

CABOT OIL & GAS CORP
Form 10-Q
October 25, 2013
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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, 2013

**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)

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DELAWARE
(State or other jurisdiction of
incorporation or organization)

04-3072771
(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 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. (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer
(Do not check if a smaller reporting company)

Smaller reporting company

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

As of October 21, 2013, there were 421,959,520 shares of Common Stock, Par Value \$.10 Per Share, outstanding.

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

(In thousands, except share amounts)	September 30, 2013	December 31, 2012
ASSETS		
Current assets		
Cash and cash equivalents	\$ 27,932	\$ 30,736
Accounts receivable, net	178,479	172,419
Income taxes receivable	1,972	
Inventories	20,839	14,173
Derivative instruments	56,831	50,824
Other current assets	3,703	2,158
Total current assets	289,756	270,310
Properties and equipment, net (Successful efforts method)	4,690,176	4,310,977
Derivative instruments	8,708	
Other assets	42,752	35,026
	\$ 5,031,392	\$ 4,616,313
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable	\$ 335,349	\$ 312,480
Current portion of long-term debt		75,000
Accrued liabilities	59,234	49,789
Income taxes payable		1,667
Deferred income taxes	4,690	5,203
Total current liabilities	399,273	444,139
Postretirement benefits	41,041	38,864
Long-term debt	1,162,000	1,012,000
Deferred income taxes	986,943	882,672
Asset retirement obligation	70,525	67,016
Other liabilities	42,876	40,175
Total liabilities	2,702,658	2,484,866
Commitments and contingencies		
Stockholders' equity		
Common stock:		
Authorized 480,000,000 shares of \$0.10 par value in 2013 and 2012, respectively		
Issued 421,959,520 shares and 420,859,462 shares in 2013 and 2012, respectively	42,196	42,086
Additional paid-in capital	698,383	695,566

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Retained earnings	1,558,260	1,373,264
Accumulated other comprehensive income / (loss)	33,244	23,880
Less treasury stock, at cost:		
808,800 shares in 2013 and 2012, respectively	(3,349)	(3,349)
Total stockholders' equity	2,328,734	2,131,447
	\$ 5,031,392	\$ 4,616,313

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 September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
OPERATING REVENUES				
Natural gas	\$ 341,901	\$ 231,896	\$ 1,004,085	\$ 639,729
Crude oil and condensate	84,209	57,870	220,090	165,317
Brokered natural gas	7,165	5,238	26,302	23,831
Other	2,575	1,870	8,338	5,790
	435,850	296,874	1,258,815	834,667
OPERATING EXPENSES				
Direct operations	32,923	28,269	101,398	84,895
Transportation and gathering	60,803	34,430	159,672	97,827
Brokered natural gas cost	5,913	4,258	21,006	20,380
Taxes other than income	11,532	10,436	34,583	39,873
Exploration	3,891	9,303	12,444	29,548
Depreciation, depletion and amortization	168,980	110,448	469,022	335,421
General and administrative	24,697	23,829	82,009	93,249
	308,739	220,973	880,134	701,193
Gain / (loss) on sale of assets	4,421	(126)	4,601	67,042
INCOME FROM OPERATIONS	131,532	75,775	383,282	200,516
Interest expense and other	15,796	16,219	48,752	51,631
Income before income taxes	115,736	59,556	334,530	148,885
Income tax expense	45,847	22,948	132,703	58,021
NET INCOME	\$ 69,889	\$ 36,608	\$ 201,827	\$ 90,864
Earnings per share				
Basic	\$ 0.17	\$ 0.09	\$ 0.48	\$ 0.22
Diluted	\$ 0.17	\$ 0.09	\$ 0.48	\$ 0.22
Weighted-average shares outstanding				
Basic	420,986	419,312	420,664	418,866
Diluted	423,453	422,452	422,824	421,994
Dividends per common share	\$ 0.02	\$ 0.01	\$ 0.04	\$ 0.03

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 COMPREHENSIVE INCOME (Unaudited)

(In thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Net income	\$ 69,889	\$ 36,608	\$ 201,827	\$ 90,864
Other comprehensive income / (loss), net of taxes:				
Reclassification adjustment for settled hedge contracts (1)	(11,942)	(37,294)	(22,372)	(115,943)
Changes in fair value of hedge contracts (2)	(1,447)	(24,361)	31,417	30,091
Pension and postretirement benefits:				
Amortization of prior service cost (3)				135
Amortization of net loss (4)	70	79	319	8,428
Total other comprehensive income / (loss)	(13,319)	(61,576)	9,364	(77,289)
Comprehensive income / (loss)	\$ 56,570	\$ (24,968)	\$ 211,191	\$ 13,575

(1) Net of income taxes of \$7,742 and \$23,644 for the three months ended September 30, 2013 and 2012, respectively, and \$14,504 and \$73,507 for the nine months ended September 30, 2013 and 2012, respectively.

(2) Net of income taxes of \$937 and \$15,444 for the three months ended September 30, 2013 and 2012, respectively, and \$(20,366) and \$(19,208) for the nine months ended September 30, 2013 and 2012, respectively.

(3) Net of income taxes of \$0 and \$0 for the three months ended September 30, 2013 and 2012, respectively, and \$0 and \$(86) for the nine months ended September 30, 2013 and 2012, respectively.

(4) Net of income taxes of \$(46) and \$(53) for the three months ended September 30, 2013 and 2012, respectively, and \$(206) and \$(5,347) for the nine months ended September 30, 2013 and 2012, respectively.

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)

(In thousands)	Nine Months Ended September 30,	
	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 201,827	\$ 90,864
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation, depletion and amortization	469,022	335,421
Deferred income tax expense	107,235	42,714
(Gain) / loss on sale of assets	(4,601)	(67,042)
Exploration expense	807	12,118
Unrealized (gain) / loss on derivative instruments		449
Amortization of debt issuance costs	2,767	4,300
Stock-based compensation, pension and other	36,684	37,518
Changes in assets and liabilities:		
Accounts receivable, net	(6,321)	10,747
Inventories	(6,665)	3,582
Other current assets	(1,547)	(1,125)
Accounts payable and accrued liabilities	(19,837)	(16,391)
Income taxes	(3,639)	205
Other assets and liabilities	228	1,752
Stock-based compensation tax benefit	(9,284)	
Net cash provided by operating activities	766,676	455,112
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital expenditures	(843,528)	(669,198)
Proceeds from sale of assets	15,174	132,740
Investment in equity method investment	(8,624)	(4,488)
Net cash used in investing activities	(836,978)	(540,946)
CASH FLOWS FROM FINANCING ACTIVITIES		
Borrowings from debt	585,000	280,000
Repayments of debt	(510,000)	(168,000)
Stock-based compensation tax benefit	9,284	
Dividends paid	(16,830)	(12,561)
Capitalized debt issuance costs		(5,005)
Other	44	(1,010)
Net cash provided by financing activities	67,498	93,424
Net (decrease) / increase in cash and cash equivalents	(2,804)	7,590
Cash and cash equivalents, beginning of period	30,736	29,911
Cash and cash equivalents, end of period	\$ 27,932	\$ 37,501

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

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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, 2012 (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 current year presentation. These reclassifications have no impact on previously reported net income.

On July 23, 2013, the Board of Directors declared a 2-for-1 stock split of the Company's common stock in the form of a stock dividend. The stock dividend was distributed on August 14, 2013 to shareholders of record on August 6, 2013. All common stock accounts and per share data have been retroactively adjusted to give effect to the 2-for-1 split of the Company's common stock.

With respect to the unaudited financial information of the Company as of September 30, 2013 and for the three and nine months ended September 30, 2013 and 2012, PricewaterhouseCoopers LLP reported that they have applied limited procedures in accordance with professional standards for a review of such information. However, their separate report dated October 25, 2013 appearing herein states that they did not audit and they do not express an opinion on that unaudited financial information. Accordingly, the degree of reliance on their report on such information should be restricted in light of the limited nature of the review procedures applied. PricewaterhouseCoopers LLP is not subject to the liability provisions of Section 11 of the Securities Act of 1933 for their report on the unaudited financial information because that report is not a report or a part of a registration statement prepared or certified by PricewaterhouseCoopers LLP within the meaning of Sections 7 and 11 of the Act.

