CHESAPEAKE ENERGY CORP
Form 10-Q
November 04, 2015
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q
[X] Quarterly Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the Quarterly Period Ended September 30, 2015
[ ] 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 [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 [ ] 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 [X]

As of October 29, 2015, there were 665,070,706 shares of our $0.01 par value common stock outstanding.

CHESAPEAKE ENERGY CORPORATION AND SUBSIDIARIES
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PART I. FINANCIAL INFORMATION

Item 1. Condensed Consolidated Financial Statements (Unaudited)
CHESAPEAKE ENERGY CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)

	September 30, 2015	December 31, 2014
	($ in millions)	
CURRENT ASSETS:		
Cash and cash equivalents ($1 and $1 attributable to our VIE)	$1,759	$4,108
Restricted cash	—	38
Accounts receivable, net	1,275	2,236
Short-term derivative assets ($0 and $16 attributable to our VIE)	342	879
Other current assets	203	207
Total Current Assets	3,579	7,468
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)	62,941	58,594
Unproved properties	7,185	9,788
Other property and equipment	2,935	3,083
Total Property and Equipment, at Cost	73,061	71,465
Less: accumulated depreciation, depletion and amortization (($397) and ($251) attributable to our VIE)	(56,196)	(39,043)
Property and equipment held for sale, net	94	93
Total Property and Equipment, Net	16,959	32,515
LONG-TERM ASSETS:		
Investments	225	265
Long-term derivative assets	257	6
Other long-term assets	266	497
TOTAL ASSETS	$21,286	$40,751

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, 2015	December 31, 2014
	($ in millions)	
CURRENT LIABILITIES:		
Accounts payable	$1,070	$2,049
Current maturities of long-term debt, net	893	381
Accrued interest	137	150
Deferred income tax liabilities	59	207
Short-term derivative liabilities	24	15
Other current liabilities ($11 and $15 attributable to our VIE)	2,374	3,061
Total Current Liabilities	4,557	5,863
LONG-TERM LIABILITIES:		
Long-term debt, net	10,674	11,154
Deferred income tax liabilities	574	4,185
Long-term derivative liabilities	106	218
Asset retirement obligations, net of current portion	442	447
Other long-term liabilities	387	679
Total Long-Term Liabilities	12,183	16,683
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: 665,042,789 and 664,944,232 shares issued	7	7
Paid-in capital	12,385	12,531
Retained earnings (accumulated deficit)	(11,017)	1,483
Accumulated other comprehensive loss	(119)	(143)
Less: treasury stock, at cost; 1,570,895 and 1,614,312 common shares	(36)	(37)
Total Chesapeake Stockholders' Equity	4,282	16,903
Noncontrolling interests	264	1,302
Total Equity	4,546	18,205
TOTAL LIABILITIES AND EQUITY	$21,286	$40,751

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 September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
	($ in millions except per share data)			
REVENUES:				
Oil, natural gas and NGL	$880	$2,341	$2,693	$5,812
Marketing, gathering and compression	2,013	3,362	5,993	9,543
Oilfield services	—	—	—	546
Total Revenues	2,893	5,703	8,686	15,901
OPERATING EXPENSES:				
Oil, natural gas and NGL production	251	298	826	868
Production taxes	25	62	87	185
Marketing, gathering and compression	1,955	3,369	5,751	9,515
Oilfield services	—	—	—	431
General and administrative	49	60	174	229
Restructuring and other termination costs	53	(14)	39	12
Provision for legal contingencies	—	100	359	100
Oil, natural gas and NGL depreciation, depletion and amortization	488	688	1,773	1,977
Depreciation and amortization of other assets	31	37	100	194
Impairment of oil and natural gas properties	5,416	—	15,407	—
Impairments of fixed assets and other	79	15	167	75
Net (gains) losses on sales of fixed assets	(1)	(86)	3	(201)
Total Operating Expenses	8,346	4,529	24,686	13,385
INCOME (LOSS) FROM OPERATIONS	(5,453)	1,174	(16,000)	2,516
OTHER INCOME (EXPENSE):				
Interest expense	(88)	(17)	(210)	(82)
Losses on investments	(33)	(27)	(57)	(72)
Net gain on sales of investments	—	—	—	67
Losses on purchases of debt	—	—	—	(195)
Other income (expense)	(2)	(1)	3	12
Total Other Expense	(123)	(45)	(264)	(270)
INCOME (LOSS) BEFORE INCOME TAXES	(5,576)	1,129	(16,264)	2,246
INCOME TAX EXPENSE (BENEFIT):				
Current income taxes	—	2	(6)	10
Deferred income taxes	(937)	435	(3,808)	849
Total Income Tax Expense (Benefit)	(937)	437	(3,814)	859
NET INCOME (LOSS)	(4,639)	692	(12,450)	1,387
Net income attributable to noncontrolling interests	(13)	(30)	(50)	(110)
NET INCOME (LOSS) ATTRIBUTABLE TO CHESAPEAKE	(4,652)	662	(12,500)	1,277
Preferred stock dividends	(43)	(43)	(128)	(128)
Repurchase of preferred shares of CHK Utica	—	(447)	—	(447)
Earnings allocated to participating securities	—	(3)	—	(15)
	$(4,695)	$169	$(12,628)	$687

NET INCOME (LOSS) AVAILABLE TO COMMON STOCKHOLDERS				
EARNINGS (LOSS) PER COMMON SHARE:				
Basic	$(7.08)	$0.26	$(19.07)	$1.04
Diluted	$(7.08)	$0.26	$(19.07)	$1.04
CASH DIVIDEND DECLARED PER COMMON SHARE	$—	$0.0875	$0.0875	$0.2625
WEIGHTED AVERAGE COMMON AND COMMON EQUIVALENT SHARES OUTSTANDING (in millions):				
Basic	663	660	662	659
Diluted	663	660	662	659

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 COMPREHENSIVE INCOME (LOSS)
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
	($ in millions)			
NET INCOME (LOSS)	$(4,639)	$692	$(12,450)	$1,387
OTHER COMPREHENSIVE INCOME (LOSS), NET OF INCOME TAX:				
Unrealized gains (losses) on derivative instruments, net of income tax expense (benefit) of $5, $0, $4 and $3	7	—	6	3
Reclassification of (gains) losses on settled derivative instruments, net of income tax expense (benefit) of $2, $2, $11 and $12	5	3	18	13
Reclassification of (gains) losses on investment, net of income tax expense (benefit) of $0, $0, $0 and ($3)	—	—	—	(5)
Other Comprehensive Income (Loss)	12	3	24	11
COMPREHENSIVE INCOME (LOSS)	(4,627)	695	(12,426)	1,398
COMPREHENSIVE INCOME ATTRIBUTABLE TO NONCONTROLLING INTERESTS	(13)	(30)	(50)	(110)
COMPREHENSIVE INCOME (LOSS) ATTRIBUTABLE TO CHESAPEAKE	$(4,640)	$665	$(12,476)	$1,288

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)

	Nine Months Ended September 30,	
	2015	2014
	($ in millions)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
NET INCOME (LOSS)	$(12,450)	$1,387
ADJUSTMENTS TO RECONCILE NET INCOME (LOSS) TO CASH PROVIDED BY OPERATING ACTIVITIES:		
Depreciation, depletion and amortization	1,873	2,171
Deferred income tax expense (benefit)	(3,808)	849
Derivative gains, net	(642)	(20)
Cash receipts (payments) on derivative settlements, net	850	(341)
Stock-based compensation	61	59
Impairment of oil and natural gas properties	15,407	—
Net (gains) losses on sales of fixed assets	3	(201)
Impairments of fixed assets and other	159	44
Losses on investments	57	72
Net gains on sales of investments	—	(67)
Losses on purchases of debt	—	61
Restructuring and other termination costs	39	(18)
Provision for legal contingencies	359	100
Other	24	57
Changes in assets and liabilities	(877)	(348)
Net Cash Provided By Operating Activities	1,055	3,805
CASH FLOWS FROM INVESTING ACTIVITIES:		
Drilling and completion costs	(2,696)	(3,185)
Acquisitions of proved and unproved properties	(407)	(1,023)
Proceeds from divestitures of proved and unproved properties	188	723
Additions to other property and equipment	(114)	(675)
Proceeds from sales of other property and equipment	80	964
Additions to investments	(8)	(14)
Proceeds from sales of investments	—	239
Decrease in restricted cash	52	37
Other	—	(4)
Net Cash Used In Investing Activities	(2,905)	(2,938)

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 – (Continued)
(Unaudited)

	Nine Months Ended September 30,	
	2015	2014
	($ in millions)	
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from credit facilities borrowings	—	3,573
Payments on credit facilities borrowings	—	(3,896)
Proceeds from issuance of senior notes, net of discount and offering costs	—	2,966
Proceeds from issuance of oilfield services senior notes, net of discount and offering costs	—	494
Proceeds from issuance of oilfield services term loan, net of issuance costs	—	394
Cash paid to purchase debt	—	(3,362)
Cash paid for common stock dividends	(118)	(175)
Cash paid for preferred stock dividends	(128)	(128)
Cash paid on financing derivatives	—	(50)
Cash paid to repurchase noncontrolling interest of CHK C-T	(143)	—
Cash paid to repurchase preferred shares of CHK Utica	—	(1,254)
Cash held and retained by SSE at spin-off	—	(8)
Distributions to noncontrolling interest owners	(78)	(143)
Other	(32)	(25)
Net Cash Used In Financing Activities	(499)	(1,614)
Net decrease in cash and cash equivalents	(2,349)	(747)
Cash and cash equivalents, beginning of period	4,108	837
Cash and cash equivalents, end of period	$1,759	$90

Supplemental disclosures to the condensed consolidated statements of cash flows are presented below:

