

Rice Energy Inc.
Form 10-Q
August 04, 2016

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

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2016

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission File Number: 001-36273

Rice Energy Inc.

(Exact name of registrant as specified in its charter)

Delaware

46-3785773

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

2200 Rice Drive

15317

Canonsburg, Pennsylvania

(Address of principal executive offices)

(Zip code)

(724) 271-7200

(Registrant's telephone number, including area code)

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 small 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

Number of shares of the registrant's common stock outstanding at August 2, 2016: 156,584,875 shares

RICE ENERGY INC.
QUARTERLY REPORT ON FORM 10-Q
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Cautionary Statement Regarding Forward-Looking Statements

This Quarterly Report on Form 10-Q (the “Quarterly Report”) contains “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933, as amended (the “Securities Act”), and Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”). All statements, other than statements of historical fact included in this Quarterly Report, regarding our strategy, future operations, financial position, estimated revenues and income/losses, projected costs, prospects, plans and objectives of management are forward-looking statements. When used in this Quarterly Report, the words “could,” “may,” “assume,” “forecast,” “position,” “predict,” “strategy,” “expect,” “intend,” “estimate,” “anticipate,” “believe,” “project,” “budget,” “potential,” or “continue,” and similar expressions are intended to identify forward-looking statements, although not all forward-looking statements contain such identifying words. These forward-looking statements are based on our current expectations and assumptions about future events and are based on currently available information as to the outcome and timing of future events. You are cautioned not to place undue reliance on any forward-looking statements. You should also understand that it is not possible to predict or identify all such factors and should not consider the following list to be a complete statement of all potential risks and uncertainties. When considering forward-looking statements, you should keep in mind the risk factors and other cautionary statements described under the heading “Item 1A. Risk Factors” included in our Annual Report on Form 10-K for the year ended December 31, 2015 (the “2015 Annual Report”) on file with the Securities and Exchange Commission (the “SEC”).

Forward-looking statements may include statements about:

- our business strategy;
- our reserves;
- our financial strategy, liquidity and capital required for our development program;
- realized natural gas, natural gas liquid (“NGL”) and oil prices;
- timing and amount of future production of natural gas, NGLs and oil;
- our hedging strategy and results;
 - our future drilling plans;
- competition and government regulations;
- pending legal or environmental matters;
- our marketing of natural gas, NGLs and oil;
- our leasehold or business acquisitions;
- costs of developing our properties and conducting our gathering and other midstream operations;
- operations of Rice Midstream Partners LP;
- monetization transactions, including asset sales to Rice Midstream Partners LP;
- general economic conditions;
- credit and capital markets;
- uncertainty regarding our future operating results; and
- plans, objectives, expectations and intentions contained in this Quarterly Report that are not historical.

We caution you that these forward-looking statements are subject to all of the risks and uncertainties, most of which are difficult to predict and many of which are beyond our control, incident to the exploration for and development, production, gathering and sale of natural gas, NGLs and oil. These risks include, but are not limited to: commodity price volatility; inflation; lack of availability of drilling and production equipment and services; environmental risks; drilling and other operating risks; regulatory changes; the uncertainty inherent in estimating natural gas reserves and in projecting future rates of production, cash flow and access to capital; the timing of development expenditures; risks relating to joint venture operations; and the other risks described under the heading “Item 1A. Risk Factors” in our 2015 Annual Report.

Reserve engineering is a process of estimating underground accumulations of natural gas, NGLs and oil that cannot be measured in an exact way. The accuracy of any reserve estimate depends on the quality of available data, the interpretation of such data and price and cost assumptions made by reserve engineers. In addition, the results of drilling, testing and production activities may justify revisions of estimates that were made previously. If significant,

such revisions could change the schedule of any further production and development drilling. Accordingly, reserve estimates may differ significantly from the quantities of natural gas, and NGLs and oil that are ultimately recovered. Should one or more of the risks or uncertainties described 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.

All forward-looking statements, expressed or implied, included in this Quarterly Report are expressly qualified in their entirety by this cautionary statement. This cautionary statement should also be considered in connection with any subsequent written or oral forward-looking statements that we or persons acting on our behalf may issue.

Except as otherwise required by applicable law, we disclaim any duty to update any forward-looking statements, all of which are expressly qualified by the statements in this section, to reflect events or circumstances after the date of this Quarterly Report.

