and other factors beyond our control. Our business may not generate cash flow from operations in the future sufficient to service our debt and make necessary capital expenditures. If we are unable to generate such cash flow, we may be required to adopt one or more alternatives, such as reducing or delaying capital expenditures, selling assets, restructuring debt or obtaining additional equity capital on terms that may be onerous or highly dilutive. However, we cannot assure you that undertaking alternative financing plans, if necessary, would allow us to meet our debt obligations. In the absence of such cash flows, we could have substantial liquidity problems and might be required to sell material assets or operations to attempt to meet our debt service and other obligations. Our revolving credit facility and the indenture governing the senior notes restrict our ability to use the proceeds from asset sales. We may not be able to consummate those asset sales to raise capital or sell assets at prices that we believe are fair, and proceeds that we do receive may not be adequate to meet any debt service obligations then due. Our ability to refinance our indebtedness will depend on the capital markets and our financial condition at the time. We may not be able to engage in any of these activities or engage in these activities on desirable terms, which could result in a default on our debt obligations and have an adverse effect on our financial condition.

### **We may still be able to incur substantial additional indebtedness in the future, which could further exacerbate the risks that we and our subsidiaries face.**

We and our subsidiaries may be able to incur substantial additional indebtedness in the future. The terms of our revolving credit facility and the indenture governing the senior notes restrict, but in each case do not completely prohibit, us from doing so. As of the date of this prospectus supplement, we have \$225.0 million of



## **Table of Contents**

undrawn availability under our revolving credit facility. In addition, the indenture governing the senior notes allows us to issue additional notes under certain circumstances which will also be guaranteed by the guarantors. The indenture governing the senior notes also allows us to incur certain other additional secured debt and allows us to have subsidiaries that do not guarantee the senior notes and which may incur additional debt, which would be structurally senior to the senior notes. In addition, the indenture governing the senior notes does not prevent us from incurring other liabilities that do not constitute indebtedness. If we or a guarantor incur any additional indebtedness that ranks equally with the senior notes (or with the guarantees thereof), including additional unsecured indebtedness or trade payables, the holders of that indebtedness will be entitled to share ratably with holders of the senior notes in any proceeds distributed in connection with any insolvency, liquidation, reorganization, dissolution or other winding-up of us or a guarantor. If new debt or other liabilities are added to our current debt levels, the related risks that we and our subsidiaries now face could intensify.

### **Our borrowings under our revolving credit facility expose us to interest rate risk.**

Our earnings are exposed to interest rate risk associated with borrowings under our revolving credit facility, which bear interest at a rate elected by us that is based on the prime rate, or LIBOR, plus margins ranging from 0.5% to 2.5% depending on the base rate used and the amount of the loan outstanding in relation to the borrowing base. As of May 21, 2013 (the last day on which borrowings were outstanding under our revolving credit facility), the weighted average interest rate on such borrowings was 2.70%. If interest rates increase, so will our interest costs, which may have a material adverse effect on our results of operations and financial condition.

### **Any significant reduction in our borrowing base under our revolving credit facility as a result of the periodic borrowing base redeterminations or otherwise may negatively impact our ability to fund our operations.**

Under our revolving credit facility, which currently provides for a \$225.0 million borrowing base, we are subject to semi-annual and other elective collateral borrowing base redeterminations based on our oil and natural gas reserves and other factors. Any significant reduction in our borrowing base as a result of such borrowing base redeterminations or otherwise may negatively impact our liquidity and our ability to fund our operations and, as a result, may have a material adverse effect on our financial position, results of operation and cash flow.

## **Risks Related to this Offering and Our Common Stock**

### **Our two largest stockholders control a significant percentage of our common stock, and their interests may conflict with those of our other stockholders.**

Wexford beneficially owns approximately 25.0% of our common stock and, upon completion of this offering, Gulfport will beneficially own approximately 7.8% of our common stock, or 7.2% if the underwriters exercise their option to purchase additional shares in full. See *Selling Stockholder* on page S-53 of this prospectus supplement. In addition, individuals affiliated with Wexford and Gulfport serve on our Board of Directors, and Gulfport has the right to designate one individual as a nominee for election to our Board of Directors so long as it continues to beneficially own more than 10% of our outstanding common stock. As a result, Wexford and Gulfport, together, are able to control, and Wexford alone will continue to be able to exercise significant influence over, matters requiring stockholder approval, including the election of directors, changes to our organizational documents and significant corporate transactions. This concentration of ownership makes it unlikely that any other holder or group of holders of our common stock will be able to affect the way we are managed or the direction of our business. The interests of Wexford and Gulfport with respect to matters potentially or actually involving or affecting us, such as future acquisitions, financings and other corporate opportunities and attempts to acquire us, may conflict with the interests of our other stockholders. This continued concentrated ownership will make it difficult for another company to acquire us and for you to receive any related takeover premium for your shares unless Wexford approves the acquisition.

---

**Table of Contents**

**The corporate opportunity provisions in our certificate of incorporation could enable Wexford, our equity sponsor, or other affiliates of ours to benefit from corporate opportunities that might otherwise be available to us.**

Subject to the limitations of applicable law, our certificate of incorporation, among other things:

permits us to enter into transactions with entities in which one or more of our officers or directors are financially or otherwise interested;

permits any of our stockholders, officers or directors to conduct business that competes with us and to make investments in any kind of property in which we may make investments; and

provides that if any director or officer of one of our affiliates who is also one of our officers or directors becomes aware of a potential business opportunity, transaction or other matter (other than one expressly offered to that director or officer in writing solely in his or her capacity as our director or officer), that director or officer will have no duty to communicate or offer that opportunity to us, and will be permitted to communicate or offer that opportunity to such affiliates and that director or officer will not be deemed to have (i) acted in a manner inconsistent with his or her fiduciary or other duties to us regarding the opportunity or (ii) acted in bad faith or in a manner inconsistent with our best interests.

These provisions create the possibility that a corporate opportunity that would otherwise be available to us may be used for the benefit of one of our affiliates.

**We have engaged in transactions with our affiliates and expect to do so in the future. The terms of such transactions and the resolution of any conflicts that may arise may not always be in our or our stockholders' best interests.**

We have engaged in transactions and expect to continue to engage in transactions with affiliated companies. As described in our Annual Report on Form 10-K for the year ended December 31, 2012, our Quarterly Reports on Form 10-Q and under the caption *Certain Relationships and Related Party Transactions* in our most recent proxy statement on Schedule 14A, each of which is incorporated by reference herein, these transactions include, among others, drilling services provided to us by Bison Drilling and Field Services, LLC, real property leased by us from Fasken Midland, LLC and Caliber Investment Group, LLC, hydraulic fracturing sand purchased by us from Muskie Proppant LLC and certain administrative services provided to us by Everest Operations Management LLC. Each of these entities is either controlled by or affiliated with Wexford, and the resolution of any conflicts that may arise in connection with such related party transactions, including pricing, duration or other terms of service, may not always be in our or our stockholders' best interests because Wexford may have the ability to influence the outcome of these conflicts. For a discussion of potential conflicts, see *Risks Related to this Offering and our Common Stock* *Our two largest stockholders control a significant percentage of our common stock, and their interests may conflict with those of our other stockholders* on page S-43 of this prospectus supplement.

**We incur increased costs as a result of being a public company, which may significantly affect our financial condition.**

We completed our initial public offering in October 2012. As a public company, we incur significant legal, accounting and other expenses that we did not incur as a private company. We also incur costs associated with our public company reporting requirements and with corporate governance requirements, including requirements under the Sarbanes-Oxley Act of 2002, as well as rules implemented by the SEC and the Financial Industry Regulatory Authority. These rules and regulations increase our legal and financial compliance costs and make some activities more time-consuming and costly, and we expect that these costs may increase further after we are no longer an emerging growth company. These rules and regulations make it more difficult and more expensive for us to obtain director and officer liability insurance and we may be required to accept reduced policy limits and coverage or incur substantially higher costs to obtain the same or similar coverage. As a result, it may be more difficult for us to attract and retain qualified individuals to serve on our board of directors or as executive officers.

---

## **Table of Contents**

**We are an emerging growth company and we cannot be certain if the reduced disclosure requirements applicable to emerging growth companies will make our common stock less attractive to investors.**

We are, and through December 31, 2013 will remain, an emerging growth company, as defined in the Jumpstart our Business Startups Act of 2012. Until we cease to be an emerging growth company we may take advantage of certain exemptions from various reporting requirements that are applicable to other public companies, including, but not limited to, not being required to comply with the auditor attestation requirements of Section 404 of the Sarbanes-Oxley Act, reduced disclosure obligations regarding executive compensation in our periodic reports and proxy statements, and exemptions from the requirements of holding a nonbinding advisory vote on executive compensation and shareholder approval of any golden parachute payments not previously approved. Investors may find our common stock less attractive because we rely on these exemptions. If some investors find our common stock less attractive as a result, there may be a less active trading market for our common stock and our stock price may be more volatile.

Under the Jumpstart Our Business Startups Act, emerging growth companies can delay adopting new or revised accounting standards until such time as those standards apply to private companies. We have irrevocably elected not to avail ourselves to this exemption from new or revised accounting standards and, therefore, we will be subject to the same new or revised accounting standards as other public companies that are not emerging growth companies.

After we are no longer an emerging growth company, we expect to incur significant additional expenses and devote substantial management effort toward ensuring compliance with those requirements applicable to companies that are not emerging growth companies, including Section 404 of the Sarbanes-Oxley Act. See *Risks Related to the Oil and Natural Gas Industry and Our Business We will be subject to certain requirements of Section 404 of the Sarbanes-Oxley Act. If we are unable to timely comply with Section 404 or if the costs related to compliance are significant, our profitability, stock price and results of operations and financial condition could be materially adversely affected* on page S-39 of this prospectus supplement.

**If the price of our common stock fluctuates significantly, your investment could lose value.**

Although our common stock is listed on the NASDAQ Select Global Market, we cannot assure you that an active public market will continue for our common stock. If an active public market for our common stock does not continue, the trading price and liquidity of our common stock will be materially and adversely affected. If there is a thin trading market or float for our stock, the market price for our common stock may fluctuate significantly more than the stock market as a whole. Without a large float, our common stock would be less liquid than the stock of companies with broader public ownership and, as a result, the trading prices of our common stock may be more volatile. In addition, in the absence of an active public trading market, investors may be unable to liquidate their investment in us. Furthermore, the stock market is subject to significant price and volume fluctuations, and the price of our common stock could fluctuate widely in response to several factors, including:

our quarterly or annual operating results;

changes in our earnings estimates;

investment recommendations by securities analysts following our business or our industry;

additions or departures of key personnel;

changes in the business, earnings estimates or market perceptions of our competitors;

our failure to achieve operating results consistent with securities analysts' projections;

changes in industry, general market or economic conditions; and

announcements of legislative or regulatory changes.

S-45

## **Table of Contents**

The stock market has experienced extreme price and volume fluctuations in recent years that have significantly affected the quoted prices of the securities of many companies, including companies in our industry. The changes often appear to occur without regard to specific operating performance. The price of our common stock could fluctuate based upon factors that have little or nothing to do with our company and these fluctuations could materially reduce our stock price.

### **Future sales of our common stock, or the perception that such future sales may occur, may cause our stock price to decline.**

Sales of substantial amounts of our common stock in the public market, or the perception that these sales may occur, could cause the market price of our common stock to decline. In addition, the sale of such shares, or the perception that such sales may occur, could impair our ability to raise capital through the sale of additional common or preferred stock. Except for any shares purchased by our affiliates, all of the shares of common stock sold in our initial public offering and our subsequent equity offering are, and all of the shares of common stock sold in this offering will be, freely tradable. Our directors and executive officers and Gulfport are subject to agreements that limit their ability to sell our common stock held by them. These holders cannot sell or otherwise dispose of any shares of our common stock for a period of 60 days, in the case of our directors and executive officers, and 45 days, in the case of Gulfport, after the date of this prospectus supplement without the prior written approval of Credit Suisse Securities (USA) LLC. However, these lock-up agreements are subject to certain specific exceptions, including transfers of common stock as a bona fide gift or by will or intestate succession and transfers to such person's immediate family or to a trust or to an entity controlled by such holder, provided that the recipient of the shares agrees to be bound by the same restrictions on sales and, in the case of our executive officers and directors, the right of such individuals to sell up to 300,000 shares in the aggregate. In connection with our initial public offering, we also granted DB Energy Holdings LLC, or DB Holdings, and Gulfport and their respective affiliates certain registration rights obligating us to register with the SEC their shares of our common stock. In the event that one or more of our stockholders sells a substantial amount of our common stock in the public market, or the market perceives that such sales may occur, the price of our stock could decline.

### **If securities or industry analysts do not publish research or reports about our business, if they adversely change their recommendations regarding our stock or if our operating results do not meet their expectations, our stock price could decline.**

The trading market for our common stock will be influenced by the research and reports that industry or securities analysts publish about us or our business. If one or more of these analysts cease coverage of our company or fail to publish reports on us regularly, we could lose visibility in the financial markets, which in turn could cause our stock price or trading volume to decline. Moreover, if one or more of the analysts who cover our company downgrade our stock or if our operating results do not meet their expectations, our stock price could decline.

### **We may issue preferred stock whose terms could adversely affect the voting power or value of our common stock.**

Our certificate of incorporation authorizes us to issue, without the approval of our stockholders, one or more classes or series of preferred stock having such designations, preferences, limitations and relative rights, including preferences over our common stock respecting dividends and distributions, as our board of directors may determine. The terms of one or more classes or series of preferred stock could adversely impact the voting power or value of our common stock. For example, we might grant holders of preferred stock the right to elect some number of our directors in all events or on the happening of specified events or the right to veto specified transactions. Similarly, the repurchase or redemption rights or liquidation preferences we might assign to holders of preferred stock could affect the residual value of the common stock.

## **Table of Contents**

**Provisions in our certificate of incorporation and bylaws and Delaware law make it more difficult to effect a change in control of the company, which could adversely affect the price of our common stock.**

The existence of some provisions in our certificate of incorporation and bylaws and Delaware corporate law could delay or prevent a change in control of our company, even if that change would be beneficial to our stockholders. Our certificate of incorporation and bylaws contain provisions that may make acquiring control of our company difficult, including:

provisions regulating the ability of our stockholders to nominate directors for election or to bring matters for action at annual meetings of our stockholders;

limitations on the ability of our stockholders to call a special meeting and act by written consent;

the ability of our board of directors to adopt, amend or repeal bylaws, and the requirement that the affirmative vote of holders representing at least 66 2/3% of the voting power of all outstanding shares of capital stock be obtained for stockholders to amend our bylaws;

the requirement that the affirmative vote of holders representing at least 66 2/3% of the voting power of all outstanding shares of capital stock be obtained to remove directors;

the requirement that the affirmative vote of holders representing at least 66 2/3% of the voting power of all outstanding shares of capital stock be obtained to amend our certificate of incorporation; and

the authorization given to our board of directors to issue and set the terms of preferred stock without the approval of our stockholders. These provisions also could discourage proxy contests and make it more difficult for you and other stockholders to elect directors and take other corporate actions. As a result, these provisions could make it more difficult for a third party to acquire us, even if doing so would benefit our stockholders, which may limit the price that investors are willing to pay in the future for shares of our common stock.

**We do not intend to pay cash dividends on our common stock in the foreseeable future, and therefore only appreciation of the price of our common stock will provide a return to our stockholders.**

We currently anticipate that we will retain all future earnings, if any, to finance the growth and development of our business. We do not intend to pay cash dividends in the foreseeable future. Any future determination as to the declaration and payment of cash dividends will be at the discretion of our board of directors and will depend upon our financial condition, results of operations, contractual restrictions, capital requirements, business prospects and other factors deemed relevant by our board of directors. In addition, the terms of our revolving credit facility prohibit us from paying dividends and making other distributions. As a result, only appreciation of the price of our common stock, which may not occur, will provide a return to our stockholders.

**Table of Contents**

**CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS**

This prospectus supplement and the accompanying prospectus, including the documents incorporated by reference, contain forward-looking statements. These forward-looking statements are subject to a number of risks and uncertainties, many of which are beyond our control, which may include statements about our:

business strategy;

exploration and development drilling prospects, inventories, projects and programs;

expectations regarding our recently completed acquisitions described under *Prospectus Supplement Summary Recent Developments* ;

oil and natural gas reserves;

identified drilling locations;

ability to obtain permits and governmental approvals;

technology;

financial strategy;

realized oil and natural gas prices;

production;

lease operating expenses, general and administrative costs and finding and development costs;

future operating results; and

plans, objectives, expectations and intentions.

All of these types of statements, other than statements of historical fact included or incorporated by reference in this prospectus supplement and the accompanying prospectus, are forward-looking statements. These forward-looking statements may be found in the *Prospectus Supplement Summary* and *Risk Factors* beginning on pages S-2 and S-19, respectively, of this prospectus supplement, in *Business and Management's Discussion and Analysis of Financial Condition and Results of Operations* in our Annual Report for the year ended December 31, 2012 incorporated by reference herein and in our Quarterly Reports on Form 10-Q for the three months ended March 31, 2013, June 30, 2013 and September 30, 2013 incorporated by reference herein and elsewhere in this prospectus supplement and the accompanying prospectus and the documents incorporated herein. In some cases, you can identify forward-looking statements by terminology such as *may*, *could*, *should*, *expect*,

## Edgar Filing: Diamondback Energy, Inc. - Form 424B5

plan, project, intend, anticipate, believe, estimate, predict, potential, pursue, target, seek, objective or continue, the n  
other comparable terminology.

The forward-looking statements contained or incorporated by reference in this prospectus supplement and the accompanying prospectus are largely based on our expectations, which reflect estimates and assumptions made by our management. These estimates and assumptions reflect our best judgment based on currently known market conditions and other factors. Although we believe such estimates and assumptions to be reasonable, they are inherently uncertain and involve a number of risks and uncertainties that are beyond our control. In addition, our management's assumptions about future events may prove to be inaccurate. Our management cautions all readers that the forward-looking statements contained or incorporated by reference in this prospectus supplement and the accompanying prospectus are not guarantees of future performance, and we cannot assure any reader that such statements will be realized or the forward-looking events and circumstances will occur. Actual results may differ materially from those anticipated or implied in the forward-looking statements due to the many factors including those described under *Risk Factors* in this prospectus supplement and the accompanying prospectus and in our Annual Report on Form 10-K for the year ended December 31, 2012 incorporated by reference herein

S-48



**Table of Contents**

and elsewhere in this prospectus supplement and the accompanying prospectus. All forward-looking statements contained in this prospectus supplement and the accompanying prospectus or included in a document incorporated by reference herein speak only as of the date hereof or thereof, respectively. We do not intend to publicly update or revise any forward-looking statements as a result of new information, future events or otherwise. These cautionary statements qualify all forward-looking statements attributable to us or persons acting on our behalf.

S-49

**Table of Contents**

**USE OF PROCEEDS**

The selling stockholder is selling all of the shares of our common stock being sold in this offering, including any shares that may be sold in connection with the underwriters' option to purchase additional shares. See *Selling Stockholder* beginning on page S-53 of this prospectus supplement. Accordingly, we will not receive any proceeds from the sale of shares of our common stock in this offering. We will bear all costs, fees and expenses in connection with this offering, except that the selling stockholder will pay all underwriting commissions and discounts.

**DIVIDEND POLICY**

We have never declared or paid any cash dividends on our capital stock. We currently intend to retain all available funds and any future earnings for use in the operation and expansion of our business and do not anticipate declaring or paying any cash dividends in the foreseeable future. Any future determination as to the declaration and payment of dividends will be at the discretion of our board of directors and will depend on then-existing conditions, including our financial condition, results of operations, contractual restrictions, capital requirements, business prospects and other factors that our board of directors considers relevant. In addition, the terms of our revolving credit facility restrict the payment of dividends to the holders of our common stock and any other equity holders.

S-50

**Table of Contents****CAPITALIZATION**

The following table sets forth our cash and cash equivalents and capitalization as of September 30, 2013.

You should read the following table in conjunction with *Management's Discussion and Analysis of Financial Condition and Results of Operations* and our combined consolidated financial statements and related notes included in our Quarterly Report on Form 10-Q for the quarter ended September 30, 2013, which is incorporated by reference into this prospectus supplement and the accompanying prospectus.

	<b>As of September 30, 2013</b>
Cash and cash equivalents	\$ 53,100,000
Debt:	
Revolving credit facility(1)	\$
Note payable	230,000
7.625% senior notes due 2021	450,000,000
Total debt	450,230,000
Stockholders' equity:	
Common stock, par value \$0.01; 100,000,000 shares authorized and 47,021,035 shares issued and outstanding actual	470,000
Additional paid-in capital	840,079,000
Accumulated deficit	(17,611,000)
Total stockholders' equity	822,938,000
Total capitalization	\$ 1,273,168,000

- (1) As of the date of this prospectus supplement, there are no borrowings outstanding under our revolving credit facility and we have available borrowing capacity of \$225.0 million.

**Table of Contents**

**PRICE RANGE OF COMMON STOCK**

Our common stock is listed and traded on the NASDAQ Global Select Market under the symbol FANG. Our common stock began trading on October 12, 2012 at an initial public offering price of \$17.50 per share.

The following table sets forth the range of high and low sales prices of our common stock for the periods presented:

<b>Year</b>	<b>Quarter</b>	<b>High</b>	<b>Low</b>
2012	4 <sup>th</sup> Quarter(1)	\$ 19.89	\$ 15.65
2013	1 <sup>st</sup> Quarter	\$ 27.21	\$ 18.60
2013	2 <sup>nd</sup> Quarter	\$ 35.91	\$ 23.83
2013	3 <sup>rd</sup> Quarter	\$ 47.22	\$ 33.42
2013	4 <sup>th</sup> Quarter(2)	\$ 56.16	\$ 42.18

- (1) Represents the period from October 12, 2012, the date on which our common stock began trading on the NASDAQ Global Select Market, through December 31, 2012.
- (2) Through November 6, 2013.

The closing price of our common stock on the NASDAQ Global Select Market on November 6, 2013 was \$53.46 per share. Immediately prior to this offering, we had 47,067,116 issued and outstanding shares of common stock, which were held by six holders of record. This number does not include owners for whom common stock may be held in street name or whose common stock is restricted.

**Table of Contents****SELLING STOCKHOLDER**

The following table presents information regarding the selling stockholder in this offering, the shares that the underwriters have agreed to purchase from the selling stockholder and the selling stockholder's shares subject to the underwriters' option to purchase additional shares. In addition, the nature of any position, office or other material relationship which the selling stockholder has had, within the past three years, with us or with any of our predecessors or affiliates, is indicated in a footnote to the table. We will pay all expenses relating to the registration of the shares by the selling stockholder under the Securities Act and any other offering expenses, except that the selling stockholder will pay all underwriting discounts and commissions. We will not receive any proceeds from the sale of our common stock by the selling stockholder.

We prepared the table based on information provided to us by the selling stockholder. We have not sought to verify such information.

Except as otherwise indicated, we believe that the selling stockholder has sole voting and investment power with respect to the shares indicated as beneficially owned.

Name of Selling Stockholder	Shares Beneficially Owned Prior to Offering(1)		Shares Offered	Shares Beneficially Owned After Offering(1)		Additional Shares Offered if Option to Purchase Additional Shares is Exercised in Full	Shares Beneficially Owned After Offering if Option to Purchase Additional Shares is Exercised in Full	
	Number	Percentage		Number	Percentage		Number	Percentage
Gulfport Energy Corporation(2)	5,679,500	12.1%	2,000,000	3,679,500	7.8%	300,000	3,379,500	7.2%

\* Less than 1%.

- (1) Percentage of beneficial ownership is based upon 47,067,116 shares of common stock outstanding as of November 4, 2013. For purposes of this table, a person or group of persons is deemed to have beneficial ownership of any shares which such person has the right to acquire within 60 days. For purposes of computing the percentage of outstanding shares held by each person or group of persons named above, any security which such person or group of persons has the right to acquire within 60 days is deemed to be outstanding for the purpose of computing the percentage ownership for such person or persons, but is not deemed to be outstanding for the purpose of computing the percentage ownership of any other person. As a result, the denominator used in calculating the beneficial ownership among our stockholders may differ.
- (2) Gulfport Energy Corporation's address is 14313 North May Avenue, Suite 100, Oklahoma City, Oklahoma 73134. We have entered into an investor rights agreement with Gulfport, which agreement is incorporated herein by reference. Under this agreement, Gulfport has certain demand and piggyback registration rights. The demand rights enable Gulfport to require us to register its shares of our common stock with the SEC. The piggyback rights allow Gulfport to register the shares of our common stock that it owns along with any shares that we register with the SEC. These registration rights are subject to customary conditions and limitations, including the right of the underwriters of an offering to limit the number of shares. The shares of common stock being offered by Gulfport pursuant to this prospectus supplement and the accompanying prospectus have been included herein under the terms of the demand registration rights. All expenses of such registrations (including both demand and piggyback registrations), other than underwriting discounts and commissions, will be paid by us. For a full description of our material relationships with Gulfport and its affiliates, please see *Certain Relationships and Related Party Transactions* appearing in our definitive proxy statement on Schedule 14A, which information is incorporated herein by reference.

