

ANTERO RESOURCES Corp
Form 10-Q
August 02, 2017
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2017

OR

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

For the transition period from _____ to _____

Commission file number: 001-36120

ANTERO RESOURCES CORPORATION

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

80-0162034
(IRS Employer Identification No.)

1615 Wynkoop Street
Denver, Colorado
(Address of principal executive offices)

80202
(Zip Code)

(303) 357-7310

(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, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer
Non-accelerated filer
(Do not check if a smaller reporting company)

Accelerated filer
Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

The registrant had 315,469,893 shares of common stock outstanding as of July 27, 2017.

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CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

The information in this report includes “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”). All statements, other than statements of historical fact included in this Quarterly Report on Form 10-Q, regarding our strategy, future operations, financial position, estimated revenues and losses, projected costs, prospects, plans and objectives of management are forward-looking statements. When used, the words “could,” “believe,” “anticipate,” “intend,” “estimate,” “expect,” “project” and similar expressions are intended to identify forward-looking statements, although not all forward-looking statements contain such identifying words. These forward-looking statements are based on our current expectations and assumptions about future events and are based on currently available information as to the outcome and timing of future events. When considering forward-looking statements, you should keep in mind the risk factors and other cautionary statements described under the heading “Item 1A. Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2016 (our “2016 Form 10-K”) on file with the Securities and Exchange Commission (the “SEC”) and in “Item 1A. Risk Factors” of this Quarterly Report on Form 10-Q.

Forward-looking statements may include statements about our:

- business strategy;
- reserves;
- financial strategy, liquidity, and capital required for our development program;
- natural gas, natural gas liquids (“NGLs”), and oil prices;
- timing and amount of future production of natural gas, NGLs, and oil;
- hedging strategy and results;
- ability to meet our minimum volume commitments and to utilize or monetize our firm transportation commitments;
- future drilling plans;
- competition and government regulations;

- pending legal or environmental matters;
- marketing of natural gas, NGLs, and oil;
- leasehold or business acquisitions;
- costs of developing our properties;
- operations of Antero Midstream, including the operations of its unconsolidated affiliates;
- general economic conditions;
- credit markets;
- uncertainty regarding our future operating results; and
- plans, objectives, expectations, and intentions.

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We caution you that these forward-looking statements are subject to all of the risks and uncertainties, most of which are difficult to predict and many of which are beyond our control, incident to the exploration for and development, production, gathering, processing, transportation, and sale of natural gas, NGLs, and oil. These risks include, but are not limited to, commodity price volatility and low commodity prices, inflation, availability of drilling and production equipment and services, environmental risks, drilling and other operating risks, marketing and transportation risks, regulatory changes, the uncertainty inherent in estimating natural gas, NGLs, and oil reserves and in projecting future rates of production, cash flow and access to capital, the timing of development expenditures, and the other risks described under the heading “Item 1A. Risk Factors” in our 2016 Form 10-K on file with the SEC and in “Item 1A. Risk Factors” of this Quarterly Report on Form 10-Q.

Reserve engineering is a process of estimating underground accumulations of natural gas, NGLs, and oil that cannot be measured in an exact manner. The accuracy of any reserve estimate depends on the quality of available data, the interpretation of such data, and the price and cost assumptions made by reservoir engineers. In addition, the results of drilling, testing, and production activities, or changes in commodity prices, may justify revisions of estimates that were made previously. If significant, such revisions would change the schedule of any further production and development drilling. Accordingly, reserve estimates may differ significantly from the quantities of natural gas, NGLs, and oil that are ultimately recovered.

Should one or more of the risks or uncertainties described in this report occur, or should underlying assumptions prove incorrect, our actual results and plans could differ materially from those expressed in any forward-looking statements.

All forward-looking statements, expressed or implied, included in this report are expressly qualified in their entirety by this cautionary statement. This cautionary statement should also be considered in connection with any subsequent written or oral forward-looking statements that we or persons acting on our behalf may issue.

