

CHESAPEAKE ENERGY CORP

Form 10-Q

October 30, 2018

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, 2018

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 every Interactive Data File required to be submitted 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 such files).

YES NO

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a 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
Accelerated
Filer
Non-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

As of October 25, 2018, there were 913,710,098 shares of our \$0.01 par value common stock outstanding.

CHESAPEAKE ENERGY CORPORATION AND SUBSIDIARIES
 INDEX TO FORM 10-Q FOR THE QUARTER ENDED SEPTEMBER 30, 2018

	Page
PART I.	
FINANCIAL INFORMATION	
Item 1. <u>Condensed Consolidated Financial Statements</u>	
<u>Condensed Consolidated Balance Sheets</u> as of September 30, 2018 and December 31, 2017	3
<u>Condensed Consolidated Statements of Operations</u> for the Three and Nine Months Ended September 30, 2018 and 2017	5
<u>Condensed Consolidated Statements of Comprehensive Income</u> for the Three and Nine Months Ended September 30, 2018 and 2017	6
<u>Condensed Consolidated Statements of Cash Flows</u> for the Nine Months Ended September 30, 2018 and 2017	7
<u>Condensed Consolidated Statements of Stockholders'</u>	9

<u>Equity</u>	
for the Nine	
Months Ended	
September 30,	
2018 and 2017	
<u>Notes to the</u>	
<u>Condensed</u>	
<u>Consolidated</u>	
<u>Financial</u>	
<u>Statements</u>	
<u>Note 1. Basis of</u>	<u>10</u>
<u>Presentation</u>	
<u>Note 2. Earnings</u>	<u>11</u>
<u>per Share</u>	
<u>Note 3. Debt</u>	<u>12</u>
<u>Note 4.</u>	
<u>Contingencies</u>	<u>14</u>
<u>and</u>	
<u>Commitments</u>	
<u>Note 5. Other</u>	<u>15</u>
<u>Liabilities</u>	
<u>Note 6. Income</u>	<u>16</u>
<u>Taxes</u>	
<u>Note 7.</u>	
<u>Share-Based</u>	<u>17</u>
<u>Compensation</u>	
<u>Note 8.</u>	
<u>Derivative and</u>	<u>20</u>
<u>Hedging</u>	
<u>Activities</u>	
<u>Note 9. Oil and</u>	
<u>Natural Gas</u>	<u>26</u>
<u>Property</u>	
<u>Transactions</u>	
<u>Note 10. Revenue</u>	<u>28</u>
<u>Recognition</u>	
<u>Note 11.</u>	<u>30</u>
<u>Investments</u>	
<u>Note 12.</u>	<u>30</u>
<u>Impairments</u>	
<u>Note 13. Other</u>	
<u>Operating</u>	<u>30</u>
<u>Expenses</u>	
<u>Note 14.</u>	
<u>Restructuring and</u>	
<u>Other</u>	<u>30</u>
<u>Termination</u>	
<u>Costs</u>	
<u>Note 15. Fair</u>	
<u>Value</u>	<u>31</u>
<u>Measurements</u>	

	<u>Note 16.</u>	
	<u>Condensed</u>	
	<u>Consolidating</u>	<u>32</u>
	<u>Financial</u>	
	<u>Information</u>	
	<u>Note 17.</u>	
	<u>Subsequent</u>	<u>41</u>
	<u>Events</u>	
	<u>Management's</u>	
	<u>Discussion and</u>	
	<u>Analysis of</u>	
Item 2.	<u>Financial</u>	<u>42</u>
	<u>Condition and</u>	
	<u>Results of</u>	
	<u>Operations</u>	
	<u>Liquidity and</u>	
	<u>Capital Resources</u>	<u>45</u>
	<u>Results of</u>	
	<u>Operations for the</u>	
	<u>Three and Nine</u>	
	<u>Months Ended</u>	<u>50</u>
	<u>September 30,</u>	
	<u>2018 and 2017</u>	
	<u>Quantitative and</u>	
Item 3.	<u>Qualitative</u>	<u>58</u>
	<u>Disclosure About</u>	
	<u>Market Risk</u>	
Item 4.	<u>Controls and</u>	<u>62</u>
	<u>Procedures</u>	
	PART II. OTHER	
	INFORMATION	
Item 1.	<u>Legal</u>	<u>63</u>
	<u>Proceedings</u>	
Item 1A.	<u>Risk Factors</u>	<u>63</u>
	<u>Unregistered</u>	
Item 2.	<u>Sales of Equity</u>	<u>66</u>
	<u>Securities and</u>	
	<u>Use of Proceeds</u>	
Item 3.	<u>Defaults Upon</u>	<u>66</u>
	<u>Senior Securities</u>	
Item 4.	<u>Mine Safety</u>	<u>66</u>
	<u>Disclosures</u>	
Item 5.	<u>Other Information</u>	<u>67</u>
Item 6.	<u>Exhibits</u>	<u>68</u>
	<u>Signatures</u>	<u>70</u>

Table of Contents

PART I. FINANCIAL INFORMATION

ITEM 1. Condensed Consolidated Financial Statements

CHESAPEAKE ENERGY CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)