Commonly Used Defined Terms

As used in the Quarterly Report, unless the context indicates or otherwise requires, the following terms have the following meanings:

- “Rice Energy,” the “Company,” “we,” “our,” “us” or like terms refer collectively to Rice Energy Inc. and its consolidated subsidiaries;
- “Rice Drilling B” refers to Rice Drilling B LLC, a wholly-owned subsidiary of Rice Energy;
- the “Partnership” refers to Rice Midstream Partners LP (NYSE: RMP);
- “Rice Midstream OpCo” refers to Rice Midstream OpCo LLC, a wholly-owned subsidiary of RMP;
- “Midstream Holdings” refers to Rice Midstream Holdings LLC, a subsidiary of Rice Energy; and
- “GP Holdings” refers to Rice Midstream GP Holdings LP, a subsidiary of Rice Energy.

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

Rice Energy Inc.

Condensed Consolidated Balance Sheets

(Unaudited)

| (in thousands) | June 30, 2016 | December 31, 2015 |
|---|------------------|----------------------|
| Assets | | |
| Current assets: | | |
| Cash | \$565,514 | \$ 151,901 |
| Accounts receivable | 175,523 | 154,814 |
| Prepaid expenses and other | 7,348 | 5,488 |
| Derivative assets | 31,720 | 186,960 |
| Total current assets | 780,105 | 499,163 |
| Gas collateral account | 4,107 | 4,077 |
| Property, plant and equipment, net | 3,514,759 | 3,243,131 |
| Deferred financing costs, net | 8,114 | 8,811 |
| Goodwill | 39,142 | 39,142 |
| Intangible assets, net | 45,349 | 46,159 |
| Derivative assets | 13,334 | 105,945 |
| Other non-current assets | 1,969 | 2,670 |
| Total assets | \$4,406,879 | \$ 3,949,098 |
| Liabilities, mezzanine equity and stockholders' equity | | |
| Current liabilities: | | |
| Accounts payable | \$ 19,470 | \$ 83,553 |
| Royalties payable | 41,186 | 40,572 |
| Accrued capital expenditures | 79,362 | 79,747 |
| Accrued interest | 14,248 | 14,337 |
| Leasehold payable | 8,295 | 17,338 |
| Other accrued liabilities | 70,964 | 64,794 |
| Total current liabilities | 233,525 | 300,341 |
| Long-term liabilities: | | |
| Long-term debt | 1,302,684 | 1,435,790 |
| Leasehold payable | 2,803 | 6,289 |
| Deferred tax liabilities | 145,117 | 271,988 |
| Derivative instruments | 24,327 | 16,344 |
| Other long-term liabilities | 20,583 | 13,878 |
| Total liabilities | 1,729,039 | 2,044,630 |
| Mezzanine equity: | | |
| Redeemable noncontrolling interest, net (Note 8) | 372,861 | — |
| Stockholders' equity: | | |
| Common stock, \$0.01 par value; authorized - 650,000,000 shares; issued and outstanding - 156,565,557 shares and 136,387,194 shares, respectively | 1,566 | 1,364 |
| Preferred stock, \$0.01 par value; authorized - 50,000,000 shares; none issued | — | — |

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| | | |
|--|-------------|-------------|
| Additional paid in capital | 1,760,277 | 1,416,523 |
| Accumulated deficit | (312,264) | (137,990) |
| Stockholders' equity before noncontrolling interest | 1,449,579 | 1,279,897 |
| Noncontrolling interests in consolidated subsidiaries | 855,400 | 624,571 |
| Total liabilities, mezzanine equity and stockholders' equity | \$4,406,879 | \$3,949,098 |

The accompanying notes are an integral part of these Condensed Consolidated Financial Statements.

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Rice Energy Inc.
Condensed Consolidated Statements of Operations
(Unaudited)