SUPPLEMENTAL CASH FLOW INFORMATION:		
Interest paid, net of capitalized interest	$134	$88
Income taxes paid, net of refunds received	$50	$17
SUPPLEMENTAL DISCLOSURE OF SIGNIFICANT NON-CASH INVESTING AND FINANCING ACTIVITIES:		
Repurchase of noncontrolling interest of CHK C-T	$(872)	$—
Change in divested proved and unproved properties	$1,046	$23
Change in accrued drilling and completion costs	$(124)	$(64)
Change in accrued acquisitions of proved and unproved properties	$61	$(100)

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 STOCKHOLDERS' EQUITY
(Unaudited)

	Nine Months Ended September 30, 2015	2014
	($ in millions)	
PREFERRED STOCK:		
Balance, beginning and end of period	$3,062	$3,062
COMMON STOCK:		
Balance, beginning and end of period	7	7
PAID-IN CAPITAL:		
Balance, beginning of period	12,531	12,446
Stock-based compensation	52	26
Exercise of stock options	—	24
Dividends on common stock	(59)	—
Dividends on preferred stock	(128)	—
Decrease in tax benefit from stock-based compensation	(11)	(1)
Balance, end of period	12,385	12,495
RETAINED EARNINGS (ACCUMULATED DEFICIT):		
Balance, beginning of period	1,483	688
Net income (loss) attributable to Chesapeake	(12,500)	1,277
Dividends on common stock	—	(175)
Dividends on preferred stock	—	(128)
Spin-off of oilfield services business	—	(270)
Repurchase of preferred shares of CHK Utica	—	(447)
Balance, end of period	(11,017)	945
ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS):		
Balance, beginning of period	(143)	(162)
Hedging activity	24	16
Investment activity	—	(5)
Balance, end of period	(119)	(151)
TREASURY STOCK – COMMON:		
Balance, beginning of period	(37)	(46)
Purchase of 37,687 and 24,859 shares for company benefit plans	(1)	(1)
Release of 81,104 and 369,432 shares from company benefit plans	2	9
Balance, end of period	(36)	(38)
TOTAL CHESAPEAKE STOCKHOLDERS' EQUITY	4,282	16,320
NONCONTROLLING INTERESTS:		
Balance, beginning of period	1,302	2,145
Net income attributable to noncontrolling interests	50	110
Distributions to noncontrolling interest owners	(73)	(137)
Repurchase of noncontrolling interest of CHK C-T	(1,015)	—
Repurchase of preferred shares of CHK Utica	—	(807)
Balance, end of period	264	1,311
TOTAL EQUITY	$4,546	$17,631

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

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1. Basis of Presentation and Summary of Significant Accounting Policies

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements of Chesapeake Energy Corporation ("Chesapeake" or the "Company") and its subsidiaries were prepared in accordance with accounting principles generally accepted in the United States (U.S. GAAP) and include the accounts of our direct and indirect wholly owned subsidiaries and entities in which Chesapeake has a controlling financial interest. Intercompany accounts and balances have been eliminated. These financial statements were prepared in accordance with the instructions to Form 10-Q and, therefore, do not include all disclosures required for financial statements prepared in conformity with U.S. GAAP. This Form 10-Q relates to the three and nine months ended September 30, 2015 (the "Current Quarter" and the “Current Period”, respectively) and the three and nine months ended September 30, 2014 (the "Prior Quarter" and the “Prior Period”, respectively). Chesapeake's annual report on Form 10-K for the year ended December 31, 2014 ("2014 Form 10-K") includes certain definitions and a summary of significant accounting policies and should be read in conjunction with this Form 10-Q. All material adjustments (consisting solely of normal recurring adjustments) which, in the opinion of management, are necessary for a fair statement of the results for the interim periods have been reflected. The results for the Current Quarter and the Current Period are not necessarily indicative of the results to be expected for the full year.

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2. Earnings Per Share

Basic earnings per share (EPS) is calculated using the weighted average number of common shares outstanding during the period and includes the effect of any participating securities as appropriate. Participating securities consist of unvested restricted stock issued to our employees and non-employee directors that provide dividend rights.

Diluted EPS is calculated assuming the issuance of common shares for all potentially dilutive securities, provided the effect is not antidilutive. For the Current Quarter, the Prior Quarter, the Current Period and the Prior Period, our contingent convertible senior notes did not have a dilutive effect, and therefore were excluded from the calculation of diluted EPS. See Note 3 for further discussion of our contingent convertible senior notes.

For the Current Quarter, the Prior Quarter, the Current Period and the Prior Period, shares of the following securities and associated adjustments to net income, representing dividends on preferred stock and allocated earnings on participating securities, were excluded from the calculation of diluted EPS as the effect was antidilutive.

	Net Income Adjustments ($ in millions)	Shares (in millions)
Three Months Ended September 30, 2015		
Common stock equivalent of our preferred stock outstanding:		
5.75% cumulative convertible preferred stock	$21	59
5.75% cumulative convertible preferred stock (series A)	$16	42
5.00% cumulative convertible preferred stock (series 2005B)	$3	6
4.50% cumulative convertible preferred stock	$3	6
Three Months Ended September 30, 2014		
Common stock equivalent of our preferred stock outstanding:		
5.75% cumulative convertible preferred stock	$21	59
5.75% cumulative convertible preferred stock (series A)	$16	42
5.00% cumulative convertible preferred stock (series 2005B)	$3	6
4.50% cumulative convertible preferred stock	$3	6
Participating securities	$3	3
Nine Months Ended September 30, 2015		
Common stock equivalent of our preferred stock outstanding:		
5.75% cumulative convertible preferred stock	$64	59
5.75% cumulative convertible preferred stock (series A)	$47	42
5.00% cumulative convertible preferred stock (series 2005B)	$8	6
4.50% cumulative convertible preferred stock	$9	6
Participating securities	$—	1
Nine Months Ended September 30, 2014		
Common stock equivalent of our preferred stock outstanding:		
5.75% cumulative convertible preferred stock	$64	59
5.75% cumulative convertible preferred stock (series A)	$47	42
5.00% cumulative convertible preferred stock (series 2005B)	$8	6
4.50% cumulative convertible preferred stock	$9	6

Participating securities	$ 14	3

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3. Debt

Our long-term debt consisted of the following as of September 30, 2015 and December 31, 2014:

	September 30, 2015	December 31, 2014
	($ in millions)	
3.25% senior notes due 2016	$500	$500
6.25% euro-denominated senior notes due 2017[(a)]	384	416
6.5% senior notes due 2017	660	660
7.25% senior notes due 2018	669	669
Floating rate senior notes due 2019	1,500	1,500
6.625% senior notes due 2020	1,300	1,300
6.875% senior notes due 2020	500	500
6.125% senior notes due 2021	1,000	1,000
5.375% senior notes due 2021	700	700
4.875% senior notes due 2022	1,500	1,500
5.75% senior notes due 2023	1,100	1,100
2.75% contingent convertible senior notes due 2035[(b)]	396	396
2.5% contingent convertible senior notes due 2037[(b)]	1,168	1,168
2.25% contingent convertible senior notes due 2038[(b)]	347	347
Revolving credit facility	—	—
Discount on senior notes[(c)]	(165)	(231)
Interest rate derivatives[(d)]	8	10
Total debt, net	11,567	11,535
Less current maturities of long-term debt, net[(e)]	(893)	(381)
Total long-term debt, net	$10,674	$11,154

(a) The principal amount shown is based on the exchange rate of $1.1177 to €1.00 and $1.2098 to €1.00 as of September 30, 2015 and December 31, 2014, respectively. See Foreign Currency Derivatives in Note 8 for information on our related foreign currency derivatives.

(b) The repurchase, conversion, contingent interest and redemption provisions of our contingent convertible senior notes are as follows:

Holders' Demand Repurchase Rights. The holders of our contingent convertible senior notes may require us to repurchase, in cash, all or a portion of their notes at 100% of the principal amount of the notes on any of four dates that are five, ten, fifteen and twenty years before the maturity date. The first put date, for the 2.75% Contingent Convertible Senior Notes due 2035 (the 2035 Notes), is November 15, 2015. As required by the terms of the indenture for the 2035 Notes, on October 1, 2015, we issued a notice to the holders of the 2035 Notes allowing each holder an opportunity to require us to repurchase some or all of its notes on November 15, 2015. As a result, we may be required to repurchase some or all of the 2035 Notes outstanding on November 15, 2015.

Optional Conversion by Holders. At the holder's option, prior to maturity under certain circumstances, the notes are convertible into cash and, if applicable, shares of our common stock using a net share settlement process. One triggering circumstance is when the price of our common stock exceeds a threshold amount during a specified period in a fiscal quarter. Convertibility based on common stock price is measured quarterly. During the specified period in the third quarter of 2015, the price of our common stock was below the threshold level for each series of the contingent convertible senior notes and, as a result, the holders do not have the option to convert their notes into cash and common stock in the fourth quarter of 2015 under this provision.

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CHESAPEAKE ENERGY CORPORATION AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)
(Unaudited)

The notes are also convertible, at the holder's option, during specified five-day periods if the trading price of the notes is below certain levels determined by reference to the trading price of our common stock. The notes were not convertible under this provision during the Current Quarter or the Prior Quarter. In general, upon conversion of a contingent convertible senior note, the holder will receive cash equal to the principal amount of the note and common stock for the note's conversion value in excess of the principal amount.

Contingent Interest. We will pay contingent interest on the convertible senior notes after they have been outstanding at least ten years during certain periods if the average trading price of the notes exceeds the threshold defined in the indenture.

The holders' demand repurchase dates, the common stock price conversion threshold amounts (as adjusted to give effect to cash dividends on our common stock) and the ending date of the first six-month period in which contingent interest may be payable for the contingent convertible senior notes are as follows:

Contingent Convertible Senior Notes	Holders' Demand Repurchase Dates	Common Stock Price Conversion Thresholds	Contingent Interest First Payable (if applicable)
2.75% due 2035	November 15, 2015, 2020, 2025, 2030	$45.14	May 14, 2016
2.5% due 2037	May 15, 2017, 2022, 2027, 2032	$59.44	November 14, 2017
2.25% due 2038	December 15, 2018, 2023, 2028, 2033	$100.35	June 14, 2019

Optional Redemption by the Company. We may redeem the contingent convertible senior notes once they have been outstanding for ten years at a redemption price of 100% of the principal amount of the notes, payable in cash. Beginning December 1, 2015, we may redeem any 2035 Notes that have not been put to us and repurchased as described above under Holders' Demand Repurchase Rights.

