CABOT OIL & GAS CORP
Form 10-Q
May 03, 2016
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q
ý QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.
For the quarterly period ended March 31, 2016
o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.
Commission file number 1-10447

CABOT OIL & GAS CORPORATION
(Exact name of registrant as specified in its charter)

DELAWARE	04-3072771
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)

Three Memorial City Plaza
840 Gessner Road, Suite 1400, Houston, Texas 77024
(Address of principal executive offices including ZIP code)
(281) 589-4600
(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 and (2) has been subject to such filing requirements for the past 90 days. Yes ý No o
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 ý No o
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. (Check one):

Large accelerated filer x	Accelerated filer o
Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No ý
As of April 25, 2016, there were 465,000,267 shares of Common Stock, Par Value $.10 Per Share, outstanding.

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PART I. FINANCIAL INFORMATION
ITEM 1. Financial Statements
CABOT OIL & GAS CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEET (Unaudited)

(In thousands, except share amounts)	March 31, 2016	December 31, 2015
ASSETS		
Current assets		
Cash and cash equivalents	$579,316	$514
Accounts receivable, net	100,871	120,229
Income taxes receivable	4,187	4,323
Inventories	15,948	17,049
Derivative instruments	18,994	—
Other current assets	1,371	2,671
Total current assets	720,687	144,786
Properties and equipment, net (Successful efforts method)	4,837,814	4,976,879
Equity method investments	117,178	103,517
Other assets	27,029	27,856
	$5,702,708	$5,253,038
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable	$147,994	$160,407
Current portion of long-term debt	20,000	20,000
Accrued liabilities	17,826	24,923
Interest payable	13,562	30,222
Total current liabilities	199,382	235,552
Postretirement benefits	36,244	35,293
Long-term debt, net	1,583,192	1,996,139
Deferred income taxes	780,295	807,236
Asset retirement obligations	130,795	143,606
Other liabilities	28,740	26,024
Total liabilities	2,758,648	3,243,850
Commitments and contingencies		
Stockholders' equity		
Common stock:		
Authorized — 960,000,000 shares of $0.10 par value in 2016 and 2015, respectively		
Issued — 474,892,215 shares and 423,768,593 shares in 2016 and 2015, respectively	47,489	42,377
Additional paid-in capital	1,711,233	721,997
Retained earnings	1,492,538	1,552,014
Accumulated other comprehensive income (loss)	(365)	(365)
Less treasury stock, at cost:		
9,892,680 shares in 2016 and 2015, respectively	(306,835)	(306,835)
Total stockholders' equity	2,944,060	2,009,188
	$5,702,708	$5,253,038

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

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CABOT OIL & GAS CORPORATION
CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS (Unaudited)

(In thousands, except per share amounts)	Three Months Ended March 31, 2016	2015
OPERATING REVENUES		
Natural gas	$227,578	$360,191
Crude oil and condensate	30,676	62,558
Gain (loss) on derivative instruments	18,994	34,123
Brokered natural gas	3,180	4,827
Other	1,513	3,066
	281,941	464,765
OPERATING EXPENSES		
Direct operations	26,035	36,017
Transportation and gathering	109,652	121,235
Brokered natural gas	2,566	3,739
Taxes other than income	5,994	11,280
Exploration	6,383	8,732
Depreciation, depletion and amortization	161,887	175,497
General and administrative	28,376	22,529
	340,893	379,029
Earnings (loss) on equity method investments	2,009	1,421
Gain (loss) on sale of assets	1,354	138
INCOME (LOSS) FROM OPERATIONS	(55,589)	87,295
Interest expense	24,375	23,566
Income (loss) before income taxes	(79,964)	63,729
Income tax expense (benefit)	(28,770)	23,474
NET INCOME (LOSS)	$(51,194)	$40,255
Earnings (loss) per share		
Basic	$(0.12)	$0.10
Diluted	$(0.12)	$0.10
Weighted-average common shares outstanding		
Basic	431,841	413,344
Diluted	431,841	414,771
Dividends per common share	$0.02	$0.02

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

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CABOT OIL & GAS CORPORATION
CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (Unaudited)