---

**Table of Contents**

**MATERIAL U.S. FEDERAL INCOME AND ESTATE TAX CONSIDERATIONS FOR NON-U.S. HOLDERS**

The following is a general discussion of material U.S. federal income and estate tax consequences of the ownership and disposition of our common stock by a non-U.S. holder (as defined below). This discussion deals only with common stock purchased in this offering that is held as a capital asset within the meaning of Section 1221 of the Internal Revenue Code of 1986, as amended, or the Code (generally, property held for investment), by a non-U.S. holder. Except as modified for estate tax purposes, the term non-U.S. holder means a beneficial owner of our common stock that is not a U.S. person or a partnership for U.S. federal income and estate tax purposes. A U.S. person is any of the following:

an individual who is a citizen or resident of the United States;

a corporation (including any entity treated as a corporation for U.S. federal income tax purposes) created or organized in or under the laws of the United States, any state thereof or the District of Columbia;

an estate whose income is subject to U.S. federal income taxation regardless of its source; or

trust, if a court within the United States is able to exercise primary supervision over the administration of the trust and one or more U.S. persons have authority to control all substantial decisions of the trust, or if it has a valid election in effect under applicable U.S. Treasury Regulations to be treated as a U.S. person.

An individual may generally be treated as a resident of the United States in any calendar year for U.S. federal income tax purposes, by, among other ways, being present in the United States for at least 31 days in that calendar year and for an aggregate of at least 183 days during a three-year period ending in the current calendar year. For purposes of the 183-day calculation, all of the days present in the current year, one-third of the days present in the immediately preceding year and one-sixth of the days present in the second preceding year are counted. Residents are taxed for U.S. federal income tax purposes as if they were U.S. citizens.

This discussion is based upon provisions of the Code, and Treasury Regulations, administrative rulings and judicial decisions, all as of the date hereof. Those authorities may be changed, perhaps retroactively, so as to result in U.S. federal income and estate tax consequences different from those discussed below. No ruling has been or will be sought from the Internal Revenue Service, or IRS, with respect to the matters discussed below, and there can be no assurance the IRS will not take a contrary position regarding the tax consequences of the acquisition, ownership or disposition of our common stock, or that such contrary position would not be sustained by a court. This discussion does not address all aspects of U.S. federal income and estate taxation, including the impact of the unearned income Medicare contribution tax and does not deal with other U.S. federal tax laws (such as gift tax laws) or foreign, state, local or other tax considerations that may be relevant to non-U.S. holders in light of their personal circumstances. In addition, this discussion does not address tax considerations applicable to investors that may be subject to special treatment under the U.S. federal income tax laws, such as (without limitation):

certain former U.S. citizens or residents;

shareholders that hold our common stock as part of a straddle, constructive sale transaction, synthetic security, hedge, conversion transaction or other integrated investment or risk reduction transaction;

shareholders that acquired our common stock through the exercise of employee stock options or otherwise as compensation or through a tax-qualified retirement plan;

shareholders that are partnerships or entities treated as partnerships for U.S. federal income tax purposes or other pass-through entities or owners thereof;

shareholders that own, or are deemed to own, more than five percent (5%) of our outstanding common stock (except to the extent specifically set forth below);

shareholders subject to the alternative minimum tax;

S-54

---

**Table of Contents**

financial institutions, banks and thrifts;

insurance companies;

tax-exempt entities;

real estate investment trusts;

controlled foreign corporations, passive foreign investment companies or corporations that accumulate earnings to avoid U.S. federal income tax;

broker-dealers or dealers in securities or foreign currencies; and

traders in securities that use a mark-to-market method of accounting for U.S. federal income tax purposes.

If a partnership (including an entity treated as a partnership for U.S. federal income tax purposes) holds our common stock, the U.S. federal income tax treatment of a partner generally will depend upon the status of the partner and the activities of the partnership. If you are a partner of a partnership (including an entity treated as a partnership for U.S. federal income tax purposes) holding our common stock, you should consult your tax advisor.

THIS DISCUSSION IS FOR GENERAL INFORMATION ONLY AND SHOULD NOT BE VIEWED AS TAX ADVICE. INVESTORS CONSIDERING THE PURCHASE OF OUR COMMON STOCK SHOULD CONSULT THEIR OWN TAX ADVISORS REGARDING THE APPLICATION OF THE U.S. FEDERAL INCOME AND ESTATE AND GIFT TAX LAWS TO THEIR PARTICULAR SITUATION AS WELL AS THE APPLICABILITY AND EFFECT OF ANY STATE, LOCAL OR FOREIGN TAX LAWS OR TAX TREATIES AND ANY OTHER U.S. FEDERAL TAX LAWS.

**Distributions on Common Stock**

We do not expect to pay any cash distributions on our common stock in the foreseeable future. However, in the event we do make such cash distributions, these distributions generally will constitute dividends for U.S. federal income tax purposes to the extent paid from our current or accumulated earnings and profits, as determined under U.S. federal income tax principles. If any such distribution exceeds our current and accumulated earnings and profits, the excess will be treated as a non-taxable return of capital to the extent of the non-U.S. holder's tax basis in our common stock and thereafter as capital gain from the sale or exchange of such common stock. See *Gain on Disposition of Common Stock* below. Dividends paid to a non-U.S. holder of our common stock that are not effectively connected with the non-U.S. holder's conduct of a trade or business within the United States will be subject to U.S. withholding tax at a 30% rate, or if an income tax treaty applies, a lower rate specified by the treaty. In order to receive a reduced treaty rate, a non-U.S. holder must provide to us or our withholding agent IRS Form W-8BEN (or applicable substitute or successor form) properly certifying eligibility for the reduced rate. Non-U.S. holders that do not timely provide us or our withholding agent with the required certification, but that qualify for a reduced treaty rate, may obtain a refund of any excess amounts withheld by timely filing an appropriate claim for refund with the IRS. Non-U.S. holders should consult their tax advisors regarding their entitlement to benefits under an applicable income tax treaty.

Dividends that are effectively connected with a non-U.S. holder's conduct of a trade or business in the United States and, if an income tax treaty so requires, are attributable to a permanent establishment maintained by the non-U.S. holder in the United States, are taxed on a net income basis at the regular graduated rates and in the manner applicable to U.S. persons. In that case, we or our withholding agent will not have to withhold U.S. federal withholding tax if the non-U.S. holder complies with applicable certification and disclosure requirements (which may generally be met by providing an IRS Form W-8ECI). In addition, a branch profits tax may be imposed at a 30% rate (or a lower rate specified under an applicable income tax treaty) on a foreign corporation's effectively connected earnings and profits for the taxable year, as adjusted for certain items. Non-U.S. holders should consult any applicable income tax treaties that may provide for different rules.





---

## **Table of Contents**

### **Gain on Disposition of Common Stock**

Subject to the discussion below regarding backup withholding, a non-U.S. holder generally will not be subject to U.S. federal income tax on gain recognized on a disposition of our common stock unless:

the gain is effectively connected with the non-U.S. holder's conduct of a trade or business in the United States and, if an income tax treaty applies, is attributable to a permanent establishment maintained by the non-U.S. holder in the United States, in which case, the gain will be taxed on a net income basis at the U.S. federal income tax rates and in the manner applicable to U.S. persons, and if the non-U.S. holder is a foreign corporation, the branch profits tax described above may also apply;

the non-U.S. holder is an individual who is present in the United States for 183 days or more in the taxable year of the disposition and meets other requirements, in which case, the non-U.S. holder will be subject to a flat 30% tax on the gain derived from the disposition (or such lower rate specified by an applicable income tax treaty), which may be offset by U.S. source capital losses, provided the non-U.S. holder has timely filed U.S. federal income tax returns with respect to such losses; or

we are or have been a United States real property holding corporation, or USRPHC, for U.S. federal income tax purposes at any time during the shorter of the five-year period ending on the date of disposition or the period that the non-U.S. holder held our common stock.

Generally, a corporation is a USRPHC if the fair market value of its United States real property interests equals or exceeds 50% of the sum of the fair market value of its worldwide real property interests and its other assets used or held for use in a trade or business. We believe we currently are a USRPHC. If we are or become a USRPHC, a non-U.S. holder nonetheless will not be subject to U.S. federal income tax or withholding in respect of any gain realized on a sale or other disposition of our common stock so long as (i) our common stock is regularly traded on an established securities market for U.S. federal income tax purposes and (ii) such non-U.S. holder does not actually or constructively own, at any time during the applicable period described in the third bullet point, above, more than 5% of our outstanding common stock. We expect our common stock to be regularly traded on an established securities market, although we cannot guarantee it will be so traded. Accordingly, a non-U.S. holder who actually or constructively owns more than 5% of our common stock would be subject to U.S. federal income tax and withholding in respect of any gain realized on any sale or other disposition of common stock (taxed in the same manner as gain that is effectively connected income, except that the branch profits tax would not apply). Non-U.S. holders should consult their own advisor about the consequences that could result if we are, or become, a USRPHC.

### **Information Reporting and Backup Withholding Tax**

Dividends paid to you will generally be subject to information reporting and may be subject to U.S. backup withholding. You will be exempt from backup withholding if you properly provide a Form W-8BEN certifying under penalties of perjury that you are a non-U.S. holder or otherwise meet documentary evidence requirements for establishing that you are a non-U.S. holder, or you otherwise establish an exemption. Copies of the information returns reporting such dividends and the tax withheld with respect to such dividends also may be made available to the tax authorities in the country in which you reside.

The gross proceeds from the disposition of our common stock may be subject to information reporting and backup withholding. If you receive payments of the proceeds of a disposition of our common stock to or through a U.S. office of a broker, the payment will be subject to both U.S. backup withholding and information reporting unless you properly provide an IRS Form W-8BEN certifying under penalties of perjury that you are a non-U.S. person (and the payor does not have actual knowledge or reason to know that you are a U.S. person) or you otherwise establish an exemption. If you sell your common stock outside the United States through a non-U.S. office of a non-U.S. broker and the sales proceeds are paid to you outside the United States, then the U.S. backup withholding and information reporting requirements generally will not apply to that payment. However, U.S. information reporting, but not backup withholding, will generally apply to a payment of sales proceeds, even if

---

## **Table of Contents**

that payment is made outside the United States, if you sell your common stock through a non-U.S. office of a broker that has certain relationships with the United States unless the broker has documentary evidence in its files that you are a non-U.S. person and certain other conditions are met, or you otherwise establish an exemption.

Backup withholding is not an additional tax. You may obtain a refund or credit of any amounts withheld under the backup withholding rules that exceed your U.S. federal income tax liability, if any, provided the required information is timely furnished to the IRS.

### **Federal Estate Tax**

Our common stock that is owned (or treated as owned) by an individual who is not a citizen or resident of the United States (as specially defined for U.S. federal estate tax purposes) at the time of death will be included in such individual's gross estate for U.S. federal estate tax purposes, unless an applicable estate tax treaty provides otherwise, and, therefore, may be subject to U.S. federal estate tax.

### **Foreign Account Tax Compliance Act**

Under the Foreign Account Tax Compliance Act, or FATCA, a 30% withholding tax will generally apply to dividends on, or gross proceeds from the sale or other disposition of, common stock paid to a foreign financial institution unless the foreign financial institution (i) enters into an agreement with the U.S. Treasury to, among other things, undertake to identify accounts held by certain U.S. persons or U.S.-owned foreign entities, annually report certain information about such accounts, and withhold 30% on payments to account holders whose actions prevent it from complying with these reporting and other requirements, (ii) is resident in a country that has entered into an intergovernmental agreement with the United States in relation to such withholding and information reporting and the financial entity complies with related information reporting requirements of such country, or (iii) qualifies for an exemption from these rules. A foreign financial institution generally is a foreign entity that (i) accepts deposits in the ordinary course of a banking or similar business, (ii) as a substantial portion of its business, holds financial assets for the benefit of one or more other persons, or (iii) is an investment entity that, in general, primarily conducts as a business on behalf of customers trading in certain financial instruments, individual or collective portfolio management or otherwise investing, administering, or managing funds, money or certain financial assets on behalf of other persons. In addition, FATCA generally imposes a 30% withholding tax on the same types of payments to a non-financial foreign entity unless the entity certifies that it does not have any substantial U.S. owners, furnishes identifying information regarding each substantial U.S. owner, or otherwise qualifies for an exemption from these rules. In either case, such payments would include U.S.-source dividends and the gross proceeds from the sale or other disposition of stock that can produce U.S.-source dividends. By its terms, FATCA generally applies to payments of dividends on, or gross proceeds from the sale or disposition of, common stock made after December 31, 2012. However, the Treasury Department has issued final Treasury regulations and subsequent guidance that defer the application of FATCA's withholding obligations to payments of dividends made on or after July 1, 2014, and payments of gross proceeds made on or after January 1, 2017.

The final Treasury regulations and subsequent guidance provide detailed guidance regarding the reporting, withholding and other obligations under FATCA. Investors should consult their tax advisors regarding the possible impact of the FATCA rules on their investment in our common stock, including, without limitation, the process and deadlines for meeting the applicable requirements to prevent the imposition of the 30% withholding tax under FATCA.

THE SUMMARY OF MATERIAL U.S. FEDERAL INCOME AND ESTATE TAX CONSIDERATIONS ABOVE IS INCLUDED FOR GENERAL INFORMATION PURPOSES ONLY. POTENTIAL PURCHASERS OF OUR COMMON STOCK ARE URGED TO CONSULT THEIR OWN TAX ADVISORS TO DETERMINE THE U.S. FEDERAL, STATE, LOCAL AND NON-U.S. TAX CONSIDERATIONS OF PURCHASING, OWNING AND DISPOSING OF OUR COMMON STOCK.

## Table of Contents

### UNDERWRITING

Under the terms and subject to the conditions contained in an underwriting agreement dated November 6, 2013, the selling stockholder has agreed to sell to the underwriters named below, for whom Credit Suisse Securities (USA) LLC is acting as representative, the following respective numbers of shares of common stock:

Underwriter	Number of Shares
Credit Suisse Securities (USA) LLC	1,300,000
Raymond James & Associates, Inc.	100,000
SunTrust Robinson Humphrey, Inc.	100,000
Tudor, Pickering, Holt & Co. Securities, Inc	100,000
Wells Fargo Securities, LLC	100,000
Simmons & Company International	60,000
Scotia Capital (USA) Inc.	50,000
Sterne, Agee & Leach, Inc.	50,000
Capital One Securities, Inc.	40,000
IBERIA Capital Partners L.L.C.	40,000
Brean Capital, LLC	20,000
Miller Tabak + Co., LLC	20,000
Wunderlich Securities, Inc.	20,000
Total	2,000,000

The underwriting agreement provides that the underwriters are obligated to purchase all the shares of common stock in the offering if any are purchased, other than those shares covered by the option described below. The underwriting agreement also provides that if an underwriter defaults the purchase commitments of non-defaulting underwriters may be increased or the offering may be terminated.

The selling stockholder has granted the underwriters a 30-day option to purchase up to 300,000 additional shares at the public offering price less the underwriting discounts and commissions.

The underwriters propose to offer the shares of common stock initially at the public offering price on the cover page of this prospectus supplement and to selling group members at that price less a selling concession of \$1.242945 per share. After the initial offering of the shares of common stock, the underwriters may change the public offering price and concession and discount to broker/dealers. The offering of the shares by the underwriters is subject to receipt and acceptance and subject to the underwriters' right to reject any order in whole or in part.

The following table summarizes the compensation and estimated expenses that we and the selling stockholder will pay:

	Per Share		Total	
	Without Option	With Option	Without Option	With Option
Underwriting discounts and commissions payable by selling stockholder	\$ 2.071575	\$ 2.071575	\$ 4,143,150.00	\$ 4,764,622.50
Expenses payable by us	\$ 0.150000	\$ 0.130435	\$ 300,000.00	\$ 300,000.00

Pursuant to the investor rights agreement with Gulfport, we are obligated to pay the fees and expenses incurred in relation to this offering, including the fees and expenses of the selling stockholder, except underwriting discounts and commissions. We estimate that our out-of-pocket expenses for this offering will be approximately \$300,000. All of the offering expenses will be paid by us. We have also agreed to reimburse the underwriters for certain of their expenses in an amount up to \$20,000 as set forth in the underwriting agreement.

## **Table of Contents**

The selling stockholder will receive all of the proceeds from this offering and we will not receive any proceeds from the sale of shares in this offering.

Credit Suisse Securities (USA) LLC has informed us that it does not expect sales to accounts over which the underwriters have discretionary authority to exceed 5% of the shares of common stock being offered.

In connection with this offering, we agreed that, subject to certain exceptions, we will not offer, sell, contract to sell, pledge or otherwise dispose of, directly or indirectly, or file with the SEC a registration statement under the Securities Act relating to, any shares of our common stock or securities convertible into or exchangeable or exercisable for any shares of our common stock, or publicly disclose the intention to make any offer, sale, pledge, disposition or filing, without the prior written consent of Credit Suisse Securities (USA) LLC for a period of 60 days after the date of this prospectus supplement.

Our officers and directors and Gulfport have agreed in connection with this offering that they will not offer, sell, contract to sell, pledge or otherwise dispose of, directly or indirectly, any shares of our common stock or securities convertible into or exchangeable or exercisable for any shares of our common stock, enter into a transaction that would have the same effect, or enter into any swap, hedge or other arrangement that transfers, in whole or in part, any of the economic consequences of ownership of our common stock, whether any of these transactions are to be settled by delivery of our common stock or other securities, in cash or otherwise, or publicly disclose the intention to make any offer, sale, pledge or disposition, or to enter into any transaction, swap, hedge or other arrangement, without, in each case, the prior written consent of Credit Suisse Securities (USA) LLC for a period of 60 days, in the case of our directors and executive officers, and 45 days, in the case of Gulfport, after the date of this prospectus supplement.

These lock-up restrictions are subject to certain specific exceptions, including transfers of common stock as a bona fide gift or by will or intestate succession and transfers to such person's immediate family or to a trust or to an entity controlled by such holder, provided that the recipient of the shares agrees to be bound by the same restrictions on sales and, in the case of our executive officers and directors, the right of such individuals to sell up to 300,000 shares in the aggregate.

Credit Suisse Securities (USA) LLC, in its sole discretion, may release the common stock and other securities subject to the lock-up agreements described above in whole or in part at any time. When determining whether or not to release the common stock and other securities from lock-up agreements, Credit Suisse Securities (USA) LLC will consider, among other factors, the holder's reasons for requesting the release and the number of shares of common stock or other securities for which the release is being requested.

We and the selling stockholder have agreed to indemnify the underwriters against liabilities under the Securities Act, or contribute to payments that the underwriters may be required to make in that respect.

Our common stock is listed on the NASDAQ Global Select Market under the symbol FANG. On November 6, 2013, the closing price of our common stock was \$53.46.

The underwriters and their respective affiliates are full service financial institutions engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, investment research, principal investment hedging, financing and brokerage activities. Certain of the underwriters and their respective affiliates have from time to time performed, and may in the future perform, various financial advisory, commercial banking and investment banking services for us and for our affiliates in the ordinary course of business for which they have received and would receive customary compensation. Affiliates of Capital One Securities, Inc., Credit Suisse Securities (USA) LLC, IBERIA Capital Partners L.L.C, Scotia Capital (USA) Inc., SunTrust Robinson Humphrey, Inc. and Wells Fargo Securities, LLC are lenders under our revolving credit facility. In addition, an affiliate of Wells Fargo Securities, LLC has also served additional roles under the revolving credit facility, such as administrative agent, for which it has received

## **Table of Contents**

customary fees and reimbursement of expenses. Additionally, an affiliate of Wells Fargo Securities, LLC is a counterparty to certain of our hedging transactions. Pursuant to our revolving credit facility, we have agreed to indemnify the lenders and agents under that agreement against a variety of liabilities and to reimburse certain expenses.

In the ordinary course of their various business activities, the underwriters and their respective affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers, and such investments and securities activities may involve securities and/or instruments of the issuer. The underwriters and their respective affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or instruments and may at any time hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments.

In connection with the offering the underwriters may engage in stabilizing transactions, over-allotment transactions, syndicate covering transactions, penalty bids and passive market making in accordance with Regulation M under the Exchange Act.

Stabilizing transactions permit bids to purchase the underlying security so long as the stabilizing bids do not exceed a specified maximum.

Over-allotment involves sales by the underwriters of shares in excess of the number of shares the underwriters are obligated to purchase, which creates a syndicate short position. The short position may be either a covered short position or a naked short position. In a covered short position, the number of shares over-allotted by the underwriters is not greater than the number of shares that they may purchase in the over-allotment option. In a naked short position, the number of shares involved is greater than the number of shares in the over-allotment option. The underwriters may close out any covered short position by either exercising their over-allotment option and/or purchasing shares in the open market.

Syndicate covering transactions involve purchases of the common stock in the open market after the distribution has been completed in order to cover syndicate short positions. In determining the source of shares to close out the short position, the underwriters will consider, among other things, the price of shares available for purchase in the open market as compared to the price at which they may purchase shares through the over-allotment option. If the underwriters sell more shares than could be covered by the over-allotment option, a naked short position, the position can only be closed out by buying shares in the open market. A naked short position is more likely to be created if the underwriters are concerned that there could be downward pressure on the price of the shares in the open market after pricing that could adversely affect investors who purchase in the offering.

Penalty bids permit the representative to reclaim a selling concession from a syndicate member when the common stock originally sold by the syndicate member is purchased in a stabilizing or syndicate covering transaction to cover syndicate short positions.

In passive market making, market makers in the common stock who are underwriters or prospective underwriters may, subject to limitations, make bids for or purchases of our common stock until the time, if any, at which a stabilizing bid is made. These stabilizing transactions, syndicate covering transactions and penalty bids may have the effect of raising or maintaining the market price of our common stock or preventing or retarding a decline in the market price of the common stock. As a result the price of our common stock may be higher than the price that might otherwise exist in the open market. These transactions may be effected on the NASDAQ Global Select Market or otherwise and, if commenced, may be discontinued at any time.

A prospectus supplement and the accompanying prospectus in electronic format may be made available on the web sites maintained by one or more of the underwriters, or selling group members, if any, participating in this offering and one or more of the underwriters participating in this offering may distribute prospectuses

## **Table of Contents**

electronically. The representative may agree to allocate a number of shares to underwriters and selling group members for sale to their online brokerage account holders. Internet distributions will be allocated by the underwriters and selling group members that will make internet distributions on the same basis as other allocations.

### **Selling Restrictions**

#### *EEA restriction*

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a **Relevant Member State** ) an offer to the public of any shares which are the subject of the offering contemplated by this prospectus (the **Shares** ) may not be made in that Relevant Member State except that an offer to the public in that Relevant Member State of any Shares may be made at any time under the following exemptions under the Prospectus Directive, if they have been implemented in that Relevant Member State:

- (a) to legal entities which are qualified investors as defined under the Prospectus Directive;
- (b) by the underwriters to fewer than 100, or, if the Relevant Member State has implemented the relevant provisions of the 2010 PD Amending Directive, 150, natural or legal persons (other than qualified investors as defined in the Prospectus Directive), as permitted under the Prospectus Directive; or
- (d) in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of Shares shall result in a requirement for the Company or any underwriter to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive.

For the purposes of this provision, the expression an offer to the public in relation to any Shares in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and any Shares to be offered so as to enable an investor to decide to purchase any Shares, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State, the expression **Prospectus Directive** means Directive 2003/71/EC (and amendments thereto, including the 2010 PD Amending Directive, to the extent implemented in the Relevant Member State), and includes any relevant implementing measure in each Relevant Member State and the expression **2010 PD Amending Directive** means Directive 2010/73/EU.

#### *United Kingdom*

Each underwriter has represented and agreed that:

- (a) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the Financial Services and Markets Act 2000 (the **FSMA** )) received by it in connection with the issue or sale of the shares in circumstances in which Section 21(1) of the FSMA does not apply to the Company; and
- (b) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the shares in, from or otherwise involving the United Kingdom.

#### *Notice to United Kingdom Investors*

This prospectus is only being distributed to and is only directed at (i) persons who are outside the United Kingdom or (ii) investment professionals falling within Article 19(5) of the Financial Services and Markets Act

## **Table of Contents**

2000 (Financial Promotion) Order 2005 (the **Order** ) or (iii) high net worth companies, and other persons to whom it may lawfully be communicated, falling within Article 49(2)(a) to (d) of the Order (all such persons together being referred to as **relevant persons** ). The Shares are only available to, and any invitation, offer or agreement to subscribe, purchase or otherwise acquire such Shares will be engaged in only with, relevant persons. Any person who is not a relevant person should not act or rely on this document or any of its contents.

