

CHESAPEAKE ENERGY CORP

Form 10-Q

May 12, 2008

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

Quarterly Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended March 31, 2008

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)

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Oklahoma (State or other jurisdiction of incorporation or organization)	73-1395733 (I.R.S. Employer Identification No.)
6100 North Western Avenue	
Oklahoma City, Oklahoma (Address of principal executive offices)	73118 (Zip Code)
(405) 848-8000	
Registrant's telephone number, including area code	

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant 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 <input checked="" type="checkbox"/>	Accelerated filer <input type="checkbox"/>
Non-accelerated filer <input type="checkbox"/> (Do not check if a smaller reporting company)	Smaller reporting company <input type="checkbox"/>

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

As of May 8, 2008, there were 540,394,957 shares of our \$0.01 par value common stock outstanding.

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CHESAPEAKE ENERGY CORPORATION AND SUBSIDIARIES

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	March 31, 2008	December 31, 2007
	(\$ in millions)	
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 1	\$ 1
Accounts receivable	1,278	1,074
Short-term derivative instruments	3	203
Deferred income taxes	520	1
Inventory	107	87
Other	37	30
Total Current Assets	1,946	1,396
PROPERTY AND EQUIPMENT:		
Natural gas and oil properties, at cost based on full-cost accounting:		
Evaluated natural gas and oil properties	29,317	27,656
Unevaluated properties	6,205	5,641
Less: accumulated depreciation, depletion and amortization of natural gas and oil properties	(7,623)	(7,112)
Total natural gas and oil properties, at cost based on full-cost accounting	27,899	26,185
Other property and equipment:		
Natural gas gathering systems and treating plants	1,453	1,135
Buildings and land	954	816
Drilling rigs and equipment	125	106
Natural gas compressors	68	63
Other	351	327
Less: accumulated depreciation and amortization of other property and equipment	(331)	(295)
Total Other Property and Equipment	2,620	2,152
Total Property and Equipment	30,519	28,337
OTHER ASSETS:		
Investments	603	612
Long-term derivative instruments	22	4
Other assets	372	385
Total Other Assets	997	1,001
TOTAL ASSETS	\$ 33,462	\$ 30,734

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

	March 31, 2008	December 31, 2007
	(\$ in millions)	
LIABILITIES AND STOCKHOLDERS EQUITY		
CURRENT LIABILITIES:		
Accounts payable	\$ 1,478	\$ 1,262
Accrued liabilities	710	717
Short-term derivative instruments	1,342	174
Revenues and royalties due others	566	433
Accrued interest	124	175
Total Current Liabilities	4,220	2,761
LONG-TERM LIABILITIES:		
Long-term debt, net	12,250	10,950
Deferred income tax liability	4,076	3,966
Asset retirement obligation	243	236
Long-term derivative instruments	916	408
Revenues and royalties due others	44	42
Other liabilities	243	241
Total Long-Term Liabilities	17,772	15,843
CONTINGENCIES AND COMMITMENTS (Note 3)		
STOCKHOLDERS EQUITY:		
Preferred Stock, \$.01 par value, 20,000,000 shares authorized:		
5.00% cumulative convertible preferred stock (series 2005B), 5,750,000 shares issued and outstanding as of March 31, 2008 and December 31, 2007, entitled in liquidation to \$575 million	575	575
4.50% cumulative convertible preferred stock, 3,450,000 shares issued and outstanding as of March 31, 2008 and December 31, 2007, entitled in liquidation to \$345 million	345	345
6.25% mandatory convertible preferred stock, 143,768 shares issued and outstanding as of March 31, 2008 and December 31, 2007, respectively, entitled in liquidation to \$36 million	36	36
4.125% cumulative convertible preferred stock, 3,062 shares issued and outstanding as of March 31, 2008 and December 31, 2007, respectively, entitled in liquidation to \$3 million	3	3
5.00% cumulative convertible preferred stock (series 2005), 5,000 shares issued and outstanding as of March 31, 2008 and December 31, 2007, entitled in liquidation to \$1 million	1	1
Common Stock, \$.01 par value, 750,000,000 shares authorized, 514,564,549 and 511,648,217 shares issued at March 31, 2008 and December 31, 2007, respectively	5	5
Paid-in capital	7,081	7,032
Retained earnings	3,973	4,150
Accumulated other comprehensive income (loss), net of tax of \$335 million and \$6 million, respectively	(543)	(11)
Less: treasury stock, at cost; 499,723 and 500,821 common shares as of March 31, 2008 and December 31, 2007, respectively	(6)	(6)
Total Stockholders Equity	11,470	12,130
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	\$ 33,462	\$ 30,734

