SOUTHWESTERN ENERGY CO
Form 10-Q
July 21, 2016
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-Q

(Mark One)
[X] 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 or organization)	(I.R.S. Employer Identification No.)

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)

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

Table of Contents

SOUTHWESTERN ENERGY COMPANY

INDEX TO FORM 10-Q
FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2016

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:

Table of Contents

- 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.

Table of Contents

PART I – FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS.

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

	For the three months ended June 30,		For the six months ended June 30,	
	2016	2015	2016	2015
	(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)

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.

3

Table of Contents

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

	For the three months ended June 30,		For the six months ended June 30,	
	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.

4

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

	June 30, 2016	December 31, 2015
ASSETS	(in millions)	
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

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.

Table of Contents

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
Cash Flows From Investing Activities		
Capital investments	(241)	(974)
Acquisitions	–	(569)
Proceeds from sale of property and equipment	54	703
Other	1	10
Net cash used in investing activities	(186)	(830)
Cash Flows From Financing Activities		
Payments on current portion of long-term debt	(1)	(1)
Payments on long-term debt	–	(500)
Payments on short-term debt	–	(4,500)
Payments on revolving credit facility	(3,268)	(1,534)
Borrowings under revolving credit facility	3,152	1,804
Payments on commercial paper	(242)	(1,182)

Borrowings under commercial paper	242	1,288
Change in bank drafts outstanding	(21)	(1)
Proceeds from issuance of long-term debt	1,191	2,200
Debt issuance costs	(16)	(17)
Proceeds from issuance of common stock	–	669
Proceeds from issuance of mandatory convertible preferred stock	–	1,673
Preferred stock dividend	(27)	(25)
Other	(6)	–
Net cash provided by (used in) financing activities	1,004	(126)
Increase (decrease) in cash and cash equivalents	983	(16)
Cash and cash equivalents at beginning of year	15	53
Cash and cash equivalents at end of period	$ 998	$ 37

The accompanying notes are an integral part of these

unaudited condensed consolidated financial statements.

Table of Contents

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

	Common Stock		Preferred Stock	Additional		Accumulated Other	Common Stock	
	Shares			Paid-In	Accumulated	Comprehensive Income	in	
	Issued	Amount	Shares	Capital	Deficit	(Loss)	Treasury	Total
	(in millions, except share amounts)							
Balance at December 31, 2015	390,138,549	$ 4	1,725,000	$ 3,409	$ (1,082)	$ (48)	$ (1)	$ 2,282
Comprehensive loss:								
Net loss	–	–	–	–	(1,725)	–	–	(1,725)
Other comprehensive income	–	–	–	–	–	7	–	7
Total comprehensive loss	–	–	–	–	–	–	–	(1,718)
Stock-based compensation	–	–	–	42	–	–	–	42
Preferred stock dividend	3,024,737	–	–	(27)	–	–		(27)
Issuance of restricted stock	84,165	–	–	–	–	–	–	–
Cancellation of restricted stock	(89,095)	–	–	–	–	–	–	–
Tax withholding – stock compensation	(661,531)	–	–	(6)	–	–	–	(6)
Balance at June 30, 2016	392,496,825	$ 4	1,725,000	$ 3,418	$ (2,807)	$ (41)	$ (1)	$ 573

The accompanying notes are an integral part of these

unaudited condensed consolidated financial statements.

SOUTHWESTERN ENERGY COMPANY AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(1) BASIS OF PRESENTATION

Southwestern Energy Company (including its subsidiaries, collectively "Southwestern" or the "Company") is an independent energy company engaged in natural gas and oil exploration, development and production ("E&P"). The Company is also focused on creating and capturing additional value through its natural gas gathering and marketing businesses ("Midstream"). Southwestern conducts most of its businesses through subsidiaries and operates principally in two segments: E&P and Midstream.

Exploration and Production. Southwestern's primary business is the exploration for and production of natural gas and oil, with current operations principally focused on the development of unconventional natural gas reservoirs located in Pennsylvania, West Virginia and Arkansas. The Company's operations in northeast Pennsylvania, herein referred to as "Northeast Appalachia," are primarily focused on the unconventional natural gas reservoir known as the Marcellus Shale. Operations in West Virginia and southwest Pennsylvania, herein referred to as "Southwest Appalachia," are focused on the Marcellus Shale, the Utica and the Upper Devonian unconventional natural gas and oil reservoirs. Collectively, Southwestern refers to its properties located in Pennsylvania and West Virginia as the "Appalachian Basin." The Company's operations in Arkansas are primarily focused on an unconventional natural gas reservoir known as the Fayetteville Shale. Southwestern has exploration and production activities ongoing in Colorado and Louisiana, along with other areas in which it is currently exploring for new development opportunities. The Company also has drilling rigs located in Pennsylvania, West Virginia and Arkansas and provides oilfield products and services, principally serving its E&P operations.

Midstream. Through the Company's affiliated midstream subsidiaries, Southwestern engages in natural gas gathering activities in Arkansas and Louisiana. These activities primarily support the Company's E&P operations and generate revenue from fees associated with the gathering of natural gas. Southwestern's marketing activities capture opportunities that arise through the marketing and transportation of the natural gas, oil and NGLs produced in its E&P operations.

The accompanying unaudited condensed consolidated financial statements were prepared using accounting principles generally accepted in the United States of America ("GAAP") for interim financial information and in accordance with the rules and regulations of the Securities and Exchange Commission. Certain information relating to the Company's organization and footnote disclosures normally included in financial statements prepared in accordance with GAAP have been appropriately condensed or omitted in this Quarterly Report. The Company believes the disclosures made are adequate to make the information presented not misleading.

The unaudited condensed consolidated financial statements contained in this report include all normal and recurring material adjustments that, in the opinion of management, are necessary for a fair statement of the financial position, results of operations and cash flows for the interim periods presented herein. It is recommended that these unaudited condensed consolidated financial statements be read in conjunction with the consolidated financial statements and the notes thereto included in the Company's Annual Report for the year ended December 31, 2015 ("2015 Annual Report").

The Company's significant accounting policies, which have been reviewed and approved by the Audit Committee of the Company's Board of Directors, are summarized in Note 1 in the Notes to the Consolidated Financial Statements included in the Company's 2015 Annual Report.

Certain reclassifications have been made to the prior year financial statements to conform to the 2016 presentation. The effects of the reclassifications were not material to the Company's unaudited condensed consolidated financial statements.

Table of Contents

(2) CASH AND CASH EQUIVALENTS

The following table presents a summary of cash and cash equivalents as of June 30, 2016 and December 31, 2015:

	June 30, 2016	December 31, 2015
	(in millions)	
Cash	$ 12	$ 15
Marketable securities (1)	986	–
Total cash and cash equivalents	$ 998	$ 15

(1) Consists of money market funds.

(3) REDUCTION IN WORKFORCE

In January 2016, the Company announced a 40% workforce reduction of approximately 1,100 employees as a result of lower anticipated drilling activity. This reduction was substantially completed in the first quarter of 2016. In April 2016, the Company also partially restructured executive management, which was substantially completed in the second quarter of 2016.

The following table presents a summary of the restructuring charges for the three and six months ended June 30, 2016:

	For the three months ended June 30, 2016	For the six months ended June 30, 2016
	(in millions)	
Severance (including payroll taxes) (1)	$ 2	$ 44

Stock-based compensation (2)	6	24
Pension and other postretirement benefits (3)	3	3
Other benefits	–	3
Outplacement services, other	–	1
Total restructuring charges (4)	$ 11	$ 75

(1)Includes $1 million related to executive management restructuring for the three and six months ended June 30, 2016.

(2) Includes $3 million related to executive management restructuring for the three and six months ended June 30, 2016.
(3) Includes non-cash charges related to the curtailment and settlement of the pension and other postretirement benefit plans. See Note 12 for additional details regarding the Company's retirement and employee benefit plans.
(4) Total restructuring charges were $11 million and less than $1 million for the Company's E&P and Midstream segments, respectively, for the three months ended June 30, 2016. For the six months ended June 30, 2016, restructuring charges were $72 million and $3 million for the Company's E&P and Midstream segments, respectively.

The following table presents a summary of liabilities associated with the Company's restructuring activities at June 30, 2016, which are reflected in accounts payable on the unaudited condensed consolidated balance sheet (in millions):

Liability at March 31, 2016	$ 24
Additions	2
Distributions	(24)
Liability at June 30, 2016	$ 2

Severance payments and other separation costs related to restructuring will be completed by the end of the fourth quarter, resulting in the recognition of approximately $0.5 million of additional expense in the second half of 2016.

(4) ACQUISITIONS AND DIVESTITURES

In June 2016, the Company entered into a definitive agreement with Antero Resources Corporation to sell approximately 55,000 net acres in West Virginia for $450 million, subject to customary adjustments. The net book value of these assets is in the full cost pool and was held in the E&P segment as of June 30, 2016. The transaction is expected to close in the third quarter of 2016, subject to customary closing conditions and purchase price adjustments. At June 30, 2016, a $45 million deposit from Antero Resources Corporation was included in other current liabilities within the unaudited condensed consolidated balance sheet. The Company intends to use $375 million of proceeds from the sale for general corporate purposes, including to fund capital projects, and to use the remainder to reduce indebtedness.

Table of Contents

In May 2015, the Company sold conventional oil and gas assets located in East Texas and the Arkoma Basin for approximately $211 million. The net book value of these assets was primarily in the full cost pool and was held in the E&P segment as of the closing date. The proceeds from the transaction were used to reduce the Company's debt. Approximately $205 million of the proceeds received were recorded as a reduction of the capitalized costs of the Company's natural gas and oil properties in the United States pursuant to the full cost method of accounting.

In April 2015, the Company sold its gathering assets located in Bradford and Lycoming counties in northeast Pennsylvania to Howard Midstream Energy Partners, LLC for an adjusted sales price of approximately $489 million. The net book value of these assets was $206 million and was held in the Midstream segment as of the closing date. A gain on sale of $283 million was recognized and is included in gain on sale of assets, net on the unaudited condensed consolidated statement of operations. The assets included approximately 100 miles of natural gas gathering pipelines, with nearly 600 million cubic feet per day of capacity. The proceeds from the transaction were used to substantially repay borrowings under the Company's $500 million term loan facility that would have matured in December 2016.

In January 2015, the Company completed an acquisition of certain natural gas and oil assets including approximately 46,700 net acres in northeast Pennsylvania from WPX Energy, Inc. for an adjusted purchase price of $270 million (the "WPX Property Acquisition"). This acreage was producing approximately 50 million net cubic feet of gas per day from 63 operated horizontal wells as of December 2014. As part of this transaction, the Company assumed firm transportation capacity of 260 million cubic feet of gas per day predominantly on the Millennium pipeline. The firm transport is being amortized over 19 years. As of June 30, 2016 and December 31, 2015 the Company has amortized $13 million and $8 million, respectively. This transaction was funded with the revolving credit facility and was accounted for as a business combination.

In January 2015, the Company completed an acquisition of certain natural gas and oil assets from Statoil ASA covering approximately 30,000 acres in West Virginia and southwest Pennsylvania comprising approximately 20% of Statoil's interests in that acreage for $357 million, (the "Statoil Property Acquisition"). All of these assets were also assets in which the Company had acquired interests under the Chesapeake Property Acquisition, as defined below. This transaction was funded with the revolving credit facility and was accounted for as a business combination. The Company allocated the purchase price to natural gas and oil properties, based on the respective fair values of the assets acquired.

In December 2014, the Company completed an acquisition of certain oil and gas assets from Chesapeake Energy Corporation covering approximately 413,000 net acres in West Virginia and southwest Pennsylvania targeting natural gas, NGLs and crude oil contained in the Upper Devonian, Marcellus and Utica Shales for approximately $5.0 billion (the "Chesapeake Property Acquisition"). The transaction was temporarily financed using a $4.5 billion 364-day senior unsecured bridge term loan credit facility and a $500 million two-year unsecured term loan. The Company repaid all principal and interest outstanding on the $4.5 billion bridge facility in January 2015 after permanent financing was finalized and, as a result, expensed $47 million of short-term unamortized debt issuance costs related to the bridge facility in January 2015, recognized in other interest charges on the unaudited condensed consolidated statement of operations. The term loan facility was repaid in full in April 2015 with proceeds from the divestiture of the Company's northeastern Pennsylvania gathering assets and borrowings under the revolving credit facility.

(5) NATURAL GAS AND OIL PROPERTIES

The Company utilizes the full cost method of accounting for costs related to the exploration, development and acquisition of natural gas and oil properties. Under this method, all such costs (productive and nonproductive), including salaries, benefits and other internal costs directly attributable to these activities are capitalized on a country-by-country basis and amortized over the estimated lives of the properties using the units-of-production method. These capitalized costs are subject to a ceiling test that limits such pooled costs, net of applicable deferred taxes, to the aggregate of the present value of future net revenues attributable to proved natural gas, oil and NGL reserves discounted at 10% (standardized measure) plus the lower of cost or market value of unproved properties. Any costs in excess of the ceiling are written off as a non-cash expense. The expense may not be reversed in future periods, even though higher natural gas, oil and NGL prices may subsequently increase the ceiling. Companies using the full cost method are required to use the average quoted price from the first day of each month from the previous 12 months, including the impact of derivatives designated for hedge accounting, to calculate the ceiling value of their reserves.

Table of Contents

Using the average quoted price from the first day of each month from the previous 12 months for Henry Hub natural gas of $2.24 per MMBtu, West Texas Intermediate oil of $39.63 per barrel and NGLs of $5.87 per barrel, adjusted for market differentials, the Company's net book value of its United States and Canada natural gas and oil properties exceeded the ceiling by $297 million (net of tax) at June 30, 2016 and resulted in a non-cash ceiling test impairment. The Company had no hedge positions that were designated for hedge accounting as of June 30, 2016. Decreases in market prices as well as changes in production rates, levels of reserves, evaluation of costs excluded from amortization, future development costs and production costs could result in future ceiling test impairments.

Using the average quoted price from the first day of each month from the previous 12 months for Henry Hub natural gas of $3.39 per MMBtu, West Texas Intermediate oil of $68.17 per barrel and NGLs of $12.53 per barrel, adjusted for market differentials, the net book value of the Company's United States natural gas and oil properties exceeded the ceiling by $944 million (net of tax) at June 30, 2015 and resulted in a non-cash ceiling test impairment. Cash flow hedges of natural gas production in place increased the ceiling amount by approximately $60 million as of June 30, 2015. In the third and fourth quarters of 2015, the Company's net book value of its United States natural gas and oil properties exceeded the ceiling by approximately $1,746 million (net of tax) at September 30, 2015 and $1,586 million (net of tax) at December 31, 2015, resulting in non-cash ceiling test impairments in each quarter. In the first quarter of 2016, the Company's net book value of its United States natural gas and oil properties exceeded the ceiling by approximately $641 million (net of tax) at March 31, 2016, resulting in a non-cash ceiling test impairment in the quarter.

(6) EARNINGS PER SHARE

Basic earnings per common share is computed by dividing net income (loss) attributable to common stock by the weighted average number of common shares outstanding during the reportable period. The diluted earnings per share calculation adds to the weighted average number of common shares outstanding: the incremental shares that would have been outstanding assuming the exercise of dilutive stock options, the vesting of unvested restricted shares of common stock and performance units, the assumed conversion of mandatory convertible preferred stock and the shares of common stock declared as a preferred stock dividend. An antidilutive impact is an increase in earnings per share or a reduction in net loss per share resulting from the conversion, exercise, or contingent issuance of certain securities.

In July 2016, the Company completed an underwritten public offering of 98,900,000 shares of its common stock, with an offering price to the public of $13.00 per share. Net proceeds, after underwriting discount and offering expenses, from the common stock offering were approximately $1,247 million. The proceeds from the offering were used to repay $375 million of the $750 million term loan entered into in November 2015 and to settle certain tender offers by purchasing an aggregate principal amount of approximately $700 million of the Company's outstanding senior notes due in the first quarter of 2018. The remaining proceeds of the offering will be used for general corporate purposes. The 98,900,000 shares of common stock were issued in July 2016 and are therefore not included in the outstanding common stock share counts or earnings per share calculations for the quarter ended June 30, 2016.

In January 2015, the Company completed concurrent underwritten public offerings of 30,000,000 shares of its common stock and 34,500,000 depositary shares (both share counts include shares issued as a result of the underwriters exercising their options to purchase additional shares). The common stock offering was priced at $23.00 per share. Net proceeds, after underwriting discount and expenses, from the common stock offering were approximately $669 million. Net proceeds, after underwriting discount and expenses, from the depositary share offering were approximately $1.7 billion. Each depositary share represents a 1/20th interest in a share of the Company's mandatory convertible preferred stock, with a liquidation preference of $1,000 per share (equivalent to a $50 liquidation preference per depositary share). The proceeds from the offerings were used to partially repay borrowings under the Company's $4.5 billion 364-day bridge facility with the remaining balance of the bridge facility fully repaid with proceeds from the Company's January 2015 public offering of $2.2 billion in long-term senior notes.

The mandatory convertible preferred stock entitles the holder to a proportional fractional interest in the rights and preferences of the convertible preferred stock, including conversion, dividend, liquidation and voting rights. Unless converted earlier at the option of the holders, on or around January 15, 2018 each share of convertible preferred stock will automatically convert into between 37.0028 and 43.4782 shares of the Company's common stock (and, correspondingly, each depositary share will convert into between 1.85014 and 2.17391 shares of the Company's common stock), subject to customary anti-dilution adjustments, depending on the volume-weighted average price of the Company's common stock over a 20 trading day averaging period immediately prior to that date. The total potential shares of common stock resulting from the conversion will range from 63,829,830 to 74,999,895 shares.

Table of Contents

The mandatory convertible preferred stock has the non-forfeitable right to participate on an as-converted basis at the conversion rate then in effect in any common stock dividends declared and as such, is considered a participating security. Accordingly, it is included in the computation of basic and diluted earnings per share, pursuant to the two-class method. In the calculation of basic earnings per share attributable to common shareholders, participating securities are allocated earnings based on actual dividend distributions received plus a proportionate share of undistributed net income attributable to common shareholders, if any, after recognizing distributed earnings. The Company's participating securities do not participate in undistributed net losses because they are not contractually obligated to do so.

On June 14, 2016, the Company declared its quarterly dividend, payable to holders of the mandatory convertible preferred stock, and announced that it would pay the dividend in common stock, in lieu of cash, to the extent permitted by the certificate of designations for the Series B preferred stock. The Company issued 2,100,119 shares of common stock on July 15, 2016 in payment for the dividend.

The following table presents the computation of earnings per share for the three and six months ended June 30, 2016 and 2015:

	For the three months ended June 30,		For the six months ended June 30,	
	2016	2015	2016	2015
	(in millions, except share/per share amounts)			
Net loss	$ (593)	$ (788)	$ (1,725)	$ (710)
Mandatory convertible preferred stock dividend	27	27	54	52
Net loss attributable to shareholders	$ (620)	$ (815)	$ (1,779)	$ (762)
Number of common shares:				
Weighted average outstanding	385,594,815	382,114,011	384,232,831	378,797,446
Issued upon assumed exercise of outstanding stock options (1)	–	–	–	–
Effect of issuance of non-vested restricted common stock (2)	–	–	–	–
Effect of issuance of non-vested performance units (3)	–	–	–	–
Effect of issuance of mandatory convertible preferred stock (4)	–	–	–	–
Effect of declaration of preferred stock dividends (5)	–	–	–	–
	385,594,815	382,114,011	384,232,831	378,797,446

Weighted average and potential dilutive outstanding				
Loss per common share (6):				
Basic	$ (1.61)	$ (2.13)	$ (4.63)	$ (2.01)
Diluted	$ (1.61)	$ (2.13)	$ (4.63)	$ (2.01)

(1) Due to the net loss for the three and six months ended June 30, 2016 and 2015, the unvested stock options were not recognized in diluted earnings per share calculations as they would be antidilutive. Options for 4,028,819 shares and 4,781,109 shares were excluded from the calculation of diluted shares for the three and six months ended June 30, 2016, respectively, because they would have had an antidilutive effect. Options for 3,832,533 shares and 3,768,666 shares were excluded from the calculation of diluted shares for the three and six months ended June 30, 2015, respectively, because they would have had an antidilutive effect.

(2) Due to the net loss for the three and six months ended June 30, 2016 and 2015, the unvested share-based payments were not recognized in diluted earnings per share calculations as they would be antidilutive. The calculation excluded 3,353,371 shares and 2,844,365 shares of restricted stock for the three and six months ended June 30, 2016, respectively, because they would have had an antidilutive effect. The calculation excluded 1,507,788 shares and 1,787,257 shares of restricted stock for the three and six months ended June 30, 2015, respectively, because they would have had an antidilutive effect.

(3) Due to the net loss for the three and six months ended June 30, 2016, 780,920 shares and 577,624 shares, respectively, of performance units were excluded from the calculation of diluted earnings per share as they would have had an antidilutive effect. Due to the net loss for the three and six months ended June 30, 2015, the calculation excluded 129,202 shares and 116,185 shares, respectively, of performance units as they would have had an antidilutive effect.

(4) Due to the net loss for the three and six months ended June 30, 2016, 74,999,895 of weighted average common shares issuable upon the assumed conversion of the mandatory convertible preferred stock were excluded from the diluted earnings per share calculation, respectively, as they would be antidilutive. Due to the net loss for the three and six months ended June 30, 2015, 72,723,440 and 64,687,701 of weighted average common shares issuable upon the assumed conversion of the mandatory convertible preferred stock were excluded from the diluted earnings per share calculation, respectively, as they would be antidilutive.