

CHESAPEAKE ENERGY CORP

Form 10-Q

May 06, 2015

Table of Contents

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

FORM 10-Q

Quarterly Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the Quarterly Period Ended March 31, 2015

Transition Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the transition period from _____ to _____
Commission File No. 1-13726

Chesapeake Energy Corporation

(Exact name of registrant as specified in its charter)

Oklahoma

73-1395733

(State or other jurisdiction of incorporation or organization)

(I.R.S. Employer Identification No.)

6100 North Western Avenue

Oklahoma City, Oklahoma

73118

(Address of principal executive offices)

(Zip Code)

(405) 848-8000

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES NO

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES NO

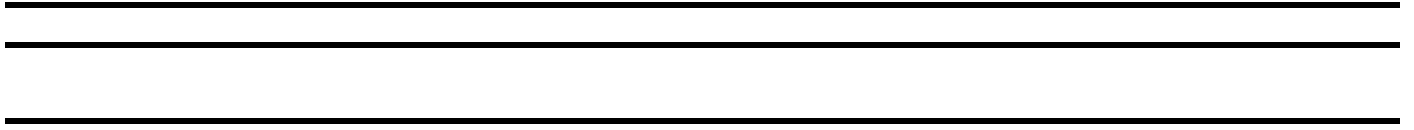
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer Accelerated Filer Non-accelerated Filer Smaller Reporting Company

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

Edgar Filing: CHESAPEAKE ENERGY CORP - Form 10-Q

As of April 30, 2015, there were 665,135,444 shares of our \$0.01 par value common stock outstanding.



CHESAPEAKE ENERGY CORPORATION AND SUBSIDIARIES
 INDEX TO FORM 10-Q FOR THE QUARTER ENDED MARCH 31, 2015

<u>PART I FINANCIAL INFORMATION</u>		Page
<u>Item 1.</u>	<u>Condensed Consolidated Financial Statements (Unaudited)</u>	
	<u>Condensed Consolidated Balance Sheets as of March 31, 2015</u>	1
	<u>and December 31, 2014</u>	
	<u>Condensed Consolidated Statements of Operations for the Three Months Ended</u>	3
	<u>March 31, 2015 and 2014</u>	
	<u>Condensed Consolidated Statements of Comprehensive Income (Loss) for the</u>	4
	<u>Three Months Ended March 31, 2015 and 2014</u>	
	<u>Condensed Consolidated Statements of Cash Flows for the Three Months Ended</u>	5
	<u>March 31, 2015 and 2014</u>	
	<u>Condensed Consolidated Statements of Stockholders' Equity for the</u>	7
	<u>Three Months Ended March 31, 2015 and 2014</u>	
	<u>Notes to the Condensed Consolidated Financial Statements</u>	8
<u>Item 2.</u>	<u>Management's Discussion and Analysis of Financial Condition and</u>	49
	<u>Results of Operations</u>	
<u>Item 3.</u>	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	64
<u>Item 4.</u>	<u>Controls and Procedures</u>	68
 <u>PART II OTHER INFORMATION</u>		
<u>Item 1.</u>	<u>Legal Proceedings</u>	69
<u>Item 1A.</u>	<u>Risk Factors</u>	71
<u>Item 2.</u>	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	71
<u>Item 3.</u>	<u>Defaults Upon Senior Securities</u>	72
<u>Item 4.</u>	<u>Mine Safety Disclosures</u>	72
<u>Item 5.</u>	<u>Other Information</u>	72
<u>Item 6.</u>	<u>Exhibits</u>	72

Table of Contents

PART I. FINANCIAL INFORMATION

Item 1. Condensed Consolidated Financial Statements (Unaudited)
 CHESAPEAKE ENERGY CORPORATION AND SUBSIDIARIES
 CONDENSED CONSOLIDATED BALANCE SHEETS
 (Unaudited)

	March 31, 2015 (\$ in millions)	December 31, 2014
CURRENT ASSETS:		
Cash and cash equivalents (\$1 and \$1 attributable to our VIE)	\$2,907	\$4,108
Restricted cash	38	38
Accounts receivable, net	1,643	2,236
Short-term derivative assets (\$12 and \$16 attributable to our VIE)	612	879
Other current assets	198	207
Total Current Assets	5,398	7,468
PROPERTY AND EQUIPMENT:		
Oil and natural gas properties, at cost based on full cost accounting:		
Proved oil and natural gas properties (\$488 and \$488 attributable to our VIE)	60,769	58,594
Unproved properties	9,129	9,788
Other property and equipment	3,094	3,083
Total Property and Equipment, at Cost	72,992	71,465
Less: accumulated depreciation, depletion and amortization ((\$318) and (\$251) attributable to our VIE)	(44,700)	(39,043)
Property and equipment held for sale, net	93	93
Total Property and Equipment, Net	28,385	32,515
LONG-TERM ASSETS:		
Investments	268	265
Long-term derivative assets	—	6
Other long-term assets	322	497
TOTAL ASSETS	\$34,373	\$40,751

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

Table of ContentsCHESAPEAKE ENERGY CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS – (Continued)
(Unaudited)

