

CHESAPEAKE ENERGY CORP

Form 10-Q

May 10, 2011

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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, 2011

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 for such shorter period that the registrant was required to submit and post such files). Yes No

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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 3, 2011, there were 657,664,995 shares of our common stock, \$0.01 par value, outstanding.

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CHESAPEAKE ENERGY CORPORATION AND SUBSIDIARIES

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	March 31, 2011	December 31, 2010
	(\$ in millions)	
CURRENT ASSETS:		
Cash and cash equivalents	\$ 849	\$ 102
Accounts receivable	2,317	1,974
Short-term derivative instruments	264	947
Deferred income tax asset	2	139
Other current assets	112	104
Total Current Assets	3,544	3,266
PROPERTY AND EQUIPMENT:		
Natural gas and oil properties, at cost based on full-cost accounting:		
Evaluated natural gas and oil properties	36,943	38,952
Unevaluated properties	14,200	14,469
Natural gas gathering systems and treating plants	1,379	1,545
Other property and equipment	3,885	3,726
Total Property and Equipment, at Cost	56,407	58,692
Less: accumulated depreciation, depletion and amortization	(26,698)	(26,314)
Total Property and Equipment, Net	29,709	32,378
OTHER ASSETS:		
Investments	1,228	1,208
Other long-term assets	319	327
Total Other Assets	1,547	1,535
TOTAL ASSETS	\$ 34,800	\$ 37,179
CURRENT LIABILITIES:		
Accounts payable	\$ 2,227	\$ 2,069
Short-term derivative instruments	216	15
Accrued interest	123	191
Other current liabilities	2,103	2,215
Total Current Liabilities	4,669	4,490
LONG-TERM LIABILITIES:		
Long-term debt, net	9,915	12,640
Deferred income tax liabilities	2,115	2,384
Long-term derivative instruments	2,380	1,693
Asset retirement obligations	302	301

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Other long-term liabilities	424	407
Total Long-Term Liabilities	15,136	17,425
CONTINGENCIES AND COMMITMENTS (Note 3)		
STOCKHOLDERS EQUITY:		
Preferred Stock, \$0.01 par value, 20,000,000 shares authorized: 7,254,515 shares issued and outstanding	3,065	3,065
Common stock, \$0.01 par value, 1,000,000,000 shares authorized, 659,020,115 and 655,251,275 shares issued	7	7
Paid-in capital	12,161	12,194
Retained earnings		190
Accumulated other comprehensive income (loss), net of tax of \$130 million and \$102 million	(212)	(168)
Less: treasury stock, at cost; 1,312,307 and 1,221,299 common shares	(26)	(24)
Total Stockholders Equity	14,995	15,264
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	\$ 34,800	\$ 37,179

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)

	Three Months Ended March 31, 2011 2010 (\$ in millions, except per share data)	
REVENUES:		
Natural gas and oil sales	\$ 494	\$ 1,898
Marketing, gathering and compression sales	1,017	844
Service operations revenue	101	56
Total Revenues	1,612	2,798
OPERATING COSTS:		
Production expenses	238	207
Production taxes	45	48
General and administrative expenses	130	109
Marketing, gathering and compression expenses	985	815
Service operations expense	77	49
Natural gas and oil depreciation, depletion and amortization	358	308
Depreciation and amortization of other assets	68	50
Gains on sales of other property and equipment	(5)	
Total Operating Costs	1,896	1,586
INCOME (LOSS) FROM OPERATIONS	(284)	1,212
OTHER INCOME (EXPENSE):		
Interest expense	(7)	(25)
Earnings from equity investees	25	13
Losses on redemptions or exchanges of debt	(2)	(2)
Other income	2	2
Total Other Income (Expense)	18	(12)
INCOME (LOSS) BEFORE INCOME TAXES	(266)	1,200
INCOME TAX EXPENSE (BENEFIT):		
Current income taxes	6	
Deferred income taxes	(110)	462
Total Income Tax Expense (Benefit)	(104)	462
NET INCOME (LOSS)	(162)	738
Preferred stock dividends	(43)	(6)

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NET INCOME (LOSS) AVAILABLE TO COMMON STOCKHOLDERS	\$ (205)	\$ 732
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EARNINGS (LOSS) PER COMMON SHARE:

Basic	\$ (0.32)	\$ 1.17
Diluted	\$ (0.32)	\$ 1.14

CASH DIVIDEND DECLARED PER COMMON SHARE	\$ 0.075	\$ 0.075
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WEIGHTED AVERAGE COMMON AND COMMON EQUIVALENT SHARES OUTSTANDING (in millions):

Basic	634	630
Diluted	634	647

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)

	Three Months Ended	
	March 31,	
	2011	2010
	(\$ in millions)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
NET INCOME (LOSS)	\$ (162)	\$ 738
ADJUSTMENTS TO RECONCILE NET INCOME (LOSS) TO CASH PROVIDED BY OPERATING ACTIVITIES:		
Depreciation, depletion and amortization	426	358
Deferred income tax expense (benefit)	(110)	462
Unrealized (gains) losses on derivatives	1,188	(342)
Stock-based compensation	40	32
Accretion of discount on contingent convertible notes	20	19
Gains on sales of other property and equipment	(5)	
Gains on equity investments	(5)	(13)
Losses on redemptions or exchanges of debt	2	2
Other	10	5
Change in assets and liabilities	(663)	(78)
Cash provided by operating activities	741	1,183
CASH FLOWS FROM INVESTING ACTIVITIES:		
Exploration and development of natural gas and oil properties	(1,692)	(1,020)
Acquisitions of proved and unproved properties	(1,281)	(1,030)
Additions to other property and equipment	(431)	(279)
Proceeds from divestitures of proved and unproved properties	5,182	1,224
Proceeds from sales of other assets	428	56
Other	(3)	35
Cash provided by (used in) investing activities	2,203	(1,014)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from credit facilities borrowings	3,617	