

CABOT OIL & GAS CORP
Form 10-Q
July 27, 2012
[Table of Contents](#)

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 June 30, 2012

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)

Edgar Filing: CABOT OIL & GAS CORP - Form 10-Q

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 <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 July 23, 2012, there were 209,988,641 shares of Common Stock, Par Value \$.10 Per Share, outstanding.

Table of Contents

CABOT OIL & GAS CORPORATION

INDEX TO FINANCIAL STATEMENTS

	Page
<u>Part I. Financial Information</u>	
<u>Item 1. Financial Statements</u>	
<u>Condensed Consolidated Balance Sheet at June 30, 2012 and December 31, 2011</u>	3
<u>Condensed Consolidated Statement of Operations for the Three and Six Months Ended June 30, 2012 and 2011</u>	4
<u>Condensed Consolidated Statement of Comprehensive Income for the Three and Six Months Ended June 30, 2012 and 2011</u>	5
<u>Condensed Consolidated Statement of Cash Flows for the Six Months Ended June 30, 2012 and 2011</u>	6
<u>Notes to the Condensed Consolidated Financial Statements</u>	7
<u>Report of Independent Registered Public Accounting Firm on Review of Interim Financial Information</u>	21
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	22
<u>Item 3. Quantitative and Qualitative Disclosures about Market Risk</u>	32
<u>Item 4. Controls and Procedures</u>	34
<u>Part II. Other Information</u>	
<u>Item 1. Legal Proceedings</u>	34
<u>Item 1A. Risk Factors</u>	34
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	35
<u>Item 6. Exhibits</u>	36
<u>Signatures</u>	37

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)	June 30, 2012	December 31, 2011
ASSETS		
Current Assets		
Cash and Cash Equivalents	\$ 48,641	\$ 29,911
Accounts Receivable, Net	89,167	114,381
Income Taxes Receivable		1,388
Inventories	11,985	21,278
Derivative Instruments	139,346	174,263
Other Current Assets	6,728	4,579
Total Current Assets	295,867	345,800
Properties and Equipment, Net (Successful Efforts Method)	4,061,674	3,934,584
Derivative Instruments	18,759	21,249
Other Assets	33,892	29,860
	\$ 4,410,192	\$ 4,331,493
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Accounts Payable	\$ 237,417	\$ 217,294
Income Taxes Payable	3,387	
Deferred Income Taxes	45,939	55,132
Accrued Liabilities	54,116	70,918
Total Current Liabilities	340,859	343,344
Postretirement Benefits	40,474	38,708
Long-Term Debt	972,000	950,000
Deferred Income Taxes	829,027	802,592
Asset Retirement Obligation	61,952	60,142
Other Liabilities	34,550	31,939
Total Liabilities	2,278,862	2,226,725
Commitments and Contingencies		
Stockholders' Equity		
Common Stock:		
Authorized 480,000,000 Shares of \$0.10 Par Value in 2012 and 240,000,000 Shares of \$0.10 Par Value in 2011		
Issued 209,975,716 Shares and 209,019,458 Shares in 2012 and 2011, respectively	20,998	20,902
Additional Paid-in Capital	720,670	724,377

Edgar Filing: CABOT OIL & GAS CORP - Form 10-Q

Retained Earnings	1,304,178	1,258,291
Accumulated Other Comprehensive Income	88,833	104,547
Less Treasury Stock, at Cost:		
404,400 Shares in 2012 and 2011, respectively	(3,349)	(3,349)
Total Stockholders' Equity	2,131,330	2,104,768
	\$ 4,410,192	\$ 4,331,493

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

Table of Contents**CABOT OIL & GAS CORPORATION****CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS (Unaudited)**

(In thousands, except per share amounts)	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
OPERATING REVENUES				
Natural Gas	\$ 201,051	\$ 200,357	\$ 407,833	\$ 370,455
Brokered Natural Gas	5,149	11,072	18,593	29,480
Crude Oil and Condensate	57,466	28,042	107,447	46,634
Other	1,991	1,225	3,920	3,153
	265,657	240,696	537,793	449,722
OPERATING EXPENSES				
Brokered Natural Gas Cost	4,250	9,796	16,122	25,158
Direct Operations	29,306	22,579	56,626	49,586
Transportation and Gathering	33,139	16,074	63,397	28,942
Taxes Other Than Income	10,854	5,877	29,437	14,028
Exploration	16,244	4,592	20,245	10,900
Depreciation, Depletion and Amortization	114,616	83,225	224,973	160,349
General and Administrative	46,872	26,006	69,421	50,305
	255,281	168,149	480,221	339,268
Gain / (Loss) on Sale of Assets	67,703	34,071	67,168	32,554
INCOME FROM OPERATIONS	78,079	106,618	124,740	143,008
Interest Expense and Other	18,495	18,044	35,412	35,411
Income Before Income Taxes	59,584	88,574	89,328	107,597
Income Tax Expense	23,647	33,897	35,073	40,034
NET INCOME	\$ 35,937	\$ 54,677	\$ 54,255	\$ 67,563
Earnings Per Share				
Basic	\$ 0.17	\$ 0.26	\$ 0.26	\$ 0.32
Diluted	\$ 0.17	\$ 0.26	\$ 0.26	\$ 0.32
Weighted-Average Shares Outstanding				
Basic	209,512	208,528	209,320	208,408
Diluted	211,158	210,674	210,974	210,176
Dividends per common share	\$ 0.02	\$ 0.02	\$ 0.04	\$ 0.03

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

Table of Contents

CABOT OIL & GAS CORPORATION

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (Unaudited)

(In thousands)	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Net Income	\$ 35,937	\$ 54,677	\$ 54,255	\$ 67,563
Other Comprehensive Income / (Loss), net of taxes:				
Reclassification Adjustment for Settled Contracts (1)	(44,579)	(8,155)	(78,649)	(16,326)
Changes in Fair Value of Hedge Positions (2)	11,246	29,983	54,451	37,778
Defined Benefit Pension and Postretirement Plans:				
Amortization of Net Obligation at Transition (3)		99		198
Amortization of Prior Service Cost (4)	67	199	135	398
Amortization of Net Loss (5)	4,174	2,009	8,349	4,018
Foreign Currency Translation Adjustment (6)		(6)		(8)
Total Other Comprehensive Income / (Loss)	(29,092)	24,129	(15,714)	26,058
Comprehensive Income / (Loss)	\$ 6,845	\$ 78,806	\$ 38,541	\$ 93,621

(1) Net of income taxes of \$28,263 and \$4,998 for the three months ended June 30, 2012 and 2011, respectively, and \$49,863 and \$10,006 for the six months ended June 30, 2012 and 2011, respectively.

(2) Net of income taxes of \$(7,130) and \$(18,331) for the three months ended June 30, 2012 and 2011, respectively, and \$(34,653) and \$(23,109) for the six months ended June 30, 2012 and 2011, respectively.

(3) Net of income taxes of \$0 and \$(59) for the three months ended June 30, 2012 and 2011, respectively, and \$0 and \$(118) for the six months ended June 30, 2012 and 2011, respectively.

(4) Net of income taxes of \$(43) and \$(117) for the three months ended June 30, 2012 and 2011, respectively and \$(86) and \$(235) for the six months ended June 30, 2012 and 2011, respectively.

(5) Net of income taxes of \$(2,647) and \$(1,194) for the three months ended June 30, 2012 and 2011, respectively and \$(5,294) and \$(2,388) for the six months ended June 30, 2012 and 2011, respectively.

(6) Net of income taxes of \$0 and \$3 for the three months ended June 30, 2012 and 2011, respectively and \$0 and \$3 for the six months ended June 30, 2012 and 2011, respectively.

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

Table of Contents

CABOT OIL & GAS CORPORATION

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (Unaudited)

(In thousands)	Six Months Ended June 30,	
	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Income	\$ 54,255	\$ 67,563
Adjustments to Reconcile Net Income to Cash Provided by Operating Activities:		
Depreciation, Depletion and Amortization	224,973	160,349
Deferred Income Tax Expense	27,073	36,886
(Gain) / Loss on Sale of Assets	(67,168)	(32,554)
Exploration Expense	10,925	504
Unrealized (Gain) / Loss on Derivative Instruments	300	886
Amortization of Debt Issuance Costs	3,334	2,253
Stock-Based Compensation, Pension and Other	26,987	26,932
Changes in Assets and Liabilities:		
Accounts Receivable, Net	25,214	(22,826)
Income Taxes	4,775	(33,850)
Inventories	9,293	5,623
Other Current Assets	(3,691)	(1,208)
Accounts Payable and Accrued Liabilities	(28,675)	10,821
Other Assets and Liabilities	3,547	(678)
Net Cash Provided by Operating Activities	291,142	220,701
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital Expenditures	(411,327)	(404,214)
Proceeds from Sale of Assets	132,715	54,336
Investment in Equity Method Investment	(2,088)	
Net Cash Used in Investing Activities	(280,700)	(349,878)
CASH FLOWS FROM FINANCING ACTIVITIES		
Borrowings from Debt	170,000	220,000
Repayments of Debt	(148,000)	(100,000)
Dividends Paid	(8,368)	(6,250)
Capitalized Debt Issuance Costs	(5,005)	(1,025)
Other	(339)	(183)
Net Cash Provided by Financing Activities	8,288	112,542
Net Increase / (Decrease) in Cash and Cash Equivalents	18,730	(16,635)
Cash and Cash Equivalents, Beginning of Period	29,911	55,949
Cash and Cash Equivalents, End of Period	\$ 48,641	\$ 39,314

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

Table of Contents

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, 2011 (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 January 3, 2012, the Board of Directors declared a 2-for-1 split of the Company's common stock in the form of a stock dividend. The stock dividend was distributed on January 25, 2012 to shareholders of record as of January 17, 2012. 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 June 30, 2012 and for the three and six months ended June 30, 2012 and 2011, 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 July 27, 2012 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 the registration statement prepared or certified by PricewaterhouseCoopers LLP within the meaning of Sections 7 and 11 of the Act.

