SOUTHWESTERN ENERGY CO
Form 10-Q
May 07, 2018
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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 March 31, 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 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, 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.

Large accelerated filer	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:

Class	Outstanding as of April 30, 2018
Common Stock, Par Value $0.01	586,806,166

SOUTHWESTERN ENERGY COMPANY

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FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2018

PART I – FINANCIAL INFORMATION

PART II – OTHER INFORMATION

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

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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 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 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 March 31,	
(in millions, except share/per share amounts)	2018	2017
Operating Revenues:		
Gas sales	$ 540	$ 503
Oil sales	35	23
NGL sales	65	40
Marketing	253	253
Gas gathering	24	27
Other	3	–
	920	846
Operating Costs and Expenses:		
Marketing purchases	255	251
Operating expenses	189	147
General and administrative expenses	55	50
Depreciation, depletion and amortization	143	106
Taxes, other than income taxes	23	26
	665	580
Operating Income	255	266
Interest Expense:		
Interest on debt	65	58
Other interest charges	2	2
Interest capitalized	(28)	(28)
	39	32
Gain (Loss) on Derivatives	(7)	116
Other Income (Loss), Net	(1)	1
Income Before Income Taxes	208	351
Provision (Benefit) for Income Taxes:		
Current	–	–
Deferred	–	–
	–	–
Net Income	$ 208	$ 351
Mandatory convertible preferred stock dividend	–	27

Participating securities - mandatory convertible preferred stock	3	43
Net Income Attributable to Common Stock	$ 205	$ 281
Earnings Per Common Share:		
Basic	$ 0.36	$ 0.57
Diluted	$ 0.36	$ 0.57
Weighted Average Common Shares Outstanding:		
Basic	571,297,804	493,068,000
Diluted	573,844,459	494,494,995

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)

(in millions)	For the three months ended March 31, 2018 (1)	2017
Net income	$ 208	$ 351
Change in value of pension and other postretirement liabilities:		
Amortization of prior service cost and net loss included in net periodic pension cost (2)	–	–
Comprehensive income	$ 208	$ 351

(1) In 2018, deferred tax activity incurred in other comprehensive income was offset by a valuation allowance.
(2) Net of $1 million in taxes for the three months ended March 31, 2017.

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)

	March 31, 2018	December 31, 2017
ASSETS	(in millions)	
Current assets:		
Cash and cash equivalents	$ 958	$ 916
Accounts receivable, net	382	428
Derivative assets	110	130
Other current assets	38	35
Total current assets	1,488	1,509
Natural gas and oil properties, using the full cost method, including $1,822 million as of March 31, 2018 and $1,817 million as of December 31, 2017 excluded from amortization	24,224	23,890
Gathering systems	1,318	1,315
Other	562	564
Less: Accumulated depreciation, depletion and amortization	(20,136)	(19,997)
Total property and equipment, net	5,968	5,772
Other long-term assets	257	240
TOTAL ASSETS	$ 7,713	$ 7,521
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable	$ 555	$ 533
Taxes payable	50	62
Interest payable	64	70
Dividends payable	–	27
Derivative liabilities	40	64
Other current liabilities	23	24
Total current liabilities	732	780
Long-term debt	4,393	4,391
Pension and other postretirement liabilities	58	58
Other long-term liabilities	337	313
Total long-term liabilities	4,788	4,762
Commitments and contingencies (Note 10)		
Equity:		
Common stock, $0.01 par value; 1,250,000,000 shares authorized; issued 586,833,276 shares as of March 31, 2018 and 512,134,311 as of December 31, 2017	6	5
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	4,703	4,698
Accumulated deficit	(2,471)	(2,679)

Accumulated other comprehensive loss	(44)	(44)
Common stock in treasury, 31,269 shares as of March 31, 2018 and December 31, 2017	(1)	(1)
Total equity	2,193	1,979
TOTAL LIABILITIES AND EQUITY	$ 7,713	$ 7,521

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 CASH FLOWS
(Unaudited)