### *Hong Kong*

The shares may not be offered or sold by means of any document other than (i) in circumstances which do not constitute an offer to the public within the meaning of the Companies Ordinance (Cap. 32, Laws of Hong Kong), or (ii) to professional investors within the meaning of the Securities and Futures Ordinance (Cap. 571, Laws of Hong Kong) and any rules made thereunder, or (iii) in other circumstances which do not result in the document being a prospectus within the meaning of the Companies Ordinance (Cap. 32, Laws of Hong Kong), and no advertisement, invitation or document relating to the shares may be issued or may be in the possession of any person for the purpose of issue (in each case whether in Hong Kong or elsewhere), which is directed at, or the contents of which are likely to be accessed or read by, the public in Hong Kong (except if permitted to do so under the laws of Hong Kong) other than with respect to shares which are or are intended to be disposed of only to persons outside Hong Kong or only to professional investors within the meaning of the Securities and Futures Ordinance (Cap. 571, Laws of Hong Kong) and any rules made thereunder.

### *Singapore*

This prospectus has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, this prospectus and any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the shares may not be circulated or distributed, nor may the shares be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to persons in Singapore other than (i) to an institutional investor under Section 274 of the Securities and Futures Act, Chapter 289 of Singapore, or the SFA, (ii) to a relevant person, or any person pursuant to Section 275(1A), and in accordance with the conditions, specified in Section 275 of the SFA or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where the shares are subscribed or purchased under Section 275 by a relevant person which is: (a) a corporation (which is not an accredited investor) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or (b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary is an accredited investor, shares, debentures and units of shares and debentures of that corporation or the beneficiaries' rights and interest in that trust shall not be transferable for 6 months after that corporation or that trust has acquired the shares under Section 275 except: (1) to an institutional investor under Section 274 of the SFA or to a relevant person, or any person pursuant to Section 275(1A), and in accordance with the conditions, specified in Section 275 of the SFA; (2) where no consideration is given for the transfer; or (3) by operation of law.

### *Japan*

The securities have not been and will not be registered under the Financial Instruments and Exchange Law of Japan, or the Financial Instruments and Exchange Law, and each underwriter has agreed that it will not offer or sell any securities, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organized under the laws of Japan), or to others for re-offering or resale, directly or indirectly, in Japan or to a resident of Japan, except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the Financial Instruments and Exchange Law and any other applicable laws, regulations and ministerial guidelines of Japan.



**Table of Contents**

**LEGAL MATTERS**

The validity of the shares of common stock that are offered hereby by us will be passed upon by Akin Gump Strauss Hauer & Feld LLP. The underwriters have been represented by Latham & Watkins LLP, Houston, Texas.

**EXPERTS**

The audited combined consolidated financial statements incorporated by reference in this prospectus supplement and the accompanying prospectus and elsewhere in the registration statement have been so incorporated by reference in reliance upon the report of Grant Thornton LLP, independent registered public accountants, upon the authority of said firm as experts in accounting and auditing.

The audited statements of revenues and direct operating expenses of working and revenue interests of certain oil and gas properties owned by Gulfport Energy Corporation incorporated by reference in this prospectus supplement and the accompanying prospectus and elsewhere in the registration statement have been so incorporated by reference in reliance upon the report of Grant Thornton LLP, independent certified public accountants, upon the authority of said firm as experts in accounting and auditing.

Information referenced in this prospectus supplement regarding our estimated quantities of oil and gas reserves and the discounted present value of future net cash flows therefrom is based upon estimates of such reserves and present values prepared by Ryder Scott Company, L.P. as of December 31, 2012 and 2011 and by Pinnacle Energy Services, LLC as of December 31, 2010, each an independent petroleum engineering firm.

**INFORMATION INCORPORATED BY REFERENCE**

The SEC allows us to incorporate by reference information from other documents that we file with it, which means that we can disclose important information to you by referring you to those documents. The information incorporated by reference is considered to be part of this prospectus supplement. Information in this prospectus supplement supersedes information incorporated by reference that we filed with the SEC prior to the date of this prospectus.

We incorporate by reference into this prospectus supplement and the accompanying prospectus the information or documents listed below that we have filed with the SEC (except as indicated below with respect to Item 2.02 or Item 7.01 of Form 8-K):

our Annual Report on Form 10-K for the year ended December 31, 2012, filed with the SEC on March 1, 2013;

our Amendment No. 1 to our Annual Report on Form 10-K/A for the year ended December 31, 2012, filed with the SEC on April 11, 2013;

the information specifically incorporated by reference into the Annual Report on Form 10-K for the fiscal year ended December 31, 2012 from our Definitive Proxy Statement on Schedule 14A, filed with the SEC on April 30, 2013;

our Quarterly Reports on Form 10-Q for the three months ended March 31, 2013, June 30, 2013 and September 30, 2013, filed with the SEC on May 9, 2013, August 8, 2013 and November 4, 2013, respectively;

our Current Reports on Form 8-K, filed with the SEC on February 1, 2013, April 11, 2013, May 20, 2013, June 6, 2013, June 24, 2013, August 19, 2013, September 4, 2013, September 6, 2013, September 9, 2013, September 12, 2013, September 18, 2013 and September 25, 2013; and

**Table of Contents**

The description of our common stock contained in our Form 8-A filed with the SEC on October 11, 2012, including any amendment to that form that we may file in the future for the purpose of updating the description of our common stock.

We are also incorporating by reference from our Registration Statement on Form S-1 (File No. 333-190462), originally filed with the SEC on August 8, 2013, as amended on August 14, 2013, (i) the historical Statements of Revenues and Direct Operating Expenses of certain property interests of Gulfport Energy Corporation and the related Report of Independent Certified Public Accountants and (ii) the Unaudited Pro Forma Condensed Consolidated Financial Statement prepared to show the effect of the Gulfport transaction and the distribution by Windsor Permian to its equity holders of its minority equity interests in Bison and Muskie.

In addition, all documents filed by us with the SEC under Sections 13(a), 13(c), 14 or 15(d) of the Exchange Act (other than those furnished pursuant to Item 2.02 or Item 7.01 of Form 8-K, unless otherwise stated therein) after the date of this prospectus supplement and prior to the filing of a post-effective amendment that indicates that all securities offered hereby have been sold or that deregisters all securities remaining unsold, will be considered to be incorporated by reference into this prospectus supplement and to be a part of this prospectus supplement from the dates of the filing of such documents. Pursuant to General Instruction B of Form 8-K, any information submitted under Item 2.02, Results of Operations and Financial Condition, or Item 7.01, Regulation FD Disclosure, of Form 8-K is not deemed to be filed for the purpose of Section 18 of the Exchange Act, and we are not subject to the liabilities of Section 18 of the Exchange Act with respect to information submitted under Item 2.02 or Item 7.01 of Form 8-K. We are not incorporating by reference any information submitted under Item 2.02 or Item 7.01 of Form 8-K into any filing under the Securities Act or the Exchange Act or into this prospectus supplement, unless otherwise indicated on such Form 8-K.

We will furnish without charge to you, on written or oral request, a copy of any documents incorporated by reference, including any exhibits to such documents. You should direct any requests for documents to Teresa L. Dick, Chief Financial Officer, Diamondback Energy, Inc., 14301 Caliber Drive, Suite 300, Oklahoma City, Oklahoma; telephone: (405) 463-6900.

**Table of Contents**

**Appendix A**

**GLOSSARY OF OIL AND NATURAL GAS TERMS**

The following is a description of the meanings of some of the oil and natural gas industry terms used in this prospectus supplement.

**3-D seismic.** Geophysical data that depict the subsurface strata in three dimensions. 3-D seismic typically provides a more detailed and accurate interpretation of the subsurface strata than 2-D, or two-dimensional, seismic.

**Basin-centered gas.** A regional abnormally-pressured, gas-saturated accumulation in low-permeability reservoirs.

**Bbl.** Stock tank barrel, or 42 U.S. gallons liquid volume, used in this prospectus supplement in reference to crude oil or other liquid hydrocarbons.

**Bbls/d.** Bbls per day.

**BOE.** Barrels of oil equivalent, with six thousand cubic feet of natural gas being equivalent to one barrel of oil.

**BOE/d.** BOE per day.

**Btu or British thermal unit.** The quantity of heat required to raise the temperature of one pound of water by one degree Fahrenheit.

**Coalbed methane (CBM).** Natural gas formed as a byproduct of the coal formation process, which is trapped in coal seams and produced by non-traditional means.

**Completion.** The process of treating a drilled well followed by the installation of permanent equipment for the production of natural gas or oil, or in the case of a dry hole, the reporting of abandonment to the appropriate agency.

**Condensate.** Liquid hydrocarbons associated with the production of a primarily natural gas reserve.

**Developed acreage.** The number of acres that are allocated or assignable to productive wells or wells capable of production.

**Development well.** A well drilled within the proved area of a natural gas or oil reservoir to the depth of a stratigraphic horizon known to be productive.

**Deviated well.** A well purposely deviated from the vertical using controlled angles to reach an objective location other than directly below the surface location.

**Dry hole.** A well found to be incapable of producing hydrocarbons in sufficient quantities such that proceeds from the sale of such production exceed production expenses and taxes.

**Exploratory well.** A well drilled to find and produce natural gas or oil reserves not classified as proved, to find a new reservoir in a field previously found to be productive of natural gas or oil in another reservoir or to extend a known reservoir.

**Field.** An area consisting of either a single reservoir or multiple reservoirs, all grouped on or related to the same individual geological structural feature and/or stratigraphic condition.

## **Table of Contents**

***Finding and development costs.*** Capital costs incurred in the acquisition, exploitation and exploration of proved oil and natural gas reserves divided by proved reserve additions and revisions to proved reserves.

***Fracturing.*** The process of creating and preserving a fracture or system of fractures in a reservoir rock typically by injecting a fluid under pressure through a wellbore and into the targeted formation.

***Gross acres or gross wells.*** The total acres or wells, as the case may be, in which a working interest is owned.

***Horizontal drilling.*** A drilling technique used in certain formations where a well is drilled vertically to a certain depth and then drilled at a right angle with a specified interval.

***MBbls.*** Thousand barrels of crude oil or other liquid hydrocarbons.

***MBOE.*** One thousand barrels of crude oil equivalent, determined using a ratio of six Mcf of natural gas to one Bbl of crude oil, condensate or natural gas liquids.

***Mcf.*** Thousand cubic feet of natural gas.

***Mcf/d.*** Mcf per day.

***MMBtu.*** Million British Thermal Units.

***MMcf.*** Million cubic feet of natural gas.

***Net acres or net wells.*** The sum of the fractional working interest owned in gross acres or gross wells, as the case may be.

***Net revenue interest.*** An owner's interest in the revenues of a well after deducting proceeds allocated to royalty and overriding interests.

***PDNP.*** Proved developed non-producing.

***PDP.*** Proved developed producing.

***Play.*** A set of discovered or prospective oil and/or natural gas accumulations sharing similar geologic, geographic and temporal properties, such as source rock, reservoir structure, timing, trapping mechanism and hydrocarbon type.

***Plugging and abandonment.*** Refers to the sealing off of fluids in the strata penetrated by a well so that the fluids from one stratum will not escape into another or to the surface. Regulations of all states require plugging of abandoned wells.

***PUD.*** Proved undeveloped.

***Productive well.*** A well that is found to be capable of producing hydrocarbons in sufficient quantities such that proceeds from the sale of the production exceed production expenses and taxes.

***Prospect.*** A specific geographic area which, based on supporting geological, geophysical or other data and also preliminary economic analysis using reasonably anticipated prices and costs, is deemed to have potential for the discovery of commercial hydrocarbons.

***Proved developed reserves.*** Reserves that can be expected to be recovered through existing wells with existing equipment and operating methods.

## **Table of Contents**

***Proved reserves.*** The estimated quantities of oil, natural gas and natural gas liquids which geological and engineering data demonstrate with reasonable certainty to be commercially recoverable in future years from known reservoirs under existing economic and operating conditions.

***Proved undeveloped reserves.*** Proved reserves that are expected to be recovered from new wells on undrilled acreage or from existing wells where a relatively major expenditure is required for recompletion.

***Recompletion.*** The process of re-entering an existing wellbore that is either producing or not producing and completing new reservoirs in an attempt to establish or increase existing production.

***Reservoir.*** A porous and permeable underground formation containing a natural accumulation of producible natural gas and/or oil that is confined by impermeable rock or water barriers and is separate from other reservoirs.

***Stratigraphic play.*** An oil or natural gas formation contained within an area created by permeability and porosity changes characteristic of the alternating rock layer that result from the sedimentation process.

***Structural play.*** An oil or natural gas formation contained within an area created by earth movements that deform or rupture (such as folding or faulting) rock strata.

***Tight formation.*** A formation with low permeability that produces natural gas with very low flow rates for long periods of time.

***Undeveloped acreage.*** Lease acreage on which wells have not been drilled or completed to a point that would permit the production of commercial quantities of oil and natural gas regardless of whether such acreage contains proved reserves.

***Working interest.*** The operating interest that gives the owner the right to drill, produce and conduct operating activities on the property and receive a share of production and requires the owner to pay a share of the costs of drilling and production operations.

***Workover.*** The repair or stimulation of an existing production well for the purpose of restoring, prolonging or enhancing the production of hydrocarbons.

**Table of Contents**

**Appendix B**

**DIAMONDBACK ENERGY, INC.**

**Estimated**

**Future Reserves**

**Attributable to Certain**

**Leasehold and Royalty Interests**

**SEC Parameters**

**As of**

**September 1, 2013**

\s\ Don P. Griffin

Don P. Griffin, P.E.

TBPE License No. 64150

Senior Vice President

**[SEAL]**

**RYDER SCOTT COMPANY, L.P.**

TBPE Firm Registration No. F-1580

RYDER SCOTT COMPANY PETROLEUM CONSULTANTS

B-1

**Table of Contents**

September 7, 2013

Diamondback Energy, Inc.

500 West Texas, Suite 1210

Midland, Texas 79701

Gentlemen:

At the request of Diamondback Energy, Inc. (Diamondback), Ryder Scott Company, L.P. (Ryder Scott) has conducted a reserves audit of the estimates of the proved reserves as of September 1, 2013 prepared by Diamondback's engineering and geological staff based on the definitions and disclosure guidelines of the United States Securities and Exchange Commission (SEC) contained in Title 17, Code of Federal Regulations, Modernization of Oil and Gas Reporting, Final Rule released January 14, 2009 in the Federal Register (SEC regulations). The estimated reserves shown herein represent Diamondback's estimated net reserves attributable to the leasehold and royalty interests owned by Diamondback and, at the request of Diamondback, certain interests soon to be conveyed to Diamondback for which purchase and sales agreements exist. The properties reviewed by Ryder Scott incorporate Diamondback's reserve determinations and are located in the state of Texas.

The properties reviewed by Ryder Scott account for 100 percent of the total net proved liquid hydrocarbon reserves and 100 percent of the total net proved gas reserves of Diamondback as of September 1, 2013. In addition, at the request of Diamondback, its acquisitions of approximately 4506 gross and net acres in Martin County, Texas and approximately 9390 gross (6647 net) acres in Dawson County and certain mineral interests in Midland County, Texas have been included herein. The Dawson County and mineral interest acquisitions are to be conveyed to Diamondback at some point in September 2013. For the purposes of this audit and for simplicity, we have assumed these interests to be effective as of September 1, 2013.

As prescribed by the Society of Petroleum Engineers in Paragraph 2.2(f) of the Standards Pertaining to the Estimating and Auditing of Oil and Gas Reserves Information (SPE auditing standards), a reserves audit is defined as the process of reviewing certain of the pertinent facts interpreted and assumptions made that have resulted in an estimate of reserves prepared by others and the rendering of an opinion about (1) the appropriateness of the methodologies employed; (2) the adequacy and quality of the data relied upon; (3) the depth and thoroughness of the reserves estimation process; (4) the classification of reserves appropriate to the relevant definitions used; and (5) the reasonableness of the estimated reserve quantities.

Based on our review, including the data, technical processes and interpretations presented by Diamondback, it is our opinion that the overall procedures and methodologies utilized by Diamondback in preparing their estimates of the proved reserves as of September 1, 2013 comply with the current SEC regulations and that the overall proved reserves as estimated by Diamondback are, in the aggregate, reasonable within the established audit tolerance guidelines of 10 percent as set forth in the SPE auditing standards.

SUITE 600, 1015 4TH STREET, S.W.  
621 17TH STREET, SUITE 1550

CALGARY, ALBERTA T2R 1J4  
DENVER, COLORADO 80293-1501

TEL (403) 262-2799  
TEL (303) 623-9147

FAX (403) 262-2790  
FAX (303) 623-4258

B-2

**Table of Contents**

Diamondback Energy, Inc.

September 7, 2013

Page 2

The estimated reserves presented in this report are related to hydrocarbon prices. Diamondback has informed us that in the preparation of their reserve and income projections, as of September 1, 2013, they used average prices during the 12-month period prior to the ending date of the period covered in this report, (including September 1, 2013 prices), determined as the unweighted arithmetic averages of the prices in effect on the first-day-of-the-month for each month within such period, unless prices were defined by contractual arrangements, as required by the SEC regulations. Actual future prices may vary significantly from the prices required by SEC regulations; therefore, volumes of reserves actually recovered may differ significantly from the estimated quantities presented in this report. The net reserves as estimated by Diamondback attributable to Diamondback's interests (and assumed conveyances) are summarized as follows:

**SEC PARAMETERS**

Estimated Net Reserves

Certain Leasehold and Royalty Interests of

**Diamondback Energy, Inc.**

	As of September 1, 2013			Total Proved
	Producing	Developed Non-Producing	Proved Undeveloped	
<b><i>Net Reserves of Properties</i></b>				
<b><i>Audited by Ryder Scott</i></b>				
Oil/Condensate Mbarrels	15,480	564	21,310	37,354
Plant Products Mbarrels	5,146	125	6,290	11,561
Gas MMCF	25,727	762	27,283	53,772
MBOE	24,914	816	32,147	57,877

*A detailed breakdown of reserves by acquisition may be found on Table A of this report.*

Liquid hydrocarbons are expressed in thousands of standard 42 gallon barrels (Mbarrels). All gas volumes are reported on an as sold basis expressed in millions of cubic feet (MMCF) at the official temperature and pressure bases of the state of Texas. The net remaining reserves are also shown herein on an equivalent unit basis wherein natural gas is converted to oil equivalent using a factor of 6,000 cubic feet of natural gas per one barrel of oil equivalent. MBOE means thousand barrels of oil equivalent.

**Reserves Included in This Report**

In our opinion, the proved reserves presented in this report conform to the definition as set forth in the Securities and Exchange Commission's Regulations Part 210.4-10(a). An abridged version of the SEC reserves definitions from 210.4-10(a) entitled "Petroleum Reserves Definitions" is included as an attachment to this report.

The various proved reserve status categories are defined under the attachment entitled "Petroleum Reserves Status Definitions and Guidelines" in this report. The proved developed non-producing reserves included herein consist of the shut-in and behind pipe categories.

Reserves are estimated remaining quantities of oil and gas and related substances anticipated to be economically producible, as of a given date, by application of development projects to known accumulations. All reserve estimates involve an assessment of the uncertainty relating to the likelihood that the actual remaining



B-3

## **Table of Contents**

Diamondback Energy, Inc.

September 7, 2013

Page 3

quantities recovered will be greater or less than the estimated quantities determined as of the date the estimate is made. The uncertainty depends chiefly on the amount of reliable geologic and engineering data available at the time of the estimate and the interpretation of these data. The relative degree of uncertainty may be conveyed by placing reserves into one of two principal classifications, either proved or unproved. Unproved reserves are less certain to be recovered than proved reserves and may be further sub-classified as probable and possible reserves to denote progressively increasing uncertainty in their recoverability. At Diamondback's request, this report addresses only the proved reserves attributable to the properties reviewed herein.

Proved oil and gas reserves 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. The proved reserves included herein were estimated using deterministic methods. If deterministic methods are used, the SEC has defined reasonable certainty for proved reserves as a high degree of confidence that the quantities will be recovered.

Proved reserve estimates will generally be revised only as additional geologic or engineering data become available or as economic conditions change. For proved reserves, the SEC states that as changes due to increased availability of geoscience (geological, geophysical, and geochemical), engineering, and economic data are made to the estimated ultimate recovery (EUR) with time, reasonably certain EUR is much more likely to increase or remain constant than to decrease. Moreover, estimates of proved reserves may be revised as a result of future operations, effects of regulation by governmental agencies or geopolitical or economic risks. Therefore, the proved reserves included in this report are estimates only and should not be construed as being exact quantities, and if recovered, could be more or less than the estimated amounts.

### **Audit Data, Methodology, Procedure and Assumptions**

The estimation of reserves involves two distinct determinations. The first determination results in the estimation of the quantities of recoverable oil and gas and the second determination results in the estimation of the uncertainty associated with those estimated quantities in accordance with the definitions set forth by the Securities and Exchange Commission's Regulations Part 210.4-10(a). The process of estimating the quantities of recoverable oil and gas reserves relies on the use of certain generally accepted analytical procedures. These analytical procedures fall into three broad categories or methods: (1) performance-based methods; (2) volumetric-based methods; and (3) analogy. These methods may be used singularly or in combination by the reserve evaluator in the process of estimating the quantities of reserves. Reserve evaluators must select the method or combination of methods which in their professional judgment is most appropriate given the nature and amount of reliable geoscience and engineering data available at the time of the estimate, the established or anticipated performance characteristics of the reservoir being evaluated and the stage of development or producing maturity of the property.

In many cases, the analysis of the available geoscience and engineering data and the subsequent interpretation of this data may indicate a range of possible outcomes in an estimate, irrespective of the method selected by the evaluator. When a range in the quantity of reserves is identified, the evaluator must determine the uncertainty associated with the incremental quantities of the reserves. If the reserve quantities are estimated using the deterministic incremental approach, the uncertainty for each discrete incremental quantity of the reserves is addressed by the reserve category assigned by the evaluator. Therefore, it is the categorization of reserve quantities as proved, probable and/or possible that addresses the inherent uncertainty in the estimated quantities reported. For proved reserves, uncertainty is defined by the SEC as reasonable certainty wherein the quantities actually recovered are much more likely than not to be achieved. The SEC states that probable reserves are those additional reserves that are less certain to be recovered than proved reserves but which, together with

---

**Table of Contents**

Diamondback Energy, Inc.

September 7, 2013

Page 4

proved reserves, are as likely as not to be recovered. The SEC states that possible reserves are those additional reserves that are less certain to be recovered than probable reserves and the total quantities ultimately recovered from a project have a low probability of exceeding proved plus probable plus possible reserves. All quantities of reserves within the same reserve category must meet the SEC definitions as noted above.

Estimates of reserves quantities and their associated reserve categories may be revised in the future as additional geoscience or engineering data become available. Furthermore, estimates of reserves quantities and their associated reserve categories may also be revised due to other factors such as changes in economic conditions, results of future operations, effects of regulation by governmental agencies or geopolitical or economic risks as previously noted herein.

The proved reserves for the properties that we reviewed were estimated by performance methods, analogy, or a combination of these methods. Approximately 90 percent of the proved producing reserves attributable to producing wells and/or reservoirs that we reviewed were estimated by performance methods. These performance methods include decline curve analysis which utilized extrapolations of historical production and pressure data available through mid-August 2013, in those cases where such data were considered to be definitive. The data utilized in this analysis were furnished to Ryder Scott by Diamondback or obtained from public data sources and were considered sufficient for the purpose thereof. The remaining 10 percent of the proved producing reserves that we reviewed were estimated by analogy or a combination of methods. These methods were used where there were inadequate historical performance data to establish a definitive trend and where the use of production performance data as a basis for the reserve estimates was considered to be inappropriate.

All of the proved developed non-producing and undeveloped reserves that we reviewed were estimated by the analogy method. The data utilized from the analogues were considered sufficient for the purpose thereof.

To estimate economically recoverable proved oil and gas reserves, we consider many factors and assumptions including, but not limited to, the use of reservoir parameters derived from geological, geophysical and engineering data which cannot be measured directly, economic criteria based on current costs and SEC pricing requirements, and forecasts of future production rates. Under the SEC regulations 210.4-10(a)(22)(v) and (26), proved reserves must be anticipated to be economically producible from a given date forward based on existing economic conditions including the prices and costs at which economic producibility from a reservoir is to be determined. While it may reasonably be anticipated that the future prices received for the sale of production and the operating costs and other costs relating to such production may increase or decrease from those under existing economic conditions, such changes were, in accordance with rules adopted by the SEC, omitted from consideration in conducting this review.

As stated previously, proved reserves must be anticipated to be economically producible from a given date forward based on existing economic conditions including the prices and costs at which economic producibility from a reservoir is to be determined. To confirm that the proved reserves reviewed by us meet the SEC requirements to be economically producible, we have reviewed certain primary economic data utilized by Diamondback relating to hydrocarbon prices and costs as noted herein.

The hydrocarbon prices furnished by Diamondback for the properties reviewed by us are based on SEC price parameters using the average prices during the 12-month period prior to the ending date of the period covered in this report, (including September 1, 2013 prices), determined as the unweighted arithmetic averages of the prices in effect on the first-day-of-the-month for each month within such period, unless prices were defined by contractual arrangements. For hydrocarbon products sold under contract, the contract prices, including fixed and determinable escalations exclusive of inflation adjustments, were used until expiration of the contract. Upon contract expiration, the prices were adjusted to the 12-month unweighted arithmetic average as previously described.

**Table of Contents**

Diamondback Energy, Inc.

