

RANGE RESOURCES CORP
Form 10-K
February 27, 2013
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

(Mark one)

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

For the fiscal year ended December 31, 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)

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Delaware
(State or Other Jurisdiction of
Incorporation or Organization)

34-1312571
(IRS Employer
Identification No.)

100 Throckmorton Street, Suite 1200,
Fort Worth, Texas
(Address of Principal Executive Offices)

76102
(Zip Code)

Registrant's telephone number, including area code
(817) 870-2601

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Exchange on Which Registered
Common Stock, \$.01 par value	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☐ No ☒

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☒

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 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 such shorter period that the registrant was required to submit and post such files). Yes ☐ No ☒

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☒

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 <input type="checkbox"/>	Accelerated filer <input type="checkbox"/>
Non-accelerated filer <input checked="" type="checkbox"/> (Do not check if a smaller reporting company)	Smaller reporting company <input type="checkbox"/>

Indicate by check mark whether the registrant is a shell company (as defined in 12b-2 of the Act). Yes ☐ No ☒

The aggregate market value of the voting and non-voting common equity held by non-affiliates as of June 30, 2012 was \$9,760,273,000. This amount is based on the closing price of registrant's common stock on the New York Stock Exchange on that date. Shares of common stock held by executive officers and directors of the registrant are not included in the computation. However, the registrant has made no determination that such individuals are affiliates within the meaning of Rule 405 of the Securities Act of 1933.

As of February 22, 2013, there were 162,842,514 shares of Range Resources Corporation Common Stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive proxy statement to be furnished to stockholders in connection with its 2013 Annual Meeting of Stockholders, which shall be filed with the Securities and Exchange Commission within 120 days after the end of the fiscal year to which this report relates, are incorporated by reference in Part III, Items 10-14 of this report.

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RANGE RESOURCES CORPORATION

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 investments. Unless otherwise noted, all information in the report relating to natural gas, natural gas liquids and oil reserves and the estimated future net cash flows attributable to those reserves are based on estimates and are net to our interest. If you are not familiar with the oil and gas terms used in this report, please refer to the explanation of such terms under the caption Glossary of Certain Defined Terms at the end of Item 15 of this report.

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Disclosures Regarding Forward-Looking Statements

This Annual Report on Form 10-K, particularly Item 1. Business and Properties, Item 1A. Risk Factors, Item 3. Legal Proceedings, Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations, and Item 7A. Quantitative Disclosures about Market Risk, includes forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended and Section 21E of the Securities Exchange Act of 1934, as amended. These statements typically contain words such as anticipate, believe, estimate, expect, forecast, plan, predict, target, project, could, should, would or similar words, indicating that future outcomes are uncertain. In accordance with provisions of the Private Securities Litigation Reform Act of 1995, these statements are accompanied by cautionary language identifying important factors, though not necessarily all such factors, that could cause future outcomes to differ materially from those set forth in the forward-looking statements.

Forward-looking statements in this Report may include, but are not limited to, levels of revenues, income from operations, net income or earnings per share; levels of capital and exploration expenditures; the success or timing of completion of ongoing or anticipated capital, exploration projects; volumes of production or sales of natural gas, natural gas liquids, and crude oil; levels of worldwide prices of crude oil; levels of domestic natural gas prices; levels of natural gas liquids, natural gas and crude oil reserves; the acquisition or divestiture of assets; the potential effect of judicial proceedings on our business and financial condition; and the anticipated effects of actions of third parties such as competitors, or federal, state or local regulatory authorities.

While management believes that these forward-looking statements are reasonable as and when made, there can be no assurance that future developments affecting us will be those that we anticipate. All comments concerning our expectations for future revenues and operating results are based on our forecasts for our existing operations and do not include the potential impact of any future acquisitions, should we choose to make any. Our forward-looking statements involve significant risks and uncertainties (some of which are beyond our control) and assumptions that could cause actual results to differ materially from our historical experience and our present expectations or projections. Known material factors that could cause our actual results to differ from those in the forward-looking statements are those described in Item 1A. Risk Factors.

