

CABOT OIL & GAS CORP  
Form 10-Q  
July 25, 2014  
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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, D.C. 20549

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**FORM 10-Q**

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

For the quarterly period ended June 30, 2014

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

Commission file number 1-10447

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**CABOT OIL & GAS CORPORATION**

(Exact name of registrant as specified in its charter)

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**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)

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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   
(Do not check if a smaller reporting company)

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 July 21, 2014, there were 417,294,125 shares of Common Stock, Par Value \$.10 Per Share, outstanding.



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CABOT OIL & GAS CORPORATION

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

<b>(In thousands, except share amounts)</b>	<b>June 30, 2014</b>	<b>December 31, 2013</b>
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	\$ 45,610	\$ 23,400
Restricted cash		28,094
Accounts receivable, net	212,100	222,476
Inventories	11,914	17,468
Deferred income taxes	32,947	81,855
Other current assets	3,525	5,606
Total current assets	306,096	378,899
Properties and equipment, net (Successful efforts method)	4,825,524	4,546,227
Equity method investments	49,854	26,892
Other assets	27,448	29,062
	\$ 5,208,922	\$ 4,981,080
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
Current liabilities		
Accounts payable	\$ 255,681	\$ 288,801
Accrued liabilities	59,734	73,601
Derivative instruments	38,493	13,912
Income taxes payable	8,239	31,591
Total current liabilities	362,147	407,905
Postretirement benefits	35,212	33,554
Long-term debt	1,193,000	1,147,000
Deferred income taxes	1,101,326	1,067,912
Asset retirement obligation	77,459	73,853
Other liabilities	37,839	46,254
Total liabilities	2,806,983	2,776,478
Commitments and contingencies		
Stockholders equity		
Common stock:		
Authorized 960,000,000 and 480,000,000 shares of \$0.10 par value in 2014 and 2013, respectively		
Issued 422,911,309 and 422,014,681 shares in 2014 and 2013, respectively	42,291	42,201
Additional paid-in capital	723,218	710,940

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Retained earnings	1,836,577	1,627,805
Accumulated other comprehensive income (loss)	(32,164)	(8,361)
Less treasury stock, at cost:		
5,618,166 shares in 2014 and 2013	(167,983)	(167,983)
Total stockholders' equity	2,401,939	2,204,602
	\$ 5,208,922	\$ 4,981,080

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

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(In thousands, except per share amounts)	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
<b>OPERATING REVENUES</b>				
Natural gas	\$ 437,761	\$ 368,391	\$ 870,571	\$ 662,184
Crude oil and condensate	86,341	70,226	145,485	135,881
Gain (loss) on derivative instruments	(2,329)		(2,329)	
Brokered natural gas	8,140	8,244	21,293	19,137
Other	3,274	2,819	7,970	5,763
	533,187	449,680	1,042,990	822,965
<b>OPERATING EXPENSES</b>				
Direct operations	35,605	36,978	71,439	68,475
Transportation and gathering	83,976	52,648	161,741	98,869
Brokered natural gas	7,031	6,704	18,891	15,093
Taxes other than income	12,816	11,364	25,860	23,051
Exploration	4,676	4,529	11,150	8,553
Depreciation, depletion and amortization	157,563	151,389	304,981	300,042
General and administrative	20,127	21,608	41,763	57,312
	321,794	285,220	635,825	571,395
Earnings (loss) on equity method investments	756	290	756	336
Gain (loss) on sale of assets	(1,496)	276	(2,781)	180
<b>INCOME FROM OPERATIONS</b>	<b>210,653</b>	<b>165,026</b>	<b>405,140</b>	<b>252,086</b>
Interest expense	16,334	16,991	32,891	33,292
Income before income taxes	194,319	148,035	372,249	218,794
Income tax expense	75,899	58,921	146,798	86,856
<b>NET INCOME</b>	<b>\$ 118,420</b>	<b>\$ 89,114</b>	<b>\$ 225,451</b>	<b>\$ 131,938</b>
<b>Earnings per share</b>				
Basic	\$ 0.28	\$ 0.21	\$ 0.54	\$ 0.32
Diluted	\$ 0.28	\$ 0.21	\$ 0.54	\$ 0.31
<b>Weighted-average common shares outstanding</b>				
Basic	417,291	420,698	417,097	420,500
Diluted	419,092	423,490	418,742	422,984
Dividends per common share	\$ 0.02	\$ 0.01	\$ 0.04	\$ 0.02

