

ANTERO RESOURCES Corp
Form 10-Q
October 31, 2018
Table of Contents

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, 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: 001-36120

ANTERO RESOURCES CORPORATION

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

80-0162034
(IRS Employer Identification No.)

1615 Wynkoop Street
Denver, Colorado
(Address of principal executive offices)

80202
(Zip Code)

(303) 357-7310

(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 every Interactive Data File required to be submitted 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 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

The registrant had 317,114,931 shares of common stock outstanding as of October 26, 2018.

Table of Contents

TABLE OF CONTENTS

<u>CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS</u>	2
<u>PART I—FINANCIAL INFORMATION</u>	4
<u>Item 1. Financial Statements (Unaudited)</u>	4
<u>Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	43
<u>Item 3. Quantitative and Qualitative Disclosures about Market Risk</u>	66
<u>Item 4. Controls and Procedures</u>	68
<u>PART II—OTHER INFORMATION</u>	68
<u>Item 1. Legal Proceedings</u>	68
<u>Item 1A. Risk Factors</u>	70
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	71
<u>Item 6. Exhibits</u>	71
<u>SIGNATURES</u>	72

Table of Contents

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

Some of the information in this Quarterly Report on Form 10-Q may contain forward-looking statements.

Forward-looking statements give our current expectations, contain projections of results of operations or of financial condition, or forecasts of future events. Words such as “may,” “assume,” “forecast,” “position,” “predict,” “strategy,” “expect,” “intend,” “plan,” “estimate,” “anticipate,” “believe,” “project,” “budget,” “potential,” or “continue,” and similar expressions are used to identify forward-looking statements. They can be affected by assumptions used or by known or unknown risks or uncertainties. Consequently, no forward-looking statements can be guaranteed. When considering these forward-looking statements, you should keep in mind the risk factors and other cautionary statements in this Quarterly Report on Form 10-Q. Actual results may vary materially. 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. Factors that could cause our actual results to differ materially from the results contemplated by such forward-looking statements include:

- business strategy;
- reserves;
- financial strategy, liquidity, and capital required for our development program;
- natural gas, natural gas liquids (“NGLs”), and oil prices;
- timing and amount of future production of natural gas, NGLs, and oil;
- hedging strategy and results;
- the Company’s ability to successfully complete its share repurchase program;
- the possibility that the proposed simplification and related transactions described elsewhere in this Quarterly Report on Form 10-Q (the “Transactions”) are not consummated in a timely manner or at all;
- the diversion of management in connection with the Transactions and the ability of the resulting entity of the Transactions to realize the anticipated benefits of the Transactions;
- ability to meet minimum volume commitments and to utilize or monetize our firm transportation commitments;
- future drilling plans;
- competition and government regulations;
- pending legal or environmental matters;
 - marketing of natural gas, NGLs, and oil;
- leasehold or business acquisitions;
- costs of developing our properties;
- operations of Antero Midstream Partners LP (“Antero Midstream”), including the operations of its unconsolidated affiliates;
- general economic conditions;
- credit markets;
- uncertainty regarding our future operating results; and
- plans, objectives, expectations, and intentions.

Table of Contents

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, incidental to our business. These risks include, but are not limited to, commodity price volatility, inflation, availability of drilling, completion, and production equipment and services, environmental risks, drilling and completion and other operating risks, marketing and transportation risks, regulatory changes, the uncertainty inherent in estimating natural gas, NGLs, and oil reserves and in projecting future rates of production, cash flows and access to capital, the timing of development expenditures, conflicts of interest among our stockholders, and the other risks described under the heading “Item 1A. Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2017 (the “2017 Form 10-K”) on file with the Securities and Exchange Commission (“SEC”).

Reserve engineering is a process of estimating underground accumulations of natural gas, NGLs, and oil that cannot be measured in an exact manner. The accuracy of any reserve estimate depends on the quality of available data, the interpretation of such data, and the price and cost assumptions made by reservoir engineers. In addition, the results of drilling, testing, and production activities, or changes in commodity prices, may justify revisions of estimates that were made previously. If significant, such revisions would change the schedule of any further production and development drilling. Accordingly, reserve estimates may differ significantly from the quantities of natural gas, NGLs, and oil that are ultimately recovered.