(c) Discount as of September 30, 2015 and December 31, 2014 included $160 million and $224 million, respectively, associated with the equity component of our contingent convertible senior notes. This discount is amortized based on an effective yield method.

(d) See Interest Rate Derivatives in Note 8 for further discussion related to these instruments.

(e) As of September 30, 2015, current maturities of long-term debt, net includes the carrying amount of our 3.25% Senior Notes due March 2016 and 2035 Notes. As discussed in footnote (b) above, the holders of our 2035 Notes could exercise their individual demand repurchase rights on November 15, 2015, which would require us to repurchase all or a portion of the principal amount of the notes. As of September 30, 2015 and December 31, 2014, current maturities of long-term debt, net reflects $3 million and $15 million, respectively, of discount associated with the equity component of the 2035 Notes.

Chesapeake Senior Notes and Contingent Convertible Senior Notes

The Chesapeake senior notes and the contingent convertible senior notes are unsecured senior obligations of Chesapeake and rank equally in right of payment with all of our other existing and future senior unsecured indebtedness and rank senior in right of payment to all of our future subordinated indebtedness. As a holding company, Chesapeake owns no operating assets and has no significant operations independent of its subsidiaries. Chesapeake's obligations under the senior notes and the contingent convertible senior notes are jointly and severally, fully and unconditionally guaranteed by certain of our direct and indirect 100% owned subsidiaries. See Note 19 for condensed consolidating financial information regarding our guarantor and non-guarantor subsidiaries.

We may redeem the senior notes, other than the contingent convertible senior notes, at any time at specified make-whole or redemption prices. Our senior notes are governed by indentures containing covenants that may limit our ability and our subsidiaries' ability to incur certain secured indebtedness, enter into sale-leaseback transactions, and consolidate, merge or transfer assets. The indentures governing the senior notes and the contingent convertible senior notes do not have any financial or restricted payment covenants. Indentures for the senior notes and contingent convertible senior notes have cross default provisions that apply to other indebtedness the Company or any guarantor subsidiary may have from time to time with an outstanding principal amount of at least $50 million or $75 million, depending on the indenture.

We are required to account for the liability and equity components of our convertible debt instruments separately and to reflect interest expense at the interest rate of similar nonconvertible debt at the time of issuance. The applicable rates for our 2.75% Contingent Convertible Senior Notes due 2035, our 2.5% Contingent Convertible Senior Notes due 2037 and our 2.25% Contingent Convertible Senior Notes due 2038 are 6.86%, 8.0% and 8.0%, respectively.

In March 2013, the Company brought suit in the U.S. District Court for the Southern District of New York against The Bank of New York Mellon Trust Company, N.A., the indenture trustee for the 6.775% Senior Notes due 2019 (the 2019 Notes). The Company sought and ultimately obtained a judgment declaring that the notice it issued on March 15, 2013 to redeem all of the 2019 Notes at par (plus accrued interest through the redemption date) was timely and effective for that redemption pursuant to the special early redemption provision of the supplemental indenture governing the 2019 Notes. In May 2013, as a result of that ruling, the 2019 Notes were redeemed at par. In November 2014, the U.S. Court of Appeals for the Second Circuit, on appeal by the indenture trustee, reversed the District Court’s declaratory judgment and held that the notice was not effective to redeem the 2019 Notes at par because it was not timely for that purpose. The Court of Appeals remanded the case to the District Court for a determination whether the redemption notice triggered a redemption at the make-whole price specified in the indenture, instead of at par. The Company sought a rehearing by the Court of Appeals en banc in December 2014, and that petition was denied on February 6, 2015. On February 13, 2015, the indenture trustee moved the District Court for entry of a judgment requiring the Company to pay the make-whole price, as defined in the indenture, less the par amount paid in the 2013 redemption plus prejudgment interest from the redemption date. On March 20, 2015, the Company filed its opposition to the Trustee’s motion and cross-moved for a judgment requiring the Company to pay restitution in an amount that would disgorge the benefit the Company achieved from refinancing the 2019 Notes in 2013 and that would return the parties to the economic positions they would have been in if the par redemption had never taken place. On July 10, 2015, the District Court granted the Trustee’s motion and denied the Company’s cross-motion and entered an amended judgment on July 17, 2015 awarding the Trustee $380 million plus prejudgment interest in the amount of $59 million. The Company filed a notice of appeal on July 27, 2015 and posted a supersedeas bond to stay execution of the judgment while appellate proceedings are pending.

Revolving Credit Facility

On September 30, 2015, we entered into an amendment to our $4.0 billion senior revolving credit facility dated December 15, 2014 and maturing December 2019, which is used for general corporate purposes. Pursuant to the amended credit agreement, we are required to secure our obligations under the facility and certain hedging agreements with liens on certain of our oil and natural gas properties, with such liens to be released upon the satisfaction of specific conditions. The amended credit facility provides that, while the obligations are required to be secured, (i) we have the right to incur junior lien indebtedness of up to $2.0 billion; (ii) our use of the facility will be subject to a borrowing base; (iii) the rate of interest on outstanding loans, as well as fees on undrawn commitments, will vary based on the percentage of the borrowing base used, rather than on our credit ratings; (iv) the total leverage ratio covenant will be suspended; and (v) the credit facility will be subject to a first lien secured leverage ratio and an interest rate coverage ratio (as described below). The amendment sets the borrowing base at $4.0 billion. The total commitments under the credit facility remain at $4.0 billion, subject to reduction in connection with issuances of junior lien indebtedness by us after April 15, 2016, the date of the first borrowing base redetermination. No adjustment to the total commitment will occur for any junior lien indebtedness issuance that occurs before April 15, 2016. As of September 30, 2015, we had no outstanding borrowings under the facility and had used $12 million of the facility for various letters of credit.

While obligations under our credit facility are required to be secured, revolving loans under the amended credit facility will bear interest, at our election, at either (i) a fluctuating rate per annum equal to the highest of (a) the federal funds effective rate plus 0.5%, (b) the administrative agent's prime rate or (c) the London interbank offer rate (LIBOR) for a one-month interest period plus 1.0% (alternative base rate (ABR) loans), or (ii) a LIBOR rate (LIBOR loans), in each case plus a margin based on the percentage of the borrowing base used (currently 1.0% per annum for ABR loans and 2.0% per annum for LIBOR loans). The terms of the credit facility include covenants limiting, among other things, our ability to incur additional indebtedness, make investments or loans, create liens, consummate mergers and similar fundamental changes, make restricted payments, make investments in unrestricted subsidiaries and enter into transactions with affiliates, together with a requirement that we maintain, as of the last day of each fiscal quarter, a net debt to capitalization ratio (as defined in the amended credit agreement) that does not exceed 65%. While it is required to be secured by a portion of our oil and natural gas properties, the amended credit facility requires us to maintain, as of the last day of each fiscal quarter (i) a first lien secured leverage ratio (as defined in the amended credit agreement) of 3.5 to 1.0 through 2017 and 3.0 to 1.0 thereafter, and (ii) an interest rate coverage ratio (as defined in the amended credit agreement) of 1.1 to 1.0 through the first quarter of 2017, increasing to 1.25 to 1.0 by the end of 2017.

Our credit facility is fully and unconditionally guaranteed, on a joint and several basis, by certain of our material subsidiaries. The amended credit agreement includes events of default relating to customary matters, including, among other things, nonpayment of principal, interest or other amounts; violation of covenants; incorrectness of representations and warranties in any material respect; cross-payment default and cross acceleration with respect to indebtedness in an aggregate principal amount of $125 million or more; bankruptcy; judgments involving liability of $125 million or more that are not paid; and ERISA events. Many events of default are subject to customary notice and cure periods.

Spin-Off Debt Transactions

On June 30, 2014, we completed the spin-off of our oilfield services business, which we previously conducted through our indirect, wholly owned subsidiary Chesapeake Oilfield Operating, L.L.C. (COO), into the independent, publicly traded company Seventy Seven Energy Inc. (SSE). In the Prior Period, COO or its subsidiaries completed the following debt transactions:

- Entered into a five-year senior secured revolving credit facility with total commitments of $275 million and incurred approximately $3 million in financing costs related to entering into the facility.
- Entered into a $400 million seven-year secured term loan and used the net proceeds of approximately $394 million and borrowings under the new revolving credit facility to repay and terminate COO's then-existing credit facility.
- Issued $500 million in aggregate principal amount of 6.5% Senior Notes due 2022 in a private placement and used the net proceeds of approximately $494 million to make a cash distribution of approximately $391 million to us, to repay a portion of outstanding indebtedness under the new revolving credit facility discussed above and for general corporate purposes.

All deferred charges and debt balances related to these transactions were removed from our consolidated balance sheet as of June 30, 2014. See Note 15 for further discussion of the spin-off.

Fair Value of Debt

We estimate the fair value of our exchange-traded debt using quoted market prices (Level 1). The fair value of all other debt, which would include borrowings under our revolving credit facility (which was undrawn as of September 30, 2015 and December 31, 2014), is estimated using our credit default swap rate (Level 2). Fair value is compared to the carrying value, excluding the impact of interest rate derivatives, in the table below.