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

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## CABOT OIL &amp; GAS CORPORATION

## CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (Unaudited)

(In thousands)	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Net income	\$ 118,420	\$ 89,114	\$ 225,451	\$ 131,938
Other comprehensive income (loss), net of taxes:				
Reclassification adjustment for settled cash flow hedge contracts(1)	13,807	(1,105)	56,372	(10,430)
Changes in fair value of cash flow hedge contracts(2)		69,839	(80,175)	32,864
Postretirement benefits:				
Amortization of net loss(3)		124		249
Total other comprehensive income (loss)	13,807	68,858	(23,803)	22,683
Comprehensive income (loss)	\$ 132,227	\$ 157,972	\$ 201,648	\$ 154,621

(1) Net of income taxes of \$(9,149) and \$717 for the three months ended June 30, 2014 and 2013, respectively, and \$(37,359) and \$6,762 for the six months ended June 30, 2014 and 2013, respectively.

(2) Net of income taxes of \$(45,274) for the three months ended June 30, 2013 and \$53,135 and \$(21,303) for the six months ended June 30, 2014 and 2013, respectively.

(3) Net of income taxes of \$(81) and \$(161) for the three and six months ended June 30, 2013, respectively.

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



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## CABOT OIL &amp; GAS CORPORATION

## CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (Unaudited)

(In thousands)	Six Months Ended	
	2014	June 30, 2013
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income	\$ 225,451	\$ 131,938
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation, depletion and amortization	304,981	300,042
Deferred income tax expense	118,453	69,662
(Gain) loss on sale of assets	2,781	(180)
Exploration expense	2,154	806
Unrealized (gain) loss on derivative instruments	(12,933)	
Amortization of debt issuance costs	2,252	1,842
Stock-based compensation and other	8,689	27,355
Changes in assets and liabilities:		
Accounts receivable, net	9,588	(32,551)
Income taxes	(23,352)	(4,971)
Inventories	5,554	(4,103)
Other current assets	15	(2,733)
Accounts payable and accrued liabilities	(39,084)	9,661
Other assets and liabilities	753	547
Stock-based compensation tax benefit	(20,354)	(7,348)
Net cash provided by operating activities	584,948	489,967
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Capital expenditures	(617,613)	(524,056)
Proceeds from sale of assets	(755)	906
Restricted cash	28,094	
Investment in equity method investments	(22,230)	(4,250)
Net cash used in investing activities	(612,504)	(527,400)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Borrowings from debt	611,000	325,000
Repayments of debt	(565,000)	(270,000)
Dividends paid	(16,679)	(8,407)
Stock-based compensation tax benefit	20,354	7,348
Other	91	33
Net cash provided by financing activities	49,766	53,974
Net increase in cash and cash equivalents	22,210	16,541
Cash and cash equivalents, beginning of period	23,400	30,736
Cash and cash equivalents, end of period	\$ 45,610	\$ 47,277

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



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**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 disclosed in its Annual Report on Form 10-K for the year ended December 31, 2013 (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 consolidated 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.

Certain reclassifications have been made to prior year statements to conform with the current year presentation. These reclassifications have no impact on previously reported net income.

With respect to the unaudited financial information of the Company as of June 30, 2014 and for the three and six months ended June 30, 2014 and 2013, 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 July 25, 2014 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 a registration statement prepared or certified by PricewaterhouseCoopers LLP within the meaning of Sections 7 and 11 of the Act.

*Recent Accounting Pronouncements*

In April 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-08, Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity. The guidance applies prospectively to new disposals and new classifications of disposal groups as held for sale after the effective date. The guidance is effective for interim and annual periods beginning on or after December 15, 2014. The Company does not expect the adoption of this guidance to have a material impact on its financial position or results of operations.

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers, issued as a new Topic, Accounting Standards Codification Topic 606. The new revenue recognition standard provides a five-step analysis of transactions to determine when and how revenue is recognized. The core principle of the guidance is that a company should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This ASU is effective beginning in fiscal year 2017 and can be adopted either retrospectively or as a cumulative-effect adjustment as of the date of

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adoption. The Company is currently evaluating the effect that adopting this guidance will have on its financial position, results of operations or cash flows.

### 2. Properties and Equipment, Net

Properties and equipment, net are comprised of the following:

(In thousands)	June 30, 2014	December 31, 2013
Proved oil and gas properties	\$ 6,954,493	\$ 6,362,570
Unproved oil and gas properties	352,182	375,428
Gathering and pipeline systems	240,201	239,958
Land, buildings and other equipment	101,026	94,243
	7,647,902	7,072,199
Accumulated depreciation, depletion and amortization	(2,822,378)	(2,525,972)
	\$ 4,825,524	\$ 4,546,227

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At June 30, 2014, 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.

**3. Equity Method Investments**

For further information regarding the Company's equity method investments, refer to Note 4 of the Notes to the Consolidated Financial Statements in the Form 10-K.

***Meade Pipeline Co LLC***

In February 2014, the Company acquired a 20% equity interest in Meade Pipeline Co LLC (Meade). Meade was formed to participate in the development and construction of a 177-mile pipeline (Central Penn Line) that will transport natural gas from Susquehanna County, Pennsylvania to an interconnect with Transcontinental Gas Pipe Line Company, LLC's (Transco) mainline in Lancaster County, Pennsylvania. The new pipeline will be constructed and operated by Transco and will be owned by Transco and Meade in proportion to their respective ownership percentages of approximately 61% and 39%, respectively. Under the terms of the Meade LLC agreement, the Company agreed to invest its proportionate share of Meade's anticipated costs associated with the new pipeline of \$149 million, which is expected to occur over the next three to four years. The expected in-service date for the new pipeline is scheduled for the second half of 2017. During 2014, the Company made contributions of approximately \$1.2 million to Meade.

**4. Debt and Credit Agreements**

The Company's debt and credit agreements consisted of the following:

(In thousands)	June 30, 2014	December 31, 2013
<b>Long-Term Debt</b>		
7.33% weighted-average fixed rate notes	\$ 20,000	\$ 20,000
6.51% weighted-average fixed rate notes	425,000	425,000
9.78% notes	67,000	67,000
5.58% weighted-average fixed rate notes	175,000	175,000
Revolving Credit facility	506,000	460,000
	\$ 1,193,000	\$ 1,147,000

Effective April 15, 2014, the lenders under the Company's revolving credit facility approved an increase in the Company's borrowing base from \$2.3 billion to \$3.1 billion as part of the annual redetermination under the terms of the revolving credit facility agreement. The commitments under the revolving credit facility remain unchanged at \$1.4 billion. At June 30, 2014, the Company had \$506.0 million of borrowings outstanding under its revolving credit facility at a weighted-average interest rate of 1.9% and \$893.0 million available for future borrowings.

The Company was in compliance with all restrictive financial covenants for both the revolving credit facility and fixed rate notes as of June 30, 2014.

#### **5. Derivative Instruments and Hedging Activities**

The Company periodically enters into commodity derivatives to manage 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 derivatives 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 where such derivatives do not subject 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.

Effective April 1, 2014, the Company elected to discontinue hedge accounting for its commodity derivatives on a prospective basis. Through March 31, 2014, the Company elected to designate its commodity derivatives as cash flow hedges for accounting purposes. Accordingly, the change in the fair value of derivatives designated as hedges that are effective is recorded to accumulated other comprehensive income (loss) in stockholders' equity in the Condensed Consolidated Balance Sheet. The ineffective portion of the change in the fair value of derivatives designated as hedges and the change in fair value of realized cash settlements of derivatives not designated as hedges are recorded as a component of operating revenues in gain (loss) on derivative instruments in the Condensed Consolidated Statement of Operations.

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As a result of discontinuing hedge accounting, the unrealized loss included in accumulated other comprehensive income (loss) as of April 1, 2014 of \$73.4 million (\$44.2 million net of tax) was frozen and will be reclassified into natural gas and crude oil revenues in the Statement of Operations in future periods as the underlying hedge transactions occur. As of June 30, 2014, the Company expects to reclassify \$30.4 million in after-tax losses associated with its commodity derivatives from accumulated other comprehensive income (loss) to natural gas and crude oil revenues in the Condensed Consolidated Statement of Operations over the next six months.