September 7, 2013

Page 5

The initial SEC hydrocarbon prices in effect on September 1, 2013 for the properties reviewed by us were determined using the 12-month average first-day-of-the-month benchmark prices appropriate to the geographic area where the hydrocarbons are sold. These benchmark prices are prior to the adjustments for differentials as described herein. The table below summarizes the benchmark prices and price reference used by Diamondback for the geographic area reviewed by us.

The product prices which were actually used by Diamondback to determine the future gross revenue for each property reviewed by us reflect adjustments to the benchmark prices for gravity, quality, local conditions, and/or distance from market, referred to herein as differentials. The differentials used by Diamondback were accepted as factual data and reviewed by us for their reasonableness; however, we have not conducted an independent verification of the data used by Diamondback.

The table below summarizes Diamondback's net volume weighted benchmark prices adjusted for differentials for the properties reviewed by us and referred to herein as Diamondback's average realized prices. The average realized prices shown in the table below were determined from Diamondback's estimate of the total future gross revenue before production taxes for the properties reviewed by us and Diamondback's estimate of the total net reserves for the properties reviewed by us for the geographic area. The data shown in the table below is presented in accordance with SEC disclosure requirements for each of the geographic areas reviewed by us.

Geographic Area	Product	Price Reference	Average Benchmark Prices	Average Realized Prices
North America United States	Oil/Condensate	WTI Cushing	\$95.04/Bbl	\$88.94/Bbl
	NGLs	Mount Belvieu Propane	\$38.05/Bbl	\$34.76/Bbl
	Gas	Henry Hub	\$3.60/MMBTU	\$3.74/MCF

The effects of derivative instruments designated as price hedges of oil and gas quantities are not reflected in Diamondback's individual property evaluations.

Accumulated gas production imbalances, if any, were not taken into account in the proved gas reserve estimates reviewed. The proved gas volumes included herein do not attribute gas consumed in operations as reserves.

Operating costs furnished by Diamondback are based on the operating expense reports of Diamondback and include only those costs directly applicable to the leases or wells for the properties reviewed by us. The operating costs include a portion of general and administrative costs allocated directly to the leases and wells. The operating costs furnished by Diamondback were accepted as factual data and reviewed by us for their reasonableness; however, we have not conducted an independent verification of the data used by Diamondback.

Development costs furnished by Diamondback are based on authorizations for expenditure for the proposed work or actual costs for similar projects. The development costs furnished by Diamondback were accepted as factual data and reviewed by us for their reasonableness; however, we have not conducted an independent verification of the data used by Diamondback. Diamondback's estimates of zero abandonment costs after salvage value for onshore properties were accepted without independent verification. Ryder Scott has not performed a detailed study of the abandonment costs or the salvage value and makes no warranty for Diamondback's estimate.

---

**Table of Contents**

Diamondback Energy, Inc.

September 7, 2013

Page 6

The proved developed non-producing and undeveloped reserves for the properties reviewed by us have been incorporated herein in accordance with Diamondback's plans to develop these reserves as of September 1, 2013. The implementation of Diamondback's development plans as presented to us is subject to the approval process adopted by Diamondback's management. As the result of our inquiries during the course of our review, Diamondback has informed us that the development activities for the properties reviewed by us have been subjected to and received the internal approvals required by Diamondback's management at the appropriate local, regional and/or corporate level. In addition to the internal approvals as noted, certain development activities may still be subject to specific partner AFE processes, Joint Operating Agreement (JOA) requirements or other administrative approvals external to Diamondback. Additionally, Diamondback has informed us that they are not aware of any legal, regulatory, political or economic obstacles that would significantly alter their plans.

Current costs used by Diamondback were held constant throughout the life of the properties.

Diamondback's forecasts of future production rates are based on historical performance from wells currently on production. If no production decline trend has been established, future production rates were held constant, or adjusted for the effects of curtailment where appropriate, until a decline in ability to produce was anticipated. An estimated rate of decline was then applied to depletion of the reserves. If a decline trend has been established, this trend was used as the basis for estimating future production rates.

Test data and other related information were used by Diamondback to estimate the anticipated initial production rates for those wells or locations that are not currently producing. For reserves not yet on production, sales were estimated to commence at an anticipated date furnished by Diamondback. Wells or locations that are not currently producing may start producing earlier or later than anticipated in Diamondback's estimates due to unforeseen factors causing a change in the timing to initiate production. Such factors may include delays due to weather, the availability of rigs, the sequence of drilling, completing and/or recompleting wells and/or constraints set by regulatory bodies.

In addition, future capital allocations by Diamondback may delay the drilling of certain vertical undeveloped locations beyond the 5 year limit set by the SEC in preference to more profitable horizontal locations. Such a delay has not been reflected in this report.

The future production rates from wells currently on production or wells or locations that are not currently producing may be more or less than estimated because of changes including, but not limited to, reservoir performance, operating conditions related to surface facilities, compression and artificial lift, pipeline capacity and/or operating conditions, producing market demand and/or allowables or other constraints set by regulatory bodies.

Diamondback's operations may be subject to various levels of governmental controls and regulations. These controls and regulations may include, but may not be limited to, matters relating to land tenure and leasing, the legal rights to produce hydrocarbon, drilling and production practices, environmental protection, marketing and pricing policies, royalties, various taxes and levies including income tax and are subject to change from time to time. Such changes in governmental regulations and policies may cause volumes of proved reserves actually recovered and amounts of proved income actually received to differ significantly from the estimated quantities.

The estimates of proved reserves presented herein were based upon a detailed study of the properties in which Diamondback owns or assumes to be conveyed an interest; however, we have not made any field examination of the properties. No consideration was given in this report to potential environmental liabilities that may exist nor were any costs included by Diamondback for potential liabilities to restore and clean up damages, if any, caused by past operating practices.

## **Table of Contents**

Diamondback Energy, Inc.

September 7, 2013

Page 7

Certain technical personnel of Diamondback are responsible for the preparation of reserve estimates on new properties and for the preparation of revised estimates, when necessary, on old properties. These personnel assembled the necessary data and maintained the data and workpapers in an orderly manner. We consulted with these technical personnel and had access to their workpapers and supporting data in the course of our audit.

Diamondback has informed us that they have furnished us all of the material accounts, records, geological and engineering data, and reports and other data required for this investigation. In performing our audit of Diamondback's forecast of future proved production, we have relied upon data furnished by Diamondback with respect to property interests owned (or assumes to be conveyed), production and well tests from examined wells, product prices based on the SEC regulations, adjustments or differentials to product prices, geological structural and isochore maps, well logs, core analyses, and pressure measurements. Ryder Scott reviewed such factual data for its reasonableness; however, we have not conducted an independent verification of the data furnished by Diamondback. We consider the factual data furnished to us by Diamondback to be appropriate and sufficient for the purpose of our review of Diamondback's estimates of reserves. In summary, we consider the assumptions, data, methods and analytical procedures used by Diamondback and as reviewed by us appropriate for the purpose hereof, and we have used all such methods and procedures that we consider necessary and appropriate under the circumstances to render the conclusions set forth herein.

### **Audit Opinion**

Based on our review, including the data, technical processes and interpretations presented by Diamondback, it is our opinion that the overall procedures and methodologies utilized by Diamondback in preparing their estimates of the proved reserves as of September 1, 2013 comply with the current SEC regulations and that the overall proved reserves for the reviewed properties as estimated by Diamondback are, in the aggregate, reasonable within the established audit tolerance guidelines of 10 percent as set forth in the SPE auditing standards.

We were in reasonable agreement with Diamondback's estimates of proved reserves, for the properties which we reviewed. As a consequence, it is our opinion that on an aggregate basis the data presented herein for the properties that we reviewed fairly reflects the estimated net reserves owned by and assumed to be conveyed to Diamondback.

### **Standards of Independence and Professional Qualification**

Ryder Scott is an independent petroleum engineering consulting firm that has been providing petroleum consulting services throughout the world for over seventy-five years. Ryder Scott is employee-owned and maintains offices in Houston, Texas; Denver, Colorado; and Calgary, Alberta, Canada. We have over eighty engineers and geoscientists on our permanent staff. By virtue of the size of our firm and the large number of clients for which we provide services, no single client or job represents a material portion of our annual revenue. We do not serve as officers or directors of any privately-owned or publicly-traded oil and gas company and are separate and independent from the operating and investment decision-making process of our clients. This allows us to bring the highest level of independence and objectivity to each engagement for our services.

Ryder Scott actively participates in industry-related professional societies and organizes an annual public forum focused on the subject of reserves evaluations and SEC regulations. Many of our staff have authored or co-authored technical papers on the subject of reserves related topics. We encourage our staff to maintain and enhance their professional skills by actively participating in ongoing continuing education.

**Table of Contents**

Diamondback Energy, Inc.

September 7, 2013

Page 8

Prior to becoming an officer of the Company, Ryder Scott requires that staff engineers and geoscientists have received professional accreditation in the form of a registered or certified professional engineer's license or a registered or certified professional geoscientist's license, or the equivalent thereof, from an appropriate governmental authority or a recognized self-regulating professional organization.

We are independent petroleum engineers with respect to Diamondback. Neither we nor any of our employees have any interest in the subject properties, and neither the employment to do this work nor the compensation is contingent on our estimates of reserves for the properties which were reviewed.

The results of this audit, presented herein, are based on technical analysis conducted by teams of geoscientists and engineers from Ryder Scott. The professional qualifications of the undersigned, the technical person primarily responsible for the review of the reserves information discussed in this report, are included as an attachment to this letter.

**Terms of Usage**

The results of our third party audit, presented in report form herein, were prepared in accordance with the disclosure requirements set forth in the SEC regulations.

We have provided Diamondback with a digital version of the original signed copy of this report letter. In the event there are any differences between the digital version included in presentations made by Diamondback and the original signed report letter, the original signed report letter shall control and supersede the digital version.

The data and work papers used in the preparation of this report are available for examination by authorized parties in our offices. Please contact us if we can be of further service.

Very Truly yours,

**RYDER SCOTT COMPANY, L.P.**  
TBPE Firm Registration No. F-1580

\\ Don P. Griffin  
Don P. Griffin, P.E.  
TBPE License No. 64150  
Senior Vice President

**[SEAL]**

DPG (FWZ)/pl

**Table of Contents**

Diamondback Energy, Inc.

September 7, 2013

Page 9

**Table A****Detailed Reserve Breakdown by Acquisition and Reserve Category**

<b>Reserve Category</b>	<b>Interests</b>	<b>OIL Mbarrels</b>	<b>GAS MMCF</b>	<b>NGL Mbarrels</b>	<b>MBOe</b>	<b>Wells</b>
Proved Producing	Diamondback Pre-Aquisition	11088.5	18504.2	4201.7	18374.2	286
	Martin County	805.4	1837	0	1111.6	17
	Dawson County	694.6	1005.2	0	862.1	30
	Minerals	2891.7	4381.1	943.8	4565.7	191
	Total Proved Producing	15480.2	25727.5	5145.5	24913.6	
Proved Non-Producing	Diamondback Pre-Aquisition	416.8	535.7	114.3	620.4	4
	Martin County	65.9	131.8	0	87.9	1
	Dawson County	36.6	48.9	0	44.8	1
	Minerals	44.3	45.4	10.9	62.8	2
	Total Proved Non-Producing	563.6	761.8	125.2	815.9	
Proved Developed	Diamondback Pre-Aquisition	11505.3	19039.9	4316	18994.6	290
	Martin County	871.3	1968.8	0	1199.5	18
	Dawson County	731.2	1054.1	0	906.9	31
	Minerals	2936	4426.5	954.7	4628.5	193
	Total Proved Developed	16043.8	26489.3	5270.7	25729.5	
Proved Undeveloped	Diamondback Pre-Aquisition	18520.4	24290.5	5571.8	28140.6	290
	Martin County	0	0	0	0	0
	Dawson County	0	0	0	0	0
	Minerals	2789.5	2992.2	718.1	4006.3	130
	Total Proved Undeveloped	21309.9	27282.7	6289.9	32146.9	
Total Proved	Diamondback Pre-Aquisition	30025.7	43330.4	9887.8	47135.2	580
	Martin County	871.3	1968.8	0	1199.5	18
	Dawson County	731.2	1054.1	0	906.9	31
	Minerals	5725.5	7418.7	1672.8	8634.8	323
	Total Proved	37353.7	53772.0	11560.6	57876.4	

B-10



## **Table of Contents**

### **Professional Qualifications of Primary Technical Person**

The conclusions presented in this report are the result of technical analysis conducted by teams of geoscientists and engineers from Ryder Scott Company, L.P. Don P. Griffin was the primary technical person responsible for overseeing the estimate of the reserves, future production and income presented herein.

Mr. Griffin, an employee of Ryder Scott Company, L.P. (Ryder Scott) since 1981, is a Senior Vice President responsible for coordinating and supervising staff and consulting engineers of the company in ongoing reservoir evaluation studies worldwide. Before joining Ryder Scott, Mr. Griffin served in a number of engineering positions with Amoco Production Company. For more information regarding Mr. Griffin's geographic and job specific experience, please refer to the Ryder Scott Company website at <http://www.ryderscott.com/Experience/Employees.php>.

Mr. Griffin graduated with honors from Texas Tech University with a Bachelor of Science degree in Electrical Engineering in 1975 and is a licensed Professional Engineer in the State of Texas. He is also a member of the Society of Petroleum Engineers and the Society of Petroleum Evaluation Engineers.

In addition to gaining experience and competency through prior work experience, the Texas Board of Professional Engineers requires a minimum of fifteen hours of continuing education annually, including at least one hour in the area of professional ethics, which Mr. Griffin fulfills. Mr. Griffin attended an additional 15 hours of training during 2012 covering such topics as reservoir engineering, geoscience and petroleum economics evaluation methods, procedures and software and ethics for consultants.

Based on his educational background, professional training and more than 30 years of practical experience in the estimation and evaluation of petroleum reserves, Mr. Griffin has attained the professional qualifications as a Reserves Estimator and Reserves Auditor as set forth in Article III of the Standards Pertaining to the Estimating and Auditing of Oil and Gas Reserves Information promulgated by the Society of Petroleum Engineers as of February 19, 2007.

B-11

---

**Table of Contents**

**PETROLEUM RESERVES DEFINITIONS**

**As Adapted From:**

**RULE 4-10(a) of REGULATION S-X PART 210**

**UNITED STATES SECURITIES AND EXCHANGE COMMISSION (SEC)**

**PREAMBLE**

On January 14, 2009, the United States Securities and Exchange Commission (SEC) published the Modernization of Oil and Gas Reporting; Final Rule in the Federal Register of National Archives and Records Administration (NARA). The Modernization of Oil and Gas Reporting; Final Rule includes revisions and additions to the definition section in Rule 4-10 of Regulation S-X, revisions and additions to the oil and gas reporting requirements in Regulation S-K, and amends and codifies Industry Guide 2 in Regulation S-K. The Modernization of Oil and Gas Reporting; Final Rule, including all references to Regulation S-X and Regulation S-K, shall be referred to herein collectively as the SEC regulations. The SEC regulations take effect for all filings made with the United States Securities and Exchange Commission as of December 31, 2009, or after January 1, 2010. Reference should be made to the full text under Title 17, Code of Federal Regulations, Regulation S-X Part 210, Rule 4-10(a) for the complete definitions (direct passages excerpted in part or wholly from the aforementioned SEC document are denoted in italics herein).

*Reserves are estimated remaining quantities of oil and gas and related substances anticipated to be economically producible, as of a given date, by application of development projects to known accumulations.* All reserve estimates involve an assessment of the uncertainty relating the likelihood that the actual remaining quantities recovered will be greater or less than the estimated quantities determined as of the date the estimate is made. The uncertainty depends chiefly on the amount of reliable geologic and engineering data available at the time of the estimate and the interpretation of these data. The relative degree of uncertainty may be conveyed by placing reserves into one of two principal classifications, either proved or unproved. Unproved reserves are less certain to be recovered than proved reserves and may be further sub-classified as probable and possible reserves to denote progressively increasing uncertainty in their recoverability. Under the SEC regulations as of December 31, 2009, or after January 1, 2010, a company may optionally disclose estimated quantities of probable or possible oil and gas reserves in documents publicly filed with the SEC. The SEC regulations continue to prohibit disclosure of estimates of oil and gas resources other than reserves and any estimated values of such resources in any document publicly filed with the SEC unless such information is required to be disclosed in the document by foreign or state law as noted in §229.1202 Instruction to Item 1202.

Reserves estimates will generally be revised only as additional geologic or engineering data become available or as economic conditions change.

Reserves may be attributed to either natural energy or improved recovery methods. Improved recovery methods include all methods for supplementing natural energy or altering natural forces in the reservoir to increase ultimate recovery. Examples of such methods are pressure maintenance, natural gas cycling, waterflooding, thermal methods, chemical flooding, and the use of miscible and immiscible displacement fluids. Other improved recovery methods may be developed in the future as petroleum technology continues to evolve.

Reserves may be attributed to either conventional or unconventional petroleum accumulations. Petroleum accumulations are considered as either conventional or unconventional based on the nature of their in-place characteristics, extraction method applied, or degree of processing prior to sale. Examples of unconventional petroleum accumulations include coalbed or coalseam methane (CBM/CSM), basin-centered gas, shale gas, gas hydrates, natural bitumen and oil shale deposits. These unconventional accumulations may require specialized extraction technology and/or significant processing prior to sale.

Reserves do not include quantities of petroleum being held in inventory.

## **Table of Contents**

### **PETROLEUM RESERVES DEFINITIONS**

Page 2

Because of the differences in uncertainty, caution should be exercised when aggregating quantities of petroleum from different reserves categories.

#### **RESERVES (SEC DEFINITIONS)**

Securities and Exchange Commission Regulation S-X §210.4-10(a)(26) defines reserves as follows:

**Reserves.** *Reserves are estimated remaining quantities of oil and gas and related substances anticipated to be economically producible, as of a given date, by application of development projects to known accumulations. In addition, there must exist, or there must be a reasonable expectation that there will exist, the legal right to produce or a revenue interest in the production, installed means of delivering oil and gas or related substances to market, and all permits and financing required to implement the project.*

Note to paragraph (a)(26): *Reserves should not be assigned to adjacent reservoirs isolated by major, potentially sealing, faults until those reservoirs are penetrated and evaluated as economically producible. Reserves should not be assigned to areas that are clearly separated from a known accumulation by a non-productive reservoir (i.e., absence of reservoir, structurally low reservoir, or negative test results). Such areas may contain prospective resources (i.e., potentially recoverable resources from undiscovered accumulations).*

#### **PROVED RESERVES (SEC DEFINITIONS)**

Securities and Exchange Commission Regulation S-X §210.4-10(a)(22) defines proved oil and gas reserves as follows:

**Proved oil and gas reserves.** *Proved oil and gas reserves 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, and under existing economic conditions, operating methods, and government regulations prior to the time at which contracts providing the right to operate expire, unless evidence indicates that renewal is reasonably certain, regardless of whether deterministic or probabilistic methods are used for the estimation. The project to extract the hydrocarbons must have commenced or the operator must be reasonably certain that it will commence the project within a reasonable time.*

- (i) The area of the reservoir considered as proved includes:
  - (A) The area identified by drilling and limited by fluid contacts, if any, and
  - (B) Adjacent undrilled portions of the reservoir that can, with reasonable certainty, be judged to be continuous with it and to contain economically producible oil or gas on the basis of available geoscience and engineering data.
- (ii) In the absence of data on fluid contacts, proved quantities in a reservoir are limited by the lowest known hydrocarbons (LKH) as seen in a well penetration unless geoscience, engineering, or performance data and reliable technology establishes a lower contact with reasonable certainty.
- (iii) Where direct observation from well penetrations has defined a highest known oil (HKO) elevation and the potential exists for an associated gas cap, proved oil reserves may be assigned in the structurally higher portions of the reservoir only if geoscience, engineering, or performance data and reliable technology establish the higher contact with reasonable certainty.

B-13

**Table of Contents**

PETROLEUM RESERVES DEFINITIONS

Page 3

- (iv) *Reserves which can be produced economically through application of improved recovery techniques (including, but not limited to, fluid injection) are included in the proved classification when:*
  - (A) *Successful testing by a pilot project in an area of the reservoir with properties no more favorable than in the reservoir as a whole, the operation of an installed program in the reservoir or an analogous reservoir, or other evidence using reliable technology establishes the reasonable certainty of the engineering analysis on which the project or program was based; and*
  - (B) *The project has been approved for development by all necessary parties and entities, including governmental entities.*
- (v) *Existing economic conditions include prices and costs at which economic producibility from a reservoir is to be determined. The price shall be the average price during the 12-month period prior to the ending date of the period covered by the report, determined as an unweighted arithmetic average of the first-day-of-the-month price for each month within such period, unless prices are defined by contractual arrangements, excluding escalations based upon future conditions.*

B-14

**Table of Contents**

**PETROLEUM RESERVES STATUS DEFINITIONS AND GUIDELINES**

**As Adapted From:**

**RULE 4-10(a) of REGULATION S-X PART 210**

**UNITED STATES SECURITIES AND EXCHANGE COMMISSION (SEC)**

**and**

**PETROLEUM RESOURCES MANAGEMENT SYSTEM (SPE-PRMS)**

**Sponsored and Approved by:**

**SOCIETY OF PETROLEUM ENGINEERS (SPE)**

**WORLD PETROLEUM COUNCIL (WPC)**

**AMERICAN ASSOCIATION OF PETROLEUM GEOLOGISTS (AAPG)**

**SOCIETY OF PETROLEUM EVALUATION ENGINEERS (SPEE)**

Reserves status categories define the development and producing status of wells and reservoirs. Reference should be made to Title 17, Code of Federal Regulations, Regulation S-X Part 210, Rule 4-10(a) and the SPE-PRMS as the following reserves status definitions are based on excerpts from the original documents (direct passages excerpted from the aforementioned SEC and SPE-PRMS documents are denoted in italics herein).

**DEVELOPED RESERVES (SEC DEFINITIONS)**

Securities and Exchange Commission Regulation S-X §210.4-10(a)(6) defines developed oil and gas reserves as follows:

*Developed oil and gas reserves are reserves of any category that can be expected to be recovered:*

- (i) *Through existing wells with existing equipment and operating methods or in which the cost of the required equipment is relatively minor compared to the cost of a new well; and*
- (ii) *Through installed extraction equipment and infrastructure operational at the time of the reserves estimate if the extraction is by means not involving a well.*

**Developed Producing (SPE-PRMS Definitions)**

While not a requirement for disclosure under the SEC regulations, developed oil and gas reserves may be further sub-classified according to the guidance contained in the SPE-PRMS as Producing or Non-Producing.

**Developed Producing Reserves**

*Developed Producing Reserves are expected to be recovered from completion intervals that are open and producing at the time of the estimate.*

*Improved recovery reserves are considered producing only after the improved recovery project is in operation.*

**Developed Non-Producing**

## Edgar Filing: Diamondback Energy, Inc. - Form 424B5

*Developed Non-Producing Reserves include shut-in and behind-pipe reserves.*

### *Shut-In*

*Shut-in Reserves are expected to be recovered from:*

- (1) completion intervals which are open at the time of the estimate, but which have not started producing;*

B-15

**Table of Contents**

PETROLEUM RESERVES STATUS DEFINITIONS AND GUIDELINES

Page 2

(2) wells which were shut-in for market conditions or pipeline connections; or

(3) wells not capable of production for mechanical reasons.

**Behind-Pipe**

*Behind-pipe Reserves are expected to be recovered from zones in existing wells, which will require additional completion work or future re-completion prior to start of production.*

*In all cases, production can be initiated or restored with relatively low expenditure compared to the cost of drilling a new well.*

**UNDEVELOPED RESERVES (SEC DEFINITIONS)**

Securities and Exchange Commission Regulation S-X §210.4-10(a)(31) defines undeveloped oil and gas reserves as follows:

*Undeveloped oil and gas reserves are reserves of any category that are expected to be recovered from new wells on undrilled acreage, or from existing wells where a relatively major expenditure is required for recompletion.*

- (i) *Reserves on undrilled acreage shall be limited to those directly offsetting development spacing areas that are reasonably certain of production when drilled, unless evidence using reliable technology exists that establishes reasonable certainty of economic producibility at greater distances.*
- (ii) *Undrilled locations can be classified as having undeveloped reserves only if a development plan has been adopted indicating that they are scheduled to be drilled within five years, unless the specific circumstances, justify a longer time.*
- (iii) *Under no circumstances shall estimates for undeveloped reserves be attributable to any acreage for which an application of fluid injection or other improved recovery technique is contemplated, unless such techniques have been proved effective by actual projects in the same reservoir or an analogous reservoir, as defined in paragraph (a)(2) of this section, or by other evidence using reliable technology establishing reasonable certainty.*

B-16



**Table of Contents**

**Prospectus**

**Diamondback Energy, Inc.**

**Common Stock**

**Senior Debt Securities**

**Subordinated Debt Securities**

**Guarantees of Debt Securities**

By this prospectus, we may offer and sell, from time to time in one or more offerings, our common stock and senior and subordinated debt securities, and one or more of our existing and future subsidiaries, including Diamondback O&G LLC, Diamondback E&P LLC and Viper Energy Partners LLC, may fully and unconditionally guarantee the principal of, and premium (if any) and interest on, such debt securities. This prospectus may be also used by the selling security holders named in this prospectus and any other selling security holders that may be identified in any applicable prospectus supplement in connection with resales, from time to time in one or more offerings, of up to 17,459,436 shares of our common stock held by such selling security holders. We refer to our common stock and debt securities that may be offered by us and/or selling security holders pursuant to this prospectus and any applicable prospectus supplement collectively as the securities.