Readers are cautioned not to place undue reliance on forward-looking statements, which speak only as of the date hereof. We undertake no obligation to publicly update or revise any forward-looking statements after the date they are made, whether as a result of new information, future events or otherwise.

PART I

ITEMS 1 AND 2. BUSINESS AND PROPERTIES **General**

We are a Fort Worth, Texas-based independent natural gas, natural gas liquids (NGLs) and oil company, engaged in the exploration, development and acquisition of natural gas and oil properties, mostly in the Appalachian and Southwestern regions of the United States. We were incorporated in Delaware in 1980 under the name Lomak Petroleum, Inc. In 1998, we changed our name to Range Resources Corporation. Our corporate offices are located at 100 Throckmorton Street, Suite 1200, Fort Worth, Texas 76102 (telephone (817) 870-2601). Our common stock is listed and traded on the New York Stock Exchange under the symbol RRC. At December 31, 2012, we had 162.6 million shares outstanding.

Our 2012 average production from continuing operations consisted of the following:

total production of 752.6 Mmcfe per day, an increase of 45% from 2011;

79% natural gas;

NGLs production volume of 7.0 Mmbbls increased 30% from 2011; and

crude oil production volume of 2.9 Mmbbls increased 46% from 2011.

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At year-end 2012, our proved reserves had the following characteristics ^(a):

6.5 Tcfe of proved reserves;

74% natural gas;

53% proved developed;

89% operated;

a reserve life index of 21 years (based on fourth quarter 2012 production);

a pre-tax present value of \$4.0 billion of future net cash flows attributable to our reserves, discounted at 10% per annum (PV-10);
and

a standardized after-tax measure of discounted future net cash flows of \$3.2 billion.

- ^(a) PV-10 is considered a non-GAAP financial measure as defined by the SEC. We believe that the presentation of PV-10 is relevant and useful to our investors as supplemental disclosure to the standardized measure, or after-tax amount, because it presents the discounted future net cash flows attributable to our proved reserves before taking into account future corporate income taxes and our current tax structure. While the standardized measure is dependent on the unique tax situation of each company, PV-10 is based on prices and discount factors that are consistent for all companies. Because of this, PV-10 can be used within the industry and by creditors and securities analysts to evaluate estimated net cash flows from proved reserves on a more comparable basis. The difference between the standardized measure and the PV-10 amount is discounted estimated future income tax of \$736.1 million at December 31, 2012.

Available Information

Our internet website is available at <http://www.rangeresources.com>. Information contained on or connected to our website is not incorporated by reference into this Form 10-K and should not be considered part of this report or any other filing we make with the SEC. We make available, free of charge, on our website, the annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports, as soon as reasonably practicable after filing such reports with the SEC. Other information such as Company presentations, our Corporate Governance Guidelines, the charters of the Audit Committee, the Compensation Committee, the Dividend Committee, and the Governance and Nominating Committee, and the Code of Business Conduct and Ethics are available on our website and in print to any stockholder who provides a written request to the Corporate Secretary at 100 Throckmorton Street, Suite 1200, Fort Worth, Texas 76102. Our Code of Business Conduct and Ethics applies to all directors, officers and employees, including the President and Chief Executive Officer and Senior Financial Officer.

The public may read and copy any materials that we file with the SEC at the SEC's Public Reference Room at 100 F Street, NE, Washington, DC 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. Also, the SEC maintains an internet website that contains reports, proxy and information statements, and other information regarding issuers, including Range, that file electronically with the SEC. The public can obtain any document we file with the SEC at <http://www.sec.gov>.

Our Business Strategy

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Our objective is to build stockholder value through consistent growth in reserves and production on a cost-efficient basis. Our strategy to achieve our objective is to increase reserves and production through internally generated drilling projects coupled with occasional complementary acquisitions. Our strategy requires us to make significant investments and financial commitments in technical staff, acreage, seismic data and technology to build drilling inventory and market our products. Our core strategy has the following principal elements:

concentrate in core operating areas;

maintain multi-year drilling inventory;

focus on cost efficiency;

commit to environmental protection, health and safety and community stewardship;

maintain long-life reserve base;

maintain flexibility; and

provide employee equity ownership and incentive compensation.

