CHESAPEAKE ENERGY CORP Form 10-Q

November 06, 2013

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

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[X] 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 (I.R.S. Employer Identification No.)

organization)

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 [X] 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 [X] 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 [X] Accelerated Filer [X] Non-accelerated Filer [X] Smaller Reporting Company [X] Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). YES [X] NO [X]

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

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

	September 30, 2013 (\$ in millions)	December 31, 2012		
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	55,175	50,172		
to our VIE)	•	•		
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.

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

	September 30, 2013 (\$ in millions)	December 31, 2012
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.

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

REVENUES: Natural gas, oil and NGL  Marketing, gathering and compression  3,032  1,381  6,871  3,710  1,2965  8,778  1,2965  8,778  1,2970  1,2965  8,778  1,2970  1,2965  8,778  1,2970  1,2965  8,778  1,2970  1,2965  8,778  1,2970  1,2965  8,778  1,2970  1,2965  8,778  1,2970  1,2965  8,778  1,2970  1,2965  8,778  1,2970  1,2970  1,2970  1,2970  1,2970  1,2970  1,331  1,41  1,41  1,415  1,41		Three Months Ended September 30, 2013 2012 (\$ in millions except p			er sl	Nine Months Ended September 30, 2013 2012 er share data)			
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         8,78           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         48           Restructuring and other termination benefits         63         3         203         4           Natural gas, oil and NGL depreciation, depletion and amortization         652         762         1,945         1,856           Restructuring and other termination benefits         63         3         203         4           Natural gas, oil and NGL depreciation, depletion and amortization         4652         762         1,945         1,856           Impairment of investal gas and oil properties         7         66	REVENUES:								
Dilfield services	Natural gas, oil and NGL	\$1,586		\$1,437		\$5,444		\$4,622	
Total Revenues	Marketing, gathering and compression	3,032		1,381		6,871		3,710	
Natural gas, oil and NGL production   282   320   877   1,005   141   141   116   141   162   141   163   141   163   141   163   141   163   141   163   141   163   141   163   141   163   141   163   143   141   163   143   141   163   143	Oilfield services	249		152		650		446	
Natural gas, oil and NGL production   282   320   877   1,005   1,00	Total Revenues	4,867		2,970		12,965		8,778	
Production taxes	OPERATING EXPENSES:								
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         11,228         11,145         11,228         11,1228         11,145         11,228         11,1228         11,145         11,228         11,145         11,128         11,1228         11,1228         11,1228         11,1228         11,1228         11,1228         11,1	Natural gas, oil and NGL production	282		320		877		1,005	
Oilfield services	Production taxes	62		53		173		141	
General and administrative   120	Marketing, gathering and compression	3,009		1,339		6,781		3,631	
Restructuring and other termination benefits   Satural gas, oil and NGL depreciation, depletion and amortization   G52	Oilfield services	211		116		543		321	
Natural gas, oil and NGL depreciation, depletion and amortization  Depreciation and amortization of other assets  Depreciation and amortization of other assets  Pepreciation and amortization of other assets  Page 234  233  Lasset 234  248  281  Net (gains) losses on sales of fixed assets and other  85	General and administrative	120		145		336		436	
Amortization	Restructuring and other termination benefits	63		3		203		4	
Amortization   Depreciation and amortization of other assets   Possible   P	Natural gas, oil and NGL depreciation, depletion and	650		760		1.045		1.056	
Impairment of natural gas and oil properties	amortization	032		762		1,943		1,830	
Impairments of fixed assets and other	Depreciation and amortization of other assets	79		66		234		233	
Impairments of fixed assets and other	Impairment of natural gas and oil properties	_		3,315				3,315	
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		85		38		343		281	
INCOME (LOSS) FROM OPERATIONS	Net (gains) losses on sales of fixed assets	(132	)	7		(290	)	5	
INCOME (LOSS) FROM OPERATIONS	Total Operating Expenses	4,431		6,164		11,145		11,228	