Recent Accounting Pronouncements

In May 2011, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2011-04, Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs. The amendments in this update generally represent clarifications of Topic 820, but also include some instances where a particular principle or requirement for measuring fair value or disclosing information about fair value measurements has changed. This update results in common principles and requirements for measuring fair value and for disclosing information about fair value measurements in accordance with U.S. GAAP and IFRS. The amendments are effective for interim and annual periods beginning after December 15, 2011 and are to be applied prospectively. This update did not have any impact on the Company's consolidated financial position, results of operations or cash flows.

Edgar Filing: CABOT OIL & GAS CORP - Form 10-Q

In June 2011, the FASB issued ASU No. 2011-05, Presentation of Comprehensive Income. ASU No. 2011-05 was amended in December 2011 by ASU No. 2011-12, Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in ASU No. 2011-05. ASU No. 2011-12 defers only those changes in ASU No. 2011-05 that relate to the presentation of reclassification adjustments. All other requirements in ASU No. 2011-05 are not affected by ASU No. 2011-12, including the requirement to report comprehensive income either in a single continuous financial statement or in two separate but consecutive financial statements. ASU No. 2011-05 and 2011-12 are effective for fiscal years (including interim periods) beginning after December 15, 2011. The Company has elected to present two separate but consecutive financial statements. These updates did not have any impact on the Company's consolidated financial position, results of operations or cash flows.

In December 2011, the FASB issued ASU No. 2011-11, Disclosures about Offsetting Assets and Liabilities. The amendments in this update require enhanced disclosures around financial instruments and derivative instruments that are either (1) offset in accordance with either Accounting Standards Codification (ASC) 210-20-45 or ASC 815-10-45 or (2) subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are offset in accordance with either ASC 210-20-45 or ASC 815-10-45. An entity should provide the disclosures required by those amendments retrospectively for all comparative periods presented. The amendments are effective during interim and annual periods beginning on or after January 1, 2013. This guidance will primarily impact the Company's disclosures associated with its commodity derivatives. The Company does not expect this guidance to have any impact on 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)	June 30, 2012	December 31, 2011
Proved Oil and Gas Properties	\$ 5,376,987	\$ 5,006,846
Unproved Oil and Gas Properties	456,548	478,942
Gathering and Pipeline Systems	238,802	238,660
Land, Building and Other Equipment	82,464	80,908
	6,154,801	5,805,356
Accumulated Depreciation, Depletion and Amortization	(2,093,127)	(1,870,772)
	\$ 4,061,674	\$ 3,934,584

At June 30, 2012, 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 \$251.1 million, subject to post-closing adjustments. 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 \$126.1 million in accordance with a joint development agreement entered into at the closing. The drilling and completion carry will terminate two years after the closing of the transaction. The Company recognized a \$67.0 million gain on sale of assets associated with this sale.

During the first six months of 2011, the Company entered into two participation agreements with third parties related to certain of its Haynesville and Bossier shale leaseholds in east Texas. Under the terms of the participation agreements, the third parties agreed to fund 100% of the cost to drill and complete certain Haynesville and Bossier shale wells in the related leaseholds over a multi-year period in exchange for a 75% working interest in the leaseholds. During the first six months of 2011, the Company received reimbursement of drilling costs incurred of approximately \$11.2 million associated with wells that had commenced drilling prior to the execution of the participation agreements.

In May 2011, the Company sold certain of its Haynesville and Bossier Shale oil and gas properties in east Texas to a third party. The Company received approximately \$47.0 million in cash proceeds and recognized a \$34.2 million gain on sale of assets.

Table of Contents**3. ADDITIONAL BALANCE SHEET INFORMATION**

Certain balance sheet amounts are comprised of the following:

(In thousands)	June 30, 2012	December 31, 2011
ACCOUNTS RECEIVABLE, NET		
Trade Accounts	\$ 82,915	\$ 111,306
Joint Interest Accounts	3,703	5,417
Other Accounts	3,561	1,003
	90,179	117,726
Allowance for Doubtful Accounts	(1,012)	(3,345)
	\$ 89,167	\$ 114,381
INVENTORIES		
Natural Gas in Storage	\$ 5,466	\$ 13,513
Tubular Goods and Well Equipment	6,247	7,146
Other Accounts	272	619
	\$ 11,985	\$ 21,278
OTHER CURRENT ASSETS		
Prepaid Balances and Other	4,821	2,345
Restricted Cash	1,907	2,234
	\$ 6,728	\$ 4,579
OTHER ASSETS		
Rabbi Trust Deferred Compensation Plan	\$ 11,146	\$ 10,838
Debt Issuance Cost	19,351	17,680
Equity Method Investment	2,078	
Other Accounts	1,317	1,342
	\$ 33,892	\$ 29,860
ACCOUNTS PAYABLE		