Except as otherwise required by applicable law, we disclaim any duty to update any forward-looking statements, all of which are expressly qualified by the statements in this section, to reflect events or circumstances after the date of this Quarterly Report on Form 10-Q.

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PART I—FINANCIAL INFORMATION

ANTERO RESOURCES CORPORATION

Condensed Consolidated Balance Sheets

December 31, 2016 and June 30, 2017

(Unaudited)

(In thousands, except per share amounts)

	December 31, 2016	June 30, 2017
Assets		
Current assets:		
Cash and cash equivalents	\$ 31,610	40,190
Accounts receivable, net of allowance for doubtful accounts of \$1,195 in 2016 and 2017	29,682	16,494
Accrued revenue	261,960	218,621
Derivative instruments	73,022	452,005
Other current assets	6,313	8,573
Total current assets	402,587	735,883
Property and equipment:		
Natural gas properties, at cost (successful efforts method):		
Unproved properties	2,331,173	2,309,839
Proved properties	9,549,671	10,493,932
Water handling and treatment systems	744,682	840,183
Gathering systems and facilities	1,723,768	1,884,712
Other property and equipment	41,231	48,537
	14,390,525	15,577,203
Less accumulated depletion, depreciation, and amortization	(2,363,778)	(2,767,358)
Property and equipment, net	12,026,747	12,809,845
Derivative instruments	1,731,063	1,600,165
Investments in unconsolidated affiliates	68,299	259,697
Other assets	26,854	36,631
Total assets	\$ 14,255,550	15,442,221
Liabilities and Equity		
Current liabilities:		
Accounts payable	\$ 38,627	51,567
Accrued liabilities	393,803	418,352
Revenue distributions payable	163,989	203,151
Derivative instruments	203,635	3,279
Other current liabilities	17,334	16,711
Total current liabilities	817,388	693,060
Long-term liabilities:		
Long-term debt	4,703,973	5,291,973

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Deferred income tax liability	950,217	1,100,382
Derivative instruments	234	172
Other liabilities	55,160	53,772
Total liabilities	6,526,972	7,139,359
Commitments and contingencies (notes 10 and 13)		
Equity:		
Stockholders' equity:		
Preferred stock, \$0.01 par value; authorized - 50,000 shares; none issued	—	—
Common stock, \$0.01 par value; authorized - 1,000,000 shares; issued and outstanding 314,877 shares and 315,448 shares, respectively	3,149	3,154
Additional paid-in capital	5,299,481	6,435,047
Accumulated earnings	959,995	1,223,259
Total stockholders' equity	6,262,625	7,661,460
Noncontrolling interests in consolidated subsidiary	1,465,953	641,402
Total equity	7,728,578	8,302,862
Total liabilities and equity	\$ 14,255,550	15,442,221

See accompanying notes to condensed consolidated financial statements.

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ANTERO RESOURCES CORPORATION

Condensed Consolidated Statements of Operations and Comprehensive Loss

Three Months Ended June 30, 2016 and 2017

(Unaudited)

(In thousands, except per share amounts)

	Three Months Ended June 30,	
	2016	2017
Revenue:		
Natural gas sales	\$ 229,787	454,257
Natural gas liquids sales	94,713	170,819
Oil sales	16,740	26,512
Gathering, compression, water handling and treatment	3,294	3,192
Marketing	90,902	49,968
Commodity derivative fair value gains (losses)	(684,634)	85,641
Total revenue	(249,198)	790,389
Operating expenses:		
Lease operating	12,043	16,992
Gathering, compression, processing, and transportation	206,060	266,747
Production and ad valorem taxes	17,458	22,553
Marketing	125,977	77,421
Exploration	1,109	1,804
Impairment of unproved properties	19,944	15,199
Depletion, depreciation, and amortization	197,362	201,182
Accretion of asset retirement obligations	620	649
General and administrative (including equity-based compensation expense of \$25,816 and \$26,975 in 2016 and 2017, respectively)	60,102	64,099
Total operating expenses	640,675	666,646
Operating income (loss)	(889,873)	123,743
Other income (expenses):		
Equity in earnings of unconsolidated affiliates	484	3,623
Interest	(62,595)	(68,582)
Total other expenses	(62,111)	(64,959)
Income (loss) before income taxes	(951,984)	58,784
Provision for income tax (expense) benefit	376,494	(18,819)
Net income (loss) and comprehensive income (loss) including noncontrolling interests	(575,490)	39,965
Net income and comprehensive income attributable to noncontrolling interests	20,754	45,097
Net loss and comprehensive loss attributable to Antero Resources Corporation	\$ (596,244)	(5,132)
Loss per common share—basic	\$ (2.12)	(0.02)