OTHER INCOME (EXPENSE):       Interest expense       (40      ) (36      ) (164      ) (63      )       (63      )         Losses on investments       (22      ) (23      ) (26      ) (87      )       (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		436		(3,194	)	1,820		(2,450	)
Interest expense				` '	•				Í
Impairment of investment	Interest expense	(40	)	(36	)	(164	)	(63	)
Impairment of investment	Losses on investments	(22	)	(23	)	(26	)	(87	)
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):       Total 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 (LOSS) ATTRIBUTABLE TO       202       (2,012       ) 840       (1,069       )         CHESAPEAKE       Preferred stock dividends       (43       ) (43       ) (128       ) (128       )         Premium on purchase of preferred shares of a subsidiary       —       —       (69       )       —         Earnings allocated to participating securities       (3       )       —	Impairment of investment			_		(10	)	_	
Cother income (expense)	-	3		31		-	)	1,061	
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):       Touring tincome 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       ) —				_		-	)	_	
Total Other Income (Expense)       (49       ) (37       ) (259       ) 913         INCOME (LOSS) BEFORE INCOME TAXES       387       (3,231       ) 1,561       (1,537       )         INCOME TAX EXPENSE (BENEFIT):       7       22       9       24         Current 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       202       (2,012       ) 840       (1,069       )         CHESAPEAKE       202       (2,012       ) 840       (1,069       )         Premium on purchase of preferred shares of a subsidiary       —       —       (69       ) —         Earnings allocated to participating securities       (3       ) —       (14       ) —	<u>-</u>	10		(9	)	18	•	2	
INCOME TAX EXPENSE (BENEFIT):   Current income taxes   7		(49	)		)	(259	)	913	
INCOME TAX EXPENSE (BENEFIT):   Current income taxes   7	• •	-		•	)	-		(1,537	)
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 (LOSS) ATTRIBUTABLE TO CHESAPEAKE       (38       ) (41       ) (127       ) (131       )         Preferred stock dividends       (43       ) (43       ) (43       ) (128       ) (128       )         Premium on purchase of preferred shares of a subsidiary       —       —       —       (69       ) —         Earnings allocated to participating securities       (3       ) —       (14       ) —						•			
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       ) —		7		22		9		24	
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       202       (2,012 ) 840       (1,069 )         CHESAPEAKE       (43 ) (43 ) (43 ) (128 ) (128 )         Premium on purchase of preferred shares of a subsidiary       —       —       (69 ) —         Earnings allocated to participating securities       (3 ) —       (14 ) —		140		(1,282)	)	585		(623	)
NET INCOME (LOSS)  Net income attributable to noncontrolling interests  NET INCOME (LOSS) ATTRIBUTABLE TO CHESAPEAKE  Preferred stock dividends  Premium on purchase of preferred shares of a subsidiary Earnings allocated to participating securities  240 (1,971 ) 967 (938 ) (127 ) (131 )  (1,069 )	Total Income Tax Expense (Benefit)				)			•	)
Net income attributable to noncontrolling interests  NET INCOME (LOSS) ATTRIBUTABLE TO CHESAPEAKE  Preferred stock dividends  Premium on purchase of preferred shares of a subsidiary  Earnings allocated to participating securities  (38 ) (41 ) (127 ) (131 )  202 (2,012 ) 840 (1,069 )  (148 ) (128 )  (69 ) —  (14 ) —				-	)			-	)
NET INCOME (LOSS) ATTRIBUTABLE TO CHESAPEAKE  Preferred stock dividends  (43 ) (43 ) (128 ) (128 )  Premium on purchase of preferred shares of a subsidiary  Earnings allocated to participating securities  (3 ) — (14 ) —			)	•	)		)	•	)
CHESAPEAKE  Preferred stock dividends  Premium on purchase of preferred shares of a subsidiary  Earnings allocated to participating securities  202  (2,012  ) 840  (1,069  )  (128  )  (128  )  (128  )  (109  )  (128  )  (109  )	<u> </u>				(				,
Preferred stock dividends (43 ) (43 ) (128 ) (128 ) Premium on purchase of preferred shares of a subsidiary — — — (69 ) — Earnings allocated to participating securities (3 ) — (14 ) —		202		(2,012	)	840		(1,069	)
Premium on purchase of preferred shares of a subsidiary — — — — — — — — — — — — — — — — — — —		(43	)	(43	)	(128	)	(128	)
Earnings allocated to participating securities (3 ) — (14 ) —			,		,	-	)		,
	1 1	(3	)	_		•	)		
		•	,	\$(2,055	)	*	,	\$(1,197	)

NET INCOME (LOSS) AVAILABLE TO COMMON

**STOCKHOLDERS** 

EARNINGS (LOSS) PER COMMON SHARE:

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

Diluted