	Three Months Ended March 31,	
(In thousands)	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income (loss)	$(51,194)	$40,255
Adjustments to reconcile net income (loss) to cash provided by operating activities:		
Depreciation, depletion and amortization	161,887	175,497
Deferred income tax expense (benefit)	(28,973)	15,081
(Gain) loss on sale of assets	(1,354)	(138)
Exploratory dry hole cost	—	162
(Gain) loss on derivative instruments	(18,994)	(34,123)
Net cash received (paid) in settlement of derivative instruments	—	37,685
Earnings of equity method investments	(2,009)	(1,421)
Amortization of debt issuance costs	1,191	1,267
Stock-based compensation	10,606	5,911
Changes in assets and liabilities:		
Accounts receivable, net	19,358	49,615
Income taxes	233	8,979
Inventories	1,101	(61)
Other current assets	1,300	(192)
Accounts payable, accrued liabilities and interest payable	(31,292)	(29,629)
Other assets and liabilities	230	1,930
Stock-based compensation tax benefit	—	(3,437)
Net cash provided by operating activities	62,090	267,381
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital expenditures	(92,237)	(395,242)
Proceeds from sale of assets	49,828	3,081
Investment in equity method investments	(11,652)	(5,078)
Net cash used in investing activities	(54,061)	(397,239)
CASH FLOWS FROM FINANCING ACTIVITIES		
Borrowings from debt	90,000	382,000
Repayments of debt	(503,000)	(257,000)
Sale of common stock, net	995,278	—
Dividends paid	(8,282)	(8,263)
Stock-based compensation tax benefit	—	3,437
Capitalized debt issuance costs	(3,223)	—
Other	—	2,678
Net cash provided by financing activities	570,773	122,852
Net increase (decrease) in cash and cash equivalents	578,802	(7,006)
Cash and cash equivalents, beginning of period	514	20,954
Cash and cash equivalents, end of period	$579,316	$13,948
Supplemental non-cash transactions:		
Change in accrued capital costs	$(549)	$(91,644)

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

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CABOT OIL & GAS CORPORATION
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
1. Financial Statement Presentation
During interim periods, Cabot Oil & Gas Corporation (the Company) follows the same accounting policies disclosed in its Annual Report on Form 10-K for the year ended December 31, 2015 (Form 10-K) filed with the Securities and Exchange Commission (SEC). The interim financial statements should be read in conjunction with the notes to the consolidated financial statements and information presented in the Form 10-K. In management's opinion, the accompanying interim condensed consolidated financial statements contain all material adjustments, consisting only of normal recurring adjustments, necessary for a fair statement. The results for any interim period are not necessarily indicative of the expected results for the entire year.
Certain reclassifications have been made to prior year statements to conform with the current year presentation. These reclassifications have no impact on previously reported net income (loss).
Recently Adopted Accounting Pronouncements
In March 2015, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2015-03, Simplifying the Presentation of Debt Issuance Costs. The amendments in this update require that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The recognition and measurement guidance for debt issuance costs are not affected by the amendments in this update. In August 2015, the FASB issued ASU No. 2015-15, Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements. The update provides authoritative guidance for debt issuance costs related to line-of-credit arrangements, noting the SEC staff would not object to an entity deferring and presenting debt issuance costs as an asset and subsequently amortizing the deferred debt issuance costs ratably over the term of the line-of-credit arrangement, regardless of whether there are any outstanding borrowings on the line-of-credit arrangement. The guidance is effective for interim and annual periods beginning after December 15, 2015.
Effective January 1, 2016, the Company adopted ASU No. 2015-03 as a change in accounting principle. The Condensed Consolidated Balance Sheet as of December 31, 2015 has been retrospectively adjusted to reflect the adoption of this guidance, resulting in a $8.9 million decrease in both other assets and long term debt related to the debt issuance costs on our senior notes. There was no impact to the Company's Condensed Consolidated Statement of Operations or Statement of Cash Flows.
Recently Issued Accounting Pronouncements
In March 2016, the FASB issued ASU No. 2016-09, Improvements to Employee Share-Based Payment Accounting, as a new Topic, Accounting Standards Codification Topic 718. The areas for simplification in this update involve several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. Some of the areas for simplification apply only to nonpublic entities. The guidance is effective for interim and annual periods beginning after December 15, 2016. Early adoption is permitted. An entity that elects early adoption must adopt all of the amendments in the same period. Amendments related to the timing of when excess tax benefits are recognized, minimum statutory withholding requirements, forfeitures, and intrinsic value should be applied using a modified retrospective transition method by means of a cumulative-effect adjustment to equity as of the beginning of the period in which the guidance is adopted. Amendments related to the presentation of employee taxes paid on the statement of cash flows when an employer withholds shares to meet the minimum statutory withholding requirement should be applied retrospectively. Amendments requiring recognition of excess tax benefits and tax deficiencies in the income statement and the practical expedient for estimating expected term should be applied prospectively. An entity may elect to apply the amendments related to the presentation of excess tax benefits on the statement of cash flows using either a prospective transition method or a retrospective transition method. The Company is currently evaluating the effect that adopting this guidance will have on its financial position, results of operations or cash flows.
In February 2016, the FASB issued ASU No. 2016-02, Leases, as a new Topic, Accounting Standards Codification Topic 842. The new lease guidance supersedes Topic 840. The core principle of the guidance is that a company should recognize the assets and liabilities that arise from leases. The guidance is effective for interim and annual periods

beginning after December 15, 2018. This ASU can be adopted using a modified retrospective approach. The Company is currently evaluating the effect that adopting this guidance will have on its financial position, results of operations or cash flows.

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers, as a new Topic, Accounting Standards Codification Topic 606. The new revenue recognition standard provides a five-step analysis of

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transactions to determine when and how revenue is recognized. The core principle of the guidance is that a company should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In August 2015, the FASB issued ASU No. 2015-14, Revenue from Contracts with Customers (Topic 606), which deferred the effective date of ASU No. 2014-09 by one year, making the new standard effective for interim and annual periods beginning after December 15, 2017. This ASU can be adopted either retrospectively or as a cumulative-effect adjustment as of the date of adoption; however, entities reporting under U.S. GAAP are not permitted to adopt the standard earlier than the original effective date for public entities (that is, no earlier than 2017 for calendar year-end entities).

Additionally, in March 2016, the FASB issued ASU No. 2016-08, Revenue from Contracts with Customers (Topic 606): Principal versus agent considerations (reporting revenue gross versus net), which clarifies the implementation guidance on principal versus agent considerations on such matters. The Company is currently evaluating the effect that adopting this guidance will have on its financial position, results of operations or cash flows.

2. Properties and Equipment, Net

Properties and equipment, net are comprised of the following:

(In thousands)	March 31, 2016	December 31, 2015
Proved oil and gas properties	$7,483,181	$8,821,146
Unproved oil and gas properties	324,488	390,434
Gathering and pipeline systems	242,962	243,672
Land, building and other equipment	114,596	117,848
	8,165,227	9,573,100
Accumulated depreciation, depletion and amortization	(3,327,413)	(4,596,221)
	$4,837,814	$4,976,879

At March 31, 2016, the Company did not have any projects that had exploratory well costs capitalized for a period of greater than one year after drilling.

In February 2016, the Company completed the divestiture of certain proved and unproved oil and gas properties in east Texas for approximately $55.9 million (subject to customary post close adjustments) and recognized a $1.4 million gain on sale of assets. The purchase price included a $6.3 million deposit that was received in the fourth quarter of 2015.

3. Equity Method Investments

The Company holds a 25% equity interest in Constitution Pipeline Company, LLC (Constitution) and a 20% equity interest in Meade Pipeline Co LLC (Meade). Activity related to these equity method investments is as follows:

	Constitution Three Months Ended March 31,		Meade Three Months Ended March 31,		Total Three Months Ended March 31,	
(In thousands)	2016	2015	2016	2015	2016	2015
Balance at beginning of period	$90,345	$64,268	$13,172	$3,761	$103,517	$68,029
Contributions	6,250	3,000	5,402	2,078	11,652	5,078
Earnings (loss) on equity method investments	2,011	1,427	(2)	(6)	2,009	1,421
Balance at end of period	$98,606	$68,695	$18,572	$5,833	$117,178	$74,528

On April 22, 2016, Constitution announced that the New York State Department of Environmental Conservation (NYSDEC) denied Constitution's application for a section 401 Water Quality Certification (Certification) for the New York State portion of its proposed 124-mile route. Constitution stated that it remains committed to pursuing the project and that it intends to pursue all available options to challenge the legality and appropriateness of NYDEC's decision.

In light of the denial of the Certification and the anticipated actions to challenge the decision, Constitution has revised its target in-service date to the second half of 2018, assuming that the challenge process is satisfactorily and promptly

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concluded. Constitution is evaluating the impacts of the denial of the certification on the project, and the Company is evaluating the impact on its investment in Constitution.

During 2016, the Company expects to contribute between approximately $30.0 million and $35.0 million to its equity method investments. For further information regarding the Company's equity method investments, refer to Note 4 of the Notes to the Consolidated Financial Statements in the Form 10-K.

4. Debt and Credit Agreements

The Company's debt and credit agreements consisted of the following:

(In thousands)	March 31, 2016	December 31, 2015
Total Debt		
7.33% weighted-average senior notes	$20,000	$20,000
6.51% weighted-average senior notes	425,000	425,000
9.78% senior notes	67,000	67,000
5.58% weighted-average senior notes	175,000	175,000
3.65% weighted-average senior notes	925,000	925,000
Revolving credit facility	—	413,000
	$1,612,000	$2,025,000
Unamortized debt issuance costs	(8,808)	(8,861)
Total debt, net(1)	$1,603,192	$2,016,139

(1) Includes $20.0 million of current portion of long-term debt at March 31, 2016 and December 31, 2015, respectively.

At March 31, 2016, the Company was in compliance with all restrictive financial covenants, as amended, for both its revolving credit facility and senior notes. As of March 31, 2016, based on the Company's asset coverage and leverage ratios, there were no interest rate adjustments required for the Company's senior notes.

At March 31, 2016, the Company had no borrowings outstanding under its credit facility and had unused commitments of $1.8 billion. The Company's weighted-average effective interest rates for the revolving credit facility for the three months ended March 31, 2016 and 2015 were approximately 2.3% and 2.6%, respectively.

Subsequent Event

The borrowing base is redetermined annually under the terms of the revolving credit facility on April 1. In addition, either the Company or the banks may request an interim redetermination twice a year or in connection with certain acquisitions or sales of oil and gas properties. Effective April 19, 2016, the Company's borrowing base was reduced from $3.4 billion to $3.2 billion. The maximum credit amount under the revolving credit facility remained unchanged at $1.8 billion; however, the available commitments were reduced to $1.6 billion.

5. Derivative Instruments and Hedging Activities

As of March 31, 2016, the Company had the following outstanding commodity derivatives:

			Collars				Swaps
			Floor		Ceiling		
Type of Contract	Volume	Contract Period	Range	Weighted-Average	Range	Weighted-Average	Weighted-Average
Natural gas	52.0 Bcf	Apr. 2016 - Oct. 2016					$ 2.51
Crude oil	1.4 Mmbbl	Apr. 2016 - Dec. 2016	$38.00	$ 38.00	$47.10-$47.50	$ 47.28	

In the table above, natural gas prices are stated per Mcf and crude oil prices are stated per barrel.

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Effect of Derivative Instruments on the Condensed Consolidated Balance Sheet

		Fair Values of Derivative Instruments			
		Derivative Assets		Derivative Liabilities	
(In thousands)	Balance Sheet Location	March 31, 2016	December 31, 2015	March 31, 2016	December 31, 2015
Commodity contracts	Derivative instruments (current assets)	$ 18,994	$ —	$ —	$ —

Offsetting of Derivative Assets and Liabilities in the Condensed Consolidated Balance Sheet

(In thousands)	March 31, 2016	December 31, 2015
Derivative assets		
Gross amounts of recognized assets	$ 18,994	$ —
Gross amounts offset in the statement of financial position	—	—
Net amounts of assets presented in the statement of financial position	18,994	—
Gross amounts of financial instruments not offset in the statement of financial position	—	—
Net amount	$ 18,994	$ —

Effect of Derivative Instruments on the Condensed Consolidated Statement of Operations

	Three Months Ended March 31,	
(In thousands)	2016	2015
Cash received (paid) on settlement of derivative instruments		
Gain (loss) on derivative instruments	$—	$37,685
Non-cash gain (loss) on derivative instruments		
Gain (loss) on derivative instruments	18,994	(3,562)
	$18,994	$34,123

6. Fair Value Measurements

The Company follows the authoritative guidance for measuring fair value of assets and liabilities in its financial statements. For further information regarding the fair value hierarchy, refer to Note 1 of the Notes to the Consolidated Financial Statements in the Form 10-K.

Financial Assets and Liabilities

The following fair value hierarchy table presents information about the Company's financial assets and liabilities measured at fair value on a recurring basis:

(In thousands)	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs