

CABOT OIL & GAS CORP
Form 10-Q
October 29, 2009
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.**
For the quarterly period ended September 30, 2009

.. **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.**
Commission file number 1-10447

CABOT OIL & GAS CORPORATION

(Exact name of registrant as specified in its charter)

DELAWARE
(State or other jurisdiction of

incorporation or organization)

04-3072771
(I.R.S. Employer

Identification Number)

Three Memorial City Plaza

840 Gessner Road, Suite 1400, Houston, Texas 77024

(Address of principal executive offices including ZIP Code)

(281) 589-4600

(Registrant's telephone number, including area code)

1200 Enclave Parkway, Houston, Texas 77077

(Former address, if changed since last report)

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months and (2) has been subject to such filing requirements for the past 90 days.

Yes

No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes

No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a 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

As of October 20, 2009, there were 103,654,113 shares of Common Stock, Par Value \$.10 Per Share, outstanding.

Table of Contents

CABOT OIL & GAS CORPORATION

INDEX TO FINANCIAL STATEMENTS

	Page
<u>Part I. Financial Information</u>	
<u>Item 1. Financial Statements</u>	
<u>Condensed Consolidated Statement of Operations for the Three Months and Nine Months Ended September 30, 2009 and 2008</u>	3
<u>Condensed Consolidated Balance Sheet at September 30, 2009 and December 31, 2008</u>	4
<u>Condensed Consolidated Statement of Cash Flows for the Nine Months Ended September 30, 2009 and 2008</u>	5
<u>Notes to the Condensed Consolidated Financial Statements</u>	6
<u>Report of Independent Registered Public Accounting Firm on Review of Interim Financial Information</u>	23
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	24
<u>Item 3. Quantitative and Qualitative Disclosures about Market Risk</u>	40
<u>Item 4. Controls and Procedures</u>	42
<u>Part II. Other Information</u>	
<u>Item 1A. Risk Factors</u>	42
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	42
<u>Item 6. Exhibits</u>	43
<u>Signatures</u>	44

Table of Contents**PART I. FINANCIAL INFORMATION****ITEM 1. Financial Statements****CABOT OIL & GAS CORPORATION****CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS (Unaudited)**

<i>(In thousands, except per share amounts)</i>	Three Months Ended		Nine Months Ended	
	September 30,	September 30,	September 30,	September 30,
	2009	2008	2009	2008
OPERATING REVENUES				
Natural Gas Production	\$ 177,807	\$ 200,279	\$ 538,542	\$ 569,527
Brokered Natural Gas	9,032	23,855	54,117	86,663
Crude Oil and Condensate	19,574	20,002	50,026	55,089
Other	608	684	3,099	2,046
	207,021	244,820	645,784	713,325
OPERATING EXPENSES				
Brokered Natural Gas Cost	7,786	20,891	48,219	75,321
Direct Operations Field and Pipeline	23,012	24,974	71,564	65,101
Exploration	14,395	6,413	31,258	18,764
Depreciation, Depletion and Amortization	54,886	48,895	165,779	132,893
Impairment of Unproved Properties	7,151	8,512	23,188	19,182
General and Administrative	14,921	(209)	49,103	60,841
Taxes Other Than Income	10,719	20,627	34,531	56,749
	132,870	130,103	423,642	428,851
Gain / (Loss) on Sale of Assets	572		(3,283)	401
INCOME FROM OPERATIONS	74,723	114,717	218,859	284,875
Interest Expense and Other	14,857	10,486	44,129	22,684
Income Before Income Taxes	59,866	104,231	174,730	262,191
Income Tax Expense	20,969	37,241	62,751	94,601
NET INCOME	\$ 38,897	\$ 66,990	\$ 111,979	\$ 167,590
Basic Earnings Per Share	\$ 0.38	\$ 0.65	\$ 1.08	\$ 1.68
Diluted Earnings Per Share	\$ 0.37	\$ 0.64	\$ 1.07	\$ 1.66
Weighted-Average Common Shares Outstanding	103,647	103,351	103,603	99,858
Diluted Common Shares (Note 5)	104,917	104,495	104,583	100,901

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

Table of Contents**CABOT OIL & GAS CORPORATION****CONDENSED CONSOLIDATED BALANCE SHEET (Unaudited)**

<i>(In thousands, except share amounts)</i>	September 30, 2009	December 31, 2008
ASSETS		
Current Assets		
Cash and Cash Equivalents	\$ 35,670	\$ 28,101
Accounts Receivable, Net (Note 3)	52,613	109,087
Income Taxes Receivable	33,103	526
Inventories (Note 3)	36,769	45,677
Current Derivative Contracts (Note 7)	166,787	264,660
Other Current Assets (Note 3)	10,065	12,500
Total Current Assets	335,007	460,551
Properties and Equipment, Net (Successful Efforts Method) (Note 2)	3,184,305	3,135,828
Long-Term Derivative Contracts (Note 7)	24,349	90,542
Investment in Equity Securities (Note 2)	20,636	
Other Assets (Note 3)	24,757	14,743
	\$ 3,589,054	\$ 3,701,664
LIABILITIES AND STOCKHOLDERS EQUITY		
Current Liabilities		
Accounts Payable (Note 3)	\$ 115,940	\$ 222,985
Current Portion of Long-Term Debt (Note 4)	20,000	35,857
Deferred Income Taxes	58,862	63,985
Income Taxes Payable	6,649	5,535
Accrued Liabilities (Note 3)	45,721	50,551
Total Current Liabilities	247,172	378,913
Long-Term Liability for Pension and Postretirement Benefits (Note 9)	49,755	54,714
Long-Term Debt (Note 4)	790,000	831,143
Deferred Income Taxes	623,946	599,106
Other Liabilities (Note 3)	54,367	47,226
Total Liabilities	1,765,240	1,911,102
Commitments and Contingencies (Note 6)		
Stockholders' Equity		
Common Stock:		
Authorized 240,000,000 Shares of \$0.10 Par Value in 2009 and 120,000,000 Shares of \$0.10 Par Value in 2008		
Issued 103,856,313 Shares and 103,561,268 Shares in 2009 and 2008, respectively	10,386	10,356
Additional Paid-in Capital	699,971	675,568
Retained Earnings	1,024,217	921,561
Accumulated Other Comprehensive Income (Note 8)	92,589	186,426
Less Treasury Stock, at Cost:		
202,200 Shares in 2009 and 2008, respectively	(3,349)	(3,349)
Total Stockholders' Equity	1,823,814	1,790,562
	\$ 3,589,054	\$ 3,701,664