As of June 30, 2014, the Company had the following outstanding commodity derivatives:

Type of Contract	Volume		Contract Period	Floor		Collars		Ceiling		Swaps	
				Range	Weighted-Average	Range	Weighted-Average	Range	Weighted-Average	Weighted-Average	
Natural gas	169.8	Bcf	Jul. 2014 - Dec. 2014	\$3.60-\$4.37	\$ 4.13	\$4.22-\$4.80	\$ 4.51				
Natural gas	53.6	Bcf	Jul. 2014 - Dec. 2014							\$ 4.05	
Crude oil	368.0	Mbbl	Jul. 2014 - Dec. 2014							\$ 97.00	

Natural gas prices are stated per Mcf and crude oil prices are stated per barrel.

*Effect of Derivative Instruments on the Condensed Consolidated Balance Sheet*

(In thousands)	Balance Sheet Location	Fair Values of Derivative Instruments			
		Derivative Assets		Derivative Liabilities	
		June 30, 2014	December 31, 2013	June 30, 2014	December 31, 2013
<b>Derivatives Designated as Hedges</b>					
Commodity contracts	Other current assets	\$	\$	3,019	\$
	Derivative instruments				
Commodity contracts	(current liabilities)				13,912
<b>Derivatives Not Designated as Hedges</b>					
Commodity contracts	Other current assets	954			
	Derivative instruments				
Commodity contracts	(current liabilities)			38,493	
		\$ 954	\$ 3,019	\$ 38,493	\$ 13,912

*Offsetting of Derivative Assets and Liabilities in the Condensed Consolidated Balance Sheet*

(In thousands)	June 30, 2014	December 31, 2013
<b>Derivative Assets</b>		
Gross amounts of recognized assets	\$ 13,312	\$ 13,792
Gross amounts offset in the statement of financial position	(12,358)	(10,773)

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Net amounts of assets presented in the statement of financial position	954	3,019
Gross amounts of financial instruments not offset in the statement of financial position		373
Net amount	\$ 954	\$ 3,392

**Derivative Liabilities**

Gross amounts of recognized liabilities	\$ 50,851	\$ 24,685
Gross amounts offset in the statement of financial position	(12,358)	(10,773)
Net amounts of liabilities presented in the statement of financial position	38,493	13,912
Gross amounts of financial instruments not offset in the statement of financial position	490	
Net amount	\$ 38,983	\$ 13,912



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The amount of gain (loss) recognized in accumulated other comprehensive income (loss) on derivatives (effective portion) is as follows:

(In thousands)	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Commodity contracts	\$	\$ 115,113	\$ (133,310)	\$ 54,167

The amount of gain (loss) reclassified from accumulated other comprehensive income (loss) into income (effective portion) is as follows:

(In thousands)	Three Months Ended June 30,		Six Months Ended June 30,	
	2014 (1)	2013	2014 (1)	2013
Natural gas revenues	\$ (22,320)	\$ (272)	\$ (92,877)	\$ 13,056
Crude oil and condensate revenues	(636)	2,094	(854)	4,136
	\$ (22,956)	\$ 1,822	\$ (93,731)	\$ 17,192

(1) The Company ceased hedge accounting effective April 1, 2014. For the three and six months ended June 30, 2014, approximately \$23.0 million related to amounts previously frozen in accumulated other comprehensive income (loss) were reclassified into income.

***Effect of Derivative Instruments on the Condensed Consolidated Statement of Operations***

The amount of gain (loss) recognized in the Condensed Consolidated Statement of Operations on derivative instruments is as follows:

(In thousands)	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
<b>Derivatives Designated as Hedges</b>				
<i>Realized</i>				
Natural gas	\$	\$ (272)	\$ (70,557)	\$ 13,056
Crude oil and condensate		2,094	(218)	4,136
	\$	\$ 1,822	\$ (70,775)	\$ 17,192
<b>Derivatives Not Designated as Hedges</b>				
<i>Realized</i>				
Natural gas	\$ (22,320)	\$	\$ (22,320)	\$
Crude oil and condensate	(636)		(636)	
Gain (loss) on derivative instruments	(15,262)		(15,262)	

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*Unrealized*

Gain (loss) on derivative instruments

	12,933		12,933	
	\$ (25,285)	\$	\$ (25,285)	\$
	\$ (25,285)	\$ 1,822	\$ (96,060)	\$ 17,192

For the three and six months ended June 30, 2014 and 2013, respectively, there was no ineffectiveness recorded in the Condensed Consolidated Statement of Operations related to derivative instruments designated as hedges.