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

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CHESAPEAKE ENERGY CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

	Three Months Ended March 31, 2008 2007 (\$ in millions)	
	except per share data)	
REVENUES:		
Natural gas and oil sales	\$ 773	\$ 1,125
Natural gas and oil marketing sales	796	422
Service operations revenue	42	33
Total Revenues	1,611	1,580
OPERATING COSTS:		
Production expenses	201	142
Production taxes	75	42
General and administrative expenses	79	52
Natural gas and oil marketing expenses	774	407
Service operations expense	35	22
Natural gas and oil depreciation, depletion and amortization	515	393
Depreciation and amortization of other assets	36	36
Total Operating Costs	1,715	1,094
INCOME (LOSS) FROM OPERATIONS	(104)	486
OTHER INCOME (EXPENSE):		
Interest and other income	(9)	9
Interest expense	(101)	(79)
Total Other Income (Expense)	(110)	(70)
INCOME (LOSS) BEFORE INCOME TAXES	(214)	416
INCOME TAX EXPENSE (BENEFIT):		
Current		
Deferred	(82)	158
Total Income Tax Expense (Benefit)	(82)	158
NET INCOME (LOSS)	(132)	258
PREFERRED STOCK DIVIDENDS	(11)	(26)
NET INCOME (LOSS) AVAILABLE TO COMMON SHAREHOLDERS	\$ (143)	\$ 232
EARNINGS (LOSS) PER COMMON SHARE:		
Basic	\$ (0.29)	\$ 0.51
Assuming dilution	\$ (0.29)	\$ 0.50

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CASH DIVIDEND DECLARED PER COMMON SHARE	\$ 0.0675	\$ 0.06
WEIGHTED AVERAGE COMMON AND COMMON EQUIVALENT SHARES OUTSTANDING (in millions):		
Basic	493	451
Assuming dilution	493	516

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

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CHESAPEAKE ENERGY CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Three Months Ended	
	March 31,	
	2008	2007
	(\$ in millions)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
NET INCOME (LOSS)	\$ (132)	\$ 258
ADJUSTMENTS TO RECONCILE NET INCOME (LOSS) TO CASH PROVIDED BY OPERATING ACTIVITIES:		
Depreciation, depletion and amortization	553	431
Deferred income taxes	(86)	153
Unrealized losses on derivatives	1,145	311
Realized gains on financing derivatives	(12)	(42)
Stock-based compensation	29	14
Other	14	(1)
Change in assets and liabilities	(13)	(147)
Cash provided by operating activities	1,498	977
CASH FLOWS FROM INVESTING ACTIVITIES:		
Exploration and development of natural gas and oil properties	(1,406)	(1,251)
Acquisitions of natural gas and oil companies, proved and unproved properties and leasehold, net of cash acquired	(1,004)	(419)
Divestitures of proved and unproved properties and leasehold	243	
Additions to other property and equipment	(551)	(212)
Additions to investments	(9)	(17)
Proceeds from sale of drilling rigs and equipment	34	30
Proceeds from sale of compressors	17	
Deposits for acquisitions		(7)
Sale of non-natural gas and oil assets	1	7
Cash used in investing activities	(2,675)	(1,869)