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Loss per common share—assuming dilution	\$ (2.12)	(0.02)
Weighted average number of shares outstanding:		
Basic	281,786	315,401
Diluted	281,786	315,401

See accompanying notes to condensed consolidated financial statements.

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ANTERO RESOURCES CORPORATION

Condensed Consolidated Statements of Operations and Comprehensive Income (Loss)

Six Months Ended June 30, 2016 and 2017

(Unaudited)

(In thousands, except per share amounts)

	Six Months Ended June 30,	
	2016	2017
Revenue and other:		
Natural gas sales	484,563	920,921
Natural gas liquids sales	167,778	365,471
Oil sales	26,919	53,472
Gathering, compression, water handling and treatment	7,138	5,796
Marketing	190,118	115,892
Commodity derivative fair value gains (losses)	(404,710)	524,416
Total revenue and other	471,806	1,985,968
Operating expenses:		
Lease operating	23,336	32,543
Gathering, compression, processing, and transportation	414,798	533,576
Production and ad valorem taxes	36,742	47,346
Marketing	263,910	167,414
Exploration	2,123	3,911
Impairment of unproved properties	35,470	42,098
Depletion, depreciation, and amortization	388,944	403,911
Accretion of asset retirement obligations	1,218	1,286
General and administrative (including equity-based compensation expense of \$49,286 and \$52,478 in 2016 and 2017, respectively)	116,389	128,797
Total operating expenses	1,282,930	1,360,882
Operating income (loss)	(811,124)	625,086
Other income (expenses):		
Equity in earnings of unconsolidated affiliates	484	5,854
Interest	(125,879)	(135,252)
Total other expenses	(125,395)	(129,398)
Income (loss) before income taxes	(936,519)	495,688
Provision for income tax (expense) benefit	371,679	(150,165)
Net income (loss) and comprehensive income (loss) including noncontrolling interests	(564,840)	345,523
Net income and comprehensive income attributable to noncontrolling interests	36,459	82,259
Net income (loss) and comprehensive income (loss) attributable to Antero Resources Corporation	(601,299)	263,264

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Earnings (loss) per common share—basic	\$ (2.15)	0.84
Earnings (loss) per common share—assuming dilution	\$ (2.15)	0.83
Weighted average number of shares outstanding:		
Basic	279,418	315,179
Diluted	279,418	315,927

See accompanying notes to condensed consolidated financial statements.

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ANTERO RESOURCES CORPORATION

Condensed Consolidated Statements of Equity

Six Months Ended June 30, 2017

(Unaudited)

(In thousands)

	Common Stock		Additional	Accumulated	Noncontrolling	Total
	Shares	Amount	paid- in capital	earnings	interests	equity
Balances, December 31, 2016	314,877	\$ 3,149	5,299,481	959,995	1,465,953	7,728,578
Issuance of common stock upon vesting of equity-based compensation awards, net of shares withheld for income taxes	571	5	(7,506)	—	—	(7,501)
Issuance of common units by Antero Midstream Partners LP, net of underwriter discounts and offering costs	—	—	—	—	246,585	246,585
Issuance of common units in Antero Midstream Partners LP upon vesting of equity-based compensation awards, net of units withheld for income taxes	—	—	—	—	—	—