	For the three months ended March 31,	
	2018	2017
	(in millions)	
Cash Flows From Operating Activities:		
Net income	$ 208	$ 351
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, depletion and amortization	143	106
Amortization of debt issuance costs	2	2
Gain on derivatives, unsettled	(2)	(146)
Stock-based compensation	4	6
Other	3	(1)
Change in assets and liabilities:		
Accounts receivable	46	53
Accounts payable	(17)	(13)
Taxes payable	(12)	(8)
Interest payable	(4)	(24)
Other assets and liabilities	(7)	(14)
Net cash provided by operating activities	364	312
Cash Flows From Investing Activities:		
Capital investments	(302)	(340)
Proceeds from sale of property and equipment	6	2
Other	2	4
Net cash used in investing activities	(294)	(334)
Cash Flows From Financing Activities:		
Payments on current portion of long-term debt	–	(25)
Change in bank drafts outstanding	–	6
Preferred stock dividend	(27)	–
Cash paid for tax withholding	(1)	–
Net cash used in financing activities	(28)	(19)
Increase (decrease) in cash and cash equivalents	42	(41)
Cash and cash equivalents at beginning of year	916	1,423
Cash and cash equivalents at end of period	$ 958	$ 1,382

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 CHANGES IN EQUITY
(Unaudited)

	Common Stock Shares Issued	Amount	Preferred Stock Shares Issued	Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive Income	Common Stock in Treasury	
	(in millions, except share amounts)							
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	–	–	–	
Issuance of common stock	74,998,614	1	–	(1)	–	–	–	
Conversion of preferred stock	–	–	(1,725,000)	–	–	–	–	
Issuance of restricted stock	5,076	–	–	–	–	–	–	
Cancellation of restricted stock	(160,168)	–	–	–	–	–	–	
Performance units vested	214,866	–	–	–	–	–	–	
Tax withholding – stock compensation	(338,808)	–	–	(1)	–	–	–	
Balance at March 31, 2018	586,853,891	$ 6	–	$ 4,703	$ (2,471)	$ (44)	$ (1)	$

The accompanying notes are an integral part of these

unaudited condensed consolidated financial statements.

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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, oil and NGL 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.

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 on Form 10-K for the year ended December 31, 2017 ("2017 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 2017 Annual Report.

Certain reclassifications have been made to the prior year financial statements to conform to the 2018 presentation. The effects of the reclassifications were not material to the Company's unaudited condensed consolidated financial statements.

(2) REVENUE RECOGNITION

Effective January 1, 2018, the Company adopted Accounting Standards Codification (“ASC”) 606, “Revenue from Contracts with Customers,” using the modified retrospective method applied to those contracts which were not completed as of January 1, 2018. Under the modified retrospective method, the Company recognizes the cumulative effect of initially applying the new revenue standard as an adjustment to the opening balance of retained earnings; however, no material adjustment was required as a result of adopting ASC 606. Results for reporting periods beginning on January 1, 2018 are presented under the new revenue standard. The comparative information has not been restated and continues to be reported under the accounting standards in effect for those periods. The Company performed an analysis of the impact of adopting ASC 606 across all revenue streams and did not identify any changes to its revenue recognition policies that would result in a material impact to its consolidated financial statements.

Revenues from Contracts with Customers

Natural gas and liquids. Natural gas, crude oil and natural gas liquid (“NGL”) sales are recognized when control of the product is transferred to the customer at a designated delivery point. The pricing provisions of the Company’s contracts are primarily tied to a market index with certain adjustments based on factors such as delivery, quality of the product and prevailing supply and demand conditions in the geographic areas in which the Company operates. Under the Company’s sales contracts, the delivery of each unit of natural gas, crude oil and NGLs represents a separate performance obligation, and revenue is recognized at the point in time when the performance obligations are fulfilled. There is no significant financing component to the Company’s revenues as payment terms are typically within 30 to 60 days of control transfer. Furthermore, consideration from a customer corresponds directly with the value to the customer of the Company’s performance completed to date. As a result, the Company recognizes revenue in the amount to which the Company has a right to invoice and has not disclosed information regarding its remaining performance obligations.

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The Company records revenue from its natural gas and liquids production in the amount of its net revenue interest in sales from its properties. Accordingly, natural gas and liquid sales are not recognized for deliveries in excess of the Company's net revenue interest, while natural gas and liquid sales are recognized for any under-delivered volumes. Production imbalances are recorded as receivables and payables and not contract assets or contract liabilities as the imbalances are between the Company and other working interest owners, not the end customer.

