

CONSOL Energy Inc
Form 10-Q
November 01, 2016

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, 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: 001-14901

CONSOL Energy Inc.

(Exact name of registrant as specified in its charter)

Delaware 51-0337383
(State or other jurisdiction of (I.R.S. Employer
incorporation or organization) Identification No.)

1000 CONSOL Energy Drive
Canonsburg, PA 15317-6506
(724) 485-4000

(Address, including zip code, and telephone number, including area code, of registrant's principal executive offices)

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. (Check one):

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 Shares outstanding as of October 17, 2016

Common stock, \$0.01 par value 229,440,368

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GLOSSARY OF CERTAIN OIL AND GAS MEASUREMENT TERMS

The following are abbreviations of certain measurement terms commonly used in the oil and gas industry and included within this Form 10-Q:

Bbl - One stock tank barrel, or 42 U.S. gallons liquid volume, used in reference to oil or other liquid hydrocarbons.

Bcf - One billion cubic feet of natural gas.

Bcfe - One billion cubic feet of natural gas equivalents, with one barrel of oil being equivalent to 6,000 cubic feet of gas.

Btu - One British thermal unit.

Mbbls - One thousand barrels of oil or other liquid hydrocarbons.

Mcf - One thousand cubic feet of natural gas.

Mcfe - One thousand cubic feet of natural gas equivalents, with one barrel of oil being equivalent to 6,000 cubic feet of gas.

MMbtu - One million British Thermal units.

MMcfe - One million cubic feet of natural gas equivalents, with one barrel of oil being equivalent to 6,000 cubic feet of gas.

NGL - Natural gas liquids.

Tcfe - One trillion cubic feet of natural gas equivalents, with one barrel of oil being equivalent to 6,000 cubic feet of gas.

PART I : FINANCIAL INFORMATION

ITEM 1. CONDENSED FINANCIAL STATEMENTS

CONSOL ENERGY INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME

(Dollars in thousands, except per share data)

(Unaudited)

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2016	2015	2016	2015
Revenues and Other Income:				
Natural Gas, NGLs and Oil Sales	\$205,913	\$157,538	\$555,101	\$541,630
Gain on Commodity Derivative Instruments	198,192	143,606	53,872	251,073
Coal Sales	267,685	323,171	744,411	1,026,596
Other Outside Sales	4,714	5,129	20,687	24,596
Purchased Gas Sales	12,086	2,535	28,633	7,649
Freight-Outside Coal	9,392	2,436	33,949	10,204
Miscellaneous Other Income	32,393	38,475	114,159	111,279
Gain on Sale of Assets	15,203	48,043	13,541	54,329
Total Revenue and Other Income	745,578	720,933	1,564,353	2,027,356
Costs and Expenses:				
Exploration and Production Costs				
Lease Operating Expense	22,602	29,452	73,996	96,229
Transportation, Gathering and Compression	94,796	89,965	279,753	248,682
Production, Ad Valorem, and Other Fees	9,027	8,475	23,732	24,605
Depreciation, Depletion and Amortization	101,257	92,083	312,122	269,377
Exploration and Production Related Other Costs	384	3,332	5,036	7,695
Purchased Gas Costs	11,940	1,921	28,692	5,939
Other Corporate Expenses	21,760	20,953	65,980	47,088
Impairment of Exploration and Production Properties	—	—	—	828,905
Selling, General, and Administrative Costs	26,198	23,919	74,067	80,396
Total Exploration and Production Costs	287,964	270,100	863,378	1,608,916
PA Mining Operations Costs				
Operating and Other Costs	182,717	137,759	521,277	564,604
Depreciation, Depletion and Amortization	42,370	43,459	125,334	136,536
Freight Expense	9,392	2,436	33,949	10,204
Selling, General, and Administrative Costs	7,653	9,044	20,207	34,231
Total PA Mining Operations Costs	242,132	192,698	700,767	745,575
Other Costs				
Miscellaneous Operating Expense	40,085	(3,078)	127,531	70,554
Selling, General, and Administrative Costs	4,569	6,173	10,173	9,946
Depreciation, Depletion and Amortization	8,085	11,302	4,463	21,219
Loss on Debt Extinguishment	—	—	—	67,751
Interest Expense	47,317	48,558	144,609	150,185
Total Other Costs	100,056	62,955	286,776	319,655
Total Costs And Expenses	630,152	525,753	1,850,921	2,674,146
Income (Loss) From Continuing Operations Before Income Tax	115,426	195,180	(286,568)	(646,790)
Income Taxes	52,858	65,868	(71,798)	(251,181)
Income (Loss) From Continuing Operations	62,568	129,312	(214,770)	(395,609)
Loss From Discontinued Operations, net	(34,975)	(3,842)	(322,747)	(3,192)
Net Income (Loss)	27,593	125,470	(537,517)	(398,801)