	March 31, 2015	December 31, 2014
	(\$ in millions)	
CURRENT LIABILITIES:		
Accounts payable	\$1,630	\$2,049
Current maturities of long-term debt, net	885	381
Accrued interest	137	150
Deferred income tax liabilities	214	207
Short-term derivative liabilities	26	15
Other current liabilities (\$12 and \$15 attributable to our VIE)	2,474	3,061
Total Current Liabilities	5,366	5,863
LONG-TERM LIABILITIES:		
Long-term debt, net	10,623	11,154
Deferred income tax liabilities	2,817	4,185
Long-term derivative liabilities	191	218
Asset retirement obligations, net of current portion	452	447
Other long-term liabilities	551	679
Total Long-Term Liabilities	14,634	16,683
CONTINGENCIES AND COMMITMENTS (Note 4)		
EQUITY:		
Chesapeake Stockholders' Equity:		
Preferred stock, \$0.01 par value, 20,000,000 shares authorized: 7,251,515 shares outstanding	3,062	3,062
Common stock, \$0.01 par value, 1,000,000,000 shares authorized: 665,109,487 and 664,944,232 shares issued	7	7
Paid-in capital	12,436	12,531
Retained earnings (deficit)	(2,256) 1,483
Accumulated other comprehensive loss	(134) (143
Less: treasury stock, at cost; 1,585,667 and 1,614,312 common shares	(37) (37
Total Chesapeake Stockholders' Equity	13,078	16,903
Noncontrolling interests	1,295	1,302
Total Equity	14,373	18,205
TOTAL LIABILITIES AND EQUITY	\$34,373	\$40,751

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

Table of ContentsCHESAPEAKE ENERGY CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

	Three Months Ended March 31,	
	2015	2014
	(\$ in millions except per share data)	
REVENUES:		
Oil, natural gas and NGL	\$1,085	\$1,766
Marketing, gathering and compression	1,675	3,015
Oilfield services	—	265
Total Revenues	2,760	5,046
OPERATING EXPENSES:		
Oil, natural gas and NGL production	299	288
Production taxes	28	50
Marketing, gathering and compression	1,700	2,980
Oilfield services	—	220
General and administrative	56	79
Restructuring and other termination costs	(10)	(7)
Provision for legal contingencies	25	—
Oil, natural gas and NGL depreciation, depletion and amortization	684	628
Depreciation and amortization of other assets	35	78
Impairment of oil and natural gas properties	4,976	—
Impairments of fixed assets and other	4	20
Net (gains) losses on sales of fixed assets	3	(23)
Total Operating Expenses	7,800	4,313
INCOME (LOSS) FROM OPERATIONS	(5,040)	733
OTHER INCOME (EXPENSE):		
Interest expense	(51)	(39)
Losses on investments	(7)	(21)
Net gain on sales of investments	—	67
Other income	6	6
Total Other Income (Expense)	(52)	13
INCOME (LOSS) BEFORE INCOME TAXES	(5,092)	746
INCOME TAX EXPENSE (BENEFIT):		
Current income taxes	—	3
Deferred income taxes	(1,372)	277
Total Income Tax Expense (Benefit)	(1,372)	280
NET INCOME (LOSS)	(3,720)	466
Net income attributable to noncontrolling interests	(19)	(41)
NET INCOME (LOSS) ATTRIBUTABLE TO CHESAPEAKE	(3,739)	425
Preferred stock dividends	(43)	(43)
Earnings allocated to participating securities	—	(8)
NET INCOME (LOSS) AVAILABLE TO COMMON STOCKHOLDERS	\$(3,782)	\$374
EARNINGS (LOSS) PER COMMON SHARE:		
Basic	\$(5.72)	\$0.57
Diluted	\$(5.72)	\$0.54

Edgar Filing: CHESAPEAKE ENERGY CORP - Form 10-Q

CASH DIVIDEND DECLARED PER COMMON SHARE	\$0.0875	\$0.0875
WEIGHTED AVERAGE COMMON AND COMMON EQUIVALENT SHARES OUTSTANDING (in millions):		
Basic	661	658
Diluted	661	765

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

3

Table of Contents

CHESAPEAKE ENERGY CORPORATION AND SUBSIDIARIES
 CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
 (Unaudited)

	Three Months Ended March 31,	
	2015	2014
	(\$ in millions)	
NET INCOME (LOSS)	\$ (3,720)	\$ 466
OTHER COMPREHENSIVE INCOME (LOSS), NET OF INCOME TAX:		
Unrealized gains (losses) on derivative instruments, net of income tax expense (benefit) of (\$1) and \$1	(1)	3
Reclassification of (gains) losses on settled derivative instruments, net of income tax expense (benefit) of \$7 and \$7	10	11
Reclassification of (gains) losses on investment, net of income tax expense (benefit) of \$0 and (\$3)	—	(5)
Other Comprehensive Income (Loss)	9	9
COMPREHENSIVE INCOME (LOSS)	(3,711)	475
COMPREHENSIVE INCOME ATTRIBUTABLE TO NONCONTROLLING INTERESTS	(19)	(41)
COMPREHENSIVE INCOME (LOSS) ATTRIBUTABLE TO CHESAPEAKE	\$ (3,730)	\$ 434

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

4

Table of ContentsCHESAPEAKE ENERGY CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Three Months Ended March 31,	
	2015	2014
	(\$ in millions)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
NET INCOME (LOSS)	\$ (3,720)	\$ 466
ADJUSTMENTS TO RECONCILE NET INCOME (LOSS) TO CASH PROVIDED BY OPERATING ACTIVITIES:		
Depreciation, depletion and amortization	719	706
Deferred income tax expense (benefit)	(1,372)	277
Derivative (gains) losses, net	(172)	363
Cash receipts (payments) on derivative settlements, net	408	(157)
Stock-based compensation	23	20
Impairment of oil and natural gas properties	4,976	—
Net (gains) losses on sales of fixed assets	3	(23)
Impairments of fixed assets and other	2	12
Losses on investments	7	21
Net gains on sales of investments	—	(67)
Restructuring and other termination costs	(10)	(9)
Provision for legal contingencies	25	—
Other	21	5
Changes in assets and liabilities	(487)	(323)
Net Cash Provided By Operating Activities	423	1,291
CASH FLOWS FROM INVESTING ACTIVITIES:		