Concentrate in Core Operating Areas. We currently operate in two regions: the Appalachian (which includes Pennsylvania, Virginia, and West Virginia) and Southwestern (which includes the Permian Basin of West Texas, the Texas Panhandle, the Nemaha Uplift in Northern Oklahoma and Kansas and the Anadarko Basin of Western Oklahoma). Concentrating our drilling and producing activities in these core areas allows us to develop the regional expertise needed to interpret specific geological and operating trends and develop economies of scale. Operating in a number of core areas allows us to create a portfolio to assist in our goal of consistent production and reserve growth at attractive returns.

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Maintain Multi-Year Drilling Inventory. We focus on areas with multiple prospective, productive horizons and development opportunities. We use our technical expertise to build and maintain a multi-year drilling inventory. We believe that a large, multi-year inventory of drilling projects increases our ability to efficiently plan for the economic growth of production and reserves. Currently, we have over 9,000 proven and unproven drilling locations in inventory.

Focus on Cost Efficiency. We concentrate in core areas which we believe to have sizeable hydrocarbon deposits in place that will allow us to consistently increase production while controlling costs. As there is little long-term competitive sales price advantage available to a commodity producer, the costs to find, develop, and produce a commodity are important to organizational sustainability and long-term shareholder value creation. We endeavor to control costs such that our cost to find, develop and produce natural gas and oil is in the best performing quartile of our peer group.

Commit to Environmental Protection, Health and Safety and Community Stewardship. We implement the latest technologies and best commercial practices to minimize potential impacts from the development of our nation's natural resources on the environment, worker health and safety, and the health and safety of the communities where we operate. Working with peer companies, regulators, nongovernmental organizations, industries not related to the natural gas industry, and other engaged stakeholders, we consistently analyze and review performance while striving for continual improvement. In July 2010, we voluntarily elected to provide, on our website, the hydraulic fracturing additives for all wells operated by us and completed to the Marcellus Shale formation. We participate in FracFocus, a national publically accessible web-based registry to report, on a well-by-well basis, the additives and chemicals and amount of water used in the hydraulic fracturing process for each of the wells we operate.

Maintain Long-Life Reserve Base. Long-life natural gas and oil reserves provide a more stable growth platform than short-life reserves. Long-life reserves reduce reinvestment risk as they lessen the amount of reinvestment capital deployed each year to replace production. Long-life natural gas and oil reserves also assist us in minimizing costs as stable production makes it easier to build and maintain operating economies of scale. We use our acquisition, divestiture, and drilling activities to assist in executing this strategy.

Maintain Flexibility. Because of the risks involved in drilling, coupled with changing commodity prices, we are flexible and adjust our capital budget throughout the year. If certain areas generate higher than anticipated returns, we may accelerate development in those areas and decrease expenditures elsewhere. We also believe in maintaining a strong balance sheet, ample liquidity and using commodity derivatives to stabilize our realized prices. This allows us to be more opportunistic in lower price environments and provides more consistent financial results.

Provide Employee Equity Ownership and Incentive Compensation. We want our employees to think and act like stockholders. To achieve this, we reward and encourage them through equity ownership in Range. All full-time employees are eligible to receive equity grants. As of December 31, 2012, our employees owned equity securities in our benefit plans (vested and unvested) that had an aggregate market value of approximately \$277 million.

Significant Accomplishments in 2012

Production growth In 2012, our production averaged 752.6 Mmcfe per day, an increase of 45% from 2011. Including our Barnett Shale properties, which were sold in April 2011 and are presented as discontinued operations, our production in 2012 increased 36% from 2011. Targeted drilling in the Marcellus Shale play in Pennsylvania drove our production growth.

Reserve growth Total proved reserves increased 29% in 2012 to 6.5 Tcfe, marking the eleventh consecutive year our proved reserves have increased. This achievement is the result of continued drilling success, as all of our production and reserve growth in 2012 came from our drilling program. While consistent growth is challenging to sustain, we believe the quality of our technical teams and our substantial inventory of drilling locations provide the basis for future reserve, production and cash flow growth.

Successful drilling program In 2012, we drilled 298 gross wells. Production was replaced by 773% through drilling in 2012 and our overall drilling success rate was 100%. We continue to build our drilling inventory which is critical to our ability to drill a large number of wells each year on a cost effective and efficient basis.

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Large resource potential from unconventional and conventional plays Maintaining a large exposure to potential resources is important. We continued expansion of our unconventional resource shale plays in 2012. We have five large unconventional plays the Marcellus, Utica and Upper Devonian shales in Pennsylvania, the Huron Shale in Virginia and the Cline Shale in West Texas. These plays cover expansive areas, provide multi-year drilling opportunities and, collectively, have sustainable lower risk growth profiles. The economics of these plays

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have been enhanced by continued advancements in drilling and completion technologies. We have expanded into the conventional horizontal Mississippian play in Northern Oklahoma and Kansas. We have now leased 1.9 million net acres in these five shale plays and approximately 160,000 in the Mississippian. We also have 150,000 net acres in our coal bed methane plays in Virginia.

Focus on financial flexibility Debt per mcf of proved reserves was \$0.44 in 2012 compared to \$0.39 in 2011. In 2012, we issued \$600.0 million of senior subordinated fixed rate 5.00% notes having a 10-year maturity. The proceeds we received from the issuance of the 5.00% senior subordinated notes were used to reduce the outstanding balance on our bank credit facility and for general corporate purposes. The issuance helped to better align the maturity schedule of our debt with the long-term life of our assets and reduce interest rate volatility. In April 2012, we added three additional financial institutions to our bank credit facility and we increased our liquidity through an increase in the facility amount from \$1.5 billion to \$1.75 billion. In December 2012, we redeemed all \$250.0 million aggregate principal amount of our 7.5% senior subordinated notes due 2017 with borrowings under our bank credit facility.

Successful land acquisitions completed In 2012, we leased or renewed \$188.8 million of acreage located in our core areas, primarily in the Marcellus Shale and the horizontal Mississippian conventional play in Oklahoma and Kansas. We continued to see outstanding results in the Marcellus Shale. Production in the Marcellus Shale increased 80% while we continue to prove up acreage, acquire additional acreage and gain access to additional pipeline and processing capacity.

Successful disposition completed In November 2012, we sold our Ardmore Woodford properties in Southern Oklahoma for gross proceeds of \$135.0 million. We also received \$33.2 million of additional proceeds related to the sale of miscellaneous proved and unproved properties.

Industry Operating Environment

We operate entirely within the continental United States. As traditional basins in the U.S. have matured, exploration and production has shifted to unconventional resource plays, typically shale reservoirs that historically were not thought to be economically productive for natural gas and oil. These plays cover large areas, provide multi-year inventories of drilling opportunities and, with modern oil and gas technology, have sustainable lower risk and higher growth profiles. The economics of these plays have been enhanced by continued advancements in drilling and completion technologies. These advancements make these plays more resilient to lower commodity prices while increasing the domestic supply of natural gas and oil. Examples of such technological advancements include advanced 3-D seismic processing, hydraulic fracture stimulation using almost one hundred percent sand and water, advances in well logging and analysis, horizontal drilling and completion technologies and automated remote well monitoring and control devices.

The oil and natural gas industry is affected by many factors that we cannot control. Government regulations, particularly in the areas of taxation, energy, climate change and the environment, can have a significant impact on operations and profitability. For several years preceding the 2008 worldwide economic decline, the oil and gas industry was characterized by volatile but upward trending oil, NGLs and natural gas commodity prices. The combination of lower demand due to the economic slowdown and greater North American natural gas supply has resulted in significant declines in natural gas prices from mid-2008. Natural gas prices are generally determined by North American supply and demand. The New York Mercantile Exchange (NYMEX) monthly settlement prices for natural gas averaged \$2.82 per mcf in 2012, with a high of \$3.73 per mcf in December and a low of \$2.03 per mcf in May. Natural gas prices continue to be under pressure due to concerns over excess supply of natural gas due to the high productivity of shale plays in the United States and continued slow growth in demand caused by a weakened economy and mild weather. The unseasonably warm winter of 2012 experienced in the northeastern United States significantly impacted demand for natural gas since it is a primary heating source. This decrease in demand is somewhat offset by an increase in the use of natural gas for power generation.