	September 30, 2015		December 31, 2014	
	Carrying	Estimated	Carrying	Estimated

	Amount	Fair Value	Amount	Fair Value
		($ in millions)		
Short-term debt (Level 1)	$893	$881	$381	$396
Long-term debt (Level 1)	$10,666	$8,043	$11,144	$11,656

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4. Contingencies and Commitments

Contingencies

Litigation and Regulatory Proceedings

The Company is involved in a number of litigation and regulatory proceedings (including those described below). Many of these proceedings are in early stages, and many of them seek or may seek damages and penalties, the amount of which is indeterminate. We estimate and provide for potential losses that may arise out of litigation and regulatory proceedings to the extent that such losses are probable and can be reasonably estimated. Significant judgment is required in making these estimates and our final liabilities may ultimately be materially different. Our total estimated liability in respect of litigation and regulatory proceedings is determined on a case-by-case basis and represents an estimate of probable losses after considering, among other factors, the progress of each case or proceeding, our experience and the experience of others in similar cases or proceedings, and the opinions and views of legal counsel. We account for legal defense costs in the period the costs are incurred.

July 2008 Common Stock Offering Litigation. On February 25, 2009, a putative class action was filed in the U.S. District Court for the Southern District of New York against the Company and certain of its officers and directors along with certain underwriters of the Company's July 2008 common stock offering. The plaintiffs filed an amended complaint on September 11, 2009 alleging that the registration statement for the offering contained material misstatements and omissions and seeking damages under Sections 11, 12 and 15 of the Securities Act of 1933 of an unspecified amount and rescission. The action was transferred to the U.S. District Court for the Western District of Oklahoma on October 13, 2009. Chesapeake and the officer and director defendants moved for summary judgment on grounds of loss causation and materiality on December 28, 2011, and the motion was granted as to all claims as a matter of law on March 29, 2013. On appeal, the U.S. Court of Appeals for the Tenth Circuit affirmed the dismissal on August 8, 2014 and denied the plaintiffs' petition for rehearing on November 12, 2014. On April 10, 2015, the plaintiffs filed a writ of certiorari with the United States Supreme Court, and on October 15, 2015, certiorari was denied and the case was closed.

Shareholder Derivative Litigation. A federal consolidated derivative action and an Oklahoma state court derivative action were stayed in 2012 pending resolution of a related, previously reported putative federal securities class action. The shareholder derivative actions alleged breaches of fiduciary duty, among other things, related to the former CEO's personal financial practices and purported conflicts of interest, and the Company's accounting for volumetric production payments. The federal securities class action was dismissed in July 2014, and the parties stipulated to continue the stay of the Oklahoma state court derivative action while the plaintiffs pursued their claims in the federal consolidated derivative action. The plaintiffs filed a consolidated derivative complaint on October 31, 2014 and an amended consolidated derivative complaint on February 12, 2015. Chesapeake filed its motion to dismiss on February 23, 2015, and on August 13, 2015, the plaintiffs filed a notice of voluntary dismissal. The federal derivative case was dismissed on September 29, 2015, and the Oklahoma state derivative case was dismissed on August 21, 2015.

Regulatory Proceedings. The Company has received, from the U.S. Department of Justice (DOJ) and certain state governmental agencies and authorities, subpoenas and demands for documents, information and testimony in connection with investigations into possible violations of federal and state antitrust laws relating to our purchase and lease of oil and gas rights in various states. The Company also has received DOJ, the U.S. Postal Service and state subpoenas seeking information on the Company's royalty payment practices. Chesapeake has engaged in discussions with the DOJ and state agency representatives and continues to respond to such subpoenas and demands.

Redemption of 2019 Notes. See Note 3 for a description of pending litigation regarding our redemption in May 2013 of our 2019 Notes. As a result of the reversal of the trial court's decision in our declaratory judgment action against the indenture trustee, we accrued a loss contingency of $100 million for this matter in the 2014 fourth quarter, and we accrued an additional $339 million in the Current Period as a result of the judgment on remand entered on July 17, 2015.

Business Operations. Chesapeake is involved in various other lawsuits and disputes incidental to its business operations, including commercial disputes, personal injury claims, royalty claims, property damage claims and contract actions. With regard to contract actions, various mineral or leasehold owners have filed lawsuits against us seeking specific performance to require us to acquire their oil and natural gas interests and pay acreage bonus payments, damages based on breach of contract and/or, in certain cases, punitive damages based on alleged fraud. The Company has successfully defended a number of these failure-to-close cases in various courts, has settled and resolved other such cases and disputes and believes that its remaining loss exposure for these claims will not have a material adverse effect on the Company’s consolidated financial position, results of operations or cash flows.

Regarding royalty claims, Chesapeake and other natural gas producers have been named in various lawsuits alleging royalty underpayment. The suits against us allege, among other things, that we used below-market prices, made improper deductions, used improper measurement techniques and/or entered into arrangements with affiliates that resulted in underpayment of royalties in connection with the production and sale of natural gas and natural gas liquids (NGL). Plaintiffs have varying royalty provisions in their respective leases, oil and gas law varies from state to state, and royalty owners and producers differ in their interpretation of the legal effect of lease provisions governing royalty calculations. The Company has resolved a number of these claims through negotiated settlements of past and future royalties and has prevailed in various other lawsuits. We are currently defending lawsuits seeking damages with respect to royalty underpayment in various states, including, but not limited to, Texas, Pennsylvania, Ohio, Oklahoma, Louisiana and Arkansas. These lawsuits include cases filed by individual royalty owners and putative class actions, some of which seek to certify a statewide class. The Company also has received DOJ, U.S. Postal Service and state subpoenas seeking information on the Company’s royalty payment practices.

Chesapeake is defending numerous lawsuits filed by individual royalty owners alleging royalty underpayment with respect to properties in Texas. On April 8, 2015, Chesapeake obtained a transfer order from the Texas Multidistrict Litigation Panel to transfer a substantial portion of these lawsuits filed since June 2014 to the 348th District Court of Tarrant County for pre-trial purposes. These lawsuits, which primarily relate to the Barnett Shale, generally allege that Chesapeake underpaid royalties by making improper deductions and using incorrect production volumes. In addition to allegations of breach of contract, a number of these lawsuits allege fraud, conspiracy, joint venture and antitrust violations by Chesapeake. Chesapeake expects that additional lawsuits will be filed by new plaintiffs making similar allegations. The lawsuits seek direct damages in varying amounts, together with exemplary damages, attorneys’ fees, costs and interest. Chesapeake believes its royalty calculations and payment practices were appropriate and has not accrued a loss contingency with respect to the multidistrict litigation.

Putative statewide class actions in Pennsylvania and Ohio and purported class arbitrations in Pennsylvania have been filed on behalf of royalty owners asserting various claims for damages related to alleged underpayment of royalties as a result of the Company’s divestiture of substantially all of its midstream business and most of its gathering assets in 2012 and 2013. These cases include claims for violation of and conspiracy to violate the federal Racketeer Influenced and Corrupt Organizations Act and one of the cases includes claims of intentional interference with contractual relations and violations of antitrust laws. We have not accrued a loss contingency for any of the Pennsylvania and Ohio matters seeking class certification.

We believe losses are reasonably possible in certain of the other pending royalty cases for which we have not accrued a loss contingency, but we are currently unable to estimate an amount or range of loss or the impact the actions could have on our future results of operations or cash flows. Uncertainties in pending royalty cases generally include the complex nature of the claims and defenses, the potential size of the class in class actions, the scope and types of the properties and agreements involved, and the applicable production years. Based on management’s current assessment, we are of the opinion that no pending or threatened lawsuit or dispute relating to the Company’s business operations is likely to have a material adverse effect on its future consolidated financial position, results of operations or cash flows. The final resolution of such matters could exceed amounts accrued, however, and actual results could differ materially from management’s estimates.

Environmental Contingencies

The nature of the oil and gas business carries with it certain environmental risks for Chesapeake and its subsidiaries. Chesapeake has implemented various policies, procedures, training and auditing to reduce and mitigate such environmental risks. Chesapeake conducts periodic reviews, on a company-wide basis, to assess changes in our environmental risk profile. Environmental reserves are established for environmental liabilities for which economic losses are probable and reasonably estimable. We manage our exposure to environmental liabilities in acquisitions by using an evaluation process that seeks to identify pre-existing contamination or compliance concerns and address the potential liability. Depending on the extent of an identified environmental concern, Chesapeake may, among other things, exclude a property from the transaction, require the seller to remediate the property to our satisfaction in an acquisition or agree to assume liability for the remediation of the property.

Commitments

Gathering, Processing and Transportation Agreements

We have contractual commitments with midstream service companies and pipeline carriers for future gathering, processing and transportation of natural gas and liquids to move certain of our production to market. Working interest owners and royalty interest owners, where appropriate, will be responsible for their proportionate share of these costs. Commitments related to gathering, processing and transportation agreements are not recorded in the accompanying condensed consolidated balance sheets; however, they are reflected as adjustments to oil, natural gas and NGL sales prices used in our proved reserves estimates.

The aggregate undiscounted commitments under our gathering, processing and transportation agreements, excluding any reimbursement from working interest and royalty interest owners, credits for third-party volumes or future costs under cost-of-service agreements, are presented below.

	September 30, 2015
	($ in millions)
2015	$461
2016	1,927
2017	1,939
2018	1,741
2019	1,452
2020 – 2099	6,828
Total	$14,348

In addition, we have entered into long-term agreements for certain natural gas gathering and related services within specified acreage dedication areas in exchange for cost-of-service based fees redetermined annually or tiered fees based on volumes delivered relative to scheduled volumes. Future gathering fees vary with the applicable agreement. One of these agreements in the Anadarko Basin in northwestern Oklahoma and the Texas panhandle contains cost-of-service based fees that are redetermined annually through 2019. The annual upward or downward fee adjustment for this contract is capped at 15% of the then-current fees at the time of redetermination. To the extent the actual rate of return on capital expended by the counterparty over the term of the agreement differs from the applicable rate of return, a payment is due to (from) the midstream service company.

Drilling Contracts

We have contracts with various drilling contractors, including those entered into with SSE in connection with the spin-off of our oilfield services business in June 2014, to utilize drilling services with terms ranging from three months to three years at market-based pricing. These commitments are not recorded in the accompanying condensed consolidated balance sheets. As of September 30, 2015, the aggregate undiscounted minimum future payments under these drilling service commitments were approximately $321 million.

Pressure Pumping Contracts

In connection with the spin-off of our oilfield services business in June 2014, we entered into an agreement with a subsidiary of SSE for pressure pumping services. The services agreement requires us to utilize, at market-based pricing, the lesser of (i) seven, five and three pressure pumping crews in years one, two and three of the agreement, respectively, or (ii) 50% of the total number of all pressure pumping crews working for us in all of our operating regions during the respective year. We are also required to utilize SSE pressure pumping services for a minimum number of fracture stages as set forth in the agreement. We are entitled to terminate the agreement in certain situations, including if SSE fails to provide the overall quality of service provided by similar service providers. As of

September 30, 2015, the aggregate undiscounted minimum future payments under this agreement were approximately $265 million.

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Drilling Commitments

We have committed to drill wells for the benefit of Chesapeake Granite Wash Trust. See Noncontrolling Interests in Note 6 for discussion of this commitment.

Oil, Natural Gas and NGL Purchase Commitments

We commit to purchase oil, natural gas and NGL from other owners in the properties we operate, including owners associated with our volumetric production payment (VPP) transactions. Production purchases under these arrangements are based on market prices at the time of production, and the purchased oil, natural gas and NGL are resold at market prices. See Volumetric Production Payments in Note 9 for further discussion of our VPP transactions.

Net Acreage Maintenance Commitments

Under the terms of our Barnett and Utica Shale joint venture agreements with Total S.A. (see Joint Ventures in Note 9), we are required to extend, renew or replace expiring joint leasehold, at our cost, to ensure that the net acreage is maintained in certain designated areas as of future measurement dates. In the Current Quarter, we entered into a settlement with Total regarding our acreage maintenance commitment in our Barnett Shale joint venture and accrued a $70 million charge, which is included in impairments of fixed assets and other in our condensed consolidated statement of operations.

Other Commitments

In July 2011, we agreed to invest $155 million in preferred equity securities of Sundrop Fuels, Inc. (Sundrop), a privately held cellulosic biofuels company based in Longmont, Colorado. We also provided Sundrop with a one-time option to require us to purchase up to $25 million in additional preferred equity securities following the full payment of the initial investment. To date, we have funded our $155 million commitment in full and Sundrop has not exercised its preferred equity call option. See Note 10 for further discussion of this investment.

As part of our normal course of business, we enter into various agreements providing, or otherwise arranging for, financial or performance assurances to third parties on behalf of our wholly owned guarantor subsidiaries. These agreements may include future payment obligations or commitments regarding operational performance that effectively guarantee our subsidiaries' future performance.

In connection with divestitures, our purchase and sale agreements generally provide indemnification to the counterparty for liabilities incurred as a result of a breach of a representation or warranty by the indemnifying party and/or other specified matters. These indemnifications generally have a discrete term and are intended to protect the parties against risks that are difficult to predict or cannot be quantified at the time of entering into or consummating a particular transaction. For divestitures of oil and gas properties, our purchase and sale agreements may require the return of a portion of the proceeds we receive as a result of uncured title defects.

Certain of our oil and natural gas properties are burdened by non-operating interests such as royalty and overriding royalty interests, including overriding royalty interests sold through our VPP transactions. As the holder of the working interest from which these interests have been created, we have the responsibility to bear the cost of developing and producing the reserves attributable to these interests. See Volumetric Production Payments in Note 9 for further discussion of our VPP transactions.

While executing our strategic priorities, we have incurred certain cash charges, including contract termination charges, restructuring and other termination costs, financing extinguishment costs and charges for unused natural gas transportation and gathering capacity. As we continue to focus on our strategic priorities, we may take certain actions that reduce financial leverage and complexity, and we may incur additional cash and noncash charges.

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5. Other Liabilities

Other current liabilities as of September 30, 2015 and December 31, 2014 are detailed below.

	September 30, 2015	December 31, 2014
	($ in millions)	
Revenues and royalties due others	$627	$1,176
Accrued drilling and production costs	231	385
Joint interest prepayments received	181	189
Accrued compensation and benefits	295	344
Other accrued taxes	105	55
Accrued dividends	43	101
Bank of New York Mellon legal accrual	439	100
Royalty settlement	—	119
Other	453	592
Total other current liabilities	$2,374	$3,061

Other long-term liabilities as of September 30, 2015 and December 31, 2014 are detailed below.

	September 30, 2015	December 31, 2014
	($ in millions)	
CHK Utica ORRI conveyance obligation[(a)]	$198	$220
CHK C-T ORRI conveyance obligation[(b)]	—	135
Financing obligations	29	30
Unrecognized tax benefits	25	45
Other	135	249
Total other long-term liabilities	$387	$679

(a) $20 million and $14 million of the total $218 million and $234 million obligations are recorded in other current liabilities as of September 30, 2015 and December 31, 2014, respectively. See Noncontrolling Interests in Note 6 for further discussion of the conveyance obligation.

(b) $23 million of the total $158 million obligation is recorded in other current liabilities as of December 31, 2014. In the Current Quarter, we sold the oil and natural gas properties held by CHK Cleveland Tonkawa, L.L.C. (CHK C-T) and eliminated our ORRI obligation attributable to CHK C-T. See Noncontrolling Interests in Note 6 for further discussion of the transaction.

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6. Equity

Common Stock

The following is a summary of the changes in our common shares issued for the Current Period and the Prior Period:

	Nine Months Ended September 30,	
	2015	2014
	(in thousands)	
Shares issued as of January 1	664,944	666,192
Restricted stock issuances (net of forfeitures and cancellations)[a]	85	(2,413)
Stock option exercises	14	1,267
Shares issued as of September 30	665,043	665,046

(a) The Prior Period reflects forfeitures upon the June 2014 spin-off of our oilfield services business.

Preferred Stock

The following reflects the shares outstanding of our preferred stock for the Current Period and the Prior Period:

	5.75%	5.75% (A)	4.50%	5.00% (2005B)
	(in thousands)			
Shares outstanding as of January 1, 2015 and 2014 and shares outstanding as of September 30, 2015 and 2014	1,497	1,100	2,559	2,096

Dividends

Dividends declared on our common stock and preferred stock are reflected as adjustments to retained earnings to the extent a surplus of retained earnings exists after giving effect to the dividends. To the extent retained earnings are insufficient to fund the distributions, dividend declarations are accounted for as a reduction to paid-in capital.

In July 2015, our Board of Directors determined to eliminate quarterly cash dividends on our common stock. Dividends on our outstanding preferred stock are payable quarterly. We may pay dividends on our 5.00% Cumulative Convertible Preferred Stock (Series 2005B) and our 4.50% Cumulative Convertible Preferred Stock in cash, common stock or a combination thereof, at our option. Dividends on both series of our 5.75% Cumulative Convertible Non-Voting Preferred Stock are payable only in cash.

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Accumulated Other Comprehensive Income (Loss)

For the Current Period and the Prior Period, changes in accumulated other comprehensive income (loss) by component, net of tax, are detailed below.

	Cash Flow Hedges	Investments	Net Change
	($ in millions)		
Balance, December 31, 2014	$(143)	$—	$(143)
Other comprehensive income before reclassifications	6	—	6
Amounts reclassified from accumulated other comprehensive income	18	—	18
Net other comprehensive income	24	—	24
Balance, September 30, 2015	$(119)	$—	$(119)
Balance, December 31, 2013	$(167)	$5	$(162)
Other comprehensive income before reclassifications	3	—	3
Amounts reclassified from accumulated other comprehensive income	13	(5)	8
Net other comprehensive income	16	(5)	11
Balance, September 30, 2014	$(151)	$—	$(151)

For the Current Quarter, the Prior Quarter, the Current Period and the Prior Period, amounts reclassified from accumulated other comprehensive income (loss), net of tax, into the condensed consolidated statements of operations are detailed below.

Details About Accumulated Other Comprehensive Income (Loss) Components	Affected Line Item in the Statement Where Net Income is Presented	Amounts Reclassified
		($ in millions)
Three Months Ended September 30, 2015		
Net losses on cash flow hedges:		
Commodity contracts	Oil, natural gas and NGL revenues	$5
Total reclassifications for the period, net of tax		$5
Three Months Ended September 30, 2014		
Net losses on cash flow hedges:		
Commodity contracts	Oil, natural gas and NGL revenues	$3
Total reclassifications for the period, net of tax		$3
Nine Months Ended September 30, 2015		
Net losses on cash flow hedges:		
Commodity contracts	Oil, natural gas and NGL revenues	$18
Total reclassifications for the period, net of tax		$18
Nine Months Ended September 30, 2014		
Net losses on cash flow hedges:		

Commodity contracts	Oil, natural gas and NGL revenues	$13
Investments:		
Sale of investment	Net gain on sale of investment	(5)
Total reclassifications for the period, net of tax		$8

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Noncontrolling Interests

Cleveland Tonkawa Financial Transaction. We formed CHK C-T in March 2012 to continue development of a portion of our oil and natural gas assets in our Cleveland and Tonkawa plays. In exchange for all of the common shares of CHK C-T, we contributed to CHK C-T approximately 245,000 net acres of leasehold and the existing wells within an area of mutual interest in the plays between the top of the Tonkawa and the top of the Big Lime formations covering Ellis and Roger Mills counties in western Oklahoma. In March 2012, in a private placement, third-party investors contributed $1.25 billion in cash to CHK C-T in exchange for (i) 1.25 million preferred shares, and (ii) our obligation to deliver a 3.75% overriding royalty interest (ORRI) in the existing wells and up to 1,000 future net wells to be drilled on the contributed play leasehold. We initially committed to drill and complete, for the benefit of CHK C-T in the area of mutual interest, a minimum cumulative total of 300 net wells. We ultimately drilled and completed 190 net wells, and the drilling commitment was suspended in January 2015.