This prospectus provides you with a general description of the securities and the general manner in which we or selling security holders will offer the securities. Each time we or selling security holders sell securities, to the extent required, we will provide a supplement to this prospectus that contains specific information about the offering. The supplement may also add, update or change information contained in this prospectus. You should carefully read this prospectus, all prospectus supplements and all other documents incorporated by reference in this prospectus before you invest in our securities.

**Investing in our securities involves risks. See Risk Factors beginning on page 1.**

Our common stock is listed on The NASDAQ Global Select Market under the symbol FANG.

**Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.**

**The date of this prospectus is November 5, 2013.**

**Table of Contents**

**TABLE OF CONTENTS**

<u>About This Prospectus</u>	ii
<u>Cautionary Note Regarding Forward-Looking Statements</u>	ii
<u>Our Company</u>	1
<u>About the Subsidiary Guarantors</u>	1
<u>Risk Factors</u>	1
<u>Use of Proceeds</u>	6
<u>Ratio of Earnings (Deficit) to Fixed Charges</u>	7
<u>Selling Security Holders</u>	8
<u>Description of Debt Securities and Guarantees</u>	11
<u>Description of Capital Stock</u>	29
<u>Plan of Distribution</u>	32
<u>Where You Can Find More Information</u>	35
<u>Information Incorporated by Reference</u>	35
<u>Legal Matters</u>	36
<u>Experts</u>	36

**Table of Contents**

**ABOUT THIS PROSPECTUS**

This prospectus is part of a shelf registration statement that we filed with the Securities and Exchange Commission, or the SEC, as a well-known seasoned issuer (as defined in Rule 405 of the Securities Act of 1933, as amended, or the Securities Act), using a shelf registration process. Under this shelf registration process, we may, from time to time, offer and/or sell any combination of the securities described in this prospectus, and the selling security holders named in this prospectus or that may be identified in an applicable prospectus supplement, may, from time to time, resell up to 17,459,436 shares of our common stock, in each case in one or more offerings. This prospectus provides you with a general description of the securities we and/or selling security holders may offer. This prospectus does not contain all the information set forth in the registration statement as permitted by the rules of the SEC. Each time we or selling security holders sell securities, to the extent required, we will provide a supplement to this prospectus that will contain specific information about the terms of that offering. That prospectus supplement may also add, update or change information contained in this prospectus. Before purchasing any securities, you should carefully read both this prospectus and any applicable prospectus supplement, together with the additional information described in this prospectus under the headings **Where You Can Find More Information** and **Information Incorporated by Reference**.

You should rely only on the information contained in this prospectus and in any applicable prospectus supplement, including any information incorporated by reference. Neither we nor the selling security holders have authorized any other person to provide you with different information. If anyone provides you with different or inconsistent information, you should not rely on it. You should not assume that the information appearing in this prospectus, any prospectus supplement or any document incorporated by reference is accurate at any date other than as of the date of each such document. Our business, financial condition, results of operations and prospects may have changed since the date indicated on the cover page of such documents.

The distribution of this prospectus may be restricted by law in certain jurisdictions. You should inform yourself about and observe any of these restrictions. This prospectus does not constitute, and may not be used in connection with, an offer or solicitation by anyone in any jurisdiction in which the offer or solicitation is not authorized, or in which the person making the offer or solicitation is not qualified to do so, or to any person to whom it is unlawful to make the offer or solicitation.

When used in this prospectus or in any supplement to this prospectus, the terms **Diamondback Energy**, **the Company**, **we**, **our** and **us** refer to Diamondback Energy, Inc. and its consolidated subsidiaries, unless otherwise indicated or the context otherwise requires.

**CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS**

This prospectus, including the documents incorporated by reference, contains forward-looking statements. These forward-looking statements are subject to a number of risks and uncertainties, many of which are beyond our control, which may include statements about our:

business strategy;

exploration and development drilling prospects, inventories, projects and programs;

expectations regarding the consummation of any acquisitions;

oil and natural gas reserves;

identified drilling locations;

ability to obtain permits and governmental approvals;

technology;

**Table of Contents**

financial strategy;

realized oil and natural gas prices;

production;

lease operating expenses, general and administrative costs and finding and development costs;

future operating results; and

plans, objectives, expectations and intentions.

All of these types of statements, other than statements of historical fact included or incorporated by reference in this prospectus, are forward-looking statements. In some cases, you can identify forward-looking statements by terminology such as may, could, should, expect, plan, project, intend, anticipate, believe, estimate, pursue, target, seek, objective or continue, the negative of such terms or other comparable terminology.

The forward-looking statements contained or incorporated by reference in this prospectus are largely based on our expectations, which reflect estimates and assumptions made by our management. These estimates and assumptions reflect our best judgment based on currently known market conditions and other factors. Although we believe such estimates and assumptions to be reasonable, they are inherently uncertain and involve a number of risks and uncertainties that are beyond our control. In addition, our management's assumptions about future events may prove to be inaccurate. Our management cautions all readers that the forward-looking statements contained in this prospectus are not guarantees of future performance, and we cannot assure any reader that such statements will be realized or the forward-looking events and circumstances will occur. Actual results may differ materially from those anticipated or implied in the forward-looking statements due to the many factors including those described under Risk Factors incorporated by reference herein and elsewhere in this prospectus. All forward-looking statements contained in this prospectus or included in a document incorporated by reference herein speak only as of the date hereof or thereof, respectively. We do not intend to publicly update or revise any forward-looking statements as a result of new information, future events or otherwise. These cautionary statements qualify all forward-looking statements attributable to us or persons acting on our behalf.

**Table of Contents**

**OUR COMPANY**

We are an independent oil and natural gas company currently focused on the acquisition, development, exploration and exploitation of unconventional, onshore oil and natural gas reserves in the Permian Basin in West Texas. This basin, which is one of the major producing basins in the United States, is characterized by an extensive production history, a favorable operating environment, mature infrastructure, long reserve life, multiple producing horizons, enhanced recovery potential and a large number of operators.

Our activities are primarily focused on the Clearfork, Spraberry, Wolfcamp, Cline, Strawn and Atoka formations, which we refer to collectively as the Wolfberry play. The Wolfberry play is characterized by high oil and liquids rich natural gas, multiple vertical and horizontal target horizons, extensive production history, long-lived reserves and high drilling success rates. The Wolfberry play is a modification and extension of the Spraberry play, the majority of which is designated in the Spraberry trend area field.

Our principal executive offices are located at 500 West Texas, Suite 1225, Midland, Texas, and our telephone number at that address is (432) 221-7400. We also lease additional office space in Midland and in Oklahoma City, Oklahoma. Our website address is [www.diamondbackenergy.com](http://www.diamondbackenergy.com). Information contained on our website does not constitute part of this prospectus.

**ABOUT THE SUBSIDIARY GUARANTORS**

One or more of our existing and any future subsidiaries may jointly and severally, fully and unconditionally guarantee our payment obligations under any series of debt securities offered by this prospectus. Financial information concerning our guarantor subsidiaries and non-guarantor subsidiaries, if any, is included in our consolidated financial statements filed as a part of our periodic reports filed pursuant to the Securities Exchange Act of 1934, as amended, or the Exchange Act, to the extent required by the rules and regulations of the SEC.

Additional information concerning our subsidiaries and us is, or will be, as the case may be, included in the reports and other documents incorporated by reference in this prospectus or any applicable prospectus supplement. See **Where You Can Find More Information**.

**RISK FACTORS**

*Investment in our securities involves certain risks. You should carefully consider the factors contained below and in our annual report on Form 10-K for the fiscal year ended December 31, 2012 under the headings **Risk Factors** and **Management's Discussion and Analysis of Financial Condition and Results of Operations - Critical Accounting Estimates** and in any other filings we made with the SEC prior to the filing of this prospectus under the heading **Risk Factors** before investing in our securities. You should also consider similar information contained in any annual report on Form 10-K or other document filed by us with the SEC after the date of this prospectus before deciding to invest in our securities. We will also include in any prospectus supplement a description of any other risk factors applicable to an offering contemplated by such prospectus supplement. Additional risks and uncertainties not currently known to us or that we currently view as immaterial may also impair our business operations. Any of these risks could materially and adversely affect our business, financial condition, results of operations and cash flows and could result in a loss of all or part of your investment.*

---

**Table of Contents**

**Risks Related to this Offering and Our Common Stock**

***Our two largest stockholders, Wexford Capital LP, or Wexford Capital, and Gulfport Energy Corporation, or Gulfport, control a significant percentage of our common stock, and their interests may conflict with those of our other stockholders.***

Gulfport and certain affiliates of Wexford Capital are included as selling security holders in this prospectus. As of the date of this prospectus, Wexford Capital and Gulfport beneficially owned approximately 25.0% and 12.1%, respectively, of our common stock. In addition, individuals affiliated with Wexford Capital and Gulfport serve on our Board of Directors, and Gulfport has the right to designate one individual as a nominee for election to our Board of Directors so long as it continues to beneficially own more than 10% of our outstanding common stock. As a result, Wexford Capital and Gulfport will be able to exercise significant influence over matters requiring stockholder approval, including the election of directors, changes to our organizational documents and significant corporate transactions. This concentration of ownership makes it unlikely that any other holder or group of holders of our common stock will be able to affect the way we are managed or the direction of our business. The interests of Wexford Capital and Gulfport with respect to matters potentially or actually involving or affecting us, such as future acquisitions, financings and other corporate opportunities and attempts to acquire us, may conflict with the interests of our other stockholders. This concentrated ownership will make it difficult for another company to acquire us and for you to receive any related takeover premium for your shares unless Wexford Capital and Gulfport approve the acquisition.

***The corporate opportunity provisions in our certificate of incorporation could enable Wexford Capital, our equity sponsor, or other affiliates of ours to benefit from corporate opportunities that might otherwise be available to us.***

Subject to the limitations of applicable law, our certificate of incorporation, among other things:

permits us to enter into transactions with entities in which one or more of our officers or directors are financially or otherwise interested;

permits any of our stockholders, officers or directors to conduct business that competes with us and to make investments in any kind of property in which we may make investments; and

provides that if any director or officer of one of our affiliates who is also one of our officers or directors becomes aware of a potential business opportunity, transaction or other matter (other than one expressly offered to that director or officer in writing solely in his or her capacity as our director or officer), that director or officer will have no duty to communicate or offer that opportunity to us, and will be permitted to communicate or offer that opportunity to such affiliates and that director or officer will not be deemed to have (i) acted in a manner inconsistent with his or her fiduciary or other duties to us regarding the opportunity or (ii) acted in bad faith or in a manner inconsistent with our best interests.

These provisions create the possibility that a corporate opportunity that would otherwise be available to us may be used for the benefit of one of our affiliates.

***We have engaged in transactions with our affiliates and expect to do so in the future. The terms of such transactions and the resolution of any conflicts that may arise may not always be in our or our stockholders' best***

*interests.*

We have engaged in transactions and expect to continue to engage in transactions with affiliated companies. As described under the caption Certain Relationships and Related Party Transactions incorporated by reference into this prospectus from our definitive proxy statement on Schedule 14A, these transactions include, among others, drilling services provided to us by Bison Drilling and Field Services, LLC, real property leased by us from Fasken Midland, LLC and Caliber Investment Croup, LLC, hydraulic fracturing sand purchased by us from Muskie Proppant LLC and certain administrative services provided to us by Everest Operations Management LLC. Each of these entities is either controlled by or affiliated with Wexford Capital, and the resolution of any conflicts that may arise in



## **Table of Contents**

connection with such related party transactions, including pricing, duration or other terms of service, may not always be in our or our stockholders' best interests because Wexford Capital may have the ability to influence the outcome of these conflicts. For a discussion of potential conflicts, see **Risks Related to this Offering and our Common Stock**. Our two largest stockholders control a significant percentage of our common stock, and their interests may conflict with those of our other stockholders beginning on page 2 of this prospectus.

***We are an emerging growth company and we cannot be certain if the reduced disclosure requirements applicable to emerging growth companies will make our common stock less attractive to investors.***

We are, and through December 31, 2013 will remain, an emerging growth company, as defined in the Jumpstart Our Business Startups Act of 2012, and until we cease to be an emerging growth company we may take advantage of certain exemptions from various reporting requirements that are applicable to other public companies, including, but not limited to, not being required to comply with the auditor attestation requirements of Section 404 of the Sarbanes-Oxley Act, reduced disclosure obligations regarding executive compensation in our periodic reports and proxy statements, and exemptions from the requirements of holding a nonbinding advisory vote on executive compensation and shareholder approval of any golden parachute payments not previously approved. Investors may find our common stock less attractive because we rely on these exemptions. If some investors find our common stock less attractive as a result, there may be a less active trading market for our common stock and our stock price may be more volatile.

Under the Jumpstart Our Business Startups Act, emerging growth companies can delay adopting new or revised accounting standards until such time as those standards apply to private companies. We have irrevocably elected not to avail ourselves to this exemption from new or revised accounting standards and, therefore, we will be subject to the same new or revised accounting standards as other public companies that are not emerging growth companies.

***We incur increased costs as a result of being a public company, which may significantly affect our financial condition.***

We completed our initial public offering in October 2012. As a public company, we incur significant legal, accounting and other expenses that we did not incur as a private company. We also incur costs associated with our public company reporting requirements and with corporate governance requirements, including requirements under the Sarbanes-Oxley Act of 2002, as well as rules implemented by the SEC and the Financial Industry Regulatory Authority. These rules and regulations increase our legal and financial compliance costs and make some activities more time-consuming and costly, and we expect that these costs may increase further after we are no longer an emerging growth company. These rules and regulations make it more difficult and more expensive for us to obtain director and officer liability insurance and we may be required to accept reduced policy limits and coverage or incur substantially higher costs to obtain the same or similar coverage. As a result, it may be more difficult for us to attract and retain qualified individuals to serve on our board of directors or as executive officers.

***If the price of our common stock fluctuates significantly, your investment could lose value.***

Although our common stock is listed on the NASDAQ Select Global Market, we cannot assure you that an active public market will continue for our common stock. If an active public market for our common stock does not continue, the trading price and liquidity of our common stock will be materially and adversely affected. If there is a thin trading market or float for our stock, the market price for our common stock may fluctuate significantly more than the stock market as a whole. Without a large float, our common stock would be less liquid than the stock of companies with broader public ownership and, as a result, the trading prices of our common stock may be more volatile. In addition, in the absence of an active public trading market, investors may be unable to liquidate their

investment in us. Furthermore, the stock market is subject to significant price and

**Table of Contents**

volume fluctuations, and the price of our common stock could fluctuate widely in response to several factors, including:

our quarterly or annual operating results;

changes in our earnings estimates;

investment recommendations by securities analysts following our business or our industry;

additions or departures of key personnel;

changes in the business, earnings estimates or market perceptions of our competitors;

our failure to achieve operating results consistent with securities analysts' projections;

changes in industry, general market or economic conditions; and

announcements of legislative or regulatory changes.

The stock market has experienced extreme price and volume fluctuations in recent years that have significantly affected the quoted prices of the securities of many companies, including companies in our industry. The changes often appear to occur without regard to specific operating performance. The price of our common stock could fluctuate based upon factors that have little or nothing to do with our company and these fluctuations could materially reduce our stock price.

***Future sales of our common stock, or the perception that such future sales may occur, may cause our stock price to decline.***

Sales of substantial amounts of our common stock in the public market, or the perception that these sales may occur, could cause the market price of our common stock to decline. In addition, the sale of such shares, or the perception that such sales may occur, could impair our ability to raise capital through the sale of additional common or preferred stock. Except for any shares purchased by our affiliates, all of the shares of common stock sold in our initial public offering and our subsequent offerings are, and all of the shares of common stock sold under this prospectus or in any applicable prospectus supplement will be, freely tradable. In connection with our initial public offering, we also granted DB Energy Holdings LLC, or DB Holdings, and Gulfport and their respective affiliates certain registration rights obligating us to register with the SEC their shares of our common stock. The selling security holders' shares included in the registration statement of which this prospectus is a part are being registered in accordance with these obligations. In the event that one or more of our stockholders sells a substantial amount of our common stock in the public market, or the market perceives that such sales may occur, the price of our stock could decline.

***If securities or industry analysts do not publish research or reports about our business, if they adversely change their recommendations regarding our stock or if our operating results do not meet their expectations, our stock price could decline.***

The trading market for our common stock will be influenced by the research and reports that industry or securities analysts publish about us or our business. If one or more of these analysts cease coverage of our company or fail to publish reports on us regularly, we could lose visibility in the financial markets, which in turn could cause our stock price or trading volume to decline. Moreover, if one or more of the analysts who cover our company downgrade our stock or if our operating results do not meet their expectations, our stock price could decline.

***We may issue preferred stock whose terms could adversely affect the voting power or value of our common stock.***

Our certificate of incorporation authorizes us to issue, without the approval of our stockholders, one or more classes or series of preferred stock having such designations, preferences, limitations and relative rights,

## **Table of Contents**

including preferences over our common stock respecting dividends and distributions, as our board of directors may determine. The terms of one or more classes or series of preferred stock could adversely impact the voting power or value of our common stock. For example, we might grant holders of preferred stock the right to elect some number of our directors in all events or on the happening of specified events or the right to veto specified transactions. Similarly, the repurchase or redemption rights or liquidation preferences we might assign to holders of preferred stock could affect the residual value of the common stock.

***Provisions in our certificate of incorporation and bylaws and Delaware law make it more difficult to effect a change in control of the company, which could adversely affect the price of our common stock.***

The existence of some provisions in our certificate of incorporation and bylaws and Delaware corporate law could delay or prevent a change in control of our company, even if that change would be beneficial to our stockholders. Our certificate of incorporation and bylaws contain provisions that may make acquiring control of our company difficult, including:

provisions regulating the ability of our stockholders to nominate directors for election or to bring matters for action at annual meetings of our stockholders;

limitations on the ability of our stockholders to call a special meeting and act by written consent;

the ability of our board of directors to adopt, amend or repeal bylaws, and the requirement that the affirmative vote of holders representing at least 66 2/3% of the voting power of all outstanding shares of capital stock be obtained for stockholders to amend our bylaws;

the requirement that the affirmative vote of holders representing at least 66 2/3% of the voting power of all outstanding shares of capital stock be obtained to remove directors;

the requirement that the affirmative vote of holders representing at least 66 2/3% of the voting power of all outstanding shares of capital stock be obtained to amend our certificate of incorporation; and

the authorization given to our board of directors to issue and set the terms of preferred stock without the approval of our stockholders.

These provisions also could discourage proxy contests and make it more difficult for you and other stockholders to elect directors and take other corporate actions. As a result, these provisions could make it more difficult for a third party to acquire us, even if doing so would benefit our stockholders, which may limit the price that investors are willing to pay in the future for shares of our common stock.

***We do not intend to pay cash dividends on our common stock in the foreseeable future, and therefore only appreciation of the price of our common stock will provide a return to our stockholders.***

We currently anticipate that we will retain all future earnings, if any, to finance the growth and development of our business. We do not intend to pay cash dividends in the foreseeable future. Any future determination as to the declaration and payment of cash dividends will be at the discretion of our board of directors and will depend upon our financial condition, results of operations, contractual restrictions, capital requirements, business prospects and other factors deemed relevant by our board of directors. In addition, the terms of our revolving credit facility prohibit us from paying dividends and making other distributions. As a result, only appreciation of the price of our common stock, which may not occur, will provide a return to our stockholders.

**Table of Contents**

**USE OF PROCEEDS**

Unless the applicable prospectus supplement indicates otherwise, we intend to use the net proceeds from the sale of the securities by us for general corporate purposes, including without limitation repaying or refinancing all or a portion of our existing short-term and long-term debt, making acquisitions of assets, businesses or securities, capital expenditures and for working capital. The precise amount and timing of the application of such proceeds will depend upon our funding requirements and the availability and cost of other capital. Pending any specific application of the net proceeds, we intend to invest our net proceeds in short-term, investment-grade securities, interest-bearing securities or guaranteed obligations of the United States or its agencies.

We will not receive any proceeds from the sale of any shares of common stock by selling security holders, unless we otherwise indicate in any applicable prospectus supplement.

**Table of Contents****RATIO OF EARNINGS (DEFICIT) TO FIXED CHARGES**

The following table sets forth our ratios of earnings (deficit) to fixed charges for the periods indicated. We have calculated the ratio of earnings (deficit) to fixed charges by dividing the sum of income from continuing operations plus fixed charges by fixed charges. Fixed charges consist of interest expense. The financial measures used in this table may not be comparable to similarly titled financial measures used in our various agreements, including our revolving credit facility and the indenture that governs our outstanding senior notes.

	<b>Nine Months</b>		<b>Year Ended December 31,</b>			
	<b>Ended</b>					
	<b>September 30,</b>					
	<b>2013</b>	<b>2012</b>	<b>2011</b>	<b>2010</b>	<b>2009</b>	<b>2008</b>
Ratio of earnings (deficit) to fixed charges	28.2	5.8	6.9	11.9	122.6	(1)

(1) Earnings were inadequate to cover fixed charges for the year ended December 31, 2008 by \$85.0 million.



**Table of Contents****SELLING SECURITY HOLDERS**

The shares of our common stock covered by this prospectus are being offered by the selling security holders listed in the table below. This prospectus will not cover subsequent sales of common stock purchased from a selling security holder named in this prospectus.

No offer or sale under this prospectus may be made by a security holder unless that holder is listed in the table below, in a supplement to this prospectus or in an amendment to the related registration statement that has become effective. We may supplement or amend this prospectus to include additional selling security holders upon provision of all required information to us and subject to the terms of the relevant agreement between us and certain of the selling security holders.

The following table sets forth the maximum number of shares of our common stock that may be sold by the selling security holders. We cannot predict when or in what amount any selling security holder may sell any of the shares offered by such selling security holder in this prospectus, if at all. The table also sets forth the name of each selling security holder, the nature of any position, office, or other material relationship which the selling security holder has had, within the past three years, with us or with any of our predecessors or affiliates, and the number of shares of our common stock to be owned by such selling security holder after completion of the offering. We are filing the registration statement of which this prospectus is a part pursuant to contractual obligations with certain of the selling security holders, as described in more detail below. We will pay all expenses relating to the registration of the shares by the selling security holders under the Securities Act and any other offering expenses, except that the selling security holders will pay any underwriting discounts or commissions.

We prepared the table based on information provided to us by the selling security holders. We have not sought to verify such information. Additionally, the selling security holders may have sold or transferred some or all of their shares of our common stock in transactions exempt from the registration requirements of the Securities Act since the date on which the information in the table was provided to us. Other information about the selling security holders may also change over time.

Except as otherwise indicated, each selling security holder has sole voting and dispositive power with respect to such shares.

Name of Selling Security Holder	Shares of Common Stock		Shares of Common Stock	
	Beneficially Owned Prior to the Offering(1)		Being Offered Hereby	Beneficially Owned After Completion of the Offering
	Number	Percent(2)	Number	Number Percent(2)
DB Energy Holdings LLC(3)	11,092,717	23.6%	11,092,717	
Wexford Spectrum Fund, L.P.(3)	132,339	*	132,339	
Wexford Catalyst Fund, L.P.(3).	20,915	*	20,915	
Spectrum Intermediate Fund Limited(3)	446,003	*	446,003	
Catalyst Intermediate Fund Limited(3)	87,962	*	87,962	
Gulfport Energy Corporation(4)	5,679,500	12.1%	5,679,500	

\* Less than 1%.

- (1) For purposes of this table, a person or group of persons is deemed to have beneficial ownership of any shares which such person has the right to acquire within 60 days. For purposes of computing the percentage of outstanding shares held by each person or group of persons named above, any security which such person or group of persons has the right to acquire within 60 days is deemed to be outstanding for the purpose of computing the percentage ownership for such person or persons, but is not deemed to be outstanding for the purpose of computing the percentage ownership of any other person. As a result, the denominator used in calculating the beneficial ownership among our stockholders may differ.

