RANGE RESOURCES CORP
Form 10-Q
October 25, 2012
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark one)

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

For the quarterly period ended September 30, 2012

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: 001-12209

RANGE RESOURCES CORPORATION

(Exact Name of Registrant as Specified in Its Charter)

Delaware	**34-1312571**
(State or Other Jurisdiction of	**(IRS Employer**
Incorporation or Organization)	**Identification No.)**
100 Throckmorton Street, Suite 1200	
Fort Worth, Texas	**76102**
(Address of Principal Executive Offices)	**(Zip Code)**

Registrant s telephone number, including area code

(817) 870-2601

Former Name, Former Address and Former Fiscal Year, if changed since last report: Not applicable

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 þ No ¨

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

Large Accelerated Filer	þ	Accelerated Filer	¨
Non-Accelerated Filer	¨ (Do not check if 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 þ

162,629,126 Common Shares were outstanding on October 22, 2012.

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RANGE RESOURCES CORPORATION

FORM 10-Q

Quarter Ended September 30, 2012

Unless the context otherwise indicates, all references in this report to Range, we, us, or our are to Range Resources Corporation and its wholly-owned subsidiaries and its ownership interests in equity method investees.

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PART I FINANCIAL INFORMATION

ITEM 1. Financial Statements

RANGE RESOURCES CORPORATION

CONSOLIDATED BALANCE SHEETS

(In thousands, except per share data)

	September 30, 2012 (Unaudited)	December 31, 2011
Assets		
Current assets:		
Cash and cash equivalents	$ 151	$ 92
Accounts receivable, less allowance for doubtful accounts of $1,635 and $4,015	120,120	127,180
Unrealized derivative gain	131,841	173,921
Inventory and other	18,423	14,070
Total current assets	270,535	315,263
Unrealized derivative gain	20,648	77,579
Equity method investments	135,867	138,130
Natural gas and oil properties, successful efforts method	8,000,845	6,784,027
Accumulated depletion and depreciation	(1,942,698)	(1,626,461)
	6,058,147	5,157,566
Transportation and field assets	117,364	123,349
Accumulated depreciation and amortization	(73,142)	(70,671)
	44,222	52,678
Other assets	128,301	104,254
Total assets	$ 6,657,720	$ 5,845,470
Liabilities		
Current liabilities:		
Accounts payable	$ 318,492	$ 311,369
Asset retirement obligations	5,005	5,005
Accrued liabilities	133,369	109,109
Liabilities of discontinued operations		653
Deferred tax liability	37,300	56,595
Accrued interest	47,284	29,201
Unrealized derivative loss	4,294	
Total current liabilities	545,744	511,932
Bank debt	461,000	187,000
Subordinated notes	2,388,869	1,787,967

Deferred tax liability	656,849	710,490
Unrealized derivative loss	8,939	173
Deferred compensation liability	198,082	169,188
Asset retirement obligations and other liabilities	116,410	86,300
Total liabilities	4,375,893	3,453,050
Commitments and contingencies		
Stockholders Equity		
Preferred stock, $1 par, 10,000,000 shares authorized, none issued and outstanding		
Common stock, $0.01 par, 475,000,000 shares authorized, 162,592,198 issued at September 30, 2012 and 161,302,973 issued at December 31, 2011	1,626	1,613
Common stock held in treasury, 131,158 shares at September 30, 2012 and 171,426 shares at December 31, 2011	(4,879)	(6,343)
Additional paid-in capital	1,903,249	1,866,554
Retained earnings	314,534	373,969
Accumulated other comprehensive income	67,297	156,627
Total stockholders equity	2,281,827	2,392,420
Total liabilities and stockholders equity	$ 6,657,720	$ 5,845,470

See the accompanying notes.

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RANGE RESOURCES CORPORATION

CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited, in thousands, except per share data)

	Three Months Ended September 30, 2012	Three Months Ended September 30, 2011	Nine Months Ended September 30, 2012	Nine Months Ended September 30, 2011
Revenues and other income:				
Natural gas, NGLs and oil sales	$ 337,040	$ 304,230	$ 953,006	$ 841,546
Derivative fair value (loss) income	(40,728)	65,761	47,008	77,966
Gain (loss) on the sale of assets	949	203	(12,704)	(1,280)
Other	(2,368)	442	(3,084)	357
Total revenues and other income	294,893	370,636	984,226	918,589
Costs and expenses:				
Direct operating	29,628	29,828	85,691	87,054
Transportation, gathering and compression	51,600	32,431	137,164	86,179
Production and ad valorem taxes	8,819	7,317	57,239	21,746
Exploration	14,752	17,606	51,785	56,385
Abandonment and impairment of unproved properties	40,118	16,627	104,048	52,064
General and administrative	44,497	35,907	127,231	108,986
Deferred compensation plan	20,052	8,717	21,555	33,569
Interest expense	43,997	34,181	124,090	90,343
Loss on early extinguishment of debt		(4)		18,576
Depletion, depreciation and amortization	123,059	93,619	332,012	244,129
Impairment of proved properties and other assets	1,281	38,681	1,281	38,681
Total costs and expenses	377,803	314,910	1,042,096	837,712
(Loss) income from continuing operations before income taxes	(82,910)	55,726	(57,870)	80,877
Income tax (benefit) expense				
Current		(7)		1
Deferred	(29,074)	22,547	(17,910)	35,345
	(29,074)	22,540	(17,910)	35,346
(Loss) income from continuing operations	(53,836)	33,186	(39,960)	45,531
Discontinued operations, net of taxes		1,569		15,484
Net (loss) income	$ (53,836)	$ 34,755	$ (39,960)	$ 61,015
(Loss) income per common share:				
Basic-(loss) income from continuing operations	$ (0.34)	$ 0.21	$ (0.25)	$ 0.28
-discontinued operations		0.01		0.10
-net (loss) income	$ (0.34)	$ 0.22	$ (0.25)	$ 0.38

Diluted-(loss) income from continuing operations	$	(0.34)	$	0.20	$	(0.25)	$	0.28
-discontinued operations				0.01				0.10
-net (loss) income	$	(0.34)	$	0.21	$	(0.25)	$	0.38
Dividends per common share	$	0.04	$	0.04	$	0.12	$	0.12
Weighted average common shares outstanding:								
Basic		159,563		158,154		159,297		157,901
Diluted		159,563		159,322		159,297		158,939

See the accompanying notes.

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RANGE RESOURCES CORPORATION

CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME

(Unaudited, in thousands)

	Three Months Ended September 30, 2012	Three Months Ended September 30, 2011	Nine Months Ended September 30, 2012	Nine Months Ended September 30, 2011
Net (loss) income	$ (53,836)	$ 34,755	$ (39,960)	$ 61,015
Other comprehensive income:				
Realized loss (gain) on hedge derivative contract settlements reclassified into earnings from other comprehensive income, net of taxes	(37,495)	(16,724)	(120,871)	(55,791)
Change in unrealized deferred hedging (losses) gains, net of taxes	(52,246)	56,993	31,541	74,530
Total comprehensive (loss) income	$ (143,577)	$ 75,024	$ (129,290)	$ 79,754

See the accompanying notes.

RANGE RESOURCES CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited, in thousands)

	Nine Months Ended September 30, 2012	2011
Operating activities:		
Net (loss) income	$ (39,960)	$ 61,015
Adjustments to reconcile net (loss) income to net cash provided from operating activities:		
Income from discontinued operations		(15,484)
Loss from equity method investments, net of distributions	2,252	18,777
Deferred income tax (benefit) expense	(17,910)	35,345
Depletion, depreciation and amortization and impairment	333,293	282,810
Exploration dry hole costs	832	2,516
Mark-to-market on natural gas, NGLs and oil derivatives not designated as hedges	(30,076)	(67,093)
Abandonment and impairment of unproved properties	104,048	52,064
Unrealized derivative loss (gain)	5,061	(2,531)
Allowance for bad debts		446
Amortization of deferred financing costs, loss on extinguishment of debt and other	5,970	23,753
Deferred and stock-based compensation	58,573	66,759
Loss on the sale of assets	12,704	1,280
Changes in working capital:		
Accounts receivable	(9,479)	(34,356)
Inventory and other	(5,394)	875
Accounts payable	11,074	(7,262)
Accrued liabilities and other	30,135	9,953
Net cash provided from continuing operations	461,123	428,867
Net cash provided from discontinued operations		19,478
Net cash provided from operating activities	461,123	448,345
Investing activities:		
Additions to natural gas and oil properties	(1,151,167)	(859,785)
Additions to field service assets	(3,056)	(5,915)
Acreage purchases	(175,041)	(151,118)
Proceeds from disposal of assets	32,082	40,264
Purchase of marketable securities held by the deferred compensation plan	(33,997)	(15,626)
Proceeds from the sales of marketable securities held by the deferred compensation plan	21,485	8,452
Net cash used in investing activities from continuing operations	(1,309,694)	(983,728)
Net cash provided from investing activities from discontinued operations		840,723
Net cash used in investing activities	(1,309,694)	(143,005)
Financing activities:		
Borrowing on credit facilities	1,139,000	490,826
Repayment on credit facilities	(865,000)	(764,826)
Issuance of subordinated notes	600,000	500,000
Repayment of subordinated notes		(413,698)
Dividends paid	(19,475)	(19,305)

Debt issuance costs	(12,606)	(22,003)
Issuance of common stock	2,073	585
Change in cash overdrafts	(15,750)	(39,761)
Proceeds from the sales of common stock held by the deferred compensation plan	20,388	11,878
Net cash provided from (used in) financing activities	848,630	(256,304)
Increase in cash and cash equivalents	59	49,036
Cash and cash equivalents at beginning of period	92	2,848
Cash and cash equivalents at end of period	$ 151	$ 51,884

See the accompanying notes.

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RANGE RESOURCES CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

(1) SUMMARY OF ORGANIZATION AND NATURE OF BUSINESS

Range Resources Corporation (Range, we, us, or our) is a Fort Worth, Texas-based independent natural gas, natural gas liquids (NGLs) and company primarily engaged in the exploration, development and acquisition of natural gas and oil properties in the Appalachian and Southwestern regions of the United States. Our objective is to build stockholder value through consistent growth in reserves and production on a cost-efficient basis. Range is a Delaware corporation with our common stock listed and traded on the New York Stock Exchange under the symbol RRC.

(2) BASIS OF PRESENTATION

Presentation

These interim financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Range Resources Corporation 2011 Annual Report on Form 10-K filed on February 22, 2012, as amended by the Form 10-K/A filed on February 23, 2012. The results of operations for the quarter and the nine months ended September 30, 2012 are not necessarily indicative of the results to be expected for the full year. These consolidated financial statements are unaudited but, in the opinion of management, reflect all adjustments necessary for fair presentation of the results for the periods presented. All adjustments are of a normal recurring nature unless otherwise disclosed. These consolidated financial statements, including selected notes, have been prepared in accordance with the applicable rules of the Securities and Exchange Commission (SEC) and do not include all of the information and disclosures required by accounting principles generally accepted in the United States of America (U.S. GAAP) for complete financial statements. Certain reclassifications have been made to prior year s reported amounts in order to conform with the current year presentation. These reclassifications include third party transportation and gathering costs which were previously reflected as a component of natural gas, NGL and oil sales and are currently reported as a separate operating expense. These reclassifications have no impact on previously reported net income.

In first quarter 2012, the Pennsylvania legislature passed an impact fee on unconventional natural gas and oil production. The impact fee is a per well annual fee imposed for a period of fifteen years on all unconventional wells drilled in Pennsylvania. The fee is based on the average annual price of natural gas and the Consumer Price Index. The annual fee per well declines each year over the fifteen year time period as long as the well is producing. We have recorded in the first nine months 2012, a retroactive impact fee of $24.7 million for wells drilled during 2011 and prior. This expense is reflected in our statement of operations category production and ad valorem taxes. In second quarter 2012, we also recorded a $23.1 million abandonment and impairment expense related to a transaction involving individually significant unproved leases in two Pennsylvania counties where we do not expect to drill. In third quarter 2012, we recorded a $19.6 million abandonment and impairment expense related to individually significant unproved leases in the North Texas Barnett Shale where we also do not expect to drill.

Discontinued Operations

In February 2011, we entered into an agreement to sell substantially all of our Barnett Shale assets. In April 2011, we completed the sale of most of these assets and closed the remainder of the sale in August 2011. We have classified the historical results of these operations as discontinued operations, net of tax, in the accompanying consolidated statements of operations. See Notes 4 and 5 for more information regarding the sale of our Barnett Shale assets. Unless otherwise indicated, the information in these notes to the consolidated financial statements relates to our continuing operations.

(3) NEW ACCOUNTING STANDARDS

In May 2011, the Financial Accounting Standards Board (FASB) issued ASU No. 2011-04, Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRS. This pronouncement was issued to provide a consistent definition of fair value and ensure that the fair value measurement and disclosure requirements are similar between U.S. GAAP and International Financial Reporting Standards. ASU 2011-04 changes certain fair value measurement principles and enhances the disclosure requirements, particularly for Level 3 fair value measurements. This pronouncement is effective for reporting periods beginning on or after December 15, 2011, with early adoption prohibited. The new guidance requires prospective application. We adopted this new requirement in first quarter 2012 and it did not have a material effect on our consolidated financial statements.

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In December 2011, the FASB issued ASU No. 2011-11, Disclosures about Offsetting Assets and Liabilities requiring additional disclosures about offsetting and related arrangements. ASU 2011-11 is effective retrospectively for annual reporting periods beginning on or after January 1, 2013. The adoption of ASU 2011-11 is not expected to impact our future financial position, results of operation or liquidity.

(4) DISPOSITIONS

2012 Dispositions

In September 2012, we sold unproved properties in three counties in Pennsylvania for proceeds of $13.9 million resulting in a pre-tax gain of $746,000. As part of this agreement, we retained an overriding royalty of 1% to 5% on a large portion of the leases. In June 2012, we sold a suspended exploratory well in the Marcellus Shale for proceeds of $2.5 million resulting in a pre-tax loss of $2.5 million. In March 2012, we sold seventy-five percent of a prospect in East Texas which included unproved properties and a suspended exploratory well to a third party for $8.6 million resulting in a pre-tax loss of $10.9 million. As part of this agreement, we retained a carried interest on the first well drilled and an overriding royalty of 2.5% to 5.0% in the prospect.

On October 9, 2012, we signed a definitive agreement to sell certain of our oil and gas properties in southern Oklahoma which includes approximately 45 producing wells for a purchase price of $135.0 million, subject to normal post-closing adjustments. The completion of the sale is dependent on prospective buyer due diligence procedures and there can be no assurance the sale will be completed or that there will not be changes to the sales price. We currently expect the closing date to be on November 19, 2012.

2011 Dispositions

In third quarter 2011, we sold various producing properties in East Texas for proceeds of $10.5 million. We recognized an impairment charge of $31.2 million in third quarter 2011 related to these properties. For more information on this impairment charge, see Note 13. Also in third quarter 2011, we sold producing properties in Pennsylvania for proceeds of $5.4 million, with no gain or loss recognized, as the sale did not materially impact the depletion rate of the remaining properties in the amortization base.

In February 2011, we entered into an agreement to sell substantially all of our Barnett Shale properties located in North Central Texas (Dallas, Denton, Ellis, Hill, Hood, Johnson, Parker, Tarrant and Wise Counties), which was subject to normal post-closing adjustments. We closed substantially all of this sale in April 2011 and closed the remainder in August 2011. The gross cash proceeds were approximately $889.3 million, including certain derivative contracts assumed by the buyer. The agreements had a February 1, 2011 effective date and consequently operating net revenues after January 2011 were a downward adjustment to the sales price. As indicated in Notes 2 and 5, the historic results of our Barnett Shale operations are presented as discontinued operations. In first quarter 2011, we also sold a low pressure pipeline for $14.7 million in proceeds, with no gain or loss recognized.

Also as part of the sale of our Barnett Shale properties, certain derivative contracts were assumed by the buyer. This resulted in a loss of $1.7 million in second quarter 2011, which is included in continuing operations. The hedges assumed as part of the sale were not designated to our Barnett production.

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(5) DISCONTINUED OPERATIONS

The following table represents the components of our Barnett Shale operations as discontinued operations for the three months and the nine months ended September 30, 2011 (in thousands).

	Three Months Ended September 30, 2011	Nine Months Ended September 30, 2011
Revenues and other income:		
Natural gas, NGLs and oil sales	$ 1,673	$ 58,997
Other		10
Gain on the sale of assets	1,032	4,852
Total revenues and other income	2,705	63,859
Costs and expenses:		
Direct operating	(611)	9,835
Transportation, gathering and compression	950	5,240
Production and ad valorem taxes	(44)	1,206
Exploration expense		37
Interest expense [a]		14,791
Depletion, depreciation and amortization		8,894
Total costs and expenses	295	40,003
Income before income taxes	2,410	23,856
Income tax expense		
Current		
Deferred	841	8,372
	841	8,372
Net income from discontinued operations	$ 1,569	$ 15,484

[a] Interest expense is allocated to discontinued operations based on the ratio of net assets of discontinued operations to our consolidated net assets plus long-term debt.

The carrying values of our Barnett operations were included in discontinued operations in the accompanying consolidated balance sheets, which is comprised of the following (in thousands):

	December 31, 2011
Composition of liabilities of discontinued operations:	
Accrued liabilities	$ 653
Total current liabilities of discontinued operations	$ 653

(6) INCOME TAXES

Income tax (benefit) expense from continuing operations was as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Income tax (benefit) expense	$ (29,074)	$ 22,540	$ (17,910)	$ 35,346
Effective tax rate	35.1%	40.4%	30.9%	43.7%

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We compute our quarterly taxes under the effective tax rate method based on applying an anticipated annual effective rate to our year-to-date income, except for discrete items. Income taxes for discrete items are computed and recorded in the period that the specific transaction occurs. For third quarter and nine months ended September 30, 2012 and 2011, our overall effective tax rate on pre-tax income from continuing operations was different than the statutory rate of 35% due primarily to state income taxes, valuation allowances and other permanent differences.

(7) INCOME (LOSS) PER COMMON SHARE

Basic income or loss per share attributable to common shareholders is computed as (1) income or loss attributable to common shareholders (2) less income allocable to participating securities (3) divided by weighted average basic shares outstanding. Diluted income or loss per share attributable to common stockholders is computed as (1) basic income or loss attributable to common shareholders (2) plus diluted adjustments to income allocable to participating securities (3) divided by weighted average diluted shares outstanding. The following tables set forth a reconciliation of income or loss attributable to common shareholders to basic income or loss attributable to common shareholders and to diluted income or loss attributable to common shareholders (in thousands except per share amounts):

	Three Months Ended September 30, 2012			Three Months Ended September 30, 2011		
	Continuing Operations	Discontinued Operations	Total	Continuing Operations	Discontinued Operations	Total
(Loss) income as reported	$ (53,836)	$	$ (53,836)	$ 33,186	$ 1,569	$ 34,755
Participating basic earnings [a]	(119)		(119)	(585)	(28)	(613)
Basic (loss) income attributed to common shareholders	(53,955)		(53,955)	32,601	1,541	34,142