Marketing. The Company, through its marketing affiliate, generally markets natural gas, crude oil and NGLs for its affiliated E&P companies as well as other joint interest owners who choose to market with Southwestern. In addition, the Company markets some products purchased from third parties. Marketing revenues for natural gas, crude oil and NGL sales are recognized when control of the product is transferred to the customer at a designated delivery point. The pricing provisions of the Company's contracts are primarily tied to a market index with certain adjustments based on factors such as delivery, quality of the product and prevailing supply and demand conditions. Under the Company's marketing contracts, the delivery of each unit of natural gas, crude oil and NGLs represents a separate performance obligation, and revenue is recognized at the point in time when the performance obligations are fulfilled. Customers are invoiced and revenues are recorded each month as natural gas, crude oil and NGLs are delivered, and payment terms are typically within 30 to 60 days of control transfer. Furthermore, consideration from a customer corresponds directly with the value to the customer of the Company's performance completed to date. As a result, the Company recognizes revenue in the amount to which the Company has a right to invoice and has not disclosed information regarding its remaining performance obligations.

Gas gathering. In certain areas, the Company, through its gathering affiliate, gathers natural gas pursuant to a variety of contracts with customers, including affiliated E&P companies. The performance obligations for gas gathering services include delivery of each unit of natural gas to the designated delivery point, which may include treating of certain natural gas units to meet interstate pipeline specifications. Revenue is recognized at the point in time when performance obligations are fulfilled. Under the Company's gathering contracts, customers are invoiced and revenue is recognized each month based on the volume of natural gas transported and treated at a contractually agreed upon price per unit. Payment terms are typically within 30 to 60 days of completion of the performance obligations. Furthermore, consideration from a customer corresponds directly with the value to the customer of the Company's performance completed to date. As a result, the Company recognizes revenue in the amount to which the Company has a right to invoice and has not disclosed information regarding its remaining performance obligations. Any imbalances are settled on a monthly basis by cashing-out with the respective shipper. Accordingly, there are no contract assets or contract liabilities related to the Company's gas gathering revenues.

Disaggregation of Revenues

The Company presents a disaggregation of E&P revenues by product on the condensed consolidated statements of operations net of intersegment revenues. The following table reconciles operating revenues as presented on the unaudited condensed consolidated statements of operations to the operating revenues by segment:

(in millions)	E&P	Midstream	Intersegment Revenues	Total
Three months ended March 31, 2018				
Gas sales	$ 535	$ –	$ 5	$ 540
Oil sales	34	–	1	35
NGL sales	65	–	–	65
Marketing	–	829	(576)	253
Gas gathering	–	67	(43)	24
Other (1)	3	–	–	3
Total	$ 637	$ 896	$ (613)	$ 920
Three months ended March 31, 2017				
Gas sales	$ 500	$ –	$ 3	$ 503
Oil sales	23	–	–	23
NGL sales	40	–	–	40
Marketing	–	777	(524)	253
Gas gathering	–	81	(54)	27
Other	–	–	–	–
Total	$ 563	$ 858	$ (575)	$ 846

(1) Other E&P revenues consists primarily of water sales to third-party operators.

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Associated E&P revenues are also disaggregated for analysis on a geographic basis by the core areas in which the Company operates, which are in Pennsylvania, West Virginia and Arkansas. Operations in northeast Pennsylvania are referred to as "Northeast Appalachia," operations in West Virginia and southwest Pennsylvania are referred to as "Southwest Appalachia" and operations in Arkansas are referred to as the "Fayetteville Shale."

	For the three months ended March 31,	
(in millions)	2018	2017
Northeast Appalachia	$ 327	$ 253
Southwest Appalachia	156	104
Fayetteville Shale	152	205
Other	2	1
Total	$ 637	$ 563

Receivables from Contracts with Customers

The following table reconciles the Company's receivables from contracts with customers to consolidated accounts receivable as presented on the unaudited condensed consolidated balance sheet:

(in millions)	March 31, 2018	December 31, 2017
Receivables from contracts with customers	$ 273	$ 322
Other accounts receivable	109	106
Total accounts receivable	$ 382	$ 428

Amounts recognized against the Company's allowance for doubtful accounts related to receivables arising from contracts with customers were immaterial for the three months ended March 31, 2018 and 2017. The Company has no contract assets or contract liabilities associated with its revenues from contracts with customers.

(3) CASH AND CASH EQUIVALENTS

The following table presents a summary of cash and cash equivalents as of March 31, 2018 and December 31, 2017:

(in millions)	March 31, 2018	December 31, 2017	
Cash	$ 267	$ 261	
Marketable securities (1)	691	605	
Other cash equivalents	–	50	(2)
Total	$ 958	$ 916	

(1) Primarily consists of government stable value money market funds.
(2) Consists of time deposits.

(4) 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). 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.

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Using the average quoted price from the first day of each month from the previous 12 months for Henry Hub natural gas of $3.00 per MMBtu, West Texas Intermediate oil of $49.94 per barrel and NGLs of $14.90 per barrel, adjusted for differentials, the Company's net book value of its United States natural gas and oil properties did not exceed the ceiling amount at March 31, 2018. The Company had no hedge positions that were designated for hedge accounting as of March 31, 2018. 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 $2.73 per MMBtu, West Texas Intermediate oil of $44.10 per barrel and NGLs of $10.17 per barrel, adjusted for differentials, the Company's net book value of its United States natural gas and oil properties did not exceed the ceiling amount at March 31, 2017. The Company had no hedge positions that were designated for hedge accounting as of March 31, 2017.

(5) 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, performance units and the assumed conversion of mandatory convertible preferred stock. 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 January 2015, the Company issued 34,500,000 depositary shares that entitled the holder to a proportional fractional interest in the rights and preferences of the mandatory convertible preferred stock, including conversion, dividend, liquidation and voting rights. The mandatory convertible preferred stock had 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 has been 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 January 12, 2018, all outstanding shares of mandatory convertible preferred stock converted to 74,998,614 shares of the Company's common stock.

On December 18, 2017, the Company declared the quarterly dividend, which was paid to holders of the mandatory convertible preferred stock in cash on January 16, 2018. Dividends declared in the first, second and third quarters of 2017 were settled partially in common stock for a total of 10,040,306 shares.

The following table presents the computation of earnings per share for the three months ended March 31, 2018 and 2017:

	For the three months ended March 31,	
(in millions, except share/per share amounts)	2018	2017
Net income	$ 208	$ 351
Mandatory convertible preferred stock dividend	–	27
Participating securities - mandatory convertible preferred stock	3	43
Net income attributable to common stock	$ 205	$ 281
Number of common shares:		
Weighted average outstanding	571,297,804	493,068,000
Issued upon assumed exercise of outstanding stock options	–	82,845
Effect of issuance of non-vested restricted common stock	914,096	770,429
Effect of issuance of non-vested performance units	1,632,559	573,721
Weighted average and potential dilutive outstanding	573,844,459	494,494,995
Earnings per common share:		
Basic	$ 0.36	$ 0.57
Diluted	$ 0.36	$ 0.57

The following table presents the common stock shares equivalent excluded from the calculation of diluted earnings per share for the three months ended March 31, 2018 and 2017, as they would have had an antidilutive effect:

	For the three months ended March 31,	
	2018	2017
Unexercised stock options	–	1,854,004
Unvested share-based payment	5,292,454	1,212,396
Performance units	574,944	–
Mandatory convertible preferred stock	9,999,815	74,999,895
Total	15,867,213	78,066,295

(6) DERIVATIVES AND RISK MANAGEMENT

The Company is exposed to volatility in market prices and basis differentials for natural gas, oil and NGLs which impacts the predictability of its cash flows related to the sale of those commodities. These risks are managed by the Company's use of certain derivative financial instruments. As of March 31, 2018 and December 31, 2017, the Company's derivative financial instruments consisted of fixed price swaps, two-way costless collars, three-way costless collars, basis swaps, call options and interest rate swaps. A description of the Company's derivative financial instruments is provided below:

Fixed price swaps	If the Company sells a fixed price swap, the Company receives a fixed price for the contract and pays a floating market price to the counterparty. If the Company purchases a fixed price swap, the Company receives a floating market price for the contract and pays a fixed price to the counterparty.
Two-way costless collars	Arrangements that contain a fixed floor price (purchased put option) and a fixed ceiling price (sold call option) based on an index price which, in aggregate, have no net cost. At the contract settlement date, (1) if the index price is higher than the ceiling price, the Company pays the counterparty the difference between the index price and ceiling price, (2) if the index price is between the floor and ceiling prices, no payments are due from either party, and (3) if the index price is below the floor price, the Company will receive the difference between the floor price and the index price.
Three-way costless collars	Arrangements that contain a purchased put option, a sold call option and a sold put option based on an index price which, in aggregate, have no net cost. At the contract settlement date, (1) if the index price is higher than the sold call strike price, the Company pays the counterparty the difference between the index price and sold call strike price, (2) if the index price is between the purchased put strike price and the sold

call strike price, no payments are due from either party, (3) if the index price is between the sold put strike price and the purchased put strike price, the Company will receive the difference between the purchased put strike price and the index price, and (4) if the index price is below the sold put strike price, the Company will receive the difference between the purchased put strike price and the sold put strike price.

Basis swaps	Arrangements that guarantee a price differential for natural gas from a specified delivery point. If the Company sells a basis swap, the Company receives a payment from the counterparty if the price differential is greater than the stated terms of the contract and pays the counterparty if the price differential is less than the stated terms of the contract. If the Company purchases a basis swap, the Company pays the counterparty if the price differential is greater than the stated terms of the contract and receives a payment from the counterparty if the price differential is less than the stated terms of the contract.
Call options	The Company purchases and sells call options in exchange for a premium. If the Company purchases a call option, the Company receives from the counterparty the excess (if any) of the market price over the strike price of the call option at the time of settlement, but if the market price is below the call’s strike price, no payment is due from either party. If the Company sells a call option, the Company pays the counterparty the excess (if any) of the market price over the strike price of the call option at the time of settlement, but if the market price is below the call’s strike price, no payment is due from either party.

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Interest rate swaps	Interest rate swaps are used to fix or float interest rates on existing or anticipated indebtedness. The purpose of these instruments is to manage the Company's existing or anticipated exposure to unfavorable interest rate changes.

The Company chooses counterparties for its derivative instruments that it believes are creditworthy at the time the transactions are entered into, and the Company closely monitors the credit ratings of these counterparties. Additionally, the Company performs both quantitative and qualitative assessments of these counterparties based on their credit ratings and credit default swap rates where applicable. However, there can be no assurance that a counterparty will be able to meet its obligations to the Company.

The following tables provide information about the Company's financial instruments that are sensitive to changes in commodity prices and that are used to protect the Company's exposure. None of the financial instruments below are designated for hedge accounting treatment. The tables present the notional amount, the weighted average contract prices and the fair value by expected maturity dates as of March 31, 2018:

Financial Protection on Production		Weighted Average Price per MMBtu					Fair Value at March 31, 2018 ($ in millions)
	Volume (Bcf)	Swaps	Sold Puts	Purchased Puts	Sold Calls	Basis Differential	
Natural gas							
2018							
Fixed price swaps	215	$ 2.97	$ –	$ –	$ –	$ –	$ 33
Two-way costless collars	6	–	–	2.90	3.27	–	1
Three-way costless collars	213	–	2.40	2.97	3.37	–	39
Total	434						$ 73
2019							
Fixed price swaps	93	$ 3.00	$ –	$ –	$ –	$ –	$ 19
Two-way costless collars	53	–	–	2.80	2.98	–	6
Three-way costless collars	133	–	2.49	2.93	3.34	–	11
Total	279						$ 36
Basis swaps							
2018	73	$ –	$ –	$ –	$ –	$ (0.59)	$ –
2019	6	–	–	–	–	1.01	(1)
Total	79						$ (1)

	Volume (MBbls)	Weighted Average Strike Price per Bbl	Fair Value at March 31, 2018 ($ in millions)
Propane			
2018			
Fixed price swaps	1,100	$ 34.64	$ 3
Ethane			
2018			
Fixed price swaps			