Recent Accounting Pronouncements

In July 2013, the Financial Accounting Standards Board issued Accounting Standards Update (ASU) No. 2013-11, Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists. The amendments in this update clarify the financial statement presentation of an unrecognized tax benefit when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists. The amendments are effective for fiscal years, and interim periods within those years, beginning after December 15, 2013. The Company does not expect this guidance to have a material impact on its consolidated financial position, results of operations or cash flows.

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Effective January 1, 2013, the Company adopted the amended disclosure requirements prescribed in ASU No. 2011-11, Disclosures about Offsetting Assets and Liabilities and ASU No. 2013-01, Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities. This guidance impacted the disclosures associated with the Company's commodity derivatives (Note 7) and did not impact its consolidated financial position, results of operations or cash flows.

Effective January 1, 2013, the Company adopted the amended disclosure requirements prescribed in ASU No. 2013-02, Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income. This guidance impacted the Company's disclosures associated with items reclassified from accumulated other comprehensive income / (loss) (Note 9) and did not impact its consolidated financial position, results of operations or cash flows.

Table of Contents**2. PROPERTIES AND EQUIPMENT, NET**

Properties and equipment, net are comprised of the following:

(In thousands)	September 30, 2013	December 31, 2012
Proved oil and gas properties	\$ 6,522,753	\$ 5,724,940
Unproved oil and gas properties	444,353	467,483
Gathering and pipeline systems	240,285	239,656
Land, building and other equipment	92,740	86,137
	7,300,131	6,518,216
Accumulated depreciation, depletion and amortization	(2,609,955)	(2,207,239)
	\$ 4,690,176	\$ 4,310,977

At September 30, 2013, the Company did not have any projects that had exploratory well costs that were capitalized for a period of greater than one year after drilling.

Divestitures

In June 2012, the Company sold a 35% non-operated working interest associated with certain of its Pearsall Shale undeveloped leaseholds in south Texas to a wholly-owned subsidiary of Osaka Gas Co., Ltd. (Osaka) for total consideration of approximately \$251.0 million. The Company received \$125.0 million in cash proceeds and Osaka agreed to fund 85% of the Company's share of future drilling and completion costs associated with these leaseholds until it has paid approximately \$126.0 million in accordance with a joint development agreement entered into at the closing. The Company recognized a \$67.0 million gain on sale of assets associated with this sale. The drilling and completion carry under the joint development agreement will terminate two years after the closing of the transaction; however, based on the Company's current drilling and completion activities in the Pearsall Shale, the Company expects that the carry will be fully satisfied in the fourth quarter of 2013.

Subsequent Event

In October 2013, the Company entered into purchase and sale agreements to sell certain proved and unproved oil and gas properties located in the Oklahoma and Texas panhandles for approximately \$160.0 million and west Texas for approximately \$28.0 million. These transactions are expected to close in the fourth quarter 2013, subject to customary closing conditions and adjustments.

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Certain balance sheet amounts are comprised of the following:

(In thousands)	September 30, 2013	December 31, 2012
Accounts receivable, net		
Trade accounts	\$ 173,096	\$ 165,070
Joint interest accounts	5,452	5,659
Other accounts	1,612	2,817
	180,160	173,546
Allowance for doubtful accounts	(1,681)	(1,127)
	\$ 178,479	\$ 172,419
Inventories		
Natural gas in storage	\$ 11,732	\$ 7,494
Tubular goods and well equipment	9,136	6,392
Other accounts	(29)	287
	\$ 20,839	\$ 14,173
Other current assets		
Prepaid balances and other	3,703	2,158
	\$ 3,703	\$ 2,158
Other assets		
Deferred compensation plan	\$ 11,865	\$ 10,608
Debt issuance cost	14,652	17,420
Equity method investment	16,154	6,915
Other accounts	81	83
	\$ 42,752	\$ 35,026
Accounts payable		
Trade accounts	\$ 24,295	\$ 5,097
Natural gas purchases	6,389	