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

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

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

<i>(In thousands)</i>	Nine Months Ended September 30,	
	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Income	\$ 111,979	\$ 167,590
Adjustments to Reconcile Net Income to Cash Provided by Operating Activities:		
Depreciation, Depletion and Amortization	165,779	132,893
Impairment of Unproved Properties	23,188	19,182
Deferred Income Tax Expense	74,773	96,459
(Gain) / Loss on Sale of Assets	3,283	(401)
Exploration Expense	31,258	18,764
Unrealized Loss on Derivatives	418	1,649
Stock-Based Compensation Expense and Other	19,894	10,371
Changes in Assets and Liabilities:		
Accounts Receivable, Net	56,474	(9,869)
Income Taxes Receivable	(19,406)	1,650
Inventories	8,908	(24,799)
Other Current Assets	2,435	7,420
Other Assets	(173)	5,694
Accounts Payable and Accrued Liabilities	(49,097)	11,054
Income Taxes Payable	1,572	(942)
Other Liabilities	(1,070)	(976)
Stock-Based Compensation Tax Benefit	(13,085)	(11,011)
Net Cash Provided by Operating Activities	417,130	424,728
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital Expenditures	(394,525)	(558,931)
Acquisitions	(394)	(605,408)
Proceeds from Sale of Assets	80,180	1,150
Exploration Expense	(31,258)	(18,764)
Net Cash Used in Investing Activities	(345,997)	(1,181,953)
CASH FLOWS FROM FINANCING ACTIVITIES		
Borrowings from Debt	90,000	735,000
Repayments of Debt	(147,000)	(265,000)
Net Proceeds from Sale of Common Stock	83	316,229
Stock-Based Compensation Tax Benefit	13,085	11,011
Dividends Paid	(9,323)	(8,973)
Capitalized Debt Issuance Costs	(10,409)	(2,166)
Net Cash (Used in) / Provided by Financing Activities	(63,564)	786,101
Net Increase in Cash and Cash Equivalents	7,569	28,876
Cash and Cash Equivalents, Beginning of Period	28,101	18,498
Cash and Cash Equivalents, End of Period	\$ 35,670	\$ 47,374

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

Table of Contents

CABOT OIL & GAS CORPORATION

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

1. FINANCIAL STATEMENT PRESENTATION

During interim periods, Cabot Oil & Gas Corporation (the Company) follows the same accounting policies used in its 2008 Annual Report to Stockholders and its Annual Report on Form 10-K for the year ended December 31, 2008 (Form 10-K) filed with the Securities and Exchange Commission (SEC). The interim financial statements should be read in conjunction with the notes to the financial statements and information presented in the Form 10-K. In management's opinion, the accompanying interim condensed consolidated financial statements contain all material adjustments, consisting only of normal recurring adjustments, necessary for a fair statement. The results for any interim period are not necessarily indicative of the expected results for the entire year. Subsequent events have been evaluated through October 29, 2009, which is also the date that the financial statements were issued.

Certain prior year amounts have been reclassified to reflect changes in presenting the geographic areas for which the Company conducts its operations. These areas consist of the North (comprised of the East and Rocky Mountain areas), South (comprised of the Gulf Coast and Anadarko areas) and Canada. In previous periods, the Company presented the geographic areas as East, Gulf Coast, West and Canada.

With respect to the unaudited financial information of the Company as of September 30, 2009 and for the three and nine month periods ended September 30, 2009 and 2008, PricewaterhouseCoopers LLP reported that they have applied limited procedures in accordance with professional standards for a review of such information. However, their separate report dated October 29, 2009 appearing herein states that they did not audit and they do not express an opinion on that unaudited financial information. Accordingly, the degree of reliance on their report on such information should be restricted in light of the limited nature of the review procedures applied. PricewaterhouseCoopers LLP is not subject to the liability provisions of Section 11 of the Securities Act of 1933 for their report on the unaudited financial information because that report is not a report or a part of the registration statement prepared or certified by PricewaterhouseCoopers LLP within the meaning of Sections 7 and 11 of the Act.

Recently Adopted Accounting Standards

In July 2009, the Financial Accounting Standards Board (FASB) issued Accounting Standards Codification (ASC) 105, Generally Accepted Accounting Principles, establishing the accounting standards codification and the hierarchy of generally accepted accounting principles (GAAP) as the sole source of authoritative non-governmental U.S. GAAP. The Codification was not intended to change U.S. GAAP; however, references to various accounting pronouncements and literature will now differ from what was previously being used in practice. Authoritative literature is now referenced by topic rather than by type of standard. As of July 1, 2009, the FASB no longer issues Statements, Interpretations, Staff Positions or EITF Abstracts. The FASB now communicates new accounting standards by issuing an Accounting Standards Update (ASU). All guidance in the Codification has an equal level of authority. ASC 105 is effective for financial statements that cover interim and annual periods ending after September 15, 2009, and supersedes all accounting standards in U.S. GAAP, aside from those issued by the SEC. There was no impact on the Company's financial position, results of operations or cash flows as a result of the Codification.

In February 2008, the FASB issued an amendment to ASC 820, Fair Value Measurements and Disclosures, which granted a one year deferral (to fiscal years beginning after November 15, 2008, and interim periods within those fiscal years) for certain non-financial assets and liabilities measured on a nonrecurring basis to comply with ASC 820. Effective January 1, 2009, the Company applied these amendments of ASC 820 discussed above and there was no material impact on the Company's financial statements. For further information, please refer to Note 7 of the Notes to the Condensed Consolidated Financial Statements.

Effective January 1, 2009, the Company adopted amendments that the FASB made to ASC 260, Earnings Per Share, regarding determining whether instruments granted in share-based payment transactions are participating securities. The adoption of these amendments did not have a material impact on the Company's financial statements. For further information, please refer to Note 5 of the Notes to the Condensed Consolidated Financial Statements.

Table of Contents

In March 2008, the FASB amended the disclosure requirements prescribed in ASC 815, *Derivatives and Hedging*. The Company adopted these amendments as of January 1, 2009. The principal impact was to require the expansion of its disclosure regarding its derivative instruments. For further information, please refer to *Derivative Instruments and Hedging Activity* in Note 7 of the Notes to the Condensed Consolidated Financial Statements.

In April 2009, the FASB amended guidance in ASC 820 regarding determining fair value when the volume and level of activity for an asset or liability has significantly decreased and identifying transactions that are not orderly. If an entity determines that either the volume or level of activity for an asset or liability has significantly decreased from normal conditions, or that price quotations or observable inputs are not associated with orderly transactions, increased analysis and management judgment will be required to estimate fair value. The objective in fair value measurement remains unchanged from what is prescribed in ASC 820 and should be reflective of the current exit price. Disclosures in interim and annual periods must include inputs and valuation techniques used to measure fair value, along with any changes in valuation techniques and related inputs during the period. In addition, disclosures for debt and equity securities must be provided on a more disaggregated basis. These amendments became effective for interim and annual reporting periods ending after June 15, 2009 and did not have a material impact on the Company's financial position, results of operations or cash flows.

In April 2009, the FASB amended ASC 825, *Financial Instruments*, to require disclosures about fair value of financial instruments for publicly traded companies for both interim and annual periods. Historically, these disclosures were only required annually. The interim disclosures are intended to provide financial statement users with more timely and transparent information about the effects of current market conditions on an entity's financial instruments that are not otherwise reported at fair value. These amendments became effective for interim reporting periods ending after June 15, 2009, and the Company has provided interim disclosures regarding the fair value of debt instruments in Note 4 of the Notes to the Condensed Consolidated Financial Statements. Comparative disclosures are only required for periods ending after the initial adoption. There was no material impact on the Company's financial position, results of operations or cash flows as a result of the adoption.

In April 2009, the FASB amended the other-than-temporary impairment guidance for debt securities in ASC 320, *Investments-Debt and Equity Securities*, to make the guidance more operational and to improve the presentation and disclosure of other-than-temporary impairments on debt and equity securities in the financial statements. There were no amendments made to the recognition and measurement guidance for equity securities, but a new method of recognizing and reporting for debt securities was established. Disclosure requirements for impaired debt and equity securities have been expanded significantly and are now required quarterly, as well as annually. These amendments became effective for interim and annual reporting periods ending after June 15, 2009 and did not have a material impact on the Company's financial position, results of operations or cash flows. Comparative disclosures are only required for periods ending after the initial adoption.

In June 2009, the FASB amended ASC 855, *Subsequent Events*, to require entities to disclose the date through which they have evaluated subsequent events and whether the date corresponds with the release of their financial statements. In addition, a new concept of financial statements being *available to be issued* was introduced. These amendments became effective for interim and annual periods ending after June 15, 2009 and did not have any impact on the Company's financial position, results of operations or cash flows.

In August 2009, the FASB issued Accounting Standards Update (ASU) No. 2009-05, *Fair Value Measurement and Disclosures: Measuring Liabilities at Fair Value*, which provides clarification on measuring liabilities at fair value when a quoted price in an active market is not available. ASU No. 2009-05 specifies that in cases where a quoted price in an active market is not available, a valuation technique should be applied that uses either the quote of the liability when traded as an asset, the quoted prices for similar liabilities or similar liabilities when traded as assets, or another valuation technique consistent with existing fair value measurement guidance. Valuation methods discussed include using an income approach, such as a present value technique, or a market approach based on the amount at the measurement date that the reporting entity would pay to transfer the identical liability or would receive to enter into the identical liability. Entities are not required to include a separate input or adjustment to other inputs relating to the existence of a restriction that prevents the transfer of the liability. ASU No. 2009-05 is codified in ASC 820-10 and is effective for the first reporting period (including interim periods) beginning after issuance. There was no impact on the Company's financial position, results of operations or cash flows as a result of the adoption of ASU No. 2009-05.

Table of Contents**Recently Issued Accounting Pronouncements**

In June 2009, the FASB issued Statement of Financial Accounting Standards (SFAS) No. 166, Accounting for Transfers of Financial Assets. SFAS No. 166 has not yet been codified, but revises ASC 860, Transfers and Servicing, and will require entities to provide more information about sales of securitized financial assets and similar transactions, particularly if the seller retains some risk to the assets. SFAS No. 166 will be effective at the beginning of the first fiscal year beginning after November 15, 2009. As the Company does not anticipate having any of these types of transactions in the near future, SFAS No. 166 is not expected to have any impact on its financial position, results of operations or cash flows.

In December 2008, the SEC issued Release No. 33-8995, Modernization of Oil and Gas Reporting, which amends the oil and gas disclosures for oil and gas producers contained in Regulations S-K and S-X, as well as adding a section to Regulation S-K (Subpart 1200) to codify the revised disclosure requirements in Securities Act Industry Guide 2, which is being phased out. The goal of Release No. 33-8995 is to provide investors with a more meaningful and comprehensive understanding of oil and gas reserves. Energy companies affected by Release No. 33-8995 will be required to price proved oil and gas reserves using the unweighted arithmetic average of the price on the first day of each month within the 12-month period prior to the end of the reporting period, unless prices are defined by contractual arrangements, excluding escalations based on future conditions. SEC Release No. 33-8995 is effective beginning January 1, 2010. The Company is currently evaluating what impact Release No. 33-8995 may have on its financial position, results of operations or cash flows.