Should one or more of the risks or uncertainties described in this 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 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 on Form 10-Q.

Table of Contents

PART I—FINANCIAL INFORMATION

ANTERO RESOURCES CORPORATION

Condensed Consolidated Balance Sheets

December 31, 2017 and September 30, 2018

(Unaudited)

(In thousands, except per share amounts)

	December 31, 2017	September 30, 2018
Assets		
Current assets:		
Cash and cash equivalents	\$ 28,441	—
Accounts receivable, net of allowance for doubtful accounts of \$1,320 at December 31, 2017 and \$1,195 at September 30, 2018, respectively	34,896	46,604
Accrued revenue	300,122	354,010
Derivative instruments	460,685	493,354
Other current assets	8,943	12,664
Total current assets	833,087	906,632
Property and equipment:		
Natural gas properties, at cost (successful efforts method):		
Unproved properties	2,266,673	1,928,990
Proved properties	11,096,462	12,306,198
Water handling and treatment systems	946,670	993,285
Gathering systems and facilities	2,050,490	2,384,041
Other property and equipment	57,429	62,739
	16,417,724	17,675,253
Less accumulated depletion, depreciation, and amortization	(3,182,171)	(3,890,834)
Property and equipment, net	13,235,553	13,784,419
Derivative instruments	841,257	672,768
Investments in unconsolidated affiliates	303,302	392,893
Other assets	48,291	45,823
Total assets	\$ 15,261,490	15,802,535
Liabilities and Equity		
Current liabilities:		
Accounts payable	\$ 62,982	91,940
Accrued liabilities	443,225	457,216
Revenue distributions payable	209,617	245,832
Derivative instruments	28,476	10,456
Other current liabilities	17,796	8,427
Total current liabilities	762,096	813,871
Long-term liabilities:		
Long-term debt	4,800,090	5,487,004

Edgar Filing: ANTERO RESOURCES Corp - Form 10-Q

Deferred income tax liability	779,645	782,145
Derivative instruments	207	—
Other liabilities	43,316	48,363
Total liabilities	6,385,354	7,131,383
Commitments and contingencies (notes 12 and 13)		
Equity:		
Stockholders' equity:		
Preferred stock, \$0.01 par value; authorized - 50,000 shares; none issued	—	—
Common stock, \$0.01 par value; authorized - 1,000,000 shares; 316,379 shares and 317,086 shares issued and outstanding at December 31, 2017 and September 30, 2018, respectively	3,164	3,171
Additional paid-in capital	6,570,952	6,611,348
Accumulated earnings	1,575,065	1,299,094
Total stockholders' equity	8,149,181	7,913,613
Noncontrolling interests in consolidated subsidiary	726,955	757,539
Total equity	8,876,136	8,671,152
Total liabilities and equity	\$ 15,261,490	15,802,535

See accompanying notes to the unaudited condensed consolidated financial statements.

Table of Contents

ANTERO RESOURCES CORPORATION

Condensed Consolidated Statements of Operations and Comprehensive Loss

Three Months Ended September 30, 2017 and 2018

(Unaudited)

(In thousands, except per share amounts)

	Three Months Ended September 30,	
	2017	2018
Revenue:		
Natural gas sales	\$ 409,141	527,122
Natural gas liquids sales	224,533	338,269
Oil sales	26,527	59,722
Commodity derivative fair value gains (losses)	(65,957)	57,019
Gathering, compression, water handling and treatment	2,869	4,844
Marketing	50,767	89,598
Marketing derivative fair value losses	—	(42)
Total revenue	647,880	1,076,532
Operating expenses:		
Lease operating	23,491	36,269
Gathering, compression, processing, and transportation	282,134	326,504
Production and ad valorem taxes	22,995	30,518
Marketing	78,884	151,764
Exploration	1,599	666
Impairment of unproved properties	41,000	221,094
Impairment of gathering systems and facilities		— 1,157
Depletion, depreciation, and amortization	206,968	243,186
Accretion of asset retirement obligations	658	710
General and administrative (including equity-based compensation expense of \$26,447 and \$16,202 in 2017 and 2018, respectively)	62,203	59,860
Total operating expenses	719,932	1,071,728
Operating income (loss)	(72,052)	4,804
Other income (expenses):		
Equity in earnings of unconsolidated affiliates	7,033	10,705
Interest	(70,059)	(74,528)
Total other expenses	(63,026)	(63,823)
Loss before income taxes	(135,078)	(59,019)
Provision for income tax (expense) benefit	45,078	(18,953)
Net loss and comprehensive loss including noncontrolling interests	(90,000)	(77,972)
Net income and comprehensive income attributable to noncontrolling interests	45,063	76,447
Net loss and comprehensive loss attributable to Antero Resources Corporation	\$ (135,063)	(154,419)

