

CHESAPEAKE ENERGY CORP

Form 10-Q

May 11, 2012

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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, 2012

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

(State or other jurisdiction of incorporation or organization)

73-1395733

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

6100 North Western Avenue

Oklahoma City, Oklahoma

(Address of principal executive offices)

73118

(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

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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 May 7, 2012, there were 662,343,738 shares of our common stock, \$0.01 par value, outstanding.

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CHESAPEAKE ENERGY CORPORATION AND SUBSIDIARIES

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Table of Contents**CHESAPEAKE ENERGY CORPORATION AND SUBSIDIARIES****CONDENSED CONSOLIDATED BALANCE SHEETS****(Unaudited)**

	XXXXXXXXXX.XX March 31, 2012	XXXXXXXXXX.XX December 31, 2011
	(\$ in millions)	
CURRENT ASSETS:		
Cash and cash equivalents (\$47 and \$1 attributable to our VIEs)	\$ 438	\$ 351
Restricted cash	81	44
Accounts receivable (\$11 and \$0 attributable to our VIEs)	2,596	2,505
Short-term derivative assets	47	13
Deferred income tax asset	632	139
Other current assets	130	125
Total Current Assets	3,924	3,177
PROPERTY AND EQUIPMENT:		
Natural gas and oil properties, at cost based on full cost accounting:		
Evaluated natural gas and oil properties (\$488 and \$498 attributable to our VIEs)	43,589	41,723
Unevaluated properties	17,644	16,685
Natural gas gathering systems and treating plants (\$48 and \$0 attributable to our VIEs)	2,034	1,763
Oilfield services equipment	1,646	1,498
Other property and equipment	3,591	3,360
Total Property and Equipment, at Cost	68,504	65,029
Less: accumulated depreciation, depletion and amortization ((\$18) and (\$6) attributable to our VIEs)	(28,888)	(28,290)
Total Property and Equipment, Net	39,616	36,739
LONG-TERM ASSETS:		
Investments	1,618	1,531
Other long-term assets	431	388
TOTAL ASSETS	\$ 45,589	\$ 41,835
CURRENT LIABILITIES:		
Accounts payable	\$ 2,854	\$ 3,311
Short-term derivative liabilities (\$13 and \$9 attributable to our VIEs)	253	191
Accrued interest	137	183
Other current liabilities (\$37 and \$23 attributable to our VIEs)	3,420	3,397
Total Current Liabilities	6,664	7,082
LONG-TERM LIABILITIES:		
Long-term debt, net	13,082	10,626
Deferred income tax liabilities	3,984	3,484

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Long-term derivative liabilities (\$19 and \$10 attributable to our VIEs)	1,605	1,541
Asset retirement obligations	335	323
Other long-term liabilities	1,025	818
Total Long-Term Liabilities	20,031	16,792

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: 664,181,137 and 660,888,159 shares issued	7	7
Paid-in capital	12,176	12,146
Retained earnings	1,481	1,608
Accumulated other comprehensive income (loss)	(159)	(166)
Less: treasury stock, at cost; 1,682,354 and 1,552,533 common shares	(36)	(33)
Total Chesapeake Stockholders Equity	16,531	16,624
Noncontrolling interests	2,363	1,337
Total Equity	18,894	17,961

TOTAL LIABILITIES AND EQUITY \$ 45,589 \$ 41,835

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)

	\$XXX,XX	\$XXX,XX
	Three Months Ended	
	March 31,	
	2012	2011
	(\$ in millions,	
	except per share data)	
REVENUES:		
Natural gas and oil	\$ 1,068	\$ 494
Marketing, gathering and compression	1,216	1,017
Oilfield services	135	101
Total Revenues	2,419	1,612
OPERATING EXPENSES:		
Natural gas and oil production	349	238
Production taxes	47	45
Marketing, gathering and compression	1,197	985
Oilfield services	96	77
General and administrative	136	130
Natural gas and oil depreciation, depletion and amortization	506	358
Depreciation and amortization of other assets	84	68
Gains on sales of fixed assets	(2)	(5)
Total Operating Expenses	2,413	1,896
INCOME (LOSS) FROM OPERATIONS	6	(284)
OTHER INCOME (EXPENSE):		
Interest expense	(12)	(7)
Earnings (losses) on investments	(5)	25
Losses on purchases or exchanges of debt		(2)
Other income	6	2
Total Other Income (Expense)	(11)	18
INCOME (LOSS) BEFORE INCOME TAXES	(5)	(266)
INCOME TAX EXPENSE (BENEFIT):		
Current income taxes		6
Deferred income taxes	(2)	(110)
Total Income Tax Expense (Benefit)	(2)	(104)

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NET INCOME (LOSS)		(3)	(162)
Net income attributable to noncontrolling interests		(25)	
NET INCOME (LOSS) ATTRIBUTABLE TO CHESAPEAKE		(28)	(162)
Preferred stock dividends		(43)	(43)
NET INCOME (LOSS) AVAILABLE TO COMMON STOCKHOLDERS	\$	(71)	\$ (205)
EARNINGS (LOSS) PER COMMON SHARE:			
Basic	\$	(0.11)	\$ (0.32)
Diluted	\$	(0.11)	\$ (0.32)
CASH DIVIDEND DECLARED PER COMMON SHARE	\$	0.0875	\$ 0.075
WEIGHTED AVERAGE COMMON AND COMMON EQUIVALENT SHARES OUTSTANDING (in millions):			
Basic		642	634
Diluted		642	634

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

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	\$XXX,XX	\$XXX,XX
	Three Months Ended	
	March 31,	
	2012	2011
	(\$ in millions)	
Net income (loss)	\$ (3)	\$ (162)
Other comprehensive income (loss), net of income tax:		
Gain (loss) on derivative instruments, net of income taxes of \$2 million and \$3 million	4	5
Reclassification of gain on settled derivative instruments, net of income taxes of (\$1) million and (\$28) million	(2)	(46)
Ineffective portion of derivatives designated as cash flow hedges, net of income taxes of \$0 and (\$4) million		(6)
Unrealized gain (loss) on available-for-sale securities, net of income taxes of \$3 million and \$2 million	5	3
Other comprehensive income (loss)	7	(44)
Comprehensive income (loss)	4	(206)
Net income attributable to noncontrolling interests	(25)	
Comprehensive income (loss) attributable to Chesapeake	\$ (21)	\$ (206)

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 CASH FLOWS
(Unaudited)

	\$XXXX,,X	\$XXXX,,X
	Three Months Ended	
	March 31,	
	2012	2011
	(\$ in millions)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
NET INCOME (LOSS)	\$ (3)	\$ (162)
ADJUSTMENTS TO RECONCILE NET INCOME (LOSS) TO CASH PROVIDED BY OPERATING ACTIVITIES:		
Depreciation, depletion and amortization	590	426
Deferred income tax benefit	(2)	(110)
Unrealized losses on derivatives	276	1,188