*Additional Disclosures about Derivative Instruments and Hedging Activities*

The use of derivative instruments involves the risk that the counterparties will be unable to meet their obligations under the agreements. The Company enters into derivative contracts with multiple counterparties in order to limit its exposure to individual counterparties. The Company also has netting arrangements with each of its counterparties that allow it to offset assets and liabilities from separate derivative contracts with that counterparty.

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Certain counterparties to the Company's derivative instruments are also lenders under its revolving credit facility. The Company's revolving credit facility and derivative instruments contain certain cross default and acceleration provisions that may require immediate payment of its derivative liabilities in certain situations.

**6. Fair Value Measurements**

The Company follows the authoritative guidance for measuring fair value of assets and liabilities in its financial statements. 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). This guidance also established 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. The Company has classified its assets and liabilities into these levels depending upon the data relied on to determine the fair values. For further information regarding the fair value hierarchy, refer to Note 7 of the Notes to the Consolidated Financial Statements in the Form 10-K.

*Non-Financial Assets and Liabilities*

The Company discloses or recognizes its non-financial assets and liabilities, such as impairments of oil and gas properties and other assets, at fair value on a nonrecurring basis. As none of the Company's non-financial assets and liabilities were impaired as of June 30, 2014 and 2013 and no other assets or liabilities were required to be recognized at fair value on a non-recurring basis, additional disclosures were not provided.

The estimated fair value of the Company's asset retirement obligation at inception is determined by utilizing the income approach by applying a credit-adjusted risk-free rate, which takes into account the Company's credit risk, the time value of money, and the current economic state, to the undiscounted expected abandonment cash flows. Given the unobservable nature of the inputs, the measurement of the asset retirement obligation was classified as Level 3 in the fair value hierarchy.

*Financial Assets and Liabilities*

The following fair value hierarchy table presents information about the Company's financial assets and liabilities measured at fair value on a recurring basis:

(In thousands)	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	June 30, 2014
<b>Assets</b>				
Deferred compensation plan	\$ 13,152	\$	\$	13,152
Derivative contracts			13,312	13,312
Total assets	\$ 13,152	\$	\$ 13,312	26,464

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**Liabilities**

Deferred compensation plan	\$	31,388	\$	\$	\$	31,388
Derivative contracts				10,624	40,227	50,851
Total liabilities	\$	31,388	\$	10,624	\$	40,227

(In thousands)		Quoted Prices in Active Markets for Identical Assets (Level 1)		Significant Other Observable Inputs (Level 2)		Significant Unobservable Inputs (Level 3)		December 31, 2013
<b>Assets</b>								
Deferred compensation plan	\$	12,507	\$		\$		\$	12,507
Derivative contracts						13,792		13,792
Total assets	\$	12,507	\$		\$	13,792	\$	26,299
<b>Liabilities</b>								
Deferred compensation plan	\$	33,211	\$		\$		\$	33,211
Derivative contracts				6,983		17,702		24,685
Total liabilities	\$	33,211	\$	6,983	\$	17,702	\$	57,896

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The Company's investments associated with its deferred compensation plan consist of mutual funds and deferred shares of the Company's common stock that are publicly traded and for which market prices are readily available.

The derivative instruments were measured based on quotes from the Company's counterparties. Such quotes have been derived using an income approach that considers various inputs including current market and contractual prices for the underlying instruments, quoted forward prices for natural gas and crude oil, basis differentials, volatility factors and interest rates, such as a LIBOR curve for a similar length of time as the derivative contract term as applicable. Estimates are verified using relevant NYMEX futures contracts and/or are compared to multiple quotes obtained from counterparties for reasonableness. The determination of the fair values presented above also incorporates a credit adjustment for non-performance risk. The Company measured the non-performance risk of its counterparties by reviewing credit default swap spreads for the various financial institutions with which it has derivative transactions, while non-performance risk of the Company is evaluated using a market credit spread provided by the Company's bank.