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|--|--------------------------------|-------------|------------------------------|-------------|
| (in thousands, except share data) | 2016 | 2015 | 2016 | 2015 |
| Operating revenues: | | | | |
| Natural gas, oil and natural gas liquids sales | \$122,312 | \$ 100,890 | \$234,754 | \$ 197,802 |
| Gathering, compression and water distribution | 23,728 | 11,566 | 48,280 | 21,367 |
| Other revenue | 9,958 | 438 | 12,906 | 3,264 |
| Total operating revenues | 155,998 | 112,894 | 295,940 | 222,433 |
| Operating expenses: | | | | |
| Lease operating ⁽¹⁾ | 9,038 | 11,090 | 20,109 | 22,681 |
| Gathering, compression and transportation | 27,169 | 16,842 | 55,301 | 31,262 |
| Production taxes and impact fees | 2,659 | 1,694 | 4,310 | 3,148 |
| Exploration | 5,548 | 356 | 6,538 | 1,095 |
| Midstream operation and maintenance | 4,555 | 2,801 | 14,177 | 6,132 |
| Incentive unit expense | 14,840 | 23,099 | 38,982 | 46,557 |
| Acquisition expense | 84 | — | 556 | — |
| Impairment of fixed assets | — | — | 2,595 | — |
| General and administrative ⁽¹⁾ | 29,272 | 24,637 | 54,145 | 45,381 |
| Depreciation, depletion and amortization | 84,752 | 76,140 | 163,937 | 138,721 |
| Amortization of intangible assets | 403 | 408 | 811 | 816 |
| Other expense | 11,457 | 1,998 | 15,648 | 3,889 |
| Total operating expenses | 189,777 | 159,065 | 377,109 | 299,682 |
| Operating loss | (33,779) | (46,171) | (81,169) | (77,249) |
| Interest expense | (24,802) | (23,359) | (49,323) | (39,488) |
| Other income | 2,549 | 1,035 | 2,762 | 1,196 |
| (Loss) gain on derivative instruments | (201,555) | (3,710) | (131,376) | 57,657 |
| Amortization of deferred financing costs | (1,618) | (1,306) | (3,169) | (2,409) |
| Loss before income taxes | (259,205) | (73,511) | (262,275) | (60,293) |
| Income tax benefit | 120,496 | 9,992 | 126,871 | 1,462 |
| Net loss | (138,709) | (63,519) | (135,404) | (58,831) |
| Less: Net income attributable to noncontrolling interests | (17,977) | (6,164) | (38,870) | (10,699) |
| Net loss attributable to Rice Energy Inc. | (156,686) | (69,683) | (174,274) | (69,530) |
| Less: Preferred dividends and accretion on redeemable noncontrolling interests | (7,944) | — | (11,402) | — |
| Net loss attributable to Rice Energy Inc. common stockholders | \$(164,630) | \$(69,683) | \$(185,676) | \$(69,530) |
| Weighted average number of shares of common stock—basic | 153,203,901 | 136,315,882 | 144,811,902 | 136,303,914 |
| Weighted average number of shares of common stock—diluted | 153,203,901 | 136,315,882 | 144,811,902 | 136,303,914 |
| Loss per share—basic | \$(1.07) | \$(0.51) | \$(1.28) | \$(0.51) |
| Loss per share—diluted | \$(1.07) | \$(0.51) | \$(1.28) | \$(0.51) |

Stock-based compensation expense of \$0.1 million and \$6.1 million is included in lease operating and general and administrative expense, respectively, for the three months ended June 30, 2016, and \$4.2 million is included
(1) general and administrative expense for the three months ended June 30, 2015. Stock-based compensation expense of \$0.2 million and \$10.8 million is included in lease operating and general and administrative expense, respectively, for the six months ended June 30, 2016, and \$7.5 million is included general and administrative expense for the six months ended June 30, 2015. See Note 12 for additional information.

The accompanying notes are an integral part of these Condensed Consolidated Financial Statements.

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Rice Energy Inc.
Condensed Consolidated Statements of Cash Flows
(Unaudited)

| (in thousands) | Six Months Ended June 30, | |
|---|------------------------------|------------|
| | 2016 | 2015 |
| Cash flows from operating activities: | | |
| Net loss | \$(135,404) | \$(58,831) |
| Adjustments to reconcile net loss to net cash provided by operating activities: | | |
| Depreciation, depletion and amortization | 163,937 | 138,721 |
| Amortization of deferred financing costs | 3,169 | 2,409 |
| Amortization of intangibles | 811 | 816 |
| Exploration | 6,538 | 1,095 |
| Incentive unit expense | 38,982 | 46,557 |
| Stock compensation expense | 10,789 | 7,467 |
| Impairment of fixed assets | 2,595 | — |
| Derivative instruments fair value loss (gain) | 131,376 | (57,657) |
| Cash receipts for settled derivatives | 133,205 | 69,870 |
| Deferred income benefit | (126,871) | (1,462) |
| Changes in operating assets and liabilities: | | |
| Increase in accounts receivable | (21,995) | (45,531) |
| Increase in prepaid expenses and other assets | (530) | (2,912) |
| Decrease in accounts payable | (4,894) | (19,171) |
| Increase in accrued liabilities and other | 572 | 8,114 |
| Increase in royalties payable | 614 | 15,448 |
| Net cash provided by operating activities | 202,894 | 104,933 |
| Cash flows from investing activities: | | |
| Capital expenditures for property and equipment | (484,529) | (622,797) |
| Acquisition of midstream assets | (7,744) | — |
| Proceeds from sale of interest in gas properties | — | 10,201 |
| Net cash used in investing activities | (492,273) | |