In the Current Quarter, CHK C-T sold all of its oil and natural gas properties to FourPoint Energy, LLC (FourPoint) and immediately used the consideration received, plus other cash it had on hand, to repurchase and cancel all of the outstanding preferred shares in CHK C-T. Chesapeake is responsible for post-closing adjustments to the purchase price and has certain indemnity obligations in connection with the sale to FourPoint. In connection with the repurchase and cancellation of the CHK C-T preferred stock and related agreements with the CHK C-T investors, we eliminated quarterly preferred dividend payments and all related future drilling and ORRI commitments attributable to CHK C-T. Under the full cost method of accounting, the sale of the oil and natural gas properties was accounted for as a reduction of capitalized costs with no gain or loss recognized.

As of December 31, 2014, $1.015 billion of noncontrolling interests on our condensed consolidated balance sheets was attributable to CHK C-T. In the Current Quarter, the Prior Quarter, the Current Period and the Prior Period, income of $13 million, $19 million, $50 million and $56 million, respectively, was attributable to the noncontrolling interests of CHK C-T.

Utica Financial Transaction. We formed CHK Utica, L.L.C. (CHK Utica) in October 2011 to develop a portion of our Utica Shale oil and natural gas assets. In exchange for all of the common shares of CHK Utica, we contributed to CHK Utica approximately 700,000 net acres of leasehold and the existing wells within an area of mutual interest in the Utica Shale play covering 13 counties located primarily in eastern Ohio. During November and December 2011, in private placements, third-party investors contributed $1.25 billion in cash to CHK Utica in exchange for (i) 1.25 million preferred shares, and (ii) our obligation to deliver a 3% ORRI in 1,500 net wells to be drilled on certain of our Utica Shale leasehold.

In July 2014, we repurchased all of the outstanding preferred shares of CHK Utica from third-party preferred shareholders for approximately $1.254 billion, or approximately $1,189 per share including accrued dividends. The $447 million difference between the cash paid for the preferred shares and the carrying value of the noncontrolling interest acquired was reflected in retained earnings and as a reduction to net income available to common stockholders for purposes of our EPS computations. Pursuant to the transaction, our obligation to pay quarterly dividends to third-party preferred shareholders was eliminated. In addition, the development agreement was terminated pursuant to the transaction, which eliminated our obligation to drill and complete a minimum number of wells within a specified period for the benefit of CHK Utica. Our repurchase of the outstanding preferred shares in CHK Utica did not affect our obligation to deliver a 3% ORRI in 1,500 net wells on certain Utica Shale leasehold.

The CHK Utica investors' right to receive, proportionately, a 3% ORRI in the first 1,500 net wells drilled on our Utica Shale leasehold is subject to an increase to 4% on net wells earned in any year following a year in which we do not meet our net well commitment under the ORRI obligation, which runs through 2023. However, in no event are we required to deliver to investors more than a total ORRI of 3% in 1,500 net wells. If at any time we hold fewer net acres than would enable us to drill all then-remaining net wells on 150-acre spacing, the investors have the right to require us to repurchase their right to receive ORRIs in the remaining net wells at the then-current fair market value of the remaining ORRIs. We retain the right to repurchase the investors’ right to receive ORRIs in the remaining net wells at the then-current fair market value of the remaining ORRIs once we have drilled a minimum of 1,300 net wells. As of September 30, 2015, we had drilled 482 net wells. The obligation to deliver future ORRIs has been recorded as a liability which will be settled through the future conveyance of the underlying ORRIs to the investors on a net-well basis, at which time the associated liability will be reversed and the sale of the ORRIs reflected as an adjustment to the capitalized cost of our oil and natural gas properties. Because we did not meet our ORRI commitment in 2012, the

ORRI increased to 4% for wells earned in 2013, and the ultimate number of wells in which we must assign an interest will be reduced accordingly. We met our ORRI conveyance commitments as of December 31, 2013 and 2014.

In the Prior Quarter and the Prior Period, income of approximately $6 million and $43 million, respectively, was attributable to the noncontrolling interests of CHK Utica.

Chesapeake Granite Wash Trust. In November 2011, Chesapeake Granite Wash Trust (the Trust) sold 23,000,000 common units representing beneficial interests in the Trust at a price of $19.00 per common unit in its initial public offering. The common units are listed on the New York Stock Exchange and trade under the symbol “CHKR”. We own 12,062,500 common units and 11,687,500 subordinated units, which in the aggregate represent an approximate 51% beneficial interest in the Trust. The Trust has a total of 46,750,000 units outstanding.

In connection with the Trust’s initial public offering, we conveyed royalty interests to the Trust that entitle the Trust to receive (i) 90% of the proceeds (after deducting certain post-production expenses and any applicable taxes) that we receive from the production of hydrocarbons from 69 then-producing wells, and (ii) 50% of the proceeds (after deducting certain post-production expenses and any applicable taxes) in 118 development wells that have been or will be drilled on approximately 45,400 gross acres (29,000 net acres) in the Colony Granite Wash play in Washita County in the Anadarko Basin of western Oklahoma. Pursuant to the terms of a development agreement with the Trust, we are obligated to drill and complete, or cause to be drilled and completed, the development wells at our own expense prior to June 30, 2016, and the Trust is not responsible for any costs related to the drilling and completion of the development wells or any other operating or capital costs of the Trust properties. In addition, we granted to the Trust a lien on our remaining interests in the undeveloped properties that are subject to the development agreement in order to secure our drilling obligation to the Trust, although the maximum amount recoverable by the Trust under the lien was limited to $263 million initially and is proportionately reduced as we fulfill our drilling obligation over time. As of September 30, 2015, we had drilled and completed or caused to be drilled and completed approximately 103 development wells, as calculated under the development agreement, and the maximum amount recoverable under the drilling support lien was approximately $33 million.

The subordinated units we hold in the Trust are entitled to receive pro rata distributions from the Trust each quarter if and to the extent there is sufficient cash to provide a cash distribution on the common units that is not less than the applicable subordination threshold for the quarter. If there is not sufficient cash to fund a distribution on all of the Trust units, the distribution to be made with respect to the subordinated units is reduced or eliminated for the quarter in order to make a distribution, to the extent possible, of up to the subordination threshold amount on the common units. The distribution made with respect to the subordinated units to Chesapeake was either reduced or eliminated for each of the most recent 13 quarters. In exchange for agreeing to subordinate a portion of our Trust units, and in order to provide additional financial incentive to us to satisfy our drilling obligation and perform operations on the underlying properties in an efficient and cost-effective manner, Chesapeake is entitled to receive incentive distributions equal to 50% of the amount by which the cash available for distribution on the Trust units in any quarter exceeds the applicable incentive threshold for the quarter. The remaining 50% of cash available for distribution in excess of the applicable incentive threshold is to be paid to Trust unitholders, including Chesapeake, on a pro rata basis. Through September 30, 2015, no incentive distributions had been made. At the end of the fourth full calendar quarter following our satisfaction of our drilling obligation with respect to the development wells, the subordinated units will automatically convert into common units on a one-for-one basis and our right to receive incentive distributions will terminate. After this time, the common units will no longer have the protection of the subordination threshold, and all Trust unitholders will share in the Trust’s distributions on a pro rata basis.

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For the Current Period and the Prior Period, the Trust declared and paid the following distributions:

Production Period	Distribution Date	Cash Distribution per Common Unit	Cash Distribution per Subordinated Unit
March 2015 – May 2015	August 31, 2015	$0.3579	$—
December 2014 – February 2015	June 1, 2015	$0.3899	$—
September 2014 – November 2014	March 2, 2015	$0.4496	$—
March 2014 – May 2014	August 29, 2014	$0.5796	$—
December 2013 – February 2014	May 30, 2014	$0.6454	$—
September 2013 – November 2013	March 3, 2014	$0.6624	$—

We have determined that the Trust is a variable interest entity (VIE) and that Chesapeake is the primary beneficiary. As a result, the Trust is consolidated in our condensed consolidated financial statements. As of September 30, 2015 and December 31, 2014, $264 million and $287 million, respectively, of noncontrolling interests on our condensed consolidated balance sheets were attributable to the Trust. Net income (loss) attributable to the Trust's noncontrolling interests is presented in our condensed consolidated statements of operations as income of approximately $1 million in the Current Quarter, income of approximately $6 million in the Prior Quarter, income of a nominal amount in the Current Period and income of approximately $14 million in the Prior Period. See Note 11 for further discussion of VIEs.

7. Share-Based Compensation

Chesapeake's share-based compensation program consists of restricted stock, stock options and performance share units (PSUs) granted to employees and common stock and restricted stock granted to non-employee directors under our long term incentive plans. The restricted stock and stock options are equity-classified awards and the PSUs are liability-classified awards.

Equity-Classified Awards

Restricted Stock. We grant restricted stock units to employees and non-employee directors. Prior to 2014, we also granted restricted stock awards as equity compensation. We refer to both types of awards as restricted stock. Restricted stock vests over a minimum of three years and the holder receives dividends, if paid, on unvested shares. A summary of the changes in unvested restricted stock during the Current Period is presented below.

	Shares of Unvested Restricted Stock (in thousands)	Weighted Average Grant Date Fair Value
Unvested restricted stock as of January 1, 2015	10,091	$21.20
Granted	7,016	$13.97
Vested	(4,025)	$21.78
Forfeited	(899)	$17.21
Unvested restricted stock as of September 30, 2015	12,183	$17.14

The aggregate intrinsic value of restricted stock that vested during the Current Period was approximately $59 million based on the stock price at the time of vesting.

As of September 30, 2015, there was approximately $149 million of total unrecognized compensation expense related to unvested restricted stock. The expense is expected to be recognized over a weighted average period of approximately 2.04 years.

The vesting of certain restricted stock grants may result in state and federal income tax benefits, or reductions in these benefits, related to the difference between the market price of the common stock at the date of vesting and the date of grant. During the Current Quarter, the Prior Quarter, the Current Period and the Prior Period, we recognized reductions in tax benefits related to restricted stock of $5 million, $4 million, $11 million and $1 million, respectively. Each adjustment was recorded to additional paid-in capital and deferred income taxes.

Stock Options. In the Current Period and the Prior Period, we granted members of senior management stock options that vest ratably over a three-year period. In January 2013, we also granted retention awards of stock options to certain officers that vest one-third on each of the third, fourth and fifth anniversaries of the grant date. Each stock option award has an exercise price equal to the closing price of the Company's common stock on the grant date. Outstanding options expire seven to ten years from the date of grant.

We utilize the Black-Scholes option pricing model to measure the fair value of stock options. The expected life of an option is determined using the simplified method, as there is no adequate historical exercise behavior available. Volatility assumptions are estimated based on an average of historical volatility of Chesapeake stock over the expected life of an option. The risk-free interest rate is based on the U.S. Treasury rate in effect at the time of the grant over the expected life of the option. The dividend yield is based on an annual dividend yield, taking into account the Company's dividend policy, over the expected life of the option. The Company used the following weighted average assumptions to estimate the grant date fair value of the stock options granted in the Current Period:

Expected option life – years	4.5	
Volatility	39.91	%
Risk-free interest rate	1.33	%
Dividend yield	1.91	%

The following table provides information related to stock option activity for the Current Period:

	Number of Shares Underlying Options		Weighted Average Exercise Price Per Share	Weighted Average Contract Life in Years	Aggregate Intrinsic Value[(a)]
	(in thousands)				($ in millions)
Outstanding at January 1, 2015	4,599		$19.55	7.03	$5
Granted	1,208		$18.37		
Exercised	(14	)	$18.13		$—
Expired	(213	)	$18.54		
Forfeited	—		$—		
Outstanding at September 30, 2015	5,580		$19.33	5.83	$—
Exercisable at September 30, 2015	2,248		$19.50	4.86	$—

(a) The intrinsic value of a stock option is the amount by which the current market value or the market value upon exercise of the underlying stock exceeds the exercise price of the option.

As of September 30, 2015, there was $10 million of total unrecognized compensation expense related to stock options. The expense is expected to be recognized over a weighted average period of approximately 1.80 years.

The vesting of certain stock option grants may result in state and federal income tax benefits, or reductions in these benefits, related to the difference between the market price of the common stock at the date of vesting and the date of grant. During the Current Quarter, the Prior Quarter, the Current Period and the Prior Period, we recognized a reduction in tax benefits related to stock options of nominal amounts. Each adjustment was recorded to additional paid-in capital and deferred income taxes.

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Restricted Stock and Stock Option Compensation. We recognized the following compensation costs related to restricted stock and stock options for the Current Quarter, the Prior Quarter, the Current Period and the Prior Period:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
	($ in millions)			
General and administrative expenses	$9	$12	$33	$36
Oil and natural gas properties	3	6	18	22
Oil, natural gas and NGL production expenses	4	5	14	13
Marketing, gathering and compression expenses	—	2	3	5
Oilfield services expenses	—	—	—	5
Total	$16	$25	$68	$81

Liability-Classified Awards

Performance Share Units. In 2013, 2014 and 2015, we granted PSUs to senior management that vest ratably over a three-year term and are settled in cash on the third anniversary of the awards. The ultimate amount earned is based on achievement of performance metrics established by the Compensation Committee of the Board of Directors, which include total shareholder return (TSR) and, for certain of the awards, operational performance goals such as finding and development costs and production and proved reserve growth.

For PSUs granted in 2013, the TSR component can range from 0% to 125% of base salary, and each of the two operational components can range from 0% to 62.5%; however, the maximum total payout is capped at 200%. For PSUs granted in 2014, the TSR component can range from 0% to 200%, with no operational components. For PSUs granted in 2015, the TSR component can range from 0% to 100%, and each of the two operational components can range from 0% to 50% resulting in a maximum total payout of 200%. The payout percentage for these PSUs is capped at 100% if the Company's absolute TSR is less than zero. Compensation expense associated with PSU grants is recognized over the service period based on the graded-vesting method. The number of units settled is dependent upon the Company's estimates of the underlying performance measures. The Company utilized the Monte Carlo simulation for the TSR performance measure and the following assumptions to determine the grant date fair value of the PSUs:

Volatility	46.36	%
Risk-free interest rate	0.71	%
Dividend yield for value of awards	—	%

The following table presents a summary of our 2013, 2014 and 2015 PSU awards:

	Units	Fair Value as of Grant Date	Fair Value[(a)]	Liability for Vested Amount[(a)]
		($ in millions)		
2013 Awards:				
Payable 2016	1,701,941	$35	$9	$9
2014 Awards:				
Payable 2017	609,637	$16	$1	$1
2015 Awards:				
Payable 2018	696,683	$13	$4	$2

(a) As of September 30, 2015.

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PSU Compensation. We recognized the following compensation costs (credits) related to PSUs for the Current Quarter, the Prior Quarter, the Current Period and the Prior Period:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
	($ in millions)			
General and administrative expenses	$(2)	$(12)	$(16)	$(2)
Restructuring and other termination costs	(1)	(17)	(16)	(11)
Marketing, gathering and compression	—	(1)	(1)	—
Oil and natural gas properties	—	—	(1)	3
Total	$(3)	$(30)	$(34)	$(10)

Effect of the Spin-off on Share-Based Compensation

The employee matters agreement entered into in connection with the June 2014 spin-off of our oilfield services business (see Note 15) addresses the treatment of holders of Chesapeake stock options, restricted stock and PSUs. Unvested equity-based compensation awards held by COO employees were canceled and replaced with new awards of SSE, and unvested equity-based compensation awards held by Chesapeake employees were adjusted to account for the spin-off, each as of the spin-off date. The employee matters agreement provides that employees of SSE ceased to participate in benefit plans sponsored or maintained by Chesapeake as of the spin-off date. In addition, the employee matters agreement provides that as of the spin-off date, each party is responsible for the compensation of its current employees and for all liabilities relating to its former employees, as determined by their respective employer on the date of termination.

8. Derivative and Hedging Activities

Chesapeake uses commodity derivative instruments to secure attractive pricing and margins on its share of expected production, to reduce its exposure to fluctuations in future commodity prices and to protect its expected operating cash flow against significant market movements or volatility. Chesapeake also uses derivative instruments to mitigate a portion of its exposure to interest rate and foreign currency exchange rate fluctuations. All of our commodity derivative instruments are net settled based on the difference between the fixed-price payment and the floating-price payment, resulting in a net amount due to or from the counterparty.

Oil and Natural Gas Derivatives

As of September 30, 2015 and December 31, 2014, our oil and natural gas derivative instruments consisted of the following types of instruments:

- Swaps: Chesapeake receives a fixed price and pays a floating market price to the counterparty for the hedged commodity.
- Collars: These instruments contain a fixed floor price (put) and ceiling price (call). If the market price exceeds the call strike price or falls below the put strike price, Chesapeake receives the fixed price and pays the market price. If the market price is between the put and the call strike prices, no payments are due from either party. Three-way collars include an additional put option in exchange for a more favorable strike price on the call option. This eliminates the counterparty's downside exposure below the second put option strike price.
- Options: Chesapeake sells, and occasionally buys, call options in exchange for a premium. At the time of settlement, if the market price exceeds the fixed price of the call option, Chesapeake pays the counterparty the excess on sold call options, and Chesapeake receives the excess on bought call options. If the market price settles below the fixed price of the call option, no payment is due from either party.
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Basis Protection Swaps: These instruments are arrangements that guarantee a fixed price differential to NYMEX from a specified delivery point. Chesapeake receives the fixed price differential and pays the floating market price differential to the counterparty for the hedged commodity.

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The estimated fair values of our oil and natural gas derivative instrument assets (liabilities) as of September 30, 2015 and December 31, 2014 are provided below.

	September 30, 2015		December 31, 2014	
	Volume	Fair Value ($ in millions)	Volume	Fair Value ($ in millions)
Oil (mmbbl):				
Fixed-price swaps	8.0	$161	12.5	$471
Three-way collars	1.1	11	4.4	40
Call options	18.1	(9)	35.8	(89)
Basis protection swaps	1.6	—	—	—
Total oil	28.8	$163	52.7	$422
Natural gas (tbtu):				
Fixed-price swaps	295	$174	275	$281
Three-way collars	36	28	207	165
Call options	193	(107)	193	(170)
Basis protection swaps	75	(4)	60	23
Total natural gas	599	$91	735	$299
Total estimated fair value		$254		$721

We have terminated certain commodity derivative contracts that were previously designated as cash flow hedges for which the hedged production is still expected to occur. See further discussion below under Effect of Derivative Instruments – Accumulated Other Comprehensive Income (Loss).

Interest Rate Derivatives

As of September 30, 2015, there were no interest rate derivatives outstanding. As of December 31, 2014, our interest rate derivative instruments consisted of swaps. We enter into fixed-to-floating interest rate swaps (we receive a fixed interest rate and pay a floating market rate) to mitigate our exposure to changes in the fair value of our senior notes. We enter into floating-to-fixed interest rate swaps (we receive a floating market rate and pay a fixed interest rate) to manage our interest rate exposure related to our bank credit facility borrowings.

The notional amount of our interest rate derivatives associated with our long-term debt as of December 31, 2014 was $850 million. The estimated fair value of our interest rate derivative liabilities as of December 31, 2014 was $17 million.

We have terminated certain fair value hedges related to certain of our senior notes. Gains and losses related to these terminated hedges will be amortized as an adjustment to interest expense over the remaining term of the related senior notes. Over the next six years, we will recognize $8 million in net gains related to these transactions.

Foreign Currency Derivatives

We are party to cross currency swaps to mitigate our exposure to foreign currency exchange rate fluctuations that may result from the €344 million principal amount of our euro-denominated senior notes. The terms of the cross currency swaps were based on the dollar/euro exchange rate on the issuance date of $1.3325 to €1.00. Under the terms of the cross currency swaps we currently hold, on each semi-annual interest payment date, the counterparties pay us €11 million and we pay the counterparties $17 million, which yields an annual dollar-equivalent interest rate of 7.491%. Upon maturity of the notes, the counterparties will pay us €344 million and we will pay the counterparties $459 million. The swaps are designated as cash flow hedges and, because they are entirely effective in having eliminated any potential variability in our expected cash flows related to changes in foreign exchange rates, changes in their fair value do not impact earnings. The fair values of the cross currency swaps are recorded on the condensed consolidated balance sheets as liabilities of $76 million and $53 million as of September 30, 2015 and December 31, 2014, respectively. The euro-denominated debt in long-term debt has been adjusted to $384 million as of September 30, 2015, using an exchange rate of $1.1177 to €1.00.

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Supply Contract Derivatives

From time to time and in the normal course of business, our marketing subsidiary enters into supply contracts under which we commit to deliver a predetermined quantity of natural gas to certain counterparties in an attempt to earn attractive margins. Under certain contracts, we receive a sales price that is based on the price of a product other than natural gas, thereby creating an embedded derivative requiring bifurcation. In one of these supply contracts, we are committed to supply a minimum of 90 bbtu per day of natural gas through March 2025. In the Current Quarter and the Current Period, we recorded revenues of approximately $36 million and $63 million, respectively, for settlements of this embedded derivative. The bifurcated derivative was measured at fair value as of September 30, 2015, which resulted in unrealized gains of $70 million and $291 million in the Current Quarter and Current Period, respectively. Both settlements and mark-to-market gains (losses) are included in marketing, gathering and compression revenues in our condensed consolidated statements of operations.

Effect of Derivative Instruments – Condensed Consolidated Balance Sheets

The following table presents the fair value and location of each classification of derivative instrument included in the condensed consolidated balance sheets as of September 30, 2015 and December 31, 2014 on a gross basis and after same-counterparty netting:

Balance Sheet Classification	Gross Fair Value	Amounts Netted in Condensed Consolidated Balance Sheet	Net Fair Value Presented in Condensed Consolidated Balance Sheet
	($ in millions)		
As of September 30, 2015			
Commodity Contracts:			
Short-term derivative asset	$370	$(71)	$299
Long-term derivative asset	12	(3)	9
Short-term derivative liability	(95)	71	(24)
Long-term derivative liability	(33)	3	(30)
Total commodity contracts	254	—	254
Foreign Currency Contracts:[a]			
Long-term derivative liability	(76)	—	(76)
Total foreign currency contracts	(76)	—	(76)
Supply Contracts:			
Short-term derivative asset	43	—	43
Long-term derivative asset	248	—	248
Total supply contracts	291	—	291
Total derivatives	$469	$—	$469

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Balance Sheet Classification	Gross Fair Value	Amounts Netted in Condensed Consolidated Balance Sheet	Net Fair Value Presented in Condensed Consolidated Balance Sheet
As of December 31, 2014			
Commodity Contracts:			
Short-term derivative asset	$974	$(95)	$879
Long-term derivative asset	16	(10)	6
Short-term derivative liability	(105)	95	(10)
Long-term derivative liability	(163)	10	(153)
Total commodity contracts	722	—	722
Interest Rate Contracts:			
Short-term derivative liability	(5)	—	(5)
Long-term derivative liability	(12)	—	(12)
Total interest rate contracts	(17)	—	(17)
Foreign Currency Contracts:[a]			
Long-term derivative liability	(53)	—	(53)
Total foreign currency contracts	(53)	—	(53)
Total derivatives	$652	$—	$652

(a) Designated as cash flow hedging instruments.

As of September 30, 2015 and December 31, 2014, we did not have any cash collateral balances for these derivatives.

Effect of Derivative Instruments – Condensed Consolidated Statements of Operations

The components of oil, natural gas and NGL revenues for the Current Quarter, the Prior Quarter, the Current Period and the Prior Period are presented below.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
	($ in millions)			
Oil, natural gas and NGL revenues	$653	$1,777	$2,353	$5,842
Gains (losses) on undesignated oil and natural gas derivatives	234	569	369	(5)
Losses on terminated cash flow hedges	(7)	(5)	(29)	(25)
Total oil, natural gas and NGL revenues	$880	$2,341	$2,693	$5,812

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The components of marketing, gathering and compression revenues for the Current Quarter, the Prior Quarter, the Current Period and the Prior Period are presented below.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
	($ in millions)			
Marketing, gathering and compression revenues[a]	$1,943	$3,362	$5,703	$9,543
Gains on undesignated supply contract derivatives	70	—	290	—
Total marketing, gathering and compression revenues	$2,013	$3,362	$5,993	$9,543

(a) Current Quarter and Current Period settlements of $41 million and $77 million, respectively, on supply contracts accounted for as derivatives are included in marketing, gathering and compression revenues.

The components of interest expense for the Current Quarter, the Prior Quarter, the Current Period and the Prior Period are presented below.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
	($ in millions)			
Interest expense on senior notes	$171	$170	$513	$534
Interest expense on term loan	—	—	—	36
Amortization of loan discount, issuance costs and other	14	9	37	44
Interest expense on credit facilities	2	6	8	22
Gains on terminated fair value hedges	—	—	(2)	(2)
(Gains) losses on undesignated interest rate derivatives	—	2	(10)	(48)
Capitalized interest	(99)	(170)	(336)	(504)
Total interest expense	$88	$17	$210	$82

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Effect of Derivative Instruments – Accumulated Other Comprehensive Income (Loss)

A reconciliation of the changes in accumulated other comprehensive income (loss) in our condensed consolidated statements of stockholders' equity related to our cash flow hedges is presented below.

	Three Months Ended September 30,			
	2015		2014	
	Before Tax	After Tax	Before Tax	After Tax
	($ in millions)			
Balance, beginning of period	$(211)	$(131)	$(243)	$(154)
Net change in fair value	12	7	—	—
Losses reclassified to income	7	5	5	3
Balance, end of period	$(192)	$(119)	$(238)	$(151)

	Nine Months Ended September 30,			
	2015		2014	
	Before Tax	After Tax	Before Tax	After Tax
	($ in millions)			
Balance, beginning of period	$(231)	$(143)	$(269)	$(167)
Net change in fair value	10	6	6	3
Losses reclassified to income	29	18	25	13
Balance, end of period	$(192)	$(119)	$(238)	$(151)

Approximately $118 million of the $119 million of accumulated other comprehensive loss as of September 30, 2015 represented the net deferred loss associated with commodity derivative contracts that were previously designated as cash flow hedges for which the hedged production is still expected to occur. Deferred gain or loss amounts will be recognized in earnings in the month in which the originally forecasted hedged production occurs. As of September 30, 2015, we expect to transfer approximately $20 million of net loss included in accumulated other comprehensive income to net income (loss) during the next 12 months. The remaining amounts will be transferred by December 31, 2022.

Credit Risk Considerations

Over-the-counter traded derivative instruments and our supply contracts expose us to our counterparties' credit risk. To mitigate this risk, we enter into derivative contracts only with counterparties that are rated investment grade and deemed by management to be competent and competitive market makers, and we attempt to limit our exposure to non-performance by any single counterparty. As of September 30, 2015, our oil, natural gas, interest rate and supply contract derivative instruments were spread among 17 counterparties.

Hedging Arrangements

As of September 30, 2015, our secured commodity hedging facility with nine counterparties provided approximately 444 mmboe of hedging capacity for oil, natural gas and NGL price derivatives and 444 mmboe for basis derivatives with an aggregate mark-to-market capacity of $7.1 billion. The facility is secured by proved reserves, the value of which must cover the fair value of the transactions outstanding under the facility by at least 1.65 times at semi-annual collateral redetermination dates and 1.30 times in between those dates, and guarantees by certain subsidiaries that also guarantee our revolving credit facility and indentures. We have significant flexibility with regard to releases and/or substitutions of pledged reserves, provided that certain requirements are met including maintaining specified collateral coverage ratios as well as maintaining credit ratings with either of the designated rating agencies at or above current levels. The counterparties' obligations under the facility must be secured by cash or short-term U.S. treasury instruments to the extent that any mark-to-market amounts owed to us exceed defined thresholds. As of September 30, 2015, we had hedged under the facility 27.3 mmboe of our future production with price derivatives and 1.2 mmboe with basis derivatives.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)
(Unaudited)

In April 2015, we also began entering into bilateral hedging agreements with the intention of replacing and terminating the respective counterparties' positions in the secured hedging facility. In the Current Period, we entered into bilateral arrangements that reduced the aggregate mark-to-market capacity under the secured hedging facility from $16.5 billion to $7.1 billion. The counterparties' and our obligations under the bilateral hedging agreements must be secured by cash or letters of credit to the extent that any mark-to-market amounts owed to us or by us exceed defined thresholds. As of September 30, 2015, we had hedged under bilateral agreements 87.2 mmboe of our future production with price derivatives and 12.9 mmboe with basis derivatives.

Fair Value

The fair value of our derivatives is based on third-party pricing models which utilize inputs that are either readily available in the public market, such as oil and natural gas forward curves and discount rates, or can be corroborated from active markets or broker quotes. These values are compared to the values given by our counterparties for reasonableness. Since oil, natural gas, interest rate and cross currency swaps do not include optionality and therefore generally have no unobservable inputs, they are classified as Level 2. All other derivatives have some level of unobservable input, such as volatility curves, and are therefore classified as Level 3. Derivatives are also subject to the risk that either party to a contract will be unable to meet its obligations. We factor non-performance risk into the valuation of our derivatives using current published credit default swap rates. To date, this has not had a material impact on the values of our derivatives.

The following table provides information for financial assets (liabilities) measured at fair value on a recurring basis as of September 30, 2015 and December 31, 2014:

	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value
		($ in millions)		
As of September 30, 2015				
Derivative Assets (Liabilities):				
Commodity assets	$—	$343	$39	$382
Commodity liabilities	—	(12)	(116)	(128)
Interest rate liabilities	—	—	—	—
Foreign currency liabilities	—	(76)	—	(76