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Less: Net Income Attributable to Noncontrolling Interest	2,248	6,490	4,541	6,490
Net Income (Loss) Attributable to CONSOL Energy Shareholders	\$25,345	\$118,980	\$(542,058)	\$(405,291)

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

CONSOL ENERGY INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
(CONTINUED)

(Dollars in thousands, except per share data) (Unaudited)	Three Months Ended		Nine Months Ended	
	September 30, 2016	September 30, 2015	September 30, 2016	September 30, 2015
Earnings (Loss) Per Share				
Basic				
Income (Loss) from Continuing Operations	\$0.26	\$0.54	\$(0.96)	\$(1.75)
Loss from Discontinued Operations	(0.15)	(0.02)	(1.40)	(0.02)
Total Basic Earnings (Loss) Per Share	\$0.11	\$0.52	\$(2.36)	\$(1.77)
Dilutive				
Income (Loss) from Continuing Operations	\$0.26	\$0.54	\$(0.96)	\$(1.75)
Loss from Discontinued Operations	(0.15)	(0.02)	(1.40)	(0.02)
Total Dilutive Earnings (Loss) Per Share	\$0.11	\$0.52	\$(2.36)	\$(1.77)
Dividends Declared Per Share	\$—	\$0.0100	\$0.0100	\$0.1350

CONSOL ENERGY INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Dollars in thousands) (Unaudited)	Three Months Ended		Nine Months Ended	
	September 30, 2016	September 30, 2015	September 30, 2016	September 30, 2015
Net Income (Loss)	\$27,593	\$125,470	\$(537,517)	\$(398,801)
Other Comprehensive Loss:				
Actuarially Determined Long-Term Liability Adjustments (Net of tax: (\$1,043), \$29,720, (\$5,369), \$24,935)	1,305	(49,353)	6,866	(40,036)
Reclassification of Cash Flow Hedges from OCI to Earnings (Net of tax: \$7,139, \$11,807, \$19,284, \$35,123)	(12,458)	(20,602)	(33,475)	(60,720)
Other Comprehensive Loss	(11,153)	(69,955)	(26,609)	(100,756)
Comprehensive Income (Loss)	16,440	55,515	(564,126)	(499,557)
Less: Comprehensive Income Attributable to Noncontrolling Interests	2,248	6,490	4,541	6,490
Comprehensive Income (Loss) Attributable to CONSOL Energy Inc. Shareholders	\$14,192	\$49,025	\$(568,667)	\$(506,047)

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

CONSOL ENERGY INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

(Dollars in thousands)	(Unaudited)	
	September 30, 2016	December 31, 2015
ASSETS		
Current Assets:		
Cash and Cash Equivalents	\$ 80,247	\$ 72,574
Accounts and Notes Receivable:		
Trade	163,955	151,383
Other Receivables	80,490	121,735
Inventories	62,622	66,792
Recoverable Income Taxes	—	13,887
Prepaid Expenses	125,490	297,287
Current Assets of Discontinued Operations	2,111	81,106
Total Current Assets	514,915	804,764
Property, Plant and Equipment:		
Property, Plant and Equipment	13,920,715	13,794,907
Less—Accumulated Depreciation, Depletion and Amortization	5,506,096	5,062,201
Property, Plant and Equipment of Discontinued Operations, Net	—	936,670
Total Property, Plant and Equipment—Net	8,414,619	9,669,376
Other Assets:		
Deferred Income Taxes	149,680	—
Investment in Affiliates	257,423	237,330
Other	228,857	214,388
Other Assets of Discontinued Operations	—	4,044
Total Other Assets	635,960	455,762
TOTAL ASSETS	\$ 9,565,494	\$ 10,929,902

