RANGE RESOURCES CORP
Form 10-Q
July 24, 2013

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 June 30, 2013

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 Incorporation or Organization)	(IRS Employer 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

163,396,396 Common Shares were outstanding on July 22, 2013.

RANGE RESOURCES CORPORATION

FORM 10-Q

Quarter Ended June 30, 2013

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.

TABLE OF CONTENTS

PART I FINANCIAL INFORMATION

ITEM 1. Financial Statements

RANGE RESOURCES CORPORATION

CONSOLIDATED BALANCE SHEETS

(In thousands, except per share data)

	June 30, 2013 (Unaudited)	December 31, 2012
Assets		
Current assets:		
Cash and cash equivalents	$ 284	$ 252
Accounts receivable, less allowance for doubtful accounts of $ 2,493 and $ 2,374	159,981	167,495
Unrealized derivatives	97,052	137,552
Inventory and other	16,131	22,315
Total current assets	273,448	327,614
Unrealized derivatives	30,467	15,715
Equity method investments	132,115	132,449
Natural gas and oil properties, successful efforts method	8,369,641	8,111,775
Accumulated depletion and depreciation	(2,035,850)	(2,015,591)
	6,333,791	6,096,184
Transportation and field assets	116,578	117,717
Accumulated depreciation and amortization	(80,371)	(76,150)
	36,207	41,567
Other assets	124,154	115,206
Total assets	$ 6,930,182	$ 6,728,735
Liabilities		
Current liabilities:		
Accounts payable	$ 303,618	$ 234,651
Asset retirement obligations	2,366	2,470
Accrued liabilities	133,064	139,379
Deferred tax liability	21,312	37,924
Accrued interest	44,016	36,248
Unrealized derivatives		4,471
Total current liabilities	504,376	455,143
Bank debt	309,000	739,000
Subordinated notes	2,639,835	2,139,185
Deferred tax liability	735,166	698,302
Unrealized derivatives		3,463
Deferred compensation liability	207,906	187,604
Asset retirement obligations and other liabilities	148,116	148,646

Total liabilities	4,544,399	4,371,343
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,163,395,396 issued at June 30, 2013 and 162,641,896 issued at December 31, 2012	1,634	1,626
Common stock held in treasury, 101,301 shares at June 30, 2013 and 127,798 shares at December 31, 2012	(3,751)	(4,760)
Additional paid-in capital	1,934,706	1,915,627
Retained earnings	416,306	360,990
Accumulated other comprehensive income	36,888	83,909
Total stockholders equity	2,385,783	2,357,392
Total liabilities and stockholders equity	$ 6,930,182	$ 6,728,735

See accompanying notes.

RANGE RESOURCES CORPORATION

CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited, in thousands, except per share data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Revenues and other income:				
Natural gas, NGLs and oil sales	$ 437,678	$ 298,349	$ 835,917	$ 615,966
Derivative fair value income	137,760	148,569	37,885	87,736
Gain (loss) on the sale of assets	83,287	(3,227)	83,121	(13,653)
Brokered natural gas, marketing and other	14,631	5,240	35,672	9,837
Total revenues and other income	673,356	448,931	992,595	699,886
Costs and expenses:				
Direct operating	32,636	27,041	62,824	56,063
Transportation, gathering and compression	66,048	44,744	128,464	85,564
Production and ad valorem taxes	11,113	11,786	22,496	48,420
Brokered natural gas and marketing	16,662	6,491	38,977	10,553
Exploration	13,068	15,517	29,848	37,033
Abandonment and impairment of unproved properties	19,156	43,641	34,374	63,930
General and administrative	101,987	44,005	186,045	82,734
Deferred compensation plan	(6,878)	9,333	35,482	1,503
Interest expense	45,071	42,888	87,281	80,093
Loss on early extinguishment of debt	12,280		12,280	
Depletion, depreciation and amortization	120,736	108,802	235,837	208,953
Total costs and expenses	431,879	354,248	873,908	674,846
Income from operations before income taxes	241,477	94,683	118,687	25,040
Income tax expense (benefit)				
Current	(25)			
Deferred	97,519	39,007	50,314	11,164
	97,494	39,007	50,314	11,164
Net income	$ 143,983	$ 55,676	$ 68,373	$ 13,876
Net income per common share:				
Basic	$ 0.88	$ 0.34	$ 0.42	$ 0.09
Diluted	$ 0.88	$ 0.34	$ 0.42	$ 0.09
Dividends per common share	$ 0.04	$ 0.04	$ 0.08	$ 0.08
Weighted average common shares outstanding:				
Basic	160,565	159,412	160,346	159,162
Diluted	161,414	160,030	161,223	159,949

See accompanying notes.