## Table of Contents

- (2) Percentage of beneficial ownership is based upon 47,067,116 shares of common stock outstanding as of October 28, 2013. Because the selling security holders are not obligated to sell any portion of the shares of our common stock shown as offered by them, we cannot estimate the actual number or percentage of shares of our common stock that will be held by any selling security holder upon completion of this offering. However, for purposes of this table, we have assumed that, after completion of the offering, none of the shares covered by this prospectus will be held by the applicable selling security holder.
- (3) Based solely on Schedule 13D/A filed with the SEC on July 2, 2013 by DB Energy Holdings LLC ( DB Holdings ), Wexford Spectrum Fund, L.P. ( WSF ), Wexford Catalyst Fund, L.P. ( WCF ), Spectrum Intermediate Fund Limited ( SIF ), Catalyst Intermediate Fund Limited ( CIF ) and, together with DB Holdings, WSF, WCF and SIF, the Funds ), Wexford Capital LP ( Wexford Capital ), Wexford GP LLC ( Wexford GP ), Charles E. Davidson ( Mr. Davidson ) and Joseph M. Jacobs ( Mr. Jacobs ), the Form 4 filed with the SEC on July 9, 2013 by DB Holdings, the Form 4 filed with the SEC on July 9, 2013 by Wexford Capital, Wexford GP, Mr. Davidson and Mr. Jacobs and the Company's records. DB Holdings is a holding company managed by Wexford Capital. WSF, WCF, SIF and CIF are investment funds managed by Wexford Capital. Wexford Capital is an investment advisor registered with the SEC, and manages a series of investment funds. Wexford GP is the general partner of Wexford Capital. Mr. Davidson and Mr. Jacobs are the managing members of Wexford GP. DB has shared voting and dispositive power over 11,092,717 shares. WSF has shared voting and dispositive power over 132,339 shares. WCF has shared voting and dispositive power over 20,915 shares. SIF has shared voting and dispositive power over 446,003 shares. CIF has shared voting and dispositive power over 87,962 shares. Wexford Capital, Wexford GP, Mr. Davidson and Mr. Jacobs have shared voting and dispositive power over 11,786,702 shares, which amount (i) includes an aggregate of 6,666 shares of our common stock assigned to Wexford Capital by Mr. West, one of our directors, and Mr. Jacobi, one of our former directors, pursuant to the terms of their employment with Wexford Capital and (ii) excludes an aggregate of 2,222 unvested restricted stock units held by Mr. West, which will vest on October 11, 2014 assigned to Wexford Capital pursuant to the terms of Mr. West's employment with Wexford Capital. Wexford Capital may, by reason of its status as manager or investment manager of the Funds, be deemed to own beneficially the securities of which the Funds possess beneficial ownership. Wexford GP may, as the General Partner of Wexford Capital, be deemed to own beneficially the securities of which the Funds possess beneficial ownership. Each of Mr. Davidson and Mr. Jacobs may, by reason of his status as a controlling person of Wexford GP, be deemed to own beneficially the securities of which the Funds possess beneficial ownership. Each of Wexford Capital, Wexford GP, Mr. Davidson and Mr. Jacobs disclaims beneficial ownership of the securities owned by the Funds except, in the case of Mr. Davidson and Mr. Jacobs, to the extent of their respective interests in the Funds. Wexford Capital's address is Wexford Plaza, 411 West Putnam Avenue, Greenwich, Connecticut 06830. We have entered into a registration rights agreement with DB Holdings, a selling security holder named in this prospectus, which agreement is incorporated herein by reference. Under this agreement, DB Holdings and its transferees have certain demand and piggyback registration rights. The demand rights enable each such security holder to require us to register its shares of our common stock with the SEC. The piggyback rights allow each such security holder to register the shares of our common stock that it owns along with any shares that we register with the SEC. These registration rights are subject to customary conditions and limitations, including the right of the underwriters of an offering to limit the number of shares. The shares of common stock that may be offered by the Funds pursuant to this prospectus and any required prospectus supplement have been included herein under the terms of the piggyback registration rights. All expenses of such registrations (including both demand and piggyback registrations), other than any underwriting discounts and commissions, will be paid by us. For a full description of our material relationships with DB Holdings and its affiliates, please see Certain Relationships and Related Party Transactions appearing in our definitive proxy statement on Schedule 14A, which information is incorporated herein by reference.
- (4) Based solely on the Form 4 filed with the SEC on July 9, 2013 by Gulfport Energy Corporation. Gulfport Energy Corporation's address is 14313 North May Avenue, Suite 100, Oklahoma City, Oklahoma 73134. We have

entered into an investor rights agreement with Gulfport, a selling security holder named in this prospectus, which agreement is incorporated herein by reference. Under this agreement, Gulfport has certain

**Table of Contents**

demand and piggyback registration rights. The demand rights enable such security holder to require us to register its shares of our common stock with the SEC. The piggyback rights allow such security holder to register the shares of our common stock that it owns along with any shares that we register with the SEC. These registration rights are subject to customary conditions and limitations, including the right of the underwriters of an offering to limit the number of shares. The shares of common stock that may be offered by Gulfport pursuant to this prospectus and any required prospectus supplement have been included herein under the terms of the piggyback registration rights. All expenses of such registrations (including both demand and piggyback registrations), other than underwriting discounts and commissions, will be paid by us. For a full description of our material relationships with Gulfport and its affiliates, please see Certain Relationships and Related Party Transactions appearing in our definitive proxy statement on Schedule 14A, which information is incorporated herein by reference.

**Table of Contents**

**DESCRIPTION OF DEBT SECURITIES AND GUARANTEES**

**General**

We may issue debt securities in one or more series. When used in this Description of Debt Securities and Guarantees section, unless we state otherwise or the context clearly indicates otherwise, references to the Company, Diamondback Energy, we, us and our refer only to Diamondback Energy, Inc.

We may issue senior or subordinated debt securities. Neither the senior debt securities nor the subordinated debt securities will be secured by any of our property or assets. Thus, by owning a debt security, you will be one of our unsecured creditors.

The senior debt securities will constitute part of our senior debt, will be issued under our senior debt indenture described below and will rank equally with all of our other unsecured and unsubordinated debt.

The subordinated debt securities will constitute part of our subordinated debt, will be issued under our subordinated debt indenture described below and will be subordinate in right of payment to all of our senior debt, as defined in the indenture with respect to such subordinated debt securities. The prospectus supplement for any series of subordinated debt securities or the information incorporated in this prospectus by reference will indicate the approximate amount of senior debt outstanding as of the end of the then most recent fiscal quarter. Neither indenture limits our ability to incur additional senior debt or other indebtedness.

When we refer to debt securities in this prospectus, we mean both the senior debt securities and the subordinated debt securities.

The debt securities may have the benefit of guarantees (each, a guarantee) by one or more of our existing or future subsidiaries, including Diamondback O&G LLC, Diamondback E&P LLC and Viper Energy Partners LLC, specified as a guarantor (each, a guarantor) in the prospectus supplement for the series of such debt securities. If a guarantor issues guarantees, the guarantees will be unsecured and, if guaranteeing senior debt securities, unsubordinated or, if guaranteeing subordinated debt securities, subordinated obligations of the respective guarantors. Unless otherwise expressly stated or the context otherwise requires, as used in this section, the term guaranteed debt securities means debt securities that, as described in the prospectus supplement relating thereto, are guaranteed by one or more guarantors pursuant to the applicable indenture.

The debt indentures and their associated documents, including your debt security, contain the full legal text of the matters described in this section and your prospectus supplement. We have filed forms of the indentures with the SEC as exhibits to our registration statement, of which this prospectus is a part. See **Where You Can Find More Information** in this prospectus for information on how to obtain copies of them.

This section and your prospectus supplement summarize material terms of the indentures and your debt security. They do not, however, describe every aspect of the indentures and your debt security. For example, in this section and your prospectus supplement, we use terms that have been given special meaning in the indentures, but we describe the meaning for only the more important of those terms. Your prospectus supplement will have a more detailed description of the specific terms of your debt security and any applicable guarantees.

**Indentures**

The senior debt securities and subordinated debt securities are each governed by a document called an indenture. Each indenture is a contract between us and a trustee to be named prior to the issuance of debt securities thereunder. The indentures are substantially identical, except for certain provisions including those relating to subordination, which are included only in the indenture related to subordinated debt securities.

## **Table of Contents**

The trustee under each indenture has two main roles:

First, the trustee can enforce your rights against us if we default. There are some limitations on the extent to which the trustee acts on your behalf, which we describe later under Default, Remedies and Waiver of Default.

Second, the trustee performs administrative duties for us, such as sending you interest payments and notices. When we refer to the indenture or the trustee with respect to any debt securities, we mean the indenture under which those debt securities are issued and the trustee under that indenture.

## **Series of Debt Securities**

We may issue as many distinct debt securities or series of debt securities under either indenture as we wish. This section summarizes terms of the securities that apply generally to all debt securities and series of debt securities. The provisions of each indenture allow us not only to issue debt securities with terms different from those of debt securities previously issued under that indenture, but also to reopen a previously issued series of debt securities and issue additional debt securities of that series. We will describe most of the financial and other specific terms of your series, whether it is a series of the senior debt securities or the subordinated debt securities, in the prospectus supplement for that series. Those terms may vary from the terms described here.

As you read this section, please remember that the specific terms of your debt security as described in your prospectus supplement will supplement and, if applicable, modify or replace the general terms described in this section. If there are any differences between your prospectus supplement and this prospectus with respect to your debt security, your prospectus supplement will control. Thus, the statements we make in this section may not apply to your debt security.

When we refer to debt securities or a series of debt securities, we mean, respectively, debt securities or a series of debt securities issued under the applicable indenture. When we refer to your prospectus supplement, we mean the prospectus supplement describing the specific terms of the debt security you purchase. The terms used in your prospectus supplement will have the meanings described in this prospectus, unless otherwise specified.

## **Amounts of Issuances**

Neither indenture limits the aggregate amount of debt securities that we may issue or the number of series or the aggregate amount of any particular series. We may issue debt securities and other securities at any time without your consent and without notifying you.

The indentures and the debt securities do not limit our ability to incur other indebtedness or to issue other securities. Also, unless otherwise specified below or in your prospectus supplement, we are not subject to financial or similar restrictions by the terms of the debt securities.

## **Principal Amount, Stated Maturity and Maturity**

Unless otherwise stated, the principal amount of a debt security means the principal amount payable at its stated maturity, unless that amount is not determinable, in which case the principal amount of a debt security is its face amount.



The term "stated maturity" with respect to any debt security means the day on which the principal amount of your debt security is scheduled to become due. The principal may become due sooner, by reason of redemption, acceleration after a default or otherwise in accordance with the terms of the debt security. The day on which the principal actually becomes due, whether at the stated maturity or earlier, is called the "maturity" of the principal.

## **Table of Contents**

We also use the terms **stated maturity** and **maturity** to refer to the days when other payments become due. For example, we may refer to a regular interest payment date when an installment of interest is scheduled to become due as the **stated maturity** of that installment. When we refer to the **stated maturity** or the **maturity** of a debt security without specifying a particular payment, we mean the stated maturity or maturity, as the case may be, of the principal.

## **Specific Terms of Debt Securities**

Your prospectus supplement will describe the specific terms of your debt security, which will include some or all of the following:

the title of the series of your debt security and whether it is a senior debt security or a subordinated debt security;

any limit on the total principal amount of the debt securities of the same series;

the stated maturity;

the currency or currencies for principal and interest, if not U.S. dollars;

the price at which we originally issue your debt security, expressed as a percentage of the principal amount, and the original issue date;

whether your debt security is a fixed rate debt security, a floating rate debt security or an indexed debt security;

if your debt security is a fixed rate debt security, the yearly rate at which your debt security will bear interest, if any, and the interest payment dates;

if your debt security is a floating rate debt security, the interest rate basis; any applicable index currency or index maturity, spread or spread multiplier or initial base rate, maximum rate or minimum rate; the interest reset, determination, calculation and payment dates; the day count convention used to calculate interest payments for any period; the business day convention; and the calculation agent;

if your debt security is an indexed debt security, the principal amount, if any, we will pay you at maturity, interest payment dates, the amount of interest, if any, we will pay you on an interest payment date or the formula we will use to calculate these amounts, if any, and the terms on which your debt security will be exchangeable for or payable in cash, securities or other property;

if your debt security may be converted into or exercised or exchanged for common or preferred stock or other securities of the Company or debt or equity securities of one or more third parties, the terms on which conversion, exercise or exchange may occur, including whether conversion, exercise or exchange is mandatory, at the option of the holder or at our option, the period during which conversion, exercise or exchange may occur, the initial conversion, exercise or exchange price or rate and the circumstances or manner in which the amount of common or preferred stock or other securities issuable upon conversion, exercise or exchange may be adjusted;

if your debt security is also an original issue discount debt security, the yield to maturity;

if applicable, the circumstances under which your debt security may be redeemed at our option or repaid at the holder's option before the stated maturity, including any redemption commencement date, repayment date(s), redemption price(s) and redemption period(s);

the authorized denominations, if other than \$2,000 and integral multiples of \$1,000;

the depository for your debt security, if other than The Depository Trust Company ( DTC ), and any circumstances under which the holder may request securities in non-global form, if we choose not to issue your debt security in book-entry form only;

## **Table of Contents**

if applicable, the circumstances under which we will pay additional amounts on any debt securities held by a person who is not a United States person for tax purposes and under which we can redeem the debt securities if we have to pay additional amounts;

whether your debt security will be guaranteed by any guarantors and, if so, the identity of the guarantors and, to the extent the terms thereof differ from those described in this prospectus, a description of the terms of the guarantees;

the names and duties of any co-trustees, depositaries, authenticating agents, paying agents, transfer agents or registrars for your debt security, as applicable; and

any other terms of your debt security and any guarantees of your debt security, which could be different from those described in this prospectus.

## **Governing Law**

The indentures and the debt securities (and any guarantees thereof) will be governed by New York law.

## **Form of Debt Securities**

We will issue each debt security only in registered form, without coupons, unless we specify otherwise in the applicable prospectus supplement. In addition, we will issue each debt security in global i.e., book-entry form only, unless we specify otherwise in the applicable prospectus supplement. Debt securities in book-entry form will be represented by a global security registered in the name of a depositary, which will be the holder of all the debt securities represented by the global security. Those who own beneficial interests in a global debt security will do so through participants in the depositary's securities clearance system, and the rights of these indirect owners will be governed solely by the applicable procedures of the depositary and its participants. References to holders in this section mean those who own debt securities registered in their own names, on the books that we or the trustee maintain for this purpose, and not those who own beneficial interests in debt securities registered in street name or in debt securities issued in book-entry form through one or more depositaries.

Unless otherwise indicated in the prospectus supplement, the following is a summary of the depositary arrangements applicable to debt securities issued in global form and for which DTC acts as depositary.

Each global debt security will be deposited with, or on behalf of, DTC, as depositary, or its nominee, and registered in the name of a nominee of DTC. Except under the limited circumstances described below, global debt securities are not exchangeable for definitive certificated debt securities.

Ownership of beneficial interests in a global debt security is limited to institutions that have accounts with DTC or its nominee, or persons that may hold interests through those participants. In addition, ownership of beneficial interests by participants in a global debt security will be evidenced only by, and the transfer of that ownership interest will be effected only through, records maintained by DTC or its nominee for a global debt security. Ownership of beneficial interests in a global debt security by persons that hold those interests through participants will be evidenced only by, and the transfer of that ownership interest within that participant will be effected only through, records maintained by that participant. DTC has no knowledge of the actual beneficial owners of the debt securities. Beneficial owners will not receive written confirmation from DTC of their purchase, but beneficial owners are expected to receive written

confirmations providing details of the transaction, as well as periodic statements of their holdings, from the participants through which the beneficial owners entered the transaction. The laws of some jurisdictions require that certain purchasers of securities take physical delivery of securities they purchase in definitive form. These laws may impair your ability to transfer beneficial interests in a global debt security.

## **Table of Contents**

We will make payment of principal of, and interest on, debt securities represented by a global debt security registered in the name of or held by DTC or its nominee to DTC or its nominee, as the case may be, as the registered owner and holder of the global debt security representing those debt securities. DTC has advised us that upon receipt of any payment of principal of, or interest on, a global debt security, DTC immediately will credit accounts of participants on its book-entry registration and transfer system with payments in amounts proportionate to their respective interests in the principal amount of that global debt security, as shown in the records of DTC. Payments by participants to owners of beneficial interests in a global debt security held through those participants will be governed by standing instructions and customary practices, as is now the case with securities held for the accounts of customers in bearer form or registered in street name, and will be the sole responsibility of those participants, subject to any statutory or regulatory requirements that may be in effect from time to time.

Neither we, any trustee nor any of our respective agents will be responsible for any aspect of the records of DTC, any nominee or any participant relating to, or payments made on account of, beneficial interests in a permanent global debt security or for maintaining, supervising or reviewing any of the records of DTC, any nominee or any participant relating to such beneficial interests.

A global debt security is exchangeable for definitive debt securities registered in the name of, and a transfer of a global debt security may be registered to, any person other than DTC or its nominee, only if:

DTC notifies us that it is unwilling or unable to continue as depositary for that global security or has ceased to be a registered clearing agency and we do not appoint another institution to act as depositary within 90 days; or

we notify the trustee that we wish to terminate that global security.

Any global debt security that is exchangeable pursuant to the preceding sentence will be exchangeable in whole for definitive debt securities in registered form, of like tenor and of an equal aggregate principal amount as the global debt security, in denominations specified in the applicable prospectus supplement, if other than \$2,000 and multiples of \$1,000. The definitive debt securities will be registered by the registrar in the name or names instructed by DTC. We expect that these instructions may be based upon directions received by DTC from its participants with respect to ownership of beneficial interests in the global debt security.

Except as provided above, owners of the beneficial interests in a global debt security will not be entitled to receive physical delivery of debt securities in definitive form and will not be considered the holders of debt securities for any purpose under the indentures. No global debt security shall be exchangeable except for another global debt security of like denomination and tenor to be registered in the name of DTC or its nominee. Accordingly, each person owning a beneficial interest in a global debt security must rely on the procedures of DTC and, if that person is not a participant, on the procedures of the participant through which that person owns its interest, to exercise any rights of a holder under the global debt security or the indentures.

We understand that, under existing industry practices, in the event that we request any action of holders, or an owner of a beneficial interest in a global debt security desires to give or take any action that a holder is entitled to give or take under the debt securities or the indentures, DTC would authorize the participants holding the relevant beneficial interests to give or take that action. Additionally, those participants would authorize beneficial owners owning through those participants to give or take that action or would otherwise act upon the instructions of beneficial owners owning through them.

DTC has advised us that it is a limited-purpose trust company organized under the laws of the State of New York, a banking organization within the meaning of the New York Banking Law, a member of the Federal Reserve System, a clearing corporation within the meaning of the New York Uniform Commercial Code, and a clearing agency registered under the Exchange Act. DTC was created to hold securities of its participants and to facilitate the clearance and settlement of transactions among its participants in securities through electronic

## **Table of Contents**

book-entry changes in accounts of the participants. By doing so, DTC eliminates the need for physical movement of securities certificates. DTC's participants include securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is owned by a number of its participants and by the New York Stock Exchange, Inc. and NYSE Amex Equities. Access to DTC's book-entry system is also available to others, such as banks, brokers, dealers, and trust companies that clear through or maintain a custodial relationship with a participant, either directly or indirectly. The rules applicable to DTC and its participants are on file with the SEC.

Investors may hold interests in the debt securities outside the U.S. through the Euroclear System ( Euroclear ) or Clearstream Banking ( Clearstream ) if they are participants in those systems, or indirectly through organizations which are participants in those systems. Euroclear and Clearstream will hold interests on behalf of their participants through customers' securities accounts in Euroclear's and Clearstream's names on the books of their respective depositaries, which in turn will hold such interests in customers' securities accounts in the depositaries' names on the books of DTC.

Euroclear advises that it was created in 1968 to hold securities for participants of Euroclear ( Euroclear Participants ) and to clear and settle transactions between Euroclear Participants through simultaneous electronic book-entry delivery against payment, thereby eliminating the need for physical movement of certificates and any risk from lack of simultaneous transfers of securities and cash. Euroclear includes various other services, including securities lending and borrowing and interfaces with domestic markets in several countries. Euroclear is operated by the Euroclear S.A./N.V. (the Euroclear Operator ), under contract with Euroclear Clearance Systems S.C., a Belgian cooperative corporation (the Cooperative ). All operations are conducted by the Euroclear Operator, and all Euroclear securities clearance accounts and Euroclear cash accounts are accounts with the Euroclear Operator, not the Cooperative. The Cooperative establishes policy for Euroclear on behalf of Euroclear Participants. Euroclear Participants include banks (including central banks), securities brokers and dealers and other professional financial intermediaries and may include any agents. Indirect access to Euroclear is also available to other firms that clear through or maintain a custodial relationship with a Euroclear Participant, either directly or indirectly.

Securities clearance accounts and cash accounts with the Euroclear Operator are governed by the Terms and Conditions Governing Use of Euroclear, the related Operating Procedures of the Euroclear System, and applicable Belgian law (collectively, the Terms and Conditions ). The Terms and Conditions govern transfers of securities and cash within Euroclear, withdrawals of securities and cash within Euroclear, withdrawals of securities and cash from Euroclear, and receipts of payments with respect to securities in Euroclear. All securities in Euroclear are held on a fungible basis without attribution of specific certificates to specific securities clearance accounts. The Euroclear Operator acts under the Terms and Conditions only on behalf of Euroclear Participants and has no record of or relationship with persons holding through Euroclear Participants.

Distributions with respect to debt securities held beneficially through Euroclear will be credited to the cash accounts of Euroclear Participants in accordance with the Terms and Conditions, to the extent received by the U.S. depositary for Euroclear.

Clearstream advises that it is incorporated under the laws of Luxembourg as a professional depositary. Clearstream holds securities for its participating organizations ( Clearstream Participants ) and facilitates the clearance and settlement of securities transactions between Clearstream Participants through electronic book-entry changes in accounts of Clearstream Participants, thereby eliminating the need for physical movement of certificates. Clearstream provides to Clearstream Participants, among other things, services for safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing. Clearstream interfaces with domestic markets in several countries. As a professional depositary, Clearstream is subject to regulation by the Luxembourg Monetary Institute. Clearstream Participants are recognized financial institutions around the world, including agents, securities brokers and dealers, banks, trust companies, clearing corporations and certain other



organizations and may include any agents. Indirect access to Clearstream is also

## **Table of Contents**

available to others, such as banks, brokers, dealers and trust companies that clear through or maintain a custodial relationship with a Clearstream Participant either directly or indirectly.

Distributions with respect to debt securities held beneficially through Clearstream will be credited to cash accounts of Clearstream Participants in accordance with its rules and procedures, to the extent received by the U.S. depository for Clearstream.

We have provided the descriptions herein of the operations and procedures of DTC, Euroclear and Clearstream solely as a matter of convenience. These operations and procedures are solely within the control of DTC, Euroclear and Clearstream and are subject to change by them from time to time. We believe that the sources from which the information in this section and elsewhere in this prospectus concerning DTC, Euroclear, the Euroclear Operator, the Cooperative, Euroclear's system, Clearstream and Clearstream's system has been obtained are reliable, but neither we, any underwriters nor the trustee takes any responsibility for the accuracy of the information.

Initial settlement for the securities will be made in immediately available funds. Secondary market trading between DTC participants will occur in the ordinary way in accordance with DTC's rules and will be settled in immediately available funds. Secondary market trading between Euroclear Participants and/or Clearstream Participants will occur in the ordinary way in accordance with the applicable rules and operating procedures of Euroclear and Clearstream, as applicable, and will be settled using the procedures applicable to conventional eurobonds in immediately available funds.

Cross-market transfers between persons holding directly or indirectly through DTC, on the one hand, and directly or indirectly through Euroclear Participants or Clearstream Participants, on the other, will be effected in DTC in accordance with DTC rules on behalf of the relevant European international clearing system by its U.S. depository; however, such cross-market transactions will require delivery of instructions to the relevant European international clearing system by the counterparty in such system in accordance with its rules and procedures and within its established deadlines (European time). The relevant European international clearing system will, if the transaction meets its settlement requirements, deliver instructions to its U.S. depository to take action to effect final settlement on its behalf by delivering or receiving securities in DTC, and making or receiving payment in accordance with normal procedures for same-day funds settlement applicable to DTC. Euroclear Participants and Clearstream Participants may not deliver instructions directly to their respective U.S. depositories.

Because of time-zone differences, credits of securities received in Euroclear or Clearstream as a result of a transaction with a DTC participant will be made during subsequent securities settlement processing and dated the business day following the DTC settlement date. Credits or any transactions in securities settled during this processing will be reported to the relevant Euroclear or Clearstream Participants on that following business day. Cash received in Euroclear or Clearstream as a result of sales of debt securities by or through a Euroclear Participant or a Clearstream Participant to a DTC participant will be received with value on the DTC settlement date but will be available in the relevant Euroclear or Clearstream cash account only as of the business day following settlement in DTC.

Although DTC, Euroclear and Clearstream have agreed to the foregoing procedures to facilitate transfers of securities among participants of DTC, Euroclear and Clearstream, they are under no obligation to perform or continue to perform these procedures and these procedures may be discontinued at any time.

## **Redemption or Repayment**

If there are any provisions regarding redemption or repayment applicable to your debt security, we will describe them in your prospectus supplement.



## **Table of Contents**

We or our affiliates may purchase debt securities from investors who are willing to sell from time to time, either in the open market at prevailing prices or in private transactions at negotiated prices. Debt securities that we or they purchase may, at our discretion, be held, resold or canceled.

