

SOUTHWESTERN ENERGY CO

Form 10-Q

October 25, 2018

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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 September 30, 2018

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 (I.R.S. Employer  
incorporation or organization) Identification No.)

10000 Energy Drive

Spring, Texas 77389  
(Address of principal executive (Zip Code)  
offices)

(832) 796-1000  
(Registrant's telephone number, including area code)

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Not Applicable

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

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 every Interactive Data File required to be submitted 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 such files). Yes No

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

<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Large accelerated filer	Non-accelerated filer	Smaller reporting company	Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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:

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Class	Outstanding as of October 23, 2018
Common Stock, Par Value \$0.01	581,277,782

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SOUTHWESTERN ENERGY COMPANY

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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-

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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:

- 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 profitably maintained;
- our ability to consummate the closing of the sale of our Fayetteville Shale assets and to realize the expected benefits from acquisitions;
- our ability to transport our production to the most favorable markets or at all;
- availability and costs of personnel and of products and services provided by third parties;
- the impact of laws and government regulation, including the ability to obtain and maintain permits, any increase in severance or similar taxes, and legislation and judicial or administrative decisions relating to hydraulic fracturing, climate change, other environmental matters and over-the-counter derivatives;
- the impact of the adverse outcome of any material litigation against us or involving our industry;
- 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  
CONSOLIDATED STATEMENTS OF OPERATIONS  
(Unaudited)

(in millions, except share/per share amounts)	For the three months ended		For the nine months ended	
	September 30, 2018	2017	September 30, 2018	2017
Operating Revenues:				
Gas sales	\$ 465	\$ 394	\$ 1,412	\$ 1,368
Oil sales	62	27	141	73
NGL sales	112	55	252	132
Marketing	287	233	805	736
Gas gathering	25	28	73	85
Other	–	–	4	–
	951	737	2,687	2,394
Operating Costs and Expenses:				
Marketing purchases	288	236	808	740
Operating expenses	206	170	588	481
General and administrative expenses	51	62	165	170
Restructuring charges	2	–	20	–
Depreciation, depletion and amortization	151	135	436	364
Impairments	161	–	161	–
Taxes, other than income taxes	26	24	64	75
	885	627	2,242	1,830
Operating Income	66	110	445	564
Interest Expense:				
Interest on debt	56	58	180	175
Other interest charges	2	2	6	7
Interest capitalized	(29)	(29)	(86)	(85)
	29	31	100	97
Gain (Loss) on Derivatives	(65)	45	(108)	295
Loss on Early Extinguishment of Debt	–	(59)	(8)	(70)
Other Income (Loss), Net	(1)	(2)	1	6
Income (Loss) Before Income Taxes	(29)	63	230	698



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Benefit for Income Taxes:				
Current	–	(10)	–	(10)
Deferred	–	(4)	–	(4)
	–	(14)	–	(14)
Net Income (Loss)	\$ (29)	\$ 77	\$ 230	\$ 712
Mandatory convertible preferred stock dividend	–	27	–	81
Participating securities - mandatory convertible preferred stock	–	7	1	83
Net Income (Loss) Attributable to Common Stock	\$ (29)	\$ 43	\$ 229	\$ 548
Earnings (Loss) Per Common Share				
Basic	\$ (0.05)	\$ 0.09	\$ 0.40	\$ 1.11
Diluted	\$ (0.05)	\$ 0.09	\$ 0.39	\$ 1.10
Weighted Average Common Shares Outstanding:				
Basic	581,171,753	499,812,926	577,912,421	496,458,435
Diluted	581,171,753	502,290,779	579,828,858	498,527,671

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

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

(in millions)	For the three months ended September 30,		For the nine months ended September 30,	
	2018	2017	2018	2017
Net income (loss)	\$ (29)	\$ 77	\$ 230	\$ 712
Change in value of pension and other postretirement liabilities:				
Amortization of prior service cost and net gain included in net periodic pension cost (1)	4	1	4	2
Comprehensive income	\$ (25)	\$ 78	\$ 234	\$ 714

(1) Net of \$1 million in taxes for the three and nine months ended September 30, 2018. Net of less than \$1 million in taxes for the three and nine months ended September 30, 2017. However, all deferred tax activity incurred in other comprehensive income was offset by a valuation allowance.