RANGE RESOURCES CORPORATION

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(Unaudited, in thousands)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Net income	$ 143,983	$ 55,676	$ 68,373	$ 13,876
Other comprehensive income:				
Realized loss (gain) on hedge derivative contract settlements reclassified into natural gas, NGLs and oil sales from other comprehensive income, net of taxes [1]		(47,934)	(14,840)	(83,376)
Amortization related to de-designated hedges reclassified into natural gas, NGLs and oil sales, net of taxes [2]	(18,616)		(26,041)	
De-designated hedges reclassified to derivative fair value income, net of taxes [3]	(547)		(1,937)	
Change in unrealized deferred hedging (losses) gains, net of taxes [4]		4,813	(4,203)	83,787
Total comprehensive income	$ 124,820	$ 12,555	$ 21,352	$ 14,287

[1] Presented net of income tax expense of $30,647 for the three months ended June 30, 2012 and $9,488 and $52,834 for the six months ended June 30, 2013 and 2012.

[2] Presented net of income tax expense of $11,902 for the three months ended June 30, 2013 and $16,649 for the six months ended June 30, 2013.

[3] Amounts relate to transactions not probable of occurring and are presented net of income tax expense of $350 for the three months ended June 30, 2013 and $1,239 for the six months ended June 30, 2013.

[4] Presented net of income tax benefit of $3,077 for the three months ended June 30, 2012 and $55,184 for the six months ended June 30, 2012. Presented net of income tax expense of $2,687 for the six months ended June 30, 2013.

See accompanying notes.

RANGE RESOURCES CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited, in thousands)

	Six Months Ended June 30, 2013	2012
Operating activities:		
Net income	$ 68,373	$ 13,876
Adjustments to reconcile net income to net cash provided from operating activities:		
(Gain) loss from equity method investments, net of distributions	(1,552)	2,293
Deferred income tax expense	50,314	11,164
Depletion, depreciation and amortization and impairment	235,837	208,953
Exploration dry hole costs	(159)	817
Mark-to-market on natural gas, NGLs and oil derivatives not designated as hedges	(62,569)	(83,721)
Abandonment and impairment of unproved properties	34,374	63,930
Unrealized derivative loss	3,300	354
Allowance for bad debt	250	
Amortization of deferred financing costs, loss on extinguishment of debt and other	16,662	3,893
Deferred and stock-based compensation	63,325	26,341
(Gain) loss on the sale of assets	(83,121)	13,653
Changes in working capital:		
Accounts receivable	(13,997)	11,611
Inventory and other	1,545	(2,824)
Accounts payable	(10,381)	(21,922)
Accrued liabilities and other	(22,312)	34,528
Net cash provided from operating activities	279,889	282,946
Investing activities:		
Additions to natural gas and oil properties	(592,692)	(781,574)
Additions to field service assets	(2,033)	(1,526)
Acreage purchases	(27,449)	(147,944)
Equity method investments	1,885	
Proceeds from disposal of assets	296,068	15,620
Purchases of marketable securities held by the deferred compensation plan	(20,213)	(7,872)
Proceeds from the sales of marketable securities held by the deferred compensation plan	16,342	3,590
Net cash used in investing activities	(328,092)	(919,706)
Financing activities:		
Borrowing on credit facilities	893,000	697,000
Repayment on credit facilities	(1,323,000)	(649,000)
Issuance of subordinated notes	750,000	600,000
Repayment of subordinated notes	(259,063)	
Dividends paid	(13,057)	(12,972)
Debt issuance costs	(12,324)	(12,455)

Issuance of common stock	343	2,074
Change in cash overdrafts	(1,155)	3,346
Proceeds from the sales of common stock held by the deferred compensation plan	13,491	8,833
Net cash provided from financing activities	48,235	636,826
Increase in cash and cash equivalents	32	66
Cash and cash equivalents at beginning of period	252	92
Cash and cash equivalents at end of period	$ 284	$ 158

See accompanying notes.

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, natura gas liquids (NGLs) and oil 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 2012 Annual Report on Form 10-K filed on February 27, 2013. The results of operations for the second quarter and the six months ended June 30, 2013 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 (the 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 gas purchases and other marketing costs which were previously reported in other income and are currently reported as a separate operating expense. These reclassifications have no impact on previously reported net income.