In December 2008, the FASB issued an amendment to ASC 715-20, Compensation Retirement Benefits Defined Benefit Plans General, which requires enhanced disclosures regarding Company benefit plans. Disclosure regarding plan assets should include discussion about how investment allocation decisions are made, the major categories of plan assets, the inputs and valuation techniques used to measure plan assets and significant concentrations of risk within plan assets. These amendments to ASC 715-20 are effective for fiscal years ending after December 15, 2009, and earlier application is permitted. Prior year periods presented for comparative purposes are not required to comply. The Company does not believe that these amendments to ASC 715-20 will have a material impact on its financial position, results of operations or cash flows.

2. PROPERTIES AND EQUIPMENT, NET

Properties and equipment, net are comprised of the following:

<i>(In thousands)</i>	September 30, 2009	December 31, 2008
Unproved Oil and Gas Properties	\$ 301,992	\$ 315,782
Proved Oil and Gas Properties	4,010,954	3,813,014
Gathering and Pipeline Systems	277,120	274,192
Land, Building and Other Equipment	72,372	68,606
	4,662,438	4,471,594
Accumulated Depreciation, Depletion and Amortization	(1,478,133)	(1,335,766)
	\$ 3,184,305	\$ 3,135,828

At September 30, 2009, the Company did not have any projects that had exploratory well costs that were capitalized for a period of greater than one year after drilling.

In April 2009, the Company sold its Canadian properties to a private Canadian company. Total consideration received from the sale was \$84.4 million, consisting of \$64.3 million in cash and \$20.1 million in common stock of the Canadian company (included on the Condensed Consolidated Balance Sheet as Investment in Equity Securities at September 30, 2009). The common stock investment is being accounted for using the cost method. The total net book value of the Canadian properties sold was \$95.0 million. At December 31, 2008, the Company recorded 40.4 Bcfe of proved reserves (two percent of total proved reserves) related to these properties.

Table of Contents

The Company recognized a \$3.9 million aggregate loss on sale of assets in the first nine months of 2009. During 2009, the Company recorded a \$10.5 million (net of taxes of \$6.1 million) loss on sale of assets, primarily due to the sale of the Canadian properties described above. In addition, the Company recognized a \$12.7 million gain on sale of assets during the first nine months of 2009 primarily related to the first quarter 2009 sale of Thornwood properties in the East. Cash proceeds of \$11.4 million were received from the sale of the Thornwood properties.

3. ADDITIONAL BALANCE SHEET INFORMATION

Certain balance sheet amounts are comprised of the following:

<i>(In thousands)</i>	September 30, 2009	December 31, 2008
ACCOUNTS RECEIVABLE, NET		
Trade Accounts	\$ 44,987	\$ 94,164
Joint Interest Accounts	9,522	16,454
Other Accounts	1,813	1,987
	56,322	112,605
Allowance for Doubtful Accounts	(3,709)	(3,518)
	\$ 52,613	\$ 109,087
INVENTORIES		
Natural Gas in Storage	\$ 20,022	\$ 27,478
Tubular Goods and Well Equipment	16,298	16,439
Pipeline Imbalances	449	1,760
	\$ 36,769	\$ 45,677
OTHER CURRENT ASSETS		
Drilling Advances	\$ 2,773	\$ 4,869
Prepaid Balances	7,292	7,631
	\$ 10,065	\$ 12,500
OTHER ASSETS		
Rabbi Trust Deferred Compensation Plan	\$ 10,644	\$ 8,651
Deferred Charges for Credit Agreements	12,694	4,847
Other Accounts	1,419	1,245
	\$ 24,757	\$ 14,743
ACCOUNTS PAYABLE		
Trade Accounts	\$ 15,078	\$ 44,088
Natural Gas Purchases	4,427	5,346
Royalty and Other Owners	31,409	42,349
Capital Costs	53,425	117,029
Taxes Other Than Income	3,403	5,617
Drilling Advances	1,089	1,289
Wellhead Gas Imbalances	4,096	3,354
Other Accounts	3,013	3,913
	\$ 115,940	\$ 222,985

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

ACCRUED LIABILITIES

Employee Benefits	\$ 7,025	\$ 10,807
Current Liability for Pension Benefits	245	245
Current Liability for Postretirement Benefits	642	642
Taxes Other Than Income	23,893	16,582
Interest Payable	11,665	20,684
Other Accounts	2,251	1,591
	\$ 45,721	\$ 50,551

OTHER LIABILITIES

Rabbi Trust Deferred Compensation Plan	\$ 18,824	\$ 14,531
Accrued Plugging and Abandonment Liability	29,229	27,978
Derivative Contracts	757	-
Other Accounts	5,557	4,717
	\$ 54,367	\$ 47,226

Table of Contents**4. LONG-TERM DEBT**

The Company's debt consisted of the following:

<i>(In thousands)</i>	September 30, 2009	December 31, 2008
Long-Term Debt		
7.19% Notes	\$ 20,000	\$ 20,000
7.33% Weighted-Average Fixed Rate Notes	170,000	170,000
6.51% Weighted-Average Fixed Rate Notes	425,000	425,000
9.78% Notes	67,000	67,000
Credit Facility	128,000	185,000
Current Maturities		
7.19% Notes	(20,000)	(20,000)
Credit Facility		(15,857)
Total Current Maturities	(20,000)	(35,857)
Long-Term Debt, excluding Current Maturities	\$ 790,000	\$ 831,143

In April 2009, the Company entered into a new revolving credit facility and terminated its prior credit facility. The credit facility provides for an available credit line of \$500 million and contains an accordion feature allowing the Company to increase the available credit line to \$600 million, if any one or more of the existing banks or new banks agree to provide such increased commitment amount. The term of the facility expires in April 2012.

In conjunction with entering into the new credit facility, the Company incurred \$10.4 million of debt issuance costs which were capitalized and will be amortized over the term of the credit facility. Additionally, \$1.5 million in unamortized costs associated with the prior credit facility will be amortized over the term of the new credit facility in accordance with ASC 470-50, Debt-Modifications and Extinguishments.

The credit facility is unsecured. The available credit line is subject to adjustment from time to time on the basis of (1) the projected present value (as determined by the banks based on the Company's reserve reports and engineering reports) of estimated future net cash flows from certain proved oil and gas reserves and certain other assets of the Company (the Borrowing Base) and (2) the outstanding principal balance of the Company's senior notes. Under the credit facility, the Borrowing Base is initially set at \$1.35 billion, to be periodically redetermined as described above. While the Company does not expect a reduction in the available credit line, in the event that it is adjusted below the outstanding level of borrowings in connection with scheduled redetermination or due to a termination of hedge positions, the Company has a period of six months to reduce its outstanding debt in equal monthly installments to the adjusted credit line available. Interest rates under the credit facility are based on Euro-Dollars (LIBOR) or Base Rate (Prime) indications, plus a margin. These associated margins increase if the total indebtedness under the credit facility and the Company's senior notes is greater than 25%, greater than 50%, greater than 75% or greater than 90% of the Borrowing Base, as shown below:

	Debt Percentage				
	<25%	³ 25% <50%	³ 50% <75%	³ 75% <90%	³ 90%
Eurodollar Margin	2.000%	2.250%	2.500%	2.750%	3.000%
Base Rate Margin	1.125%	1.375%	1.625%	1.875%	2.125%

The credit facility provides for a commitment fee on the unused available balance at annual rates of 0.50%.

The credit facility contains various customary restrictions, which include the following:

- (a) Maintenance of a minimum annual coverage ratio of operating cash flow to interest expense for the trailing four quarters of 2.8 to 1.0.

Table of Contents

- (b) Maintenance of an asset coverage ratio of the present value of proved reserves plus working capital to debt of 1.5 to 1.0.
- (c) Maintenance of a current ratio, as defined in the agreement, of 1.0 to 1.0.
- (d) Prohibition on the merger or sale of all, or substantially all, of the Company's or any subsidiary's assets to a third party, except under certain limited conditions.

In addition, the credit facility includes a customary condition to the Company's borrowings under the facility that there has not occurred a material adverse change with respect to the Company.

At September 30, 2009, the Company had \$128 million of borrowings outstanding under its revolving credit facility at a weighted-average interest rate of 3.7%.

The Company believes it is in compliance in all material respects with its debt covenants.

5. EARNINGS PER COMMON SHARE

Effective January 1, 2009, the Company adopted amendments that the FASB made to ASC 260, Earnings Per Share, regarding determining whether instruments granted in share-based payment transactions are participating securities. Under these amendments, unvested share-based payment awards that contain nonforfeitable rights to dividends or dividend equivalents, whether they are paid or unpaid, are considered participating securities and should be included in the computation of earnings per share pursuant to the two-class method. These amendments became effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those years. In addition, all prior period earnings per share data presented are required to be retrospectively adjusted. Upon adoption, basic earnings per share (EPS) is required to be computed using the two-class method prescribed in ASC 260. The two-class method is an earnings allocation formula that treats a participating security as having rights to earnings that would otherwise have been available to common shareholders. ASC 260 defines participating securities as securities that may participate in dividends with common stocks according to a predetermined formula. ASC 260 provides that its provisions under the amendments discussed above need not be applied to immaterial items. The Company has concluded that there are no material items to consider for purposes of its shares outstanding and EPS calculations, and the treasury stock method will continue to be used, as described below.

Basic EPS is computed by dividing net income (the numerator) by the weighted-average number of common shares outstanding for the period (the denominator). Diluted EPS is similarly calculated except that the denominator is increased using the treasury stock method to reflect the potential dilution that could occur if stock options and stock awards outstanding at the end of the applicable period were exercised for common stock.

The following is a calculation of basic and diluted weighted-average shares outstanding for the three and nine months ended September 30, 2009 and 2008:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
Weighted-Average Shares Basic	103,647,016	103,351,147	103,603,085	99,857,606
Dilution Effect of Stock Options and Awards at End of Period	1,269,683	1,144,096	980,043	1,043,650
Weighted-Average Shares Diluted	104,916,699	104,495,243	104,583,128	100,901,256
Weighted-Average Stock Awards and Shares Excluded from Diluted Earnings per Share due to the Anti-Dilutive Effect	213,480		233,489	149,524

Table of Contents

6. COMMITMENTS AND CONTINGENCIES

Contingencies

The Company is a defendant in various legal proceedings arising in the normal course of its business. All known liabilities are accrued based on management's best estimate of the potential loss. While the outcome and impact of such legal proceedings on the Company cannot be predicted with certainty, management believes that the resolution of these proceedings through settlement or adverse judgment will not have a material adverse effect on the Company's condensed consolidated financial position or cash flow. Operating results, however, could be significantly impacted in the reporting periods in which such matters are resolved.

Commitment and Contingency Reserves

When deemed necessary, the Company establishes reserves for certain legal proceedings. The establishment of a reserve involves an estimation process that includes the advice of legal counsel and subjective judgment of management. While management believes these reserves to be adequate, it is reasonably possible that the Company could incur approximately \$1.0 million of additional loss with respect to those matters in which reserves have been established. Future changes in the facts and circumstances could result in the actual liability exceeding the estimated ranges of loss and amounts accrued.

While the outcome and impact on the Company cannot be predicted with certainty, management believes that the resolution of these proceedings through settlement or adverse judgment will not have a material adverse effect on the condensed consolidated financial position or cash flow of the Company. Operating results, however, could be significantly impacted in the reporting periods in which such matters are resolved.