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

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CONSOL ENERGY INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	(Unaudited)	
	September 30,	December 31,
(Dollars in thousands, except per share data)	2016	2015
LIABILITIES AND EQUITY		
Current Liabilities:		
Accounts Payable	\$ 197,479	\$ 250,609
Current Portion of Long-Term Debt	4,470	4,988
Short-Term Notes Payable	354,000	952,000
Accrued Income Taxes	5,485	—
Other Accrued Liabilities	508,144	421,827
Current Liabilities of Discontinued Operations	664	51,514
Total Current Liabilities	1,070,242	1,680,938
Long-Term Debt:		
Long-Term Debt	2,734,004	2,708,320
Capital Lease Obligations	29,805	34,884
Long-Term Debt of Discontinued Operations	—	5,001
Total Long-Term Debt	2,763,809	2,748,205
Deferred Credits and Other Liabilities:		
Deferred Income Taxes	—	74,629
Postretirement Benefits Other Than Pensions	613,233	630,892
Pneumoconiosis Benefits	117,586	111,903
Mine Closing	216,232	227,339
Gas Well Closing	164,115	163,842
Workers' Compensation	68,587	69,812
Salary Retirement	89,305	91,596
Reclamation	—	25
Other	172,218	166,957
Deferred Credits and Other Liabilities of Discontinued Operations	—	107,988
Total Deferred Credits and Other Liabilities	1,441,276	1,644,983
TOTAL LIABILITIES	5,275,327	6,074,126
Stockholders' Equity:		
Common Stock, \$.01 Par Value; 500,000,000 Shares Authorized, 229,438,910 Issued and Outstanding at September 30, 2016; 229,054,236 Issued and Outstanding at December 31, 2015	2,298	2,294
Capital in Excess of Par Value	2,453,275	2,435,497
Preferred Stock, 15,000,000 shares authorized, None issued and outstanding	—	—
Retained Earnings	2,033,849	2,579,834
Accumulated Other Comprehensive Loss	(342,207)	(315,598)
Total CONSOL Energy Inc. Stockholders' Equity	4,147,215	4,702,027
Noncontrolling Interest	142,952	153,749
TOTAL EQUITY	4,290,167	4,855,776
TOTAL LIABILITIES AND EQUITY	\$ 9,565,494	\$ 10,929,902

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

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CONSOL ENERGY INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY

(Dollars in thousands, except per share data)	Common Stock	Capital in Excess of Par Value	Retained Earnings	Accumulated Other Comprehensive Loss	Total CONSOL Energy Inc. Stockholders' Equity	Non- Controlling Interest	Total Equity
Balance at December 31, 2015 (Unaudited)	\$ 2,294	\$ 2,435,497	\$ 2,579,834	\$ (315,598)	\$ 4,702,027	\$ 153,749	\$ 4,855,776
Net (Loss) Income	—	—	(542,058)	—	(542,058)	4,541	(537,517)
Other Comprehensive Loss	—	—	—	(26,609)	(26,609)	—	(26,609)
Comprehensive (Loss) Income	—	—	(542,058)	(26,609)	(568,667)	4,541	(564,126)
Issuance of Common Stock	4	—	—	—	4	—	4
Treasury Stock Activity	—	—	(1,633)	—	(1,633)	—	(1,633)
Tax Cost From Stock-Based Compensation	—	(5,144)	—	—	(5,144)	—	(5,144)
Amortization of Stock-Based Compensation Awards	—	22,922	—	—	22,922	903	23,825
Distributions to Noncontrolling Interest	—	—	—	—	—	(16,241)	(16,241)
Dividends (\$0.01 per share)	—	—	(2,294)	—	(2,294)	—	(2,294)
Balance at September 30, 2016	\$ 2,298	\$ 2,453,275	\$ 2,033,849	\$ (342,207)	\$ 4,147,215	\$ 142,952	\$ 4,290,167

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

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CONSOL ENERGY INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

(Dollars in thousands)

(Unaudited)

Operating Activities:

Net Loss

Nine Months Ended
September 30,

2016 2015

\$ (537,517) \$ (398,801)

Adjustments to Reconcile Net Loss to Net Cash Provided By Operating Activities:

Net Loss from Discontinued Operations

322,747 3,192

Depreciation, Depletion and Amortization

441,919 427,132

Impairment of Exploration and Production Properties

— 828,905

Non-Cash Other Post-Employment Benefits

— (151,871)

Stock-Based Compensation

23,825 19,849

Gain on Sale of Assets

(13,541) (54,329)

Loss on Debt Extinguishment

— 67,751

Gain on Commodity Derivative Instruments

(53,872) (251,073)

Net Cash Received in Settlement of Commodity Derivative Instruments

203,303 116,868

Deferred Income Taxes

(72,866) (273,497)

Equity in Earnings of Affiliates

(41,239) (38,838)

Return on Equity Investment

22,268 31,111

Changes in Operating Assets:

Accounts and Notes Receivable

4,555 119,064

Inventories

4,169 (9,922)

Prepaid Expenses

71,423 103,466

Changes in Other Assets

(14,241) 22,483

Changes in Operating Liabilities:

Accounts Payable

(12,654) (123,171)

Accrued Interest

35,985 63,879

Other Operating Liabilities

(21,370) (105,692)

Changes in Other Liabilities

(2,620) (12,360)

Other

11,937 9,369

Net Cash Provided by Continuing Operating Activities

372,211 393,515

Net Cash Provided by Discontinued Operating Activities

14,427 10,768

Net Cash Provided by Operating Activities

386,638 404,283

Investing Activities:

Capital Expenditures

(179,389) (864,262)

Proceeds from Sales of Assets

38,977 83,044

Net Investments in Equity Affiliates

(4,555) (70,224)

Net Cash Used in Continuing Investing Activities

(144,967) (851,442)

Net Cash Provided by (Used in) Discontinued Investing Activities

366,251 (30,894)

Net Cash Provided by (Used in) Investing Activities

221,284 (882,336)

Financing Activities:

(Payments on) Proceeds from Short-Term Borrowings

(598,000) 945,000

Payments on Miscellaneous Borrowings

(6,222) (1,523)

Payments on Long-Term Notes, including Redemption Premium

— (1,263,719)

Net Proceeds from Revolver - CNX Coal Resources LP

23,000 180,000

Proceeds from Sale of MLP Interest

— 148,359

Distributions to Noncontrolling Interest

(16,241) —

Proceeds from Issuance of Long-Term Notes

— 492,760

Tax Benefit from Stock-Based Compensation

— 208

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Dividends Paid	(2,294)	(30,991)
Issuance of Common Stock	4	8,288
Purchases of Treasury Stock	—	(71,674)
Debt Issuance and Financing Fees	(482)	(22,586)
Net Cash (Used in) Provided by Continuing Financing Activities	(600,235)	384,122
Net Cash Used in Discontinued Financing Activities	(14)	(39)
Net Cash (Used in) Provided by Financing Activities	(600,249)	384,083
Net Increase (Decrease) in Cash and Cash Equivalents	7,673	(93,970)
Cash and Cash Equivalents at Beginning of Period	72,574	176,985
Cash and Cash Equivalents at End of Period	\$80,247	\$83,015

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

CONSOL ENERGY INC. AND SUBSIDIARIES
 NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
 (Dollars in thousands, except per share data)

NOTE 1—BASIS OF PRESENTATION:

The accompanying Unaudited Consolidated Financial Statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three and nine months ended September 30, 2016 are not necessarily indicative of the results that may be expected for future periods.

The Consolidated Balance Sheet at December 31, 2015 has been derived from the Audited Consolidated Financial Statements at that date but does not include all the notes required by generally accepted accounting principles for complete financial statements. For further information, refer to the Consolidated Financial Statements and related notes for the year ended December 31, 2015 included in CONSOL Energy Inc.'s Annual Report on Form 10-K.

During the nine months ended September 30, 2016, CONSOL Energy Inc. ("CONSOL Energy" or "the Company") made certain adjustments to the financial statements to reflect the sale of the Buchanan Mine and the Fola and Miller Creek Mining Complexes, which are now reflected under discontinued operations. Additionally, CONSOL Energy made reclassifications within its financial statements to better align the Company's financial reporting with its peer group. These reclassifications impacted the Lease Operating Expense, Transportation, Gathering and Compression, Direct Administrative and Selling, Production Royalty Interests and Purchased Gas Sales, Production Royalty Interests and Purchased Gas Costs, Operating and Other Costs and Selling, General and Administrative Costs line items on the Company's Consolidated Statements of Income. These changes are reflected in CONSOL Energy's current and historic Consolidated Statements of Income, with no effect on previously reported net income or stockholders' equity.

Basic earnings per share are computed by dividing net income attributable to CONSOL Energy Shareholders by the weighted average shares outstanding during the reporting period. Dilutive earnings per share are computed similarly to basic earnings per share, except that the weighted average shares outstanding are increased to include additional shares from stock options, performance stock options, restricted stock units and performance share units, if dilutive. The number of additional shares is calculated by assuming that outstanding stock options and performance share units were exercised, that outstanding restricted stock units and performance share units were released, and that the proceeds from such activities were used to acquire shares of common stock at the average market price during the reporting period. CONSOL Energy includes the impact of pro forma deferred tax assets in determining potential windfalls and shortfalls for purposes of calculating assumed proceeds under the treasury stock method.

The table below sets forth the share-based awards that have been excluded from the computation of the diluted earnings per share because their effect would be anti-dilutive:

	For the Three Months Ended September 30, 2016		For the Nine Months Ended September 30, 2015	
Anti-Dilutive Options	2,989,610	6,050,864	6,230,099	6,050,864
Anti-Dilutive Restricted Stock Units	3,455	785,585	645,302	1,394,115
Anti-Dilutive Performance Share Units	1,659,014		2,326,120	

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Anti-Dilutive Performance Stock Options 802,804 802,804 802,804 802,804
 5,454,883 3,239,253 10,004,325 4,783

The table below sets forth the share-based awards that have been exercised or released:

	For the Three Months Ended September 30, 2016		For the Nine Months Ended September 30, 2015	
Options	—	—	—	363,620
Restricted Stock Units	5,920	90,055	574,310	576,562
Performance Share Units	—	—	—	497,134
	5,920	90,055	574,310	1,437,316

No options were exercised during the three and nine months ended September 30, 2016 or during the three months ended September 30, 2015. The weighted average exercise price per share of the options exercised during the nine months ended September 30, 2015 was \$22.78.

The computations for basic and dilutive earnings per share are as follows: