

SOUTHWESTERN ENERGY CO

Form 10-Q

July 21, 2016

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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

(Mark One)

Quarterly Report pursuant to Section 13 or 15(d) of the Securities

Exchange Act of 1934

For the quarterly period ended June 30, 2016

Or

Transition Report pursuant to Section 13 or 15(d) of the Securities

Exchange Act of 1934

For the transition period from _____ to _____

Commission file number: 001-08246

Southwestern Energy Company

(Exact name of registrant as specified in its charter)

Delaware

71-0205415

(State or other jurisdiction of incorporation (I.R.S. Employer Identification No.)
or organization)

10000 Energy Drive

Spring, Texas

77389

(Address of principal executive offices) (Zip Code)

(832) 796-1000

(Registrant's telephone number, including area code)

Not Applicable

(Former name, former address and former fiscal year, if changed since last report)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer”, “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

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

Indicate the number of shares outstanding of each of the issuer’s classes of common stock, as of the latest practicable date:

Class	Outstanding as of July 19, 2016
Common Stock, Par Value \$0.01	493,455,527

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SOUTHWESTERN ENERGY COMPANY

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FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2016

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CAUTIONARY STATEMENT ABOUT FORWARD-LOOKING STATEMENTS

All statements, other than historical fact or present financial information, may be deemed to be forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”). All statements that address activities, outcomes and other matters that should or may occur in the future, including, without limitation, statements regarding the financial position, business strategy, production and reserve growth and other plans and objectives for our future operations, are forward-looking statements. Although we believe the expectations expressed in such forward-looking statements are based on reasonable assumptions, such statements are not guarantees of future performance. We have

no obligation and make no undertaking to publicly update or revise any forward-looking statements, except as may be required by law.

Forward-looking statements include the items identified in the preceding paragraph, information concerning possible or assumed future results of operations and other statements in this Quarterly Report on Form 10-Q identified by words such as “anticipate,” “intend,” “plan,” “project,” “estimate,” “continue,” “potential,” “should,” “could,” “may,” “will,” “guidance,” “outlook,” “effort,” “expect,” “believe,” “predict,” “budget,” “projection,” “goal,” “forecast,” “target” or similar w

You should not place undue reliance on forward-looking statements. They are subject to known and unknown risks, uncertainties and other factors that may affect our operations, markets, products, services and prices and cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. In addition to any assumptions and other factors referred to specifically in connection with forward-looking statements, risks, uncertainties and factors that could cause our actual results to differ materially from those indicated in any forward-looking statement include, but are not limited to:

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- the timing and extent of changes in market conditions and prices for natural gas, oil and natural gas liquids (“NGLs”) (including regional basis differentials);
- our ability to fund our planned capital investments;
- a change in our credit rating;
- the extent to which lower commodity prices impact our ability to service or refinance our existing debt;
- the impact of volatility in the financial markets or other global economic factors;
- difficulties in appropriately allocating capital and resources among our strategic opportunities;
- the timing and extent of our success in discovering, developing, producing and estimating reserves;
- our ability to maintain leases that may expire if production is not established or profitability maintained;
- our ability to realize the expected benefits from recent acquisitions;
- our ability to transport our production to the most favorable markets or at all;
- the impact of government regulation, including the ability to obtain and maintain permits, any increase in severance or similar taxes, and legislation relating to hydraulic fracturing, climate and over-the-counter derivatives;
- the impact of the adverse outcome of any material litigation against us;
- the effects of weather;
- increased competition and regulation;
- the financial impact of accounting regulations and critical accounting policies;
- the comparative cost of alternative fuels;
- credit risk relating to the risk of loss as a result of non-performance by our counterparties; and
- any other factors listed in the reports we have filed and may file with the Securities and Exchange Commission (“SEC”).

Should one or more of the risks or uncertainties described above or elsewhere in this Quarterly Report occur, or should underlying assumptions prove incorrect, our actual results and plans could differ materially from those expressed in any forward-looking statements. We specifically disclaim all responsibility to publicly update any information contained in a forward-looking statement or any forward-looking statement in its entirety and therefore disclaim any resulting liability for potentially related damages.

All forward-looking statements attributable to us are expressly qualified in their entirety by this cautionary statement.

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PART I – FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS.

SOUTHWESTERN ENERGY COMPANY AND SUBSIDIARIES
 CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
 (Unaudited)

	For the three months ended		For the six months ended	
	June 30,	2015	June 30,	2015
	2016		2016	
	(in millions, except share/per share amounts)			
Operating Revenues:				
Gas sales	\$ 251	\$ 457	\$ 566	\$ 1,082
Oil sales	20	24	31	41
NGL sales	20	15	37	33
Marketing	196	222	394	447
Gas gathering	35	46	73	94
	522	764	1,101	1,697
Operating Costs and Expenses:				
Marketing purchases	197	219	393	441
Operating expenses	151	176	316	331
General and administrative expenses	56	60	110	128
Restructuring charges	11	–	75	–
Depreciation, depletion and amortization	107	308	250	601
Impairment of natural gas and oil properties	470	1,535	1,504	1,535
Gain on sale of assets, net	–	(277)	–	(277)
Taxes, other than income taxes	22	27	45	57
	1,014	2,048	2,693	2,816
Operating Loss	(492)	(1,284)	(1,592)	(1,119)
Interest Expense:				
Interest on debt	56	52	109	102
Other interest charges	2	3	4	52
Interest capitalized	(41)	(54)	(82)	(102)
	17	1	31	52
Other Income (Loss), Net	–	3	(3)	2
Gain (Loss) on Derivatives	(85)	1	(99)	15
Loss Before Income Taxes	(594)	(1,281)	(1,725)	(1,154)

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Provision (Benefit) for Income Taxes:

Current	–	7	–	7
Deferred	(1)	(500)	–	(451)
	(1)	(493)	–	(444)
Net Loss	\$ (593)	\$ (788)	\$ (1,725)	\$ (710)
Mandatory convertible preferred stock dividend	27	27	54	52
Net Loss Attributable to Common Stock	\$ (620)	\$ (815)	\$ (1,779)	\$ (762)

Loss Per Common Share:

Basic	\$ (1.61)	\$ (2.13)	\$ (4.63)	\$ (2.01)
Diluted	\$ (1.61)	\$ (2.13)	\$ (4.63)	\$ (2.01)

Weighted Average Common Shares Outstanding:

Basic	385,594,815	382,114,011	384,232,831	378,797,446
Diluted	385,594,815	382,114,011	384,232,831	378,797,446

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

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SOUTHWESTERN ENERGY COMPANY AND SUBSIDIARIES
 CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
 (Unaudited)

	For the three months ended June 30, 2016		For the six months ended June 30, 2016	
	2016	2015	2016	2015
	(in millions)			
Net loss	\$ (593)	\$ (788)	\$ (1,725)	\$ (710)
Change in derivatives:				
Settlements (1)	–	(33)	–	(58)
Change in fair value of derivative instruments (2)	–	(4)	–	13
Total change in derivatives	–	(37)	–	(45)
Change in value of pension and other postretirement liabilities:				
Amortization of prior service cost and net loss included in net periodic pension cost (3)	(1)	–	–	–
Net gain incurred in period (4)	4	–	4	–
Change in currency translation adjustment	–	2	3	(4)
Comprehensive loss	\$ (590)	\$ (823)	\$ (1,718)	\$ (759)

(1) Net of (\$20) million and (\$37) million in taxes for the three and six months ended June 30, 2015.

(2) Net of \$1 million and \$8 million in taxes for the three and six months ended June 30, 2015.

(3) Net of \$1 million in taxes for the six months ended June 30, 2016.

(4) Net of \$1 million in taxes for the three and six months ended June 30, 2016.

The accompanying notes are an integral part of these

unaudited condensed consolidated financial statements.

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SOUTHWESTERN ENERGY COMPANY AND SUBSIDIARIES
 CONDENSED CONSOLIDATED BALANCE SHEETS
 (Unaudited)

	June 30, 2016	December 31, 2015
	(in millions)	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 998	\$ 15
Accounts receivable, net	235	327
Derivative assets	16	3
Other current assets	29	48
Total current assets	1,278	393
Natural gas and oil properties, using the full cost method, including \$3,382 million as of June 30, 2016 and \$3,727 million as of December 31, 2015 excluded from amortization	22,657	22,478
Gathering systems	1,280	1,280
Other	592	606
Less: Accumulated depreciation, depletion and amortization	(18,582)	(16,821)
Total property and equipment, net	5,947	7,543
Other long-term assets	152	150
TOTAL ASSETS	\$ 7,377	\$ 8,086
LIABILITIES AND EQUITY		
Current liabilities:		
Short-term debt	\$ 1	\$ 1
Accounts payable	296	513
Taxes payable	61	64
Interest payable	75	75
Dividends payable	27	27
Derivative liabilities	76	3
Other current liabilities	55	24
Total current liabilities	591	707
Long-term debt	5,767	4,704
Pension and other postretirement liabilities	51	50
Other long-term liabilities	395	343
Total long-term liabilities	6,213	5,097
Commitments and contingencies (Note 11)		
Equity:		
Common stock, \$0.01 par value; 1,250,000,000 shares authorized; issued 392,496,825 (1) shares as of June 30, 2016 (does not include 2,100,119 shares declared as a stock dividend on June 14, 2016 to be issued on July 15, 2016) and 390,138,549 as of December 31, 2015	4	4
Preferred stock, \$0.01 par value, 10,000,000 shares authorized, 6.25% Series B Mandatory Convertible, \$1,000 per share liquidation preference, 1,725,000 shares issued and outstanding as of June 30, 2016 and December 31, 2015, conversion in January 2018	—	—
Additional paid-in capital	3,418	3,409

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Accumulated deficit	(2,807)	(1,082)
Accumulated other comprehensive loss	(41)	(48)
Common stock in treasury, 31,269 shares as of June 30, 2016 and 47,149 shares as of December 31, 2015, respectively	(1)	(1)
Total equity	573	2,282
TOTAL LIABILITIES AND EQUITY	\$ 7,377	\$ 8,086

(1) Does not include 98,900,000 shares of common stock issued in July 2016.

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

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SOUTHWESTERN ENERGY COMPANY AND SUBSIDIARIES
 CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
 (Unaudited)

	For the six months ended June 30, 2016 2015 (in millions)	
Cash Flows From Operating Activities		
Net loss	\$ (1,725)	\$ (710)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation, depletion and amortization	250	603
Impairment of natural gas and oil properties	1,504	1,535
Amortization of debt issuance costs	4	49
Deferred income taxes	–	(451)
Loss on derivatives, net of settlement	129	71
Stock-based compensation	17	12
Gain on sale of assets, net	–	(277)
Restructuring charges	29	–
Other	7	–
Change in assets and liabilities:		
Accounts receivable	92	162
Inventories	(7)	–
Accounts payable	(139)	(22)
Taxes payable	(3)	(30)
Interest payable	–	14
Other assets and liabilities	7	(16)
Net cash provided by operating activities	165	940