Firm Gas Transportation Agreements

The Company has incurred, and will incur over the next several years, demand charges on firm gas transportation agreements. These agreements provide firm transportation capacity rights on pipeline systems in the North region. The remaining terms on these agreements range from less than one year to approximately 20 years and require the Company to pay transportation demand charges regardless of the amount of pipeline capacity utilized by the Company. If the Company does not utilize the capacity, it can release it to others, thus reducing its potential liability. The agreements that the Company previously had in place on pipeline systems in Canada were transferred in April 2009 to the buyer in connection with the sale of our Canadian properties (discussed in Note 2).

As previously disclosed in the Form 10-K, obligations under firm gas transportation agreements in effect at December 31, 2008 were \$94.7 million. As of September 30, 2009, obligations under firm gas transportation agreements were \$92.2 million. For further information on these future obligations, please refer to Note 7 of the Notes to the Consolidated Financial Statements in the Form 10-K.

Drilling Rig Commitments

In the Form 10-K, the Company disclosed that it had total commitments of \$44.3 million on eight drilling rigs in the South region that are under contracts with initial terms of greater than one year. The Company entered into a new drilling rig commitment of approximately \$8 million in the first nine months of 2009. The total commitment for nine drilling rigs for the years ending December 31, 2009 and 2010 was \$53.8 million (\$47.4 million for 2009 and \$6.4 million for 2010). As of September 30, 2009, outstanding commitments for drilling rigs for the remainder of 2009 and for 2010 total \$12.6 million. For further information on these future obligations, please refer to Note 7 of the Notes to the Consolidated Financial Statements in the Form 10-K.

7. FINANCIAL INSTRUMENTS

Fair Value Measurements

In February 2008, the FASB issued an amendment to ASC 820, Fair Value Measurements and Disclosures, which granted a one year deferral (to fiscal years beginning after November 15, 2008, and interim periods within those fiscal

Table of Contents

years) for certain non-financial assets and liabilities measured on a nonrecurring basis to comply with ASC 820. Effective January 1, 2009, the Company applied these amendments of ASC 820 discussed above and there was no material impact on the Company's financial statements. In the future, areas that could cause an impact would primarily be limited to asset impairments including long-lived assets, asset retirement obligations and assets acquired and liabilities assumed in a business combination, if any.

ASC 820 established a formal framework for measuring fair values of assets and liabilities in financial statements that are already required by GAAP to be measured at fair value. As defined in ASC 820, fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (exit price). The transaction is based on a hypothetical transaction in the principal or most advantageous market considered from the perspective of the market participant that holds the asset or owes the liability.

The Company utilizes market data or assumptions that market participants who are independent, knowledgeable and willing and able to transact would use in pricing the asset or liability, including assumptions about risk and the risks inherent in the inputs to the valuation technique. These inputs can be readily observable, market corroborated or generally unobservable. The Company attempts to utilize valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. The Company is able to classify fair value balances based on the observability of those inputs. ASC 820 establishes a formal fair value hierarchy based on the inputs used to measure fair value. The hierarchy gives the highest priority to level 1 measurements and the lowest priority to level 3 measurements, and accordingly, level 1 measurements should be used whenever possible. For further information regarding the fair value hierarchy and ASC 820, refer to Note 11 of the Notes to the Consolidated Financial Statements in the Form 10-K.

In accordance with ASC 820, the Company has classified its assets and liabilities into these levels depending upon the data relied on to determine the fair values. The fair values of the Company's natural gas and crude oil price collars and swaps are designated as Level 3. The following fair value hierarchy table presents information about the Company's assets and liabilities measured at fair value on a recurring basis as of September 30, 2009:

<i>(In thousands)</i>	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance as of September 30, 2009
Assets				
Rabbi Trust Deferred Compensation Plan	\$ 10,644	\$	\$	\$ 10,644
Derivative Contracts			191,136	191,136
Total Assets	\$ 10,644	\$	\$ 191,136	\$ 201,780
Liabilities				
Rabbi Trust Deferred Compensation Plan	\$ 18,824	\$	\$	\$ 18,824
Derivative Contracts			757	757
Total Liabilities	\$ 18,824	\$	\$ 757	\$ 19,581

The Company's investments associated with its Rabbi Trust Deferred Compensation Plan consist of mutual funds that are publicly traded and for which market prices are readily available. In addition, the Rabbi Trust Deferred Compensation Liability includes the value of deferred shares of the Company's common stock which is publicly traded and for which current market prices are readily available.

The determination of the fair values above incorporates various factors required under ASC 820. These factors include not only the credit standing of the counterparties involved in transactions with the Company resulting in receivables on the Company's Condensed Consolidated Balance Sheet, but also the impact of the Company's nonperformance risk on its liabilities.

Table of Contents

The following table sets forth a reconciliation of changes for the three and nine month periods ended September 30, 2009 and 2008 in the fair value of financial assets and liabilities classified as Level 3 in the fair value hierarchy:

<i>(In thousands)</i>	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
Balance at beginning of period	\$ 297,388 ⁽¹⁾	\$ (282,771) ⁽²⁾	\$ 355,202 ⁽³⁾	\$ 7,272 ⁽⁴⁾
Total Gains or (Losses) (Realized or Unrealized):				
Included in Earnings ⁽⁵⁾	106,795	(8,799)	303,632	(38,147)
Included in Other Comprehensive Income	(105,776)	472,268	(164,405)	185,133
Purchases, Issuances and Settlements	(108,028)	10,058	(304,050)	36,498
Transfers In and/or Out of Level 3				
Balance at end of period	\$ 190,379	\$ 190,756	\$ 190,379	\$ 190,756

(1) Balance was entirely comprised of derivative assets.

(2) Balance was entirely comprised of derivative liabilities.

(3) Balance was entirely comprised of derivative assets.

(4) Balance was comprised of derivative assets of \$12.7 million and derivative liabilities of \$5.4 million.

(5) A loss of \$1.2 million and \$0.4 million for the three and nine months ended September 30, 2009, respectively, was unrealized and included in Natural Gas Production Revenues in the Statement of Operations. A gain of \$1.3 million and a loss of \$1.6 million for the three and nine months ended September 30, 2008, respectively, was unrealized and included in Natural Gas Production Revenues in the Statement of Operations.

The derivative contracts were measured based on quotes from the Company's counterparties. Such quotes have been derived using a Black-Scholes model that considers various inputs including current market and contractual prices for the underlying instruments, quoted forward prices for natural gas and crude oil, volatility factors and interest rates, such as a LIBOR curve for a similar length of time as the derivative contract term. These estimates are compared to multiple quotes obtained from counterparties for reasonableness. The Company measured the nonperformance risk of its counterparties by reviewing credit default swap spreads for the various financial institutions in which it has derivative transactions. The resulting reduction to the net receivable derivative contract position was \$0.5 million. In times where the Company has net derivative contract liabilities, the nonperformance risk of the Company is evaluated using a market credit spread provided by the Company's bank.

Fair Market Value of Financial Instruments

The estimated fair value of financial instruments is the amount at which the instrument could be exchanged currently between willing parties. The carrying amounts reported in the Condensed Consolidated Balance Sheet for cash and cash equivalents, accounts receivable and accounts payable approximate fair value. The fair value of long-term debt is the estimated cost to acquire the debt, including a credit spread for the difference between the issue rate and the period end market rate. The credit spread is the Company's default or repayment risk. The credit spread (premium or discount) is determined by comparing the Company's fixed-rate notes to new issuances (secured and unsecured) and secondary trades of similar size and credit statistics for both public and private debt. The fair value of all of the notes, excluding the credit facility, are based on interest rates currently available to the Company. The credit facility approximates fair value because this instrument bears interest at rates based on current market rates.

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

The Company uses available market data and valuation methodologies to estimate the fair value of debt. This disclosure is presented in accordance with ASC 825-10-50, Financial Instruments-Overall-Disclosures, as well as ASC 820, Fair Value Measurements and Disclosures, and does not impact the Company's financial position, results of operations or cash flows.

Table of Contents

	September 30, 2009		December 31, 2008	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
(In thousands)				
Long-Term Debt	\$ 810,000	\$ 856,535	\$ 867,000	\$ 807,508
Current Maturities	(20,000)	(20,704)	(35,857)	(35,796)
Long-Term Debt, excluding Current Maturities	\$ 790,000	\$ 835,831	\$ 831,143	\$ 771,712

Derivative Instruments and Hedging Activity

In March 2008, the FASB issued guidance and amended the disclosure requirements prescribed in ASC 815, Derivatives and Hedging. Entities are now required to provide greater transparency about how and why the entity uses derivative instruments, how the instruments and related hedged items are accounted for under ASC 815 and how the instruments and related hedged items affect the financial position, results of operations and cash flows of the entity. The Company adopted these new disclosure requirements effective January 1, 2009. A tabular format including the fair value of derivative instruments and their gains and losses, disclosure about credit risk-related derivative features and cross-referencing within the footnotes are also new requirements.

The Company periodically enters into derivative commodity instruments to hedge its exposure to price fluctuations on natural gas and crude oil production. The Company's credit agreement restricts the ability of the Company to enter into commodity hedges other than to hedge or mitigate risks to which the Company has actual or projected exposure or as permitted under the Company's risk management policies and not subjecting the Company to material speculative risks. All of the Company's derivatives are used for risk management purposes and are not held for trading purposes. As of September 30, 2009, the Company had 26 cash flow hedges open: 14 natural gas price collar arrangements, 10 natural gas price swap arrangements and two crude oil price swap arrangements. During the first nine months of 2009, the Company entered into six new derivative contracts covering anticipated natural gas production for 2012. These natural gas basis swaps did not qualify for hedge accounting under ASC 815. These natural gas basis swaps mitigate the risk associated with basis differentials that may expand or increase over time, thus reducing the exposure and risk of basis fluctuations.

As of September 30, 2009, the Company had the following outstanding commodity derivatives:

Commodity	Derivative Type	Weighted-Average Contract Price ⁽¹⁾	Volume	Contract Period
Derivatives designated as Hedging Instruments under ASC 815				
Natural Gas	Collar	\$12.39 / \$9.40	per Mcf 11,910 Mmcf	2009
Natural Gas	Swap	\$12.18	per Mcf 4,053 Mmcf	2009
Natural Gas	Swap	\$11.43	per Mcf 19,295 Mmcf	2010
Crude Oil	Swap	\$125.25	per Bbl 92 Mbbl	2009
Crude Oil	Swap	\$125.00	per Bbl 365 Mbbl	2010
Derivatives not qualifying as Hedging Instruments under ASC 815				
Natural Gas	Basis Swap	\$(0.27)	per Mcf 16,123 Mmcf	2012

⁽¹⁾ For collar derivatives, the amounts in this column represent the ceiling and floor prices.

The change in the fair value of derivatives designated as hedges that is effective is initially recorded to Accumulated Other Comprehensive Income / (Loss) in Stockholders' Equity in the Balance Sheet. The ineffective portion of the change in the fair value of derivatives designated as hedges, and the change in fair value of derivatives not qualifying as hedges, are recorded currently in earnings as a component of Natural Gas Production and Crude Oil and Condensate Revenue, as appropriate.