## **Mergers and Similar Transactions**

We are generally permitted under the indentures to merge or consolidate with another corporation or other entity. We are also permitted under the indentures to sell all or substantially all of our assets to another corporation or other entity. With regard to any series of debt securities, however, we may not take any of these actions unless all the following conditions, among other things, are met:

If the successor entity in the transaction is not the Company, the successor entity must be organized as a corporation, limited liability company, partnership or trust and must expressly assume our obligations under the debt securities of that series and the indenture with respect to that series. The successor entity may be organized under the laws of the United States, any state thereof or the District of Columbia.

Immediately after the transaction, no default under the debt securities of that series has occurred and is continuing. For this purpose, default under the debt securities of that series means an event of default with respect to that series or any event that would be an event of default with respect to that series if the requirements for giving us default notice and for our default having to continue for a specific period of time were disregarded. We describe these matters below under Default, Remedies and Waiver of Default.

If the conditions described above are satisfied with respect to the debt securities of any series, we will not need to obtain the approval of the holders of those debt securities in order to merge or consolidate or to sell all or substantially all our assets. Also, these conditions will apply only if we wish to merge or consolidate with another entity or sell all or substantially all of our assets to another entity. We will not need to satisfy these conditions if we enter into other types of transactions, including any transaction in which we acquire the stock or assets of another entity, any transaction that involves a change of control of the Company but in which we do not merge or consolidate and any transaction in which we sell less than substantially all our assets.

The successor entity will be substituted for the Company with respect to the debt securities of any series and under the indenture with the same effect as if it had been an original party to the indenture, and, except in the case of a lease, the Company will be relieved from any further obligations and covenants under the indenture.

## **Subordination Provisions**

Holders of subordinated debt securities should recognize that contractual provisions in the subordinated debt indenture may prohibit us from making payments on those securities. Subordinated debt securities are subordinate and junior in right of payment, to the extent and in the manner stated in the subordinated debt indenture, to all of our senior debt, as defined in the subordinated debt indenture, including all debt securities we have issued and will issue under the senior debt indenture.

The subordinated debt indenture defines senior debt as:

our indebtedness under or in respect of our credit agreement, whether for principal, interest (including interest accruing after the filing of a petition initiating any proceeding pursuant to any bankruptcy law, whether or not the claim for such interest is allowed as a claim in such proceeding), reimbursement obligations, fees, commissions, expenses, indemnities or other amounts; and

any other indebtedness permitted under the terms of that indenture, unless the instrument under which such indebtedness is incurred expressly provides that it is on a parity with or subordinated in right of payment to the subordinated debt securities.

## **Table of Contents**

Notwithstanding the foregoing, senior debt will not include: (i) equity interests; (ii) any liability for taxes; (iii) any indebtedness to any of our subsidiaries or affiliates; (iv) any trade payables; or (v) any indebtedness incurred in violation of the subordinated debt indenture.

We may modify the subordination provisions, including the definition of senior debt, with respect to one or more series of subordinated debt securities. Such modifications will be set forth in the applicable prospectus supplement.

The subordinated debt indenture provides that, unless all principal of and any premium or interest on the senior debt has been paid in full, no payment or other distribution may be made in respect of any subordinated debt securities in the following circumstances:

in the event of any insolvency or bankruptcy proceedings, or any receivership, liquidation, reorganization, assignment for creditors or other similar proceedings or events involving us or our assets;

(a) in the event and during the continuation of any default in the payment of principal of and any premium and interest on any senior debt beyond any applicable grace period or (b) in the event that any event of default with respect to any senior debt has occurred and is continuing, permitting the holders of that senior debt (or a trustee) to accelerate the maturity of that senior debt, whether or not the maturity is in fact accelerated (unless, in the case of (a) or (b), the payment default or event of default has been cured or waived or ceased to exist and any related acceleration has been rescinded) or (c) in the event that any judicial proceeding is pending with respect to a payment default or event of default described in (a) or (b); or

in the event that any subordinated debt securities have been declared due and payable before their stated maturity.

If the trustee under the subordinated debt indenture or any holders of the subordinated debt securities receive any payment or distribution that is prohibited under the subordination provisions, then the trustee or the holders will have to repay that money to the holders of the senior debt.

Even if the subordination provisions prevent us from making any payment when due on the subordinated debt securities of any series, we will be in default on our obligations under that series if we do not make the payment when due. This means that the trustee under the subordinated debt indenture and the holders of that series can take action against us, but they will not receive any money until the claims of the holders of senior debt have been fully satisfied.

The subordinated debt indenture allows the holders of senior debt to obtain a court order requiring us and any holder of subordinated debt securities to comply with the subordination provisions.

## **Defeasance, Covenant Defeasance and Satisfaction and Discharge**

When we use the term defeasance, we mean discharge from some or all of our obligations under the indenture. If we deposit with the trustee funds or government securities, or if so provided in your prospectus supplement, obligations other than government securities, sufficient to make payments on any series of debt securities on the dates those payments are due and payable and other specified conditions are satisfied, then, at our option, either of the following will occur:

we will be discharged from our obligations with respect to the debt securities of such series and all obligations of any guarantors of such debt securities will also be discharged with respect to the guarantees of such debt securities ( legal defeasance ); or

we will be discharged from any covenants we make in the applicable indenture for the benefit of such series and the related events of default will no longer apply to us ( covenant defeasance ).

## **Table of Contents**

If we defease any series of debt securities, the holders of such securities will not be entitled to the benefits of the indenture, except for our obligations to register the transfer or exchange of such securities, replace stolen, lost or mutilated securities or maintain paying agencies and hold moneys for payment in trust. In case of covenant defeasance, our obligation to pay principal of and any premium and interest on the applicable series of debt securities will also survive.

We will be required to deliver to the trustee an opinion of counsel that the deposit and related defeasance would not cause the holders of the applicable series of debt securities to recognize gain or loss for federal income tax purposes. If we elect legal defeasance, that opinion of counsel must be based upon a ruling from the United States Internal Revenue Service or a change in law to that effect.

Upon the effectiveness of defeasance with respect to any series of guaranteed debt securities, each guarantor of the debt securities of such series shall be automatically and unconditionally released and discharged from all of its obligations under its guarantee of the debt securities of such series and all of its other obligations under the applicable indenture in respect of the debt securities of that series, without any action by us, any guarantor or the trustee and without the consent of the holders of any debt securities.

In addition, we may satisfy and discharge all our obligations under the indenture with respect to debt securities of any series, other than our obligation to register the transfer of and exchange debt securities of that series, provided that we either:

deliver all outstanding debt securities of that series to the trustee for cancellation; or

all such debt securities not so delivered for cancellation have either become due and payable or will become due and payable at their stated maturity within one year or are to be called for redemption within one year, and in the case of this bullet point, we have deposited with the trustee in trust an amount of cash sufficient to pay the entire indebtedness of such debt securities, including interest to the stated maturity or applicable redemption date.

## **No Personal Liability**

No past, present or future director, officer, employee, incorporator, member, manager, partner (whether general or limited), unitholder or stockholder of the Company or any guarantor, as such, will have any liability for any obligations of us or any guarantor, respectively, under the debt securities or the indentures or for any claim based on, in respect of, or by reason of, such obligations or their creation. Each holder of debt securities by accepting a debt security waives and releases all such liability. The waiver and release are part of the consideration for issuance of the debt securities and any guarantees. The waiver may not be effective to waive liabilities under the federal securities laws.

## **Default, Remedies and Waiver of Default**

You will have special rights if an event of default with respect to your series of debt securities occurs and is continuing, as described in this subsection.

## **Events of Default**



Unless your prospectus supplement says otherwise, when we refer to an event of default with respect to any series of debt securities, we mean any of the following:

we do not pay the principal of and any premium on any debt security of that series on the due date;

we do not pay interest on any debt security of that series within 30 days after the due date;

we do not deposit a sinking fund payment with regard to any debt security of that series within 60 days after the due date, but only if the payment is required under provisions described in the applicable prospectus supplement;

## **Table of Contents**

we remain in breach of our covenants regarding mergers or sales of substantially all of our assets or any other covenant we make in the indenture for the benefit of the relevant series, for 90 days after we receive a notice of default stating that we are in breach and requiring us to remedy the breach, which notice must be sent by the trustee or the holders of at least 25% in principal amount of the relevant series of debt securities;

we file for bankruptcy or other events of bankruptcy, insolvency or reorganization relating to the Company occur;

if the debt securities of that series are guaranteed debt securities, the guarantee of the debt securities of that series by any guarantor shall for any reason cease to be, or shall for any reason be asserted in writing by such guarantor or the Company, not to be, in full force and effect and enforceable in accordance with its terms, except to the extent contemplated or permitted by the indenture or the debt securities of that series; or

if the applicable prospectus supplement states that any additional event of default applies to the series, that event of default occurs.

We may change, eliminate, or add to the events of default with respect to any particular series or any particular debt security or debt securities within a series, as indicated in the applicable prospectus supplement.

## **Remedies if an Event of Default Occurs**

If you are the holder of a subordinated debt security, all the remedies available upon the occurrence of an event of default under the subordinated debt indenture will be subject to the restrictions on the subordinated debt securities described above under Subordination Provisions.

Except as otherwise specified in the applicable prospectus supplement, if an event of default has occurred with respect to any series of debt securities and has not been cured or waived, the trustee or the holders of not less than 25% in principal amount of all debt securities of that series then outstanding may declare the entire principal amount of the debt securities of that series to be due immediately. Except as otherwise specified in the applicable prospectus supplement, if the event of default occurs because of events in bankruptcy, insolvency or reorganization relating to the Company, the entire principal amount of the debt securities of that series will be automatically accelerated, without any action by the trustee or any holder.

Each of the situations described above is called an acceleration of the stated maturity of the affected series of debt securities. Except as otherwise specified in the applicable prospectus supplement, if the stated maturity of any series is accelerated and a judgment for payment has not yet been obtained, the holders of a majority in principal amount of the debt securities of that series may cancel the acceleration for the entire series.

If an event of default occurs, the trustee will have special duties. In that situation, the trustee will be obligated to use those of its rights and powers under the relevant indenture, and to use the same degree of care and skill in doing so, that a prudent person would use in that situation in conducting his or her own affairs.

Except as described in the prior paragraph, the trustee is not required to take any action under the relevant indenture at the request of any holders unless the holders offer the trustee reasonable protection from expenses and liability. This is called an indemnity. If the trustee is provided with an indemnity reasonably satisfactory to it, the holders of a majority in principal amount of all debt securities of the relevant series may direct the time, method and place of conducting

any lawsuit or other formal legal action seeking any remedy available to the trustee with respect to that series. These majority holders may also direct the trustee in performing any other action under the relevant indenture with respect to the debt securities of that series.

## **Table of Contents**

Before you bypass the trustee and bring your own lawsuit or other formal legal action or take other steps to enforce your rights or protect your interests relating to any debt security, all of the following must occur:

the holder of your debt security must give the trustee written notice that an event of default has occurred with respect to the debt securities of your series, and the event of default must not have been cured or waived;

the holders of not less than 25% in principal amount of all debt securities of your series must make a written request that the trustee take action because of the default, and they or other holders must offer to the trustee indemnity reasonably satisfactory to the trustee against the cost and other liabilities of taking that action;

the trustee must not have taken action for 60 days after the above steps have been taken; and

during those 60 days, the holders of a majority in principal amount of the debt securities of your series must not have given the trustee directions that are inconsistent with the written request of the holders of not less than 25% in principal amount of the debt securities of your series.

You are entitled at any time, however, to bring a lawsuit for the payment of money due on your debt security on or after its stated maturity (or, if your debt security is redeemable, on or after its redemption date).

Book-entry and other indirect owners should consult their banks or brokers for information on how to give notice or direction to or make a request of the trustee and how to declare or cancel an acceleration of the maturity.

## **Waiver of Default**

The holders of not less than a majority in principal amount of the debt securities of any series may waive a default for all debt securities of that series. If this happens, the default will be treated as if it has not occurred. No one can waive a payment default on any debt security, however, without the approval of the particular holder of that debt security.

## **Annual Information about Defaults to the Trustee**

We will furnish each trustee every year a written statement of two of our officers certifying that to their knowledge we are in compliance with the applicable indenture and the debt securities issued under it, or else specifying any default under the applicable indenture.

## **Modifications and Waivers**

There are four types of changes we can make to either indenture and the debt securities or series of debt securities or any guarantees thereof issued under that indenture.

## **Changes Requiring Each Holder's Approval**

First, there are changes that cannot be made without the approval of each holder of a debt security affected by the change under the applicable debt indenture, including, among others:

changing the stated maturity for any principal or interest payment on a debt security;

reducing the principal amount, the amount payable on acceleration of the maturity after a default, the interest rate or the redemption price for a debt security;

permitting redemption of a debt security if not previously permitted;

impairing any right a holder may have to require purchase of its debt security;

## **Table of Contents**

impairing any right that a holder of a convertible debt security may have to convert the debt security;

changing the currency of any payment on a debt security;

changing the place of payment on a debt security;

impairing a holder's right to sue for payment of any amount due on its debt security;

releasing any guarantor of a debt security from any of its obligations under its guarantee thereof, except in accordance with the terms of the indenture;

reducing the percentage in principal amount of the debt securities of any one or more affected series, taken separately or together, as applicable, and whether comprising the same or different series or less than all of the debt securities of a series, the approval of whose holders is needed to change the indenture or those debt securities or waive our compliance with the applicable indenture or to waive defaults; and

changing the provisions of the applicable indenture dealing with modification and waiver in any other respect, except to increase any required percentage referred to above or to add to the provisions that cannot be changed or waived without approval of the holder of each affected debt security.

### **Changes Not Requiring Approval**

The second type of change does not require any approval by holders of the debt securities affected. These changes are limited to clarifications and changes that would not adversely affect any debt securities of any series in any material respect. Nor do we need any approval to make changes that affect only debt securities to be issued under the applicable indenture after the changes take effect. We may also make changes or obtain waivers that do not adversely affect a particular debt security, even if they affect other debt securities. In those cases, we do not need to obtain the approval of the holder of the unaffected debt security; we need only obtain any required approvals from the holders of the affected debt securities. We may also make changes to reflect the addition of, succession to or release of any guarantor of guaranteed debt securities otherwise permitted under the indenture. We may also make changes to conform the text of the applicable indenture or any debt securities or guarantees to any provision of the Description of Debt Securities and Guarantees in this prospectus or the comparable section in your prospectus supplement, to the extent such provision was intended to be a verbatim recitation of a provision of such indenture or debt securities or guarantees.

### **Modification of Subordination Provisions**

We may not amend the indenture related to subordinated debt securities to alter the subordination of any outstanding subordinated debt securities without the written consent of each holder of senior debt then outstanding who would be adversely affected (or the group or representative thereof authorized or required to consent thereto pursuant to the instrument creating or evidencing, or pursuant to which there is outstanding, such senior debt). In addition, we may not modify the subordination provisions of the indenture related to subordinated debt securities in a manner that would adversely affect the subordinated debt securities of any one or more series then outstanding in any material respect,

without the consent of the holders of a majority in aggregate principal amount of all affected series then outstanding, voting together as one class (and also of any affected series that by its terms is entitled to vote separately as a series, as described below).

### **Changes Requiring Majority Approval**

Any other change to a particular indenture and the debt securities issued under that indenture would require the following approval:

If the change affects only particular debt securities within a series issued under the applicable indenture, it must be approved by the holders of a majority in principal amount of such particular debt securities; or

## **Table of Contents**

If the change affects debt securities of more than one series issued under the applicable indenture, it must be approved by the holders of a majority in principal amount of all debt securities of all such series affected by the change, with all such affected debt securities voting together as one class for this purpose and such affected debt securities of any series potentially comprising fewer than all debt securities of such series, in each case, except as may otherwise be provided pursuant to such indenture for all or any particular debt securities of any series. This means that modification of terms with respect to certain securities of a series could be effectuated without obtaining the consent of the holders of a majority in principal amount of other securities of such series that are not affected by such modification.

The same majority approval would be required for us to obtain a waiver of any of our covenants in either indenture. Our covenants include the promises we make about merging or selling substantially all of our assets, which we describe above under **Mergers and Similar Transactions**. If the holders approve a waiver of a covenant, we will not have to comply with it. The holders, however, cannot approve a waiver of any provision in a particular debt security, or in the applicable indenture as it affects that debt security, that we cannot change without the approval of the holder of that debt security as described above in **Changes Requiring Each Holder's Approval**, unless that holder approves the waiver.

We may issue particular debt securities or a particular series of debt securities, as applicable, that are entitled, by their terms, to separately approve matters (for example, modification or waiver of provisions in the applicable indenture) that would also, or otherwise, require approval of holders of a majority in principal amount of all affected debt securities of all affected series issued under such indenture voting together as a single class. Any such affected debt securities or series of debt securities would be entitled to approve such matters (a) pursuant to such special rights by consent of holders of a majority in principal amount of such affected debt securities or series of debt securities voting separately as a class and (b) in addition, as described above, except as may otherwise be provided pursuant to the applicable indenture for such debt securities or series of debt securities, by consent of holders of a majority in principal amount of such affected debt securities or series of debt securities and all other affected debt securities of all series issued under such indenture voting together as one class for this purpose. We may issue series or debt securities of a series having these or other special voting rights without obtaining the consent of or giving notice to holders of outstanding debt securities or series.

Book-entry and other indirect owners should consult their banks or brokers for information on how approval may be granted or denied if we seek to change an indenture or any debt securities or request a waiver.

## **Special Rules for Action by Holders**

Only holders of outstanding debt securities of the applicable series will be eligible to take any action under the applicable indenture, such as giving a notice of default, declaring an acceleration, approving any change or waiver or giving the trustee an instruction with respect to debt securities of that series. Also, we will count only outstanding debt securities in determining whether the various percentage requirements for taking action have been met. Any debt securities owned by us or any of our affiliates or surrendered for cancellation or for payment or redemption, for which money has been set aside in trust, are not deemed to be outstanding. Any required approval or waiver must be given by written consent.

In some situations, we may follow special rules in calculating the principal amount of debt securities that are to be treated as outstanding for the purposes described above. This may happen, for example, if the principal amount is payable in a non-U.S. dollar currency, increases over time or is not to be fixed until maturity.

We will generally be entitled to set any day as a record date for the purpose of determining the holders that are entitled to take action under either indenture. In certain limited circumstances, only the trustee will be entitled to set a record



date for action by holders. If we or the trustee sets a record date for an approval or other action to be taken by holders, that vote or action may be taken only by persons or entities who are holders on the record

## **Table of Contents**

date and must be taken during the period that we specify for this purpose, or that the trustee specifies if it sets the record date. We or the trustee, as applicable, may shorten or lengthen this period from time to time. This period, however, may not extend beyond the 180th day after the record date for the action. In addition, record dates for any global debt security may be set in accordance with procedures established by the depositary from time to time. Accordingly, record dates for global debt securities may differ from those for other debt securities.

## **Form, Exchange and Transfer**

If any debt securities cease to be issued in registered global form, they will be issued:

only in fully registered form;

without interest coupons; and

unless we indicate otherwise in your prospectus supplement, in denominations of \$2,000 and integral multiples of \$1,000.

Holders may exchange their debt securities for debt securities of smaller denominations or combined into fewer debt securities of larger denominations, as long as the total principal amount is not changed. You may not exchange your debt securities for securities of a different series or having different terms, unless your prospectus supplement and the supplemental indenture with respect to your debt securities provide for such exchange.

Holders may exchange or transfer their debt securities at the office of the trustee. They may also replace lost, stolen, destroyed or mutilated debt securities at that office. We have appointed the trustee to act as our agent for registering debt securities in the names of holders and transferring and replacing debt securities. We may appoint another entity to perform these functions or perform them ourselves.

Holders will not be required to pay a service charge to transfer or exchange their debt securities, but they may be required to pay for any tax or other governmental charge associated with the exchange or transfer. The transfer or exchange, and any replacement, will be made only if our transfer agent is satisfied with the holder's proof of legal ownership. The transfer agent may require an indemnity before replacing any debt securities.

If we have designated additional transfer agents for your debt security, they will be named in your prospectus supplement. We may appoint additional transfer agents or cancel the appointment of any particular transfer agent. We may also approve a change in the office through which any transfer agent acts.

If the debt securities of any series are redeemable and we redeem less than all those debt securities, we may block the transfer or exchange of those debt securities during the period beginning 15 days before the day we mail the notice of redemption and ending on the day of that mailing, in order to freeze the list of holders to prepare the mailing. We may also refuse to register transfers of or exchange any debt security selected for redemption, except that we will continue to permit transfers and exchanges of the unredeemed portion of any debt security being partially redeemed.

If a debt security is issued as a global debt security, only DTC or other depositary will be entitled to transfer and exchange the debt security as described in this subsection because the depositary will be the sole holder of the debt security.

The rules for exchange described above apply to exchange of debt securities for other debt securities of the same series and kind. If a debt security is convertible, exercisable or exchangeable into or for a different kind of security, such as one that we have not yet issued, or for other property, the rules governing that type of conversion, exercise or exchange will be described in the applicable prospectus supplement.

## **Table of Contents**

### **Payments**

We will pay interest, principal and other amounts payable with respect to the debt securities of any series to the holders of record of those debt securities as of the record dates and otherwise in the manner specified below or in the prospectus supplement for that series.

We will make payments on a global debt security in accordance with the applicable policies of the depositary as in effect from time to time. Under those policies, we will pay directly to the depositary, or its nominee, and not to any indirect owners who own beneficial interests in the global debt security. An indirect owner's right to receive those payments will be governed by the rules and practices of the depositary and its participants.

We will make payments on a debt security in non-global, registered form as follows. We will pay interest that is due on an interest payment date by check mailed on the interest payment date to the holder at his or her address shown on the trustee's records as of the close of business on the regular record date. We will make all other payments by check at the paying agent described below, against surrender of the debt security. All payments by check will be made in next-day funds i.e., funds that become available on the day after the check is cashed.

Alternatively, if a non-global debt security has a face amount of at least \$1,000,000 and the holder asks us to do so, we will pay any amount that becomes due on the debt security by wire transfer of immediately available funds to an account at a bank in New York City, on the due date. To request wire payment, the holder must give the paying agent appropriate wire transfer instructions at least five business days before the requested wire payment is due. In the case of any interest payment due on an interest payment date, the instructions must be given by the person or entity who is the holder on the relevant regular record date. In the case of any other payment, payment will be made only after the debt security is surrendered to the paying agent. Any wire instructions, once properly given, will remain in effect unless and until new instructions are given in the manner described above.

Book-entry and other indirect owners should consult their banks or brokers for information on how they will receive payments on their debt securities.

Regardless of who acts as paying agent, all money paid by us to a paying agent that remains unclaimed at the end of two years after the amount is due to a holder will be repaid to us. After that two-year period, the holder may look only to us for payment and not to the trustee, any other paying agent or anyone else.

### **Guarantees**

The debt securities of any series may be guaranteed by one or more of our existing and future subsidiaries, including Diamondback O&G LLC, Diamondback E&P LLC and Viper Energy Partners LLC. However, the applicable indenture governing the debt securities will not require that any of our subsidiaries be a guarantor of any series of debt securities and will permit the guarantors of any series of guaranteed debt securities to differ from the guarantors of any other series of guaranteed debt securities. If the Company issues a series of guaranteed debt securities, the identity of the specific guarantors of the debt securities of that series will be identified in the applicable prospectus supplement.

If we issue a series of guaranteed debt securities, a description of some of the terms of guarantees of those debt securities will be set forth in the applicable prospectus supplement. Unless otherwise provided in the prospectus supplement relating to a series of guaranteed debt securities, each guarantor of the debt securities of such series will fully and unconditionally guarantee, on a joint and several basis with each other guarantor, the due and punctual payment of the principal of, and premium, if any, and interest on each debt security of such series, all in accordance with the terms of such debt securities and the applicable indenture.



## **Table of Contents**

Notwithstanding the foregoing, unless otherwise provided in the prospectus supplement relating to a series of guaranteed debt securities, the applicable indenture will contain provisions to the effect that the obligations of each guarantor under its guarantees and such indenture shall be limited to the maximum amount as will, after giving effect to all other contingent and fixed liabilities of such guarantor, result in the obligations of such guarantor under such guarantees and such indenture not constituting a fraudulent conveyance or fraudulent transfer under applicable law. However, there can be no assurance that, notwithstanding such limitation, a court would not determine that a guarantee constituted a fraudulent conveyance or fraudulent transfer under applicable law. If that were to occur, the court could void the applicable guarantor's obligations under that guarantee, subordinate that guarantee to other debt and other liabilities of that guarantor or take other action detrimental to holders of the debt securities of the applicable series, including directing the holders to return any payments received from the applicable guarantor.

Unless otherwise provided in the prospectus supplement relating to a series of guaranteed debt securities, the applicable indenture will (i) provide that, upon the sale or disposition (by merger or otherwise) of any guarantor, (x) if the transferee is not an affiliate of the Company, such guarantor will automatically be released from all obligations under its guarantee of such debt securities or (y) otherwise, the transferee (if other than the Company or another guarantor) will assume the guarantor's obligations under its guarantee of such debt securities and (ii) permit us to cause the guarantee of any guarantor of such debt securities to be released at any time if we satisfy such conditions, if any, as are specified in the prospectus supplement for such debt securities.

The applicable prospectus supplement relating to any series of guaranteed debt securities will specify other terms of the applicable guarantees.

If the applicable prospectus supplement relating to a series of our senior debt securities provides that those senior debt securities will have the benefit of a guarantee by any or all of our subsidiaries, unless otherwise provided in the applicable prospectus supplement, each such guarantee will be the unsubordinated and unsecured obligation of the applicable guarantor and will rank equally in right of payment with all of the unsecured and unsubordinated indebtedness of such guarantor.

Any guarantee of any debt securities will be effectively subordinated to all existing and future secured indebtedness of the applicable guarantor, including any secured guarantees of other Company debt, to the extent of the value of the collateral securing that indebtedness. Consequently, in the event of a bankruptcy, or similar proceeding with respect to any guarantor that has provided a guarantee of any debt securities, the holders of that guarantor's secured indebtedness will be entitled to proceed directly against the collateral that secures that secured indebtedness and such collateral will not be available for satisfaction of any amount owed by such guarantor under its unsecured indebtedness, including its guarantees of any debt securities, until that secured debt is satisfied in full. Unless otherwise provided in the applicable prospectus supplement, the indenture will not limit the ability of any guarantor to incur secured indebtedness.

If the applicable prospectus supplement relating to a series of our subordinated debt securities provides that those subordinated debt securities will have the benefit of a guarantee by any or all of our subsidiaries, unless otherwise provided in the applicable prospectus supplement, each such guarantee will be the subordinated and unsecured obligation of the applicable guarantor and, in addition to being effectively subordinated to secured debt of such guarantor, will be subordinated in right of payment to all of such guarantor's existing and future senior indebtedness, including any guarantee of the senior debt securities, to the same extent and in the same manner as the subordinated debt securities are subordinated to our senior debt. See Subordination Provisions above.

## **Paying Agents**

We may appoint one or more financial institutions to act as our paying agents, at whose designated offices debt securities in non-global entry form may be surrendered for payment at their maturity. We call each of those

## **Table of Contents**

offices a paying agent. We may add, replace or terminate paying agents from time to time. We may also choose to act as our own paying agent. We will specify in the prospectus supplement for your debt security the initial location of each paying agent for that debt security. We must notify the trustee of changes in the paying agents.

## **Notices**

Notices to be given to holders of a global debt security will be given only to the depositary, in accordance with its applicable policies as in effect from time to time. Notices to be given to holders of debt securities not in global form will be sent by mail to the respective addresses of the holders as they appear in the trustee's records, and will be deemed given when mailed. Neither the failure to give any notice to a particular holder, nor any defect in a notice given to a particular holder, will affect the sufficiency of any notice given to another holder.

Book-entry and other indirect owners should consult their banks or brokers for information on how they will receive notices.

## **Our Relationship with the Trustee**

The prospectus supplement for your debt security will describe any material relationships we may have with the trustee with respect to that debt security.

The same financial institution may initially serve as the trustee for our senior debt securities and subordinated debt securities. Consequently, if an actual or potential event of default occurs with respect to any of these securities, the trustee may be considered to have a conflicting interest for purposes of the Trust Indenture Act of 1939. In that case, the trustee may be required to resign under one or more of the indentures, and we would be required to appoint a successor trustee. For this purpose, a potential event of default means an event that would be an event of default if the requirements for giving us default notice or for the default having to exist for a specific period of time were disregarded.



**Table of Contents**

**DESCRIPTION OF CAPITAL STOCK**

The following description of our common stock, certificate of incorporation and our bylaws are summaries thereof and are qualified by reference to our certificate of incorporation and our bylaws, copies of which have been filed with the SEC.

Our authorized capital stock consists of 100,000,000 shares of common stock, par value \$0.01 per share, and 10,000,000 shares of preferred stock, par value \$0.01 per share. Our common stock is listed on the NASDAQ Global Select Market under the symbol FANG.

**Common Stock**

Holders of shares of common stock are entitled to one vote per share on all matters submitted to a vote of stockholders. Shares of common stock do not have cumulative voting rights, which means that the holders of more than 50% of the shares voting for the election of the board of directors can elect all the directors to be elected at that time, and, in such event, the holders of the remaining shares will be unable to elect any directors to be elected at that time. Our certificate of incorporation denies stockholders any preemptive rights to acquire or subscribe for any stock, obligation, warrant or other securities of ours. Holders of shares of our common stock have no redemption or conversion rights nor are they entitled to the benefits of any sinking fund provisions.

In the event of our liquidation, dissolution or winding up, holders of shares of common stock shall be entitled to receive, pro rata, all the remaining assets of our company available for distribution to our stockholders after payment of our debts and after there shall have been paid to or set aside for the holders of capital stock ranking senior to common stock in respect of rights upon liquidation, dissolution or winding up the full preferential amounts to which they are respectively entitled.

Holders of record of shares of common stock are entitled to receive dividends when and if declared by the board of directors out of any assets legally available for such dividends, subject to both the rights of all outstanding shares of capital stock ranking senior to the common stock in respect of dividends and to any dividend restrictions contained in debt agreements. All outstanding shares of common stock and any shares sold and issued in this offering will be fully paid and nonassessable by us. As of October 28, 2013, there were 47,067,116 shares of our common stock outstanding.

**Preferred Stock**

Our board of directors is authorized to issue up to 10,000,000 shares of preferred stock in one or more series. The board of directors may fix for each series:

the distinctive serial designation and number of shares of the series;

the voting powers and the right, if any, to elect a director or directors;

the terms of office of any directors the holders of preferred shares are entitled to elect;

the dividend rights, if any;

the terms of redemption, and the amount of and provisions regarding any sinking fund for the purchase or redemption thereof;

the liquidation preferences and the amounts payable on dissolution or liquidation;

the terms and conditions under which shares of the series may or shall be converted into any other series or class of stock or debt of the corporation; and

any other terms or provisions which the board of directors is legally authorized to fix or alter.

## **Table of Contents**

We do not need stockholder approval to issue or fix the terms of the preferred stock. The actual effect of the authorization of the preferred stock upon your rights as holders of common stock is unknown until our board of directors determines the specific rights of owners of any series of preferred stock. Depending upon the rights granted to any series of preferred stock, your voting power, liquidation preference or other rights could be adversely affected. Preferred stock may be issued in acquisitions or for other corporate purposes. Issuance in connection with a stockholder rights plan or other takeover defense could have the effect of making it more difficult for a third party to acquire, or of discouraging a third party from acquiring, control of our company. We currently have no outstanding preferred stock and have no present plans to issue any shares of preferred stock.

## **Related Party Transactions and Corporate Opportunities**

Subject to the limitations of applicable law, our certificate of incorporation, among other things:

permits us to enter into transactions with entities in which one or more of our officers or directors are financially or otherwise interested so long as it has been approved by our board of directors;

permits any of our stockholders, officers or directors to conduct business that competes with us and to make investments in any kind of property in which we may make investments; and

provides that if any director or officer of one of our affiliates who is also one of our officers or directors becomes aware of a potential business opportunity, transaction or other matter (other than one expressly offered to that director or officer in writing solely in his or her capacity as our director or officer), that director or officer will have no duty to communicate or offer that opportunity to us, and will be permitted to communicate or offer that opportunity to such affiliates and that director or officer will not be deemed to have (i) acted in a manner inconsistent with his or her fiduciary or other duties to us regarding the opportunity or (ii) acted in bad faith or in a manner inconsistent with our best interests.

## **Anti-takeover Effects of Provisions of Our Certificate of Incorporation and Our Bylaws**

Some provisions of our certificate of incorporation and our bylaws contain provisions that could make it more difficult to acquire us by means of a merger, tender offer, proxy contest or otherwise, or to remove our incumbent officers and directors. These provisions, summarized below, are expected to discourage coercive takeover practices and inadequate takeover bids. These provisions are also designed to encourage persons seeking to acquire control of us to first negotiate with our board of directors. We believe that the benefits of increased protection of our potential ability to negotiate with the proponent of an unfriendly or unsolicited proposal to acquire or restructure us outweigh the disadvantages of discouraging such proposals because negotiation of such proposals could result in an improvement of their terms.

***Undesignated preferred stock.*** The ability to authorize and issue undesignated preferred stock may enable our board of directors to render more difficult or discourage an attempt to change control of us by means of a merger, tender offer, proxy contest or otherwise. For example, if in the due exercise of its fiduciary obligations, the board of directors were to determine that a takeover proposal is not in our best interest, the board of directors could cause shares of preferred stock to be issued without stockholder approval in one or more private offerings or other transactions that might dilute the voting or other rights of the proposed acquirer or insurgent stockholder or stockholder group.

***Stockholder meetings.*** Our certificate of incorporation and bylaws provide that a special meeting of stockholders may be called only by the Chairman of the Board, the Chief Executive Officer or by a resolution adopted by a majority of our board of directors.

***Requirements for advance notification of stockholder nominations and proposals.*** Our bylaws establish advance notice procedures with respect to stockholder proposals and the nomination of candidates for election as directors, other than nominations made by or at the direction of the board of directors.

## **Table of Contents**

***Stockholder action by written consent.*** Our certificate of incorporation provides that, except as may otherwise be provided with respect to the rights of the holders of preferred stock, no action that is required or permitted to be taken by our stockholders at any annual or special meeting may be effected by written consent of stockholders in lieu of a meeting of stockholders, unless the action to be effected by written consent of stockholders and the taking of such action by such written consent have expressly been approved in advance by our board. This provision, which may not be amended except by the affirmative vote of at least 66 2/3% of the voting power of all then outstanding shares of capital stock entitled to vote generally in the election of directors, voting together as a single class, makes it difficult for stockholders to initiate or effect an action by written consent that is opposed by our board.

***Amendment of the bylaws.*** Under Delaware law, the power to adopt, amend or repeal bylaws is conferred upon the stockholders. A corporation may, however, in its certificate of incorporation also confer upon the board of directors the power to adopt, amend or repeal its bylaws. Our certificate of incorporation and bylaws grant our board the power to adopt, amend and repeal our bylaws at any regular or special meeting of the board on the affirmative vote of a majority of the directors then in office. Our stockholders may adopt, amend or repeal our bylaws but only at any regular or special meeting of stockholders by an affirmative vote of holders of at least 66 2/3% of the voting power of all then outstanding shares of capital stock entitled to vote generally in the election of directors, voting together as a single class.

***Removal of Director.*** Our certificate of incorporation and bylaws provide that members of our board of directors may only be removed by the affirmative vote of holders of at least 66 2/3% of the voting power of all then outstanding shares of capital stock entitled to vote generally in the election of directors, voting together as a single class.

***Amendment of the Certificate of Incorporation.*** Our certificate of incorporation provides that, in addition to any other vote that may be required by law or any preferred stock designation, the affirmative vote of the holders of at least 66 2/3% of the voting power of all then outstanding shares of capital stock entitled to vote generally in the election of directors, voting together as a single class, is required to amend, alter or repeal, or adopt any provision as part of our certificate of incorporation inconsistent with the provisions of our certificate of incorporation dealing with distributions on our common stock, related party transactions, our board of directors, our bylaws, meetings of our stockholders or amendment of our certificate of incorporation.

The provisions of our certificate of incorporation and bylaws could have the effect of discouraging others from attempting hostile takeovers and, as a consequence, they may also inhibit temporary fluctuations in the market price of our common stock that often result from actual or rumored hostile takeover attempts. These provisions may also have the effect of preventing changes in our management. It is possible that these provisions could make it more difficult to accomplish transactions which stockholders may otherwise deem to be in their best interests.

## **Choice of Forum**

Our certificate of incorporation provides that unless we consent in writing to the selection of an alternative forum, the Court of Chancery of the State of Delaware will be the sole and exclusive forum for: (i) any derivative action or proceeding brought on our behalf; (ii) any action asserting a claim of breach of a fiduciary duty owed by any of our directors, officers or other employees to us or our stockholders; (iii) any action asserting a claim against us arising pursuant to any provision of the Delaware General Corporation Law or our certificate of incorporation or bylaws; or (iv) any action asserting a claim against us pertaining to internal affairs of our corporation. Our certificate of incorporation also provides that any person or entity purchasing or otherwise acquiring any interest in shares of our capital stock will be deemed to have notice of and to have consented to this choice of forum provision. It is possible that a court of law could rule that the choice of forum provision contained in our certificate of incorporation is inapplicable or unenforceable if it is challenged in a proceeding or otherwise.

**Transfer Agent and Registrar**

Computershare Trust Company, N.A. is the transfer agent and registrar for our common stock.

**Table of Contents**

**PLAN OF DISTRIBUTION**

**Initial Offering and Sale of Securities**

We and the selling security holders, which as used in this prospectus includes donees, pledgees, transferees or other successors-in-interest selling common stock received after the date of this prospectus from a selling security holder as a gift, pledge, distribution or other transfer, may, from time to time, sell, transfer or otherwise dispose of any or all of the securities offered by this prospectus or any applicable prospectus supplement on any stock exchange, market or trading facility on which such securities are traded or in private transactions. These dispositions may be at fixed prices, at prevailing market prices at the time of sale, at prices related to the prevailing market price, at varying prices determined at the time of sale or at negotiated prices.

We and the selling security holders may use any one or more of the following methods when disposing of the offered securities:

ordinary brokerage transactions and transactions in which the broker-dealer solicits purchasers;

block trades in which the broker-dealer will attempt to sell the securities as agent, but may position and resell a portion of the block as principal to facilitate the transaction;

purchases by a broker-dealer as principal and resale by the broker-dealer for its account;

an exchange distribution in accordance with the rules of the applicable exchange;

privately negotiated transactions;

short sales effected after the date of this prospectus;

through the writing or settlement of options or other hedging transactions, whether through an options exchange or otherwise;

broker-dealers may agree to sell a specified number of such common stock at a stipulated price per share;

a combination of any such methods of sale; and

any other method permitted pursuant to applicable law.

The selling security holders also may resell all or a portion of the common stock in open market transactions in reliance upon Rule 144 under the Securities Act.

If underwriters are used to sell the securities, we and the selling security holders, if any, will enter into an underwriting agreement or similar agreement with them at the time of the sale to them. In that event, underwriters may receive compensation from us and the selling security holders, if any, in the form of underwriting discounts or commissions and may also receive commissions from purchasers of the securities for whom they may act as agent.

To the extent required by applicable law, a prospectus supplement relating to the securities will set forth:

the offering terms, including the name or names of any underwriters, dealers or agents;

the number or amount of the securities involved, the purchase price of such securities and the proceeds to us and the selling security holders, if any, from such sale;

any underwriting discounts, concessions, commissions and other items constituting compensation to underwriters, dealers or agents;

any initial public offering price;



**Table of Contents**

any discounts or concessions allowed or reallocated or paid by underwriters or dealers to other dealers; and

any securities exchanges on which the securities may be listed.

The securities may be offered to the public either through underwriting syndicates represented by one or more managing underwriters or directly by one or more of such firms. Unless otherwise set forth in an applicable prospectus supplement, the obligations of underwriters or dealers to purchase the securities will be subject to certain conditions precedent and the underwriters or dealers will be obligated to purchase all the securities if any are purchased. Any public offering price and any discounts or concessions allowed or reallocated or paid by underwriters or dealers to other dealers may be changed from time to time.

The selling security holders and any underwriters, dealers or agents that are involved in selling the securities may be deemed to be underwriters within the meaning of the Securities Act in connection with such sales. In such event, any commissions received by them and any profit on the resale of the securities purchased by them may be deemed to be underwriting commissions or discounts under the Securities Act.

In order to comply with the securities laws of some states, the shares sold in those jurisdictions may only be sold through registered or licensed brokers or dealers. In addition, in some states, the shares may not be sold unless the shares have been registered or qualified for sale in that state or an exemption from registration or qualification is available and is complied with.

The securities may be sold directly by us, the selling security holders or through agents designated by us from time to time. Any agent involved in the offer or sale of the securities in respect of which this prospectus and a prospectus supplement is delivered will be named, and any commissions payable by us or the selling security holders to such agent will be set forth, in any required prospectus supplement. Unless otherwise indicated in the prospectus supplement, any such agent will be acting on a best efforts basis for the period of its appointment.

If so indicated in the prospectus supplement, we or the selling security holders will authorize underwriters, dealers or agents to solicit offers from certain specified institutions to purchase securities from us or the selling security holders at the public offering price set forth in the prospectus supplement pursuant to delayed delivery contracts providing for payment and delivery on a specified date in the future. Such contracts will be subject to any conditions set forth in the prospectus supplement and the prospectus supplement will set forth the commissions payable for solicitation of such contracts. The underwriters and other persons soliciting such contracts will have no responsibility for the validity or performance of any such contracts.

Underwriters, dealers and agents may be entitled under agreements entered into with us or the selling security holders to be indemnified by us against certain civil liabilities, including liabilities under the Securities Act, or to contribution by us to payments which they may be required to make. The terms and conditions of such indemnification will be described in an applicable prospectus supplement. Underwriters, dealers and agents may be customers of, engage in transactions with or perform services for us or the selling security holders in the ordinary course of business.

Any underwriters to whom securities are sold by us or the selling security holders for public offering and sale may make a market in such securities, but such underwriters will not be obligated to do so and may discontinue any market making at any time without notice. No assurance can be given as to the liquidity of the trading market for any securities.

Certain persons participating in any offering of securities may engage in transactions that stabilize, maintain or otherwise affect the price of the securities offered. In connection with any such offering, the underwriters, dealers or

agents, as the case may be, may purchase and sell securities in the open market. These transactions may include overallotment and stabilizing transactions and purchases to cover syndicate short positions created

**Table of Contents**

in connection with the offering. Stabilizing transactions consist of certain bids or purchases for the purpose of preventing or retarding a decline in the market price of the securities and syndicate short positions involve the sale by the underwriters, dealers or agents, as the case may be, of a greater number of securities than they are required to purchase from us in the offering. The underwriters may also impose a penalty bid, whereby selling concessions allowed to syndicate members or other broker-dealers for the securities sold for their account may be reclaimed by the syndicate if such securities are repurchased by the syndicate in stabilizing or covering transactions. These activities may stabilize, maintain or otherwise affect the market price of the securities, which may be higher than the price that might otherwise prevail in the open market, and if commenced, may be discontinued at any time. These transactions may be effected on The NASDAQ Global Select Market, in the over-the-counter market or otherwise. These activities will be described in more detail in the sections entitled Plan of Distribution or Underwriting in the applicable prospectus supplement.

**Table of Contents**

**WHERE YOU CAN FIND MORE INFORMATION**

We have filed with the SEC a registration statement on Form S-3 under the Securities Act covering the securities offered by this prospectus. This prospectus does not contain all of the information that you can find in that registration statement and its exhibits. Certain items are omitted from this prospectus in accordance with the rules and regulations of the SEC. For further information with respect to us and the securities offered by this prospectus, reference is made to the registration statement and the exhibits filed with the registration statement. Statements contained in this prospectus as to the contents of any contract or other document referred to are not necessarily complete and in each instance such statement is qualified by reference to each such contract or document filed with or incorporated by reference as part of the registration statement. We file reports, proxy and information statements and other information with the SEC. You may read any materials we have filed with the SEC free of charge at the SEC's Public Reference Room at 100 F Street, N.E., Room 1580, Washington, D.C. 20549. Copies of all or any part of these documents may be obtained from such office upon the payment of the fees prescribed by the SEC. The public may obtain information on the operation of the public reference room by calling the SEC at 1-800-SEC-0330. The SEC maintains an Internet site that contains reports, proxy and information statements and other information regarding registrants that file electronically with the SEC. The address of the site is <http://www.sec.gov>. The registration statement, including all exhibits thereto and amendments thereof, has been filed electronically with the SEC.

You can also find our SEC filings on our website at [www.diamondbackenergy.com](http://www.diamondbackenergy.com). The information contained on our website or any other website is not incorporated by reference into this prospectus and does not constitute a part of this prospectus.

**INFORMATION INCORPORATED BY REFERENCE**

The SEC allows us to incorporate by reference into this prospectus the information we provide in other documents filed by us with the SEC. The information incorporated by reference is an important part of this prospectus and any prospectus supplement. Any statement contained in a document that is incorporated by reference in this prospectus is automatically updated and superseded if information contained in this prospectus and any prospectus supplement, or information that we later file with the SEC, modifies and replaces this information. We incorporate by reference the following documents that we have filed with the SEC (except as indicated below with respect to Item 2.02 or Item 7.01 of Form 8-K):

our Annual Report on Form 10-K for the year ended December 31, 2012, filed with the SEC on March 1, 2013;

our Amendment No. 1 to our Annual Report on Form 10-K/A for the year ended December 31, 2012, filed with the SEC on April 11, 2013;

the information specifically incorporated by reference into the Annual Report on Form 10-K for the fiscal year ended December 31, 2012 from our Definitive Proxy Statement on Schedule 14A, filed with the SEC on April 30, 2013;

Edgar Filing: Diamondback Energy, Inc. - Form 424B5

our Quarterly Reports on Form 10-Q for the three months ended March 31, 2013, June 30, 2013 and September 30, 2013, filed with the SEC on May 9, 2013, August 8, 2013 and November 4, 2013, respectively;

our Current Reports on Form 8-K, filed with the SEC on February 1, 2013, April 11, 2013, May 20, 2013, June 6, 2013, June 24, 2013, August 19, 2013, September 4, 2013, September 6, 2013, September 9, 2013, September 12, 2013, September 18, 2013 and September 25, 2013; and

The description of our common stock contained in our Form 8-A filed with the SEC on October 11, 2012, including any amendment to that form that we may file in the future for the purpose of updating the description of our common stock.

## **Table of Contents**

We are also incorporating by reference from our Registration Statement on Form S-1 (File No. 333-190462), originally filed with the SEC on August 8, 2013, as amended on August 14, 2013, (i) the historical Statements of Revenues and Direct Operating Expenses of certain property interests of Gulfport Energy Corporation and the related Report of Independent Certified Public Accountants and (ii) the Unaudited Pro Forma Condensed Consolidated Financial Statement prepared to show the effect the Company's acquisition of Gulfport Energy Corporation's oil and natural gas interests in the Permian Basin and the distribution by Windsor Permian LLC to its equity holders of its minority equity interests in Bison Drilling and Field Services LLC and Muskie Holdings LLC.

In addition, all documents filed by us with the SEC under Sections 13(a), 13(c), 14 or 15(d) of the Exchange Act (other than those furnished pursuant to Item 2.02 or Item 7.01 of Form 8-K, unless otherwise stated therein) after the date of this prospectus will be considered to be incorporated by reference into this prospectus and to be a part of this prospectus from the dates of the filing of such documents. Pursuant to General Instruction B of Form 8-K, any information submitted under Item 2.02, Results of Operations and Financial Condition, or Item 7.01, Regulation FD Disclosure, of Form 8-K is not deemed to be filed for the purpose of Section 18 of the Exchange Act, and we are not subject to the liabilities of Section 18 of the Exchange Act with respect to information submitted under Item 2.02 or Item 7.01 of Form 8-K. We are not incorporating by reference any information submitted under Item 2.02 or Item 7.01 of Form 8-K into any filing under the Securities Act or the Exchange Act or into this prospectus, unless otherwise indicated on such Form 8-K.

You may request a copy of this prospectus or any of the incorporated documents (excluding exhibits, unless the exhibits are specifically incorporated) at no charge to you by writing to Teresa L. Dick, Chief Financial Officer, Diamondback Energy, Inc., 14301 Caliber Drive, Suite 300, Oklahoma City, Oklahoma; telephone: (405) 463-6900.

Any statement contained in a document incorporated or deemed to be incorporated by reference in this prospectus will be deemed modified, superseded or replaced for purposes of this prospectus to the extent that a statement contained in this prospectus modifies, supersedes or replaces such statement.

## **LEGAL MATTERS**

Unless otherwise indicated in the applicable prospectus supplement, the validity of the securities to be offered hereby offered by us and/or the selling security holders will be passed upon by Akin, Gump, Strauss, Hauer & Feld, L.L.P. If legal matters in connection with offerings made by this prospectus are passed on by counsel for the underwriters, dealers or agents, if any, that counsel will be named in the applicable prospectus supplement.

## **EXPERTS**

The audited combined consolidated financial statements incorporated by reference in this prospectus and elsewhere in the registration statement have been so incorporated by reference in reliance upon the report of Grant Thornton LLP, independent registered public accountants, upon the authority of said firm as experts in accounting and auditing.

The audited statements of revenues and direct operating expenses of working and revenue interests of certain oil and gas properties owned by Gulfport Energy Corporation incorporated by reference in this prospectus and elsewhere in the registration statement have been so incorporated by reference in reliance upon the report of Grant Thornton LLP, independent certified public accountants, upon the authority of said firm as experts in accounting and auditing.

**Table of Contents**

Information incorporated by referenced in this prospectus regarding our estimated quantities of oil and gas reserves and the discounted present value of future net cash flows therefrom is based upon estimates of such reserves and present values prepared by Ryder Scott Company, L.P. as of December 31, 2012 and 2011 and by Pinnacle Energy Services, LLC as of December 31, 2010, each an independent petroleum engineering firm. This information is incorporated by reference in this prospectus in reliance upon the authority of such firms as experts in these matters.

**Table of Contents**