Impact Fee

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. In first six months 2012, we recorded a retroactive impact fee of $24.7 million for wells drilled during 2011 and prior. This expense is reflected in our statements of operations as production and ad valorem taxes.

De-designation of Commodity Derivative Contracts

Effective March 1, 2013, we elected to discontinue hedge accounting prospectively. After March 1, 2013, both realized and unrealized gains and losses will be recognized in earnings immediately each quarter as derivative contracts are settled and marked to market. For second quarter 2013, unrealized gains of $103.8 million and for the six months ended June 30, 2013, unrealized gains of $22.4 million were included in our statements of operations that, prior to March 1, 2013, would have been deferred in accumulated other comprehensive income (AOCI) if we had continued using hedge accounting. Refer to Note 11 for additional information.

(3) NEW ACCOUNTING STANDARDS

Recently Adopted

In December 2011, the Financial Accounting Standards Board (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. Also, in January 2013, the FASB issued ASU No. 2013-01, Balance Sheet (Topic 210): Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities. ASU 2013-01 revised and clarified the disclosures required by ASU No. 2011-11. We adopted these new requirements in first quarter 2013 and they did not have a material effect on our consolidated financial statements.

In February 2013, the FASB issued ASU No. 2013-02, Comprehensive Income (Topic 220): Reporting of Amounts Reclassified out of Accumulated Other Comprehensive Income. ASU 2013-02 requires information to be disclosed about the amounts reclassified out of AOCI by component. We adopted this new requirement in first quarter 2013 and it did not have a material effect on our consolidated financial statements.

(4) DISPOSITIONS

2013 Dispositions

In December 2012, we announced our plan to offer for sale certain of our Delaware and Permian Basin properties in southeast New Mexico and West Texas. On February 26, 2013, we announced we signed a definitive agreement to sell these assets for a price of $275.0 million, subject to normal post-closing adjustments. The agreement had an effective date of January 1, 2013 and consequently, operating net revenues after January 1, 2013 were a downward adjustment to the sales price. We closed this disposition on April 1 and we recognized a gain of approximately $83.5 million in second quarter 2013 related to this sale, before selling expenses of $4.2 million. Also in second quarter 2013, we received $14.2 million of proceeds from the sale of miscellaneous oil and gas properties in Pennsylvania and West Texas and we recognized a gain of $4.0 million on these transactions. In the first six months 2013, we also received $10.0 million of proceeds from the sale of miscellaneous oil and gas property in Pennsylvania.

2012 Dispositions

In June 2012, we sold a suspended 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.

(5) INCOME TAXES

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Income tax expense	$ 97,494	$ 39,007	$ 50,314	$ 11,164
Effective tax rate	40.4%	41.2%	42.4%	44.6%

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 second quarter and the six months ended June 30, 2013 and 2012, our overall effective tax rate on pre-tax loss from operations was different than the federal statutory rate of 35% due primarily to state income taxes, valuation allowances and other permanent differences.

(6) INCOME 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 to diluted income or loss attributable to common shareholders (in thousands except per share amounts):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Net income, as reported	$143,983	$55,676	$68,373	$13,876
Participating basic earnings [a]	(2,335)	(999)	(1,124)	(246)
Basic net income attributed to common shareholders	141,648	54,677	67,249	13,630
Reallocation of participating earnings [a]	12	3	5	
Diluted net income attributed to common shareholders	$141,660	$54,680	$67,254	$13,630
Net income per common share:				
Basic	$ 0.88	$ 0.34	$ 0.42	$ 0.09
Diluted	$ 0.88	$ 0.34	$ 0.42	$ 0.09

[a] Restricted Stock Awards represent participating securities because they participate in nonforfeitable dividends or distributions with common equity owners. Income allocable to participating securities represents the distributed and undistributed earnings attributable to the participating securities. Participating securities, however, do not participate in undistributed net losses.