Edgar Filing: ANTERO RESOURCES Corp - Form 10-Q

Loss per common share—basic and diluted	\$ (0.43)	(0.49)
Weighted average number of shares outstanding:		
Basic and diluted	315,463	317,082

See accompanying notes to the unaudited condensed consolidated financial statements.

Table of Contents

ANTERO RESOURCES CORPORATION

Condensed Consolidated Statements of Operations and Comprehensive Income

Nine Months Ended September 30, 2017 and 2018

(Unaudited)

(In thousands, except per share amounts)

	Nine Months Ended September 30,	
	2017	2018
Revenue and other:		
Natural gas sales	\$ 1,330,062	1,498,324
Natural gas liquids sales	590,004	828,424
Oil sales	79,999	128,869
Commodity derivative fair value gains	458,459	134,793
Gathering, compression, water handling and treatment	8,665	15,298
Marketing	166,659	394,189
Marketing derivative fair value gains	—	94,081
Total revenue and other	2,633,848	3,093,978
Operating expenses:		
Lease operating	56,034	93,155
Gathering, compression, processing, and transportation	815,710	926,228
Production and ad valorem taxes	70,341	82,232
Marketing	246,298	560,924
Exploration	5,510	4,022
Impairment of unproved properties	83,098	406,068
Impairment of gathering systems and facilities	—	9,658
Depletion, depreciation, and amortization	610,879	709,480
Accretion of asset retirement obligations	1,944	2,101
General and administrative (including equity-based compensation expense of \$78,925 and \$56,429 in 2017 and 2018, respectively)	191,000	181,576
Total operating expenses	2,080,814	2,975,444
Operating income	553,034	118,534
Other income (expenses):		
Equity in earnings of unconsolidated affiliates	12,887	27,832
Interest	(205,311)	(208,303)
Total other expenses	(192,424)	(180,471)
Income (loss) before income taxes	360,610	(61,937)
Provision for income tax expense	(105,087)	(2,500)
Net income (loss) and comprehensive income (loss) including noncontrolling interests	255,523	(64,437)
Net income and comprehensive income attributable to noncontrolling interests	127,322	211,534
Net income (loss) and comprehensive income (loss) attributable to Antero Resources Corporation	\$ 128,201	(275,971)

Edgar Filing: ANTERO RESOURCES Corp - Form 10-Q

Earnings (loss) per common share—basic	\$ 0.41	(0.87)
Earnings (loss) per common share—assuming dilution	\$ 0.41	(0.87)
Weighted average number of shares outstanding:		
Basic	315,275	316,850
Diluted	316,140	316,850

See accompanying notes to the unaudited condensed consolidated financial statements.

Table of Contents

ANTERO RESOURCES CORPORATION

Condensed Consolidated Statements of Equity

Nine Months Ended September 30, 2017

(Unaudited)

(In thousands)

	Common Stock Shares	Common Stock Amount	Additional paid- in capital	Accumulated earnings	Noncontrolling interests	Total equity
Balances, December 31, 2016	314,877	\$ 3,149	5,299,481	959,995	1,465,953	7,728,578
Issuance of common stock upon vesting of equity-based compensation awards, net of shares withheld for income taxes	129	1	(1,658)	—	—	(1,657)
Issuance of common units by Antero Midstream Partners LP, net of underwriter discounts and offering costs	—	—	—	—	223,119	223,119