The most significant unobservable inputs relative to the Company's Level 3 derivative contracts are basis differentials and volatility factors. An increase (decrease) in these unobservable inputs would result in an increase (decrease) in fair value, respectively. The Company does not have access to the specific assumptions used in its counterparties' valuation models. Consequently, additional disclosures regarding significant Level 3 unobservable inputs were not provided.

The following table sets forth a reconciliation of changes in the fair value of net financial assets (liabilities) classified as Level 3 in the fair value hierarchy:

(In thousands)	Six Months Ended	
	June 30,	
	2014	2013
Balance at beginning of period	\$ (3,910)	\$ 41,159
Total gains (losses) (realized or unrealized):		
Realized and unrealized gains (losses) included in earnings	(77,935)	13,056
Included in other comprehensive income	(38,412)	42,719
Settlements	93,342	(13,056)
Transfers in and/or out of level 3		
Balance at end of period	\$ (26,915)	\$ 83,878
Change in unrealized gains (losses) relating to assets and liabilities still held at the end of the period	\$ 15,407	\$

There were no transfers between Level 1 and Level 2 measurements for the three and six months ended June 30, 2014 and 2013.

***Fair Value of Other 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 due to the short-term maturities of these instruments.

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The Company uses available market data and valuation methodologies to estimate the fair value of debt. The fair value of long-term debt is the estimated amount the Company would have to pay a third party to assume 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 and revolving credit facility 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 fixed-rate notes and the revolving credit facility is based on interest rates currently available to the Company. The Company's long-term debt is valued using an income approach and classified as Level 3 in the fair value hierarchy due to the unobservable nature of the inputs.

The carrying amounts and fair values of long-term debt are as follows:

(In thousands)	June 30, 2014		December 31, 2013	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Long-term debt	\$ 1,193,000	\$ 1,297,569	\$ 1,147,000	\$ 1,224,273

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Activity related to the Company's asset retirement obligation is as follows:

<b>(In thousands)</b>	<b>Six Months Ended June 30, 2014</b>	
Balance at beginning of period	\$	75,853
Liabilities incurred		2,517
Liabilities settled		(36)
Liabilities divested		(899)
Accretion expense		2,024
Balance at end of period	\$	79,459

As of both June 30, 2014 and December 31, 2013, approximately \$2.0 million is included in accrued liabilities in the Condensed Consolidated Balance Sheet, which represents the current portion of the Company's asset retirement obligation.

**8. Commitments and Contingencies***Contractual Obligations*

The Company has various contractual obligations in the normal course of its operations. Except for certain new and amended transportation agreements described below, there have been no material changes to the Company's contractual obligations described under Transportation and Gathering Agreements, Drilling Rig Commitments and Lease Commitments as disclosed in Note 9 in the Notes to Consolidated Financial Statements included in the Form 10-K.

*Transportation and Gathering Agreements*

During the first six months of 2014, the Company entered into or amended certain natural gas transportation agreements associated with the Company's production in Pennsylvania. These agreements increased the Company's future aggregate obligations under its transportation commitments by approximately \$184.3 million over the next 10 years compared to those amounts disclosed in Note 9 in the Notes to Consolidated Financial Statements included in the Form 10-K.

*Legal Matters*

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The Company is a defendant in various legal proceedings arising in the normal course of business. All known liabilities are accrued when management determines they are probable based on its best estimate of the potential loss. While the outcome and impact of these legal proceedings on the Company cannot be predicted with certainty, management believes that the resolution of these proceedings will not have a material effect on the Company's financial position, results of operations or cash flows.

### *Contingency Reserves*

When deemed necessary, the Company establishes reserves for certain legal proceedings. The establishment of a reserve is based on 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 additional losses with respect to those matters in which reserves have been established. The Company believes that any such amount above the amounts accrued is not material to the Condensed Consolidated Financial Statements. Future changes in facts and circumstances not currently foreseeable could result in the actual liability exceeding the estimated ranges of loss and amounts accrued.



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**9. Postretirement Benefits**

The components of net periodic benefit costs, included in general and administrative expense in the Condensed Consolidated Statement of Operations, were as follows:

(In thousands)	Three Months Ended June 30,			Six Months Ended June 30,	
	2014		2013	2014	2013
Service cost	\$	456	\$		