The following table provides a reconciliation of basic weighted average common shares outstanding to diluted weighted average common shares outstanding (in thousands):

		Three Months Ended June 30,		Six Months Ended June 30,	
		2013	2012	2013	2012
Denominator:					
Weighted average common shares outstanding	basic	160,565	159,412	160,346	159,162
Effect of dilutive securities:					
Director and employee stock options and SARs		849	618	877	787
Weighted average common shares outstanding	diluted	161,414	160,030	161,223	159,949

Weighted average common shares basic for the three months ended June 30, 2013 excludes 2.6 million shares and the three months ended June 30, 2012 excludes 2.9 million shares of restricted stock held in our deferred compensation plans (although all awards are issued and outstanding upon grant). Weighted average common shares basic for the six months ended June 30, 2013 excludes 2.7 million shares of restricted stock compared to 2.9 million in the same period of 2012. Stock appreciation rights (SARs) of 161,000 for the three months ended June 30, 2013 and 252,000 for the six months ended June 30, 2013 were outstanding but not included in the computations of diluted income from operations per share because the grant prices of the SARs were greater than the average market price of the common shares. SARs of 761,000 for the three months ended June 30, 2012 and 592,000 for the six months ended June 30, 2012 were outstanding but not included in the computations of diluted income from operations because the grant prices of the SARs were greater than the average market price of the common shares.

(7) SUSPENDED EXPLORATORY WELL COSTS

We capitalize exploratory well costs until a determination is made that the well has either found proved reserves or that it is impaired. Capitalized exploratory well costs are presented in natural gas and oil properties in the accompanying consolidated balance sheets. If an exploratory well is determined to be impaired, the well costs are charged to exploration expense in the accompanying consolidated statements of operations. The following table reflects the changes in capitalized exploratory well costs for the six months ended June 30, 2013 and the year ended December 31, 2012 (in thousands except for number of projects):

	June 30, 2013	December 31, 2012
Balance at beginning of period	$ 57,360	$ 93,388
Additions to capitalized exploratory well costs pending the determination of proved reserves	41,405	153,250
Reclassifications to wells, facilities and equipment based on determination of proved reserves	(66,221)	(184,298)
Divested wells		(4,980)
Balance at end of period	32,544	57,360
Less exploratory well costs that have been capitalized for a period of one year or less	(12,025)	(45,965)
Capitalized exploratory well costs that have been capitalized for a period greater than one year	$ 20,519	$ 11,395
Number of projects that have exploratory well costs that have been capitalized for a period greater than one year	8	5

As of June 30, 2013, $20.5 million of capitalized exploratory well costs have been capitalized for more than one year with five of the wells waiting on pipelines and three of the wells currently in the completion stage. Four of the wells are not operated by us and seven of the wells are in Pennsylvania. In first six months 2012, we sold a seventy-five percent interest in an East Texas exploratory well. Refer to Note 4 for additional information. The following table provides an aging of capitalized exploratory well costs that have been suspended for more than one year as of June 30, 2013 (in thousands):

	Total	2013	2012	2011	2010	2009	2008
Capitalized exploratory well costs that have been capitalized for more than one year	$ 20,519	$ 3,828	$ 6,965	$ 5,247	$ 72	$ 2,884	$ 1,523

(8) INDEBTEDNESS

We had the following debt outstanding as of the dates shown below (in thousands) (bank debt interest rate at June 30, 2013 is shown parenthetically; no interest was capitalized during the three months or the six months ended June 30, 2013 or 2012):

	June 30, 2013	December 31, 2012
Bank debt (1.8%)	$ 309,000	$ 739,000
Senior subordinated notes:		
7.25% senior subordinated notes due 2018		250,000
8.00% senior subordinated notes due 2019, net of $ 10,165 and $ 10,815 discount, respectively	289,835	289,185
6.75% senior subordinated notes due 2020	500,000	500,000
5.75% senior subordinated notes due 2021	500,000	500,000
5.00% senior subordinated notes due 2022	600,000	600,000
5.00% senior subordinated notes due 2023	750,000	
Total debt	$ 2,948,835	$ 2,878,185