Table of Contents

The following schedules reflect the fair values of derivative instruments on the Company's condensed consolidated financial statements as of September 30, 2009:

Effect of derivative instruments on the Condensed Consolidated Balance Sheet

<i>(In thousands)</i>	Asset Derivatives		Liability Derivatives	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Derivatives designated as Hedging Instruments under ASC 815				
Natural Gas Commodity Contracts	Current Derivative Contracts	\$ 146,239		\$
Natural Gas Commodity Contracts	Long-Term Derivative Contracts	19,560		
Crude Oil Commodity Contracts	Current Derivative Contracts	20,548		
Crude Oil Commodity Contracts	Long-Term Derivative Contracts	4,450		
		\$ 190,797		
Derivatives not qualifying as Hedging Instruments under ASC 815				
Natural Gas Commodity Basis Contracts	Long-Term Derivative Contracts	339	Other Liabilities	(757)
		\$ 191,136		\$ (757)

At September 30, 2009, a \$190.8 million (\$119.8 million, net of tax) unrealized gain was recorded in Accumulated Other Comprehensive Income / (Loss). For the natural gas commodity basis contracts that were not designated as hedging instruments, a \$0.4 million unrealized loss was recorded in the Condensed Consolidated Statement of Operations as a component of Natural Gas Production Revenue for the nine months ended September 30, 2009.

Effect of derivative instruments on the Condensed Consolidated Statement of Operations

<i>(In thousands)</i>	Amount of Gain Recognized in OCI on Derivative (Effective Portion)	Location of Gain Reclassified from Accumulated OCI into Income (Effective Portion)	Amount of Gain Reclassified from Accumulated OCI into Income (Effective Portion)	Location of Gain Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)
Derivatives designated as Hedging Instruments under ASC 815				
Natural Gas Commodity Contracts	\$ 165,799	Natural Gas Production Revenues	\$ 285,453	N/A
Crude Oil Commodity Contracts	24,998	Crude Oil and Condensate Revenues	18,597	N/A
	\$ 190,797		\$ 304,050	

<i>(In thousands)</i>	Location of Loss Recognized in Income on Derivative	Amount of Loss Recognized in Income on Derivative
Derivatives not qualifying as Hedging Instruments under ASC 815		

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

Natural Gas Commodity Contracts

Natural Gas Production Revenues \$ (418)

Based upon estimates at September 30, 2009, the Company would expect to reclassify from Other Comprehensive Income to the Condensed Consolidated Statement of Operations over the next 12 months \$104.7 million in after-tax income associated with its commodity hedges. This reclassification represents the net short-term receivable (after the impact of taxes) associated with open positions currently not reflected in earnings at September 30, 2009 related to anticipated 2009 and 2010 production.

Table of Contents**8. COMPREHENSIVE INCOME / (LOSS)**

Comprehensive Income / (Loss) includes Net Income and certain items recorded directly to Stockholders' Equity and classified as Accumulated Other Comprehensive Income / (Loss). The following tables illustrate the calculation of Comprehensive Income / (Loss) for the three and nine month periods ended September 30, 2009 and 2008:

<i>(In thousands)</i>	Three Months Ended September 30,			
	2009	2008		
Accumulated Other Comprehensive Income / (Loss) Beginning of Period		\$ 158,273		\$ (182,602)
Net Income	\$ 38,897		\$ 66,990	
Other Comprehensive Income / (Loss), net of taxes:				
Reclassification Adjustment for Settled Contracts, net of taxes of \$40,185 and \$(3,758), respectively	(67,843)		6,300	
Changes in Fair Value of Hedge Positions, net of taxes of \$(837) and \$(171,149), respectively	1,415		291,061	
Defined Benefit Pension and Postretirement Plans:				
Amortization of Net Obligation at Transition, net of taxes of \$(59) and \$(58), respectively	\$ 99		\$ 100	
Amortization of Prior Service Cost, net of taxes of \$(66) and \$(93), respectively	113		158	
Amortization of Net Loss, net of taxes of \$(358) and \$(152), respectively	605	817	254	512
Foreign Currency Translation Adjustment, net of taxes of \$43 and \$1,864, respectively	(73)		(3,189)	
Total Other Comprehensive Income / (Loss)	(65,684)	(65,684)	294,684	294,684
Comprehensive Income / (Loss)	\$ (26,787)		\$ 361,674	
Accumulated Other Comprehensive Income End of Period		\$ 92,589		\$ 112,082

Table of Contents

<i>(In thousands)</i>	Nine Months Ended September 30,			
	2009		2008	
Accumulated Other Comprehensive Income / (Loss) Beginning of Period		\$ 186,426		\$ (894)
Net Income	\$ 111,979			\$ 167,590
Other Comprehensive Income / (Loss), net of taxes:				
Reclassification Adjustment for Settled Contracts, net of taxes of \$113,598 and \$(13,541), respectively		(190,452)		22,957
Changes in Fair Value of Hedge Positions, net of taxes of \$(52,441) and \$(55,122), respectively		87,204		93,513
Defined Benefit Pension and Postretirement Plans:				
Amortization of Net Obligation at Transition, net of taxes of \$(177) and \$(175), respectively	\$ 297			\$ 299
Amortization of Prior Service Cost, net of taxes of \$(200) and \$(279), respectively	338			473
Amortization of Net Loss, net of taxes of \$(1,075) and \$(452), respectively	1,815	2,450		766 1,538
Foreign Currency Translation Adjustment, net of taxes of \$(4,124) and \$3,033, respectively		6,961		(5,032)
Total Other Comprehensive Income / (Loss)		(93,837)	(93,837)	112,976 112,976
Comprehensive Income	\$ 18,142			\$ 280,566
Accumulated Other Comprehensive Income End of Period		\$ 92,589		\$ 112,082

Changes in the components of Accumulated Other Comprehensive Income, net of taxes, for the nine months ended September 30, 2009 were as follows:

Accumulated Other Comprehensive Income, net of taxes <i>(In thousands)</i>	Net Gains on Cash Flow Hedges	Defined Benefit Pension and Postretirement Plans	Foreign Currency Translation Adjustment	Total
Balance at December 31, 2008	\$ 223,068	\$ (29,608)	\$ (7,034)	\$ 186,426
Net change in unrealized gain on cash flow hedges, net of taxes of \$61,157	(103,248)			(103,248)
Net change in defined benefit pension and postretirement plans, net of taxes of \$(1,452)				