

CHESAPEAKE ENERGY CORP

Form 10-Q

November 06, 2013

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 September 30, 2013

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

As of November 4, 2013, there were 665,098,207 shares of our \$0.01 par value common stock outstanding.

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

	September 30, 2013	December 31, 2012
	(\$ in millions)	
CURRENT ASSETS:		
Cash and cash equivalents (\$1 and \$1 attributable to our VIE)	\$987	\$287
Restricted cash	75	111
Accounts receivable	2,440	2,245
Short-term derivative assets	11	58
Deferred income tax asset	185	90
Other current assets	296	153
Current assets held for sale	—	4
Total Current Assets	3,994	2,948
PROPERTY AND EQUIPMENT:		
Natural gas and oil properties, at cost based on full cost accounting:		
Evaluated natural gas and oil properties (\$488 and \$488 attributable to our VIE)	55,175	50,172
Unevaluated properties	12,282	14,755
Oilfield services equipment	2,179	2,130
Other property and equipment	3,360	3,778
Total Property and Equipment, at Cost	72,996	70,835
Less: accumulated depreciation, depletion and amortization ((\$151) and (\$58) attributable to our VIE)	(36,472)	(34,302)
Property and equipment held for sale, net	597	634
Total Property and Equipment, Net	37,121	37,167
LONG-TERM ASSETS:		
Investments	615	728
Long-term derivative assets	2	2
Other long-term assets	556	766
TOTAL ASSETS	\$42,288	\$41,611

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

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

	September 30, 2013	December 31, 2012
	(\$ in millions)	
CURRENT LIABILITIES:		
Accounts payable	\$1,730	\$1,710
Short-term derivative liabilities (\$7 and \$4 attributable to our VIE)	170	105
Accrued interest	153	226
Current maturities of long-term debt, net	—	463
Other current liabilities (\$24 and \$21 attributable to our VIE)	3,625	3,741
Current liabilities held for sale	—	21
Total Current Liabilities	5,678	6,266
LONG-TERM LIABILITIES:		
Long-term debt, net	12,736	12,157
Deferred income tax liabilities	3,423	2,807
Long-term derivative liabilities (\$1 and \$3 attributable to our VIE)	519	934
Asset retirement obligations	404	375
Other long-term liabilities	1,180	1,176
Total Long-Term Liabilities	18,262	17,449
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:		
667,472,869 and 666,467,664 shares issued	7	7
Paid-in capital	12,443	12,293
Retained earnings	905	437
Accumulated other comprehensive loss	(169	) (182
Less: treasury stock, at cost; 2,246,069 and 2,147,724 common shares	(52	) (48
Total Chesapeake Stockholders' Equity	16,196	15,569
Noncontrolling interests	2,152	2,327
Total Equity	18,348	17,896
TOTAL LIABILITIES AND EQUITY	\$42,288	\$41,611

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 September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
	(\$ in millions except per share data)			
REVENUES:				
Natural gas, oil and NGL	\$1,586	\$1,437	\$5,444	\$4,622
Marketing, gathering and compression	3,032	1,381	6,871	3,710
Oilfield services	249	152	650	446
Total Revenues	4,867	2,970	12,965	8,778
OPERATING EXPENSES:				
Natural gas, oil and NGL production	282	320	877	1,005
Production taxes	62	53	173	141
Marketing, gathering and compression	3,009	1,339	6,781	3,631
Oilfield services	211	116	543	321
General and administrative	120	145	336	436
Restructuring and other termination benefits	63	3	203	4
Natural gas, oil and NGL depreciation, depletion and amortization	652	762	1,945	1,856
Depreciation and amortization of other assets	79	66	234	233
Impairment of natural gas and oil properties	—	3,315	—	3,315
Impairments of fixed assets and other	85	38	343	281
Net (gains) losses on sales of fixed assets	(132)	) 7	(290)	) 5
Total Operating Expenses	4,431	6,164	11,145	11,228
INCOME (LOSS) FROM OPERATIONS	436	(3,194)	1,820	(2,450)
OTHER INCOME (EXPENSE):				
Interest expense	(40)	) (36)	) (164)	) (63)
Losses on investments	(22)	) (23)	) (26)	) (87)
Impairment of investment	—	—	(10)) —
Gains (losses) on sales of investments	3	31	(7)	) 1,061
Losses on purchases of debt	—	—	(70)) —
Other income (expense)	10	(9)	) 18	2
Total Other Income (Expense)	(49)	) (37)	) (259)	) 913
INCOME (LOSS) BEFORE INCOME TAXES	387	(3,231)	1,561	(1,537)
INCOME TAX EXPENSE (BENEFIT):				
Current income taxes	7	22	9	24
Deferred income taxes	140	(1,282)	) 585	(623)
Total Income Tax Expense (Benefit)	147	(1,260)	) 594	(599)
NET INCOME (LOSS)	240	(1,971)	967	(938)
Net income attributable to noncontrolling interests	(38)	) (41)	) (127)	) (131)
NET INCOME (LOSS) ATTRIBUTABLE TO CHESAPEAKE	202	(2,012)	840	(1,069)
Preferred stock dividends	(43)	) (43)	) (128)	) (128)
Premium on purchase of preferred shares of a subsidiary	—	—	(69)) —
Earnings allocated to participating securities	(3)) —	(14)) —
	\$156) \$(2,055)) \$629) \$(1,197)

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NET INCOME (LOSS) AVAILABLE TO COMMON
STOCKHOLDERS

EARNINGS (LOSS) PER COMMON SHARE:

Basic	\$0.24	\$(3.19	)	\$0.96	\$(1.86)
Diluted						