	September 30, 2018	December 31, 2017
	(\$ in millions)	
CURRENT ASSETS:		
Cash and cash equivalents (\$1 and \$2 attributable to our VIE)	\$4	\$5
Accounts receivable, net	1,051	1,322
Short-term derivative assets	—	27
Other current assets	180	171
Total Current Assets	1,235	1,525
PROPERTY AND EQUIPMENT:		
Oil and natural gas properties, at cost based on full cost accounting:		
Proved oil and natural gas properties (\$488 and \$488 attributable to our VIE)	70,620	68,858
Unproved properties	3,198	3,484
Other property and equipment	1,812	1,986
Total Property and Equipment, at Cost	75,630	74,328
Less: accumulated depreciation, depletion and amortization ((\$463) and (\$461) attributable to our VIE)	(64,500)	(63,664)
Property and equipment held for sale, net	47	16
Total Property and Equipment, Net	11,177	10,680
LONG-TERM ASSETS:		
Other long-term assets	247	220
TOTAL ASSETS	\$12,659	\$12,425

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

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

	September 30, 2018	December 31, 2017
	(\$ in millions)	
CURRENT LIABILITIES:		
Accounts payable	\$670	\$654
Current maturities of long-term debt, net	432	52
Accrued interest	126	137
Short-term derivative liabilities	310	58
Other current liabilities (\$2 and \$3 attributable to our VIE)	1,438	1,455
Total Current Liabilities	2,976	2,356
LONG-TERM LIABILITIES:		
Long-term debt, net	9,380	9,921
Long-term derivative liabilities	28	4
Asset retirement obligations, net of current portion	154	162
Other long-term liabilities	160	354
Total Long-Term Liabilities	9,722	10,441
CONTINGENCIES AND COMMITMENTS (Note 4)		
EQUITY:		
Chesapeake Stockholders' Equity (Deficit):		
Preferred stock, \$0.01 par value, 20,000,000 shares authorized: 5,603,458 shares outstanding	1,671	1,671
Common stock, \$0.01 par value, 2,000,000,000 shares authorized: 913,691,662 and 908,732,809 shares issued	9	9
Additional paid-in capital	14,394	14,437
Accumulated deficit	(16,173)	(16,525)
Accumulated other comprehensive loss	(32)	(57)
Less: treasury stock, at cost; 3,307,953 and 2,240,394 common shares	(31)	(31)
Total Chesapeake Stockholders' Equity (Deficit)	(162)	(496)
Noncontrolling interests	123	124
Total Equity (Deficit)	(39)	(372)
TOTAL LIABILITIES AND EQUITY	\$12,659	\$12,425

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

TABLE OF CONTENTS**CHESAPEAKE ENERGY CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**

(Unaudited)

	Three Months Ended September 30, 2018		Nine Months Ended September 30, 2018	
	2017	2018	2017	2018
	(\$ in millions except per share data)			
REVENUES:				
Oil, natural gas and NGL	\$1,199	\$979	\$3,424	\$3,727
Marketing	1,219	964	3,738	3,250
Total Revenues	2,418	1,943	7,162	6,977
OPERATING EXPENSES:				
Oil, natural gas and NGL production	132	151	417	426
Oil, natural gas and NGL gathering, processing and transportation	364	369	1,060	1,081
Production taxes	34	21	91	64
Marketing	1,238	978	3,798	3,333
General and administrative	66	54	229	189
Restructuring and other termination costs	—	—	38	—
Provision for legal contingencies, net	8	20	17	35
Oil, natural gas and NGL depreciation, depletion and amortization	274	228	813	627
Depreciation and amortization of other assets	17	20	54	62
Impairments	5	3	51	3
Other operating (income) expense	—	6	(1	) 423
Net (gains) losses on sales of fixed assets	—	(1	) 7	—
Total Operating Expenses	2,138	1,849	6,574	6,243
INCOME FROM OPERATIONS	280	94	588	734
OTHER INCOME (EXPENSE):				
Interest expense	(127	) (114	) (367	) (302
Gains on investments	—	—	139	—
Gains (losses) on purchases or exchanges of debt	(68	) (1	) (68	) 183
Other income	1	4	63	6
Total Other Expense	(194	) (111	) (233	) (113
INCOME (LOSS) BEFORE INCOME TAXES	86	(17	) 355	621
Income tax expense (benefit)	1	—	(8	) 2
NET INCOME (LOSS)	85	(17	) 363	619
Net income attributable to noncontrolling interests	(1	) (1	) (3	) (3
NET INCOME (LOSS) ATTRIBUTABLE TO CHESAPEAKE	84	(18	) 360	616
Preferred stock dividends	(23	) (23	) (69	) (62
Loss on exchange of preferred stock	—	—	—	(41
Earnings allocated to participating securities	(1	) —	(3	) (7
NET INCOME (LOSS) AVAILABLE TO COMMON STOCKHOLDERS	\$60	\$(41	) \$288	\$506
EARNINGS (LOSS) PER COMMON SHARE:				
Basic	\$0.07	\$(0.05)	\$0.32	\$0.56
Diluted	\$0.07	\$(0.05)	\$0.32	\$0.56
WEIGHTED AVERAGE COMMON AND COMMON EQUIVALENT SHARES OUTSTANDING (in millions):				

Basic	910	909	909	908
Diluted	911	909		