

CHESAPEAKE ENERGY CORP

Form 10-Q

May 07, 2014

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, 2014

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

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

As of April 30, 2014, there were 666,211,707 shares of our \$0.01 par value common stock outstanding.

CHESAPEAKE ENERGY CORPORATION AND SUBSIDIARIES
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PART I. FINANCIAL INFORMATION

CHESAPEAKE ENERGY CORPORATION AND SUBSIDIARIES
 CONDENSED CONSOLIDATED BALANCE SHEETS
 (Unaudited)

	March 31, 2014 (\$ in millions)	December 31, 2013
CURRENT ASSETS:		
Cash and cash equivalents (\$1 and \$1 attributable to our VIE)	\$1,004	\$837
Restricted cash	75	75
Accounts receivable, net	2,593	2,222
Short-term derivative assets	2	—
Deferred income tax asset	243	223
Other current assets	358	299
Total Current Assets	4,275	3,656
PROPERTY AND EQUIPMENT:		
Natural gas and oil properties, at cost based on full cost accounting:		
Proved natural gas and oil properties (\$488 and \$488 attributable to our VIE)	57,399	56,157
Unproved properties	11,672	12,013
Oilfield services equipment	2,239	2,192
Other property and equipment	3,429	3,203
Total Property and Equipment, at Cost	74,739	73,565
Less: accumulated depreciation, depletion and amortization ((\$190) and (\$168) attributable to our VIE)	(37,844)	(37,161)
Property and equipment held for sale, net	627	730
Total Property and Equipment, Net	37,522	37,134
LONG-TERM ASSETS:		
Investments	288	477
Long-term derivative assets	11	4
Other long-term assets	509	511
TOTAL ASSETS	\$42,605	\$41,782

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

CHESAPEAKE ENERGY CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS – (Continued)
(Unaudited)

	March 31, 2014	December 31, 2013
	(\$ in millions)	
CURRENT LIABILITIES:		
Accounts payable	\$1,786	\$1,596
Short-term derivative liabilities (\$6 and \$5 attributable to our VIE)	417	208
Current maturities of long-term debt, net	316	—
Accrued interest	145	200
Other current liabilities (\$19 and \$22 attributable to our VIE)	3,294	3,511
Total Current Liabilities	5,958	5,515
LONG-TERM LIABILITIES:		
Long-term debt, net	12,653	12,886
Deferred income tax liabilities	3,828	3,407
Long-term derivative liabilities	395	445
Asset retirement obligations	443	405
Other long-term liabilities	851	984
Total Long-Term Liabilities	18,170	18,127
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: 665,214,625 and 666,192,371 shares issued	7	7
Paid-in capital	12,459	12,446
Retained earnings	1,012	688
Accumulated other comprehensive loss	(153	) (162
Less: treasury stock, at cost; 1,986,178 and 2,002,029 common shares	(46	) (46
Total Chesapeake Stockholders' Equity	16,341	15,995
Noncontrolling interests	2,136	2,145
Total Equity	18,477	18,140
TOTAL LIABILITIES AND EQUITY	\$42,605	\$41,782

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

CHESAPEAKE ENERGY CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

	Three Months Ended March 31,	
	2014	2013
	(\$ in millions except per share data)	
REVENUES:		
Natural gas, oil and NGL	\$1,766	\$1,453
Marketing, gathering and compression	3,015	1,781
Oilfield services	265	190
Total Revenues	5,046	3,424
OPERATING EXPENSES:		
Natural gas, oil and NGL production	288	307
Production taxes	50	53
Marketing, gathering and compression	2,980	1,745
Oilfield services	220	155
General and administrative	79	110
Restructuring and other termination costs	(7	) 133
Natural gas, oil and NGL depreciation, depletion and amortization	628	648
Depreciation and amortization of other assets	78	78
Impairments of fixed assets and other	20	27
Net gains on sales of fixed assets	(23	) (49
Total Operating Expenses	4,313	3,207
INCOME FROM OPERATIONS	733	217
OTHER INCOME (EXPENSE):		
Interest expense	(39	) (21
Losses on investments	(21	) (37
Net gain on sales of investments	67	—
Other income	6	6
Total Other Income (Expense)	13	(52
INCOME BEFORE INCOME TAXES	746	165
INCOME TAX EXPENSE		
Current income taxes	3	1
Deferred income taxes	277	62
Total Income Tax Expense	280	63
NET INCOME	466	102
Net income attributable to noncontrolling interests	(41	) (44
NET INCOME ATTRIBUTABLE TO CHESAPEAKE	425	58
Preferred stock dividends	(43	) (43
Earnings allocated to participating securities	(8) —
NET INCOME AVAILABLE TO COMMON STOCKHOLDERS	\$374	\$15
EARNINGS PER COMMON SHARE:		
Basic	\$0.57	\$0.02
Diluted	\$0.54	\$0.02
CASH DIVIDEND DECLARED PER COMMON SHARE	\$0.0875	\$—
WEIGHTED AVERAGE COMMON AND COMMON EQUIVALENT SHARES OUTSTANDING (in millions):		

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Basic	658	651
Diluted	765	651

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

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

	Three Months Ended March 31,	
	2014	2013
	(\$ in millions)	
NET INCOME	\$466	\$102
OTHER COMPREHENSIVE INCOME (LOSS), NET OF INCOME TAX:		
Unrealized gain (loss) on derivative instruments, net of income tax expense (benefit) of \$1 million and (\$1) million	3	(1)
Reclassification of loss on settled derivative instruments, net of income tax expense of \$7 million and \$7 million	11	12
Unrealized loss on investments, net of income tax benefit of \$0 and (\$3) million	—	(5)
Reclassification of (gain) loss on investment, net of income tax expense (benefit) of (\$3) million and \$4 million	(5)	6
Other Comprehensive Income	9	12
COMPREHENSIVE INCOME	475	114
COMPREHENSIVE INCOME ATTRIBUTABLE TO NONCONTROLLING INTERESTS	(41)	(44)
COMPREHENSIVE INCOME ATTRIBUTABLE TO CHESAPEAKE	\$434	\$70

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

CHESAPEAKE ENERGY CORPORATION AND SUBSIDIARIES
 CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
 (Unaudited)

	Three Months Ended March 31,	
	2014	2013
	(\$ in millions)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
NET INCOME	\$466	\$102
ADJUSTMENTS TO RECONCILE NET INCOME (LOSS) TO CASH PROVIDED BY OPERATING ACTIVITIES:		
Depreciation, depletion and amortization	706	726
Deferred income tax expense	277	62
Derivative losses, net	363	143
Cash (payments) receipts on derivative settlements, net	(157)	) 12
Stock-based compensation	20	32
Net gains on sales of fixed assets	(23)	) (49)
Impairments of fixed assets and other	12	27
Losses on investments	21	29
Net gain on sales of investments	(67)) —
Restructuring and other termination costs	(9)	) 105
Other	5	(10)
Changes in assets and liabilities	(323)	) (255)
Net Cash Provided By Operating Activities	1,291	924
CASH FLOWS FROM INVESTING ACTIVITIES:		
Drilling and completion costs	(897)	) (1,579)
Acquisitions of proved and unproved properties	(187)	) (280)
Proceeds from divestitures of proved and unproved properties	49	190
Additions to other property and equipment	(437)	) (330)
Proceeds from sales of other assets	239	201
Additions to investments	(3)	) (3)
Proceeds from sales of investments	239	—
Decrease in restricted cash	&#160	