Significant factors that will impact 2013 crude oil prices include worldwide economic conditions, political and economic developments in the Middle East, demand in Asian and European markets, and the extent to which members of the Organization of Petroleum Exporting Countries and other oil exporting nations are able to manage oil supply through export quotas. NYMEX monthly settlement prices for oil averaged \$93.36 per barrel in 2012, with a high of \$106.21 per barrel in March and a low of \$82.41 per barrel in June.

NGLs prices are generally determined by North American supply and demand. We expect NGLs prices in 2013 to continue to be under pressure due to concerns over excess supply and mild weather.

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Natural gas, NGLs and oil prices affect:

the amount of cash flow available to us for capital expenditures;

our ability to borrow and raise additional capital;

the quantity of natural gas, NGLs and oil that we can economically produce; and

revenues and profitability.

Natural gas prices are likely to affect us more than oil prices because approximately 74% of our proved reserves is natural gas. Any continued or extended decline in natural gas, NGLs and oil prices could have a material adverse effect on our financial position, results of operations, cash flows and access to capital. To achieve more predictable cash flows and to reduce our exposure to downward price fluctuations, we currently, and may in the future, use derivative instruments to hedge future sales prices on our natural gas, NGLs and oil production. The use of derivative instruments has in the past and may in the future, prevent us from realizing the full benefit of upward price movements but also partially protects us from declining price movements.

Segment and Geographical Information

Our operations consist of one reportable segment. We have a single, company-wide management team that administers all properties as a whole rather than by discrete operating segments. We track only basic operational data by area. We do not maintain complete separate financial statement information by area. We measure financial performance as a single enterprise and not on an area-by-area basis. Our operations are limited to the United States and we focus on both unconventional resource plays and conventional plays in the Appalachian and Southwestern regions of the United States.

Outlook for 2013

Our capital expenditure budget for 2013 has been initially set at approximately \$1.3 billion. As has been our historical practice, we will periodically review our capital expenditures throughout the year and adjust the budget based on commodity prices, drilling success and markets for our products. At December 31, 2012 approximately 68% of our expected 2013 natural gas, NGL and oil production is hedged. For a complete discussion of our hedging activities, a listing of open contracts at December 31, 2012 and the estimated fair value of these contracts as of that date, see Note 11 to our consolidated financial statements. Our estimated 2013 capital expenditure budget detail and by area is shown below:

2013 Capital Budget Detail

2013 Capital Budget by Area

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The following table sets forth information regarding natural gas, NGLs and oil production, realized prices and production costs for the last three years. For additional information see Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

	Year Ended December 31,		
	2012	2011	2010
Production			
Natural gas (Mmcf)	216,555	145,206	106,148
Natural gas liquids (Mbbls)	6,967	5,352	3,600
Crude oil (Mbbls)	2,851	1,960	1,934
Total (Mmcfe) ^(a)	275,465	189,077	139,357
Average sales prices (wellhead)			
Natural gas (per mcf)	\$ 2.83	\$ 4.21	\$ 4.54
Natural gas liquids (per bbl)	38.05	50.23	39.75
Crude oil (per bbl)	83.46	86.22	69.18
Total (per mcfe) ^(a)	4.05	5.55	5.44
Average realized prices (including derivatives that qualify for hedge accounting):			
Natural gas (per mcf)	\$ 3.93	\$ 5.06	\$ 5.15
Natural gas liquids (per bbl)	38.05	50.23	39.75
Crude oil (per bbl)	82.77	86.22	69.19
Total (per mcfe) ^(a)	4.91	6.21	5.91
Average realized prices (including all derivative settlements and third party transportation costs)			
Natural gas (per mcf)	\$ 3.11	\$ 4.43	\$ 4.89
Natural gas liquids (per bbl)	41.03	50.82	39.75
Crude oil (per bbl)	83.64	81.34	69.19
Total (per mcfe) ^(a)	4.35	5.68	5.71
Production costs			
Lease operating (per mcfe)			