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

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SOUTHWESTERN ENERGY COMPANY AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS  
(Unaudited)

	September 30, 2018	December 31, 2017
	(in millions)	
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 9	\$ 916
Accounts receivable, net	397	428
Derivative assets	104	130
Other current assets	41	35
Current assets held for sale	64	–
Total current assets	615	1,509
Natural gas and oil properties, using the full cost method, including \$1,767 million as of September 30, 2018 and \$1,817 million as of December 31, 2017 excluded from amortization	24,880	23,890
Gathering systems	38	1,315
Other	479	564
Less: Accumulated depreciation, depletion and amortization	(19,928)	(19,997)
Total property and equipment, net	5,469	5,772
Other long-term assets	194	240
Long-term assets held for sale	780	–
<b>TOTAL ASSETS</b>	<b>\$ 7,058</b>	<b>\$ 7,521</b>
<b>LIABILITIES AND EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 563	\$ 533
Taxes payable	32	62
Interest payable	60	70
Dividends payable	–	27
Derivative liabilities	111	64
Other current liabilities	10	24
Current liabilities held for sale	116	–
Total current liabilities	892	780
Long-term debt	3,572	4,391
Pension and other postretirement liabilities	50	58
Other long-term liabilities	162	313
Long-term liabilities held for sale	177	–
Total long-term liabilities	3,961	4,762
Commitments and contingencies <u>(Note 12)</u>		
Equity:		
Common stock, \$0.01 par value; 1,250,000,000 shares authorized; issued 586,195,162 shares as of September 30, 2018 and 512,134,311 as of December 31, 2017	6	5
	–	–

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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 December 31, 2017, converted to common stock on January 12, 2018

Additional paid-in capital	4,714	4,698
Accumulated deficit	(2,449)	(2,679)
Accumulated other comprehensive loss	(40)	(44)
Common stock in treasury, 4,860,280 shares as of September 30, 2018 and 31,269 shares as of December 31, 2017	(26)	(1)
Total equity	2,205	1,979
TOTAL LIABILITIES AND EQUITY	\$ 7,058	\$ 7,521

The accompanying notes are an integral part of these

consolidated financial statements.

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

(in millions)	For the nine months ended September 30,	
	2018	2017
<b>Cash Flows From Operating Activities:</b>		
Net income	\$ 230	\$ 712
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, depletion and amortization	436	364
Amortization of debt issuance costs	6	7
Impairments	161	–
Deferred income taxes	–	(4)
(Gain) loss on derivatives, unsettled	113	(350)
Stock-based compensation	12	19
Loss on early extinguishment of debt	8	70
Other	7	(2)
Change in assets and liabilities:		
Accounts receivable	(7)	3
Accounts payable	60	16
Taxes payable	–	(3)
Interest payable	(5)	(28)
Inventories	(9)	(1)
Other assets and liabilities	(41)	(14)
Net cash provided by operating activities	971	789
<b>Cash Flows From Investing Activities:</b>		
Capital investments	(1,008)	(943)
Proceeds from sale of property and equipment	9	17
Other	4	5
Net cash used in investing activities	(995)	(921)
<b>Cash Flows From Financing Activities:</b>		
Payments on short-term debt	–	(287)
Payments on long-term debt	(1,191)	(1,139)
Payments on revolving credit facility	(1,122)	–
Borrowings under revolving credit facility	1,482	–
Change in bank drafts outstanding	10	–
Proceeds from issuance of long-term debt	–	1,150
Debt issuance costs	(9)	(18)
Purchase of treasury stock	(25)	–
Preferred stock dividend	(27)	(8)
Cash paid for tax withholding	(1)	–
Net cash used in financing activities	(883)	(302)

Decrease in cash and cash equivalents	(907)	(434)
Cash and cash equivalents at beginning of year	916	1,423
Cash and cash equivalents at end of period	\$ 9	\$ 989

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

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SOUTHWESTERN ENERGY COMPANY AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY  
(Unaudited)

	Common Stock Shares Issued (in millions, except share amounts)	Amount	Preferred Stock Shares Issued	Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Common Stock in Treasury	
Balance at December 31, 2017	512,134,311	\$ 5	1,725,000	\$ 4,698	\$ (2,679)	\$ (44)	\$ (1)	\$
Comprehensive income:								
Net income	—	—	—	—	208	—	—	
Other comprehensive income	—	—	—	—	—	—	—	
Total comprehensive income	—	—	—	—	—	—	—	
Stock-based compensation	—	—	—	7	—	—	—	
Conversion of preferred stock	74,998,614							