Bank Debt

In February 2011, we entered into an amended and restated revolving bank facility, which we refer to as our bank debt or our bank credit facility, which is secured by substantially all of our assets. The bank credit facility provides for an initial commitment equal to the lesser of the facility amount or the borrowing base. On June 30, 2013, the facility amount was $1.75 billion and the borrowing base was $2.0 billion. The bank credit facility provides for a borrowing base subject to redeterminations semi-annually and for event-driven unscheduled redeterminations. As part of our semi-annual bank review completed on April 8, 2013, our borrowing base was reaffirmed at $2.0 billion and our facility amount was also reaffirmed at $1.75 billion. Our current bank group is composed of twenty-eight financial institutions, with no one bank holding more than 9% of the total facility. The facility amount may be increased to the borrowing base amount with twenty days notice, subject to the banks agreeing to participate in the facility increase and payment of a mutually acceptable commitment fee to those banks. As of June 30, 2013, the outstanding balance under our bank credit facility was $309.0 million. Additionally, we had $84.7 million of undrawn letters of credit leaving $1.4 billion of borrowing capacity available under the facility. The bank credit facility matures on February 18, 2016. Borrowings under the bank credit facility can either be at the Alternate Base Rate (as defined) plus a spread ranging from 0.50% to 1.5% or LIBOR borrowings at the Adjusted LIBO Rate (as defined in the bank credit facility) plus a spread ranging from 1.5% to 2.5%. The applicable spread is dependent upon borrowings relative to the borrowing base. We may elect, from time to time, to convert all or any part of our LIBOR loans to base rate loans or to convert all or any of the base rate loans to LIBOR loans. The weighted average interest rate was 2.2% for the three months ended June 30, 2013 compared to 2.7% for the three months ended June 30, 2012. The weighted average interest rate was 2.1% for the six months ended June 30, 2013 compared to 2.3% for the six months ended June 30, 2012. A commitment fee is paid on the undrawn balance based on an annual rate of 0.375% to 0.50%. At June 30, 2013, the commitment fee was 0.375% and the interest rate margin was 1.5% on our LIBOR loans and 0.5% on our base rate loans. On June 30, 2013, the borrowings under the bank credit facility were at LIBOR.

Senior Subordinated Notes

In March 2013, we issued $750.0 million aggregate principal amount of 5.00% senior subordinated notes due 2023 (the Outstanding Notes) for net proceeds of $738.8 million after underwriting discounts and commissions of $11.2 million. The notes were issued at par. The offering of the Outstanding Notes were only offered to qualified institutional buyers and to Non- U.S. persons outside the United States in compliance with Rule 144A and Regulation S under the Securities Act of 1933 (the Securities Act). On June 19, 2013, substantially all of the Outstanding Notes were exchanged for an equal principal amount of registered 5.00% senior subordinated notes due 2013 pursuant to an effective registration statement on Form S-4 filed on April 26, 2013 under the Securities Act (the Exchange Notes). The Exchange Notes are identical to the Outstanding Notes except that the Exchange Notes are registered under the Securities Act and do not have restrictions on transfer, registration rights or provisions for additional interest. As used in this Form 10-Q, the term 5.00% Notes due 2023 refer to both the Outstanding Notes and the Exchange Notes. Interest on the 5.00% Notes due 2023 is payable semi-annually in March and September and is guaranteed by all of our subsidiary guarantors. We may redeem the 5.00% Notes due 2023, in whole or in part, at any time on or after March 15, 2018, at a redemption price of 102.5% of the principal amount as of March 15, 2018, declining to 100% on March 15, 2021 and thereafter. Before March 15, 2016, we may redeem up to 35% of the original aggregate principal amount of the 5.00% Notes due 2023 at a redemption price equal to 105% of the principal amount thereof, plus accrued and unpaid interest, if any, with the proceeds of certain equity offerings, provided that 65% of the aggregate principal amount of 5.00% Notes due 2023 remains outstanding immediately after the occurrence of such redemption and also provided such redemption shall occur within 60 days of the date of the closing of the equity offering. On closing of the 5.00% Notes due 2023, we used the proceeds to pay down our outstanding bank credit facility balance. We did not receive any proceeds from the issuance of the Exchange Notes.

If we experience a change of control, bondholders may require us to repurchase all or a portion of all of our senior subordinated notes at 101% of the aggregate principal amount plus accrued and unpaid interest, if any. All of the senior subordinated notes and the guarantees by our subsidiary guarantors are general, unsecured obligations and are subordinated to our bank debt and will be subordinated to future senior debt that we or our subsidiary guarantors are permitted to incur under the bank credit facility and the indentures governing the subordinated notes.

Early Extinguishment of Debt

On April 2, 2013, we announced a call for the redemption of $250.0 million of our outstanding 7.25% senior subordinated notes due 2018 at 103.625% of par which were redeemed on May 2, 2013. In second quarter 2013, we recognized a $12.3 million loss on extinguishment of debt, including transaction call premium cost as well as expensing of the remaining deferred financing costs on the repurchased debt.

Guarantees

Range Resources Corporation is a holding company which owns no operating assets and has no significant operations independent of its subsidiaries. The guarantees by our subsidiaries of our senior subordinated notes are full and unconditional and joint and several, subject to certain customary release provisions. A subsidiary guarantor may be released from its obligations under the guarantee:

- in the event of a sale or other disposition of all or substantially all of the assets of the subsidiary guarantor or a sale or other disposition of all the capital stock of the subsidiary guarantor, to any corporation or other person (including an unrestricted subsidiary of Range) by way of merger, consolidation, or otherwise; or

- if Range designates any restricted subsidiary that is a guarantor to be an unrestricted subsidiary in accordance with the terms of the indenture.

Debt Covenants and Maturity

Our bank credit facility contains negative covenants that limit our ability, among other things, to pay cash dividends, incur additional indebtedness, sell assets, enter into certain hedging contracts, change the nature of our business or operations, merge, consolidate, or make investments. In addition, we are required to maintain a ratio of debt to EBITDAX (as defined in the credit agreement) of no greater than 4.25 to 1.0 and a current ratio (as defined in the credit agreement) of no less than 1.0 to 1.0. We were in compliance with our covenants under the bank credit facility at June 30, 2013.

The indentures governing our senior subordinated notes contain various restrictive covenants that are substantially identical to each other and may limit our ability to, among other things, pay cash dividends, incur additional indebtedness, sell assets, enter into transactions with affiliates, or change the nature of our business. At June 30, 2013, we were in compliance with these covenants.

(9) ASSET RETIREMENT OBLIGATIONS

Our asset retirement obligations primarily represent the estimated present value of the amounts we will incur to plug, abandon and remediate our producing properties at the end of their productive lives. Significant inputs used in determining such obligations include estimates of plugging and abandonment costs, estimated future inflation rates and well life. The inputs are calculated based on historical data as well as current estimated costs. A reconciliation of our liability for plugging and abandonment costs for the six months ended June 30, 2013 is as follows (in thousands):

	Six Months Ended June 30, 2013
Beginning of period	$ 146,478

Liabilities incurred		3,846
Liabilities settled		(155)
Disposition of wells		(3,098)
Accretion expense		5,324
Change in estimate		(6,231)
End of period		146,164
Less current portion		(2,366)
Long-term asset retirement obligations	$	143,798

Accretion expense is recognized as a component of depreciation, depletion and amortization expense in the accompanying statements of operations.

(10) CAPITAL STOCK

We have authorized capital stock of 485.0 million shares which includes 475.0 million shares of common stock and 10.0 million shares of preferred stock. We currently have no preferred stock issued or outstanding. The following is a schedule of changes in the number of common shares outstanding since the beginning of 2012:

	Six Months Ended June 30, 2013	Year Ended December 31, 2012
Beginning balance	162,514,098	161,131,547
Stock options/SARs exercised	235,369	926,425
Restricted stock granted	401,122	354,674
Restricted stock units vested	117,009	57,824
Treasury shares issued	26,497	43,628
Ending balance	163,294,095	162,514,098

(11) DERIVATIVE ACTIVITIES

We use commodity-based derivative contracts to manage exposure to commodity price fluctuations. We do not enter into these arrangements for speculative or trading purposes. We do not utilize complex derivatives as we typically utilize commodity swaps or collars to (1) reduce the effect of price volatility of the commodities we produce and sell and (2) support our annual capital budget and expenditure plans. In 2011, we sold NGLs derivative swap contracts (sold swaps) for the natural gasoline (or C5) component of natural gas liquids and in 2012, we entered into purchased derivative swaps (re-purchased swaps) for C5 volumes. These re-purchased swaps were, in some cases, with the same counterparties as our sold swaps. We entered into these re-purchased swaps to lock in certain natural gasoline derivative gains. In second quarter 2012, we also entered into NGL derivative swap contracts for the propane (or C3) component of NGLs. The fair value of these contracts, represented by the estimated amount that would be realized upon termination, based on a comparison of the contract price and a reference price, generally the New York Mercantile Exchange (NYMEX), approximated a net unrealized pre-tax gain of $127.5 million at June 30, 2013. These contracts expire monthly through December 2015. The following table sets forth our derivative volumes by year as of June 30, 2013:

Period	Contract Type	Volume Hedged	Weighted Average Hedge Price
Natural Gas			

2013	Collars	280,000 Mmbtu/day	$ 4.59	$ 5.05
2014	Collars	447,500 Mmbtu/day	$ 3.84	$ 4.48
2015	Collars	145,000 Mmbtu/day	$ 4.07	$ 4.56
2013	Swaps	296,685 Mmbtu/day	$ 3.79	
2014	Swaps	30,000 Mmbtu/day	$ 4.17	
Crude Oil				
2013	Collars	3,000 bbls/day	$ 90.60	$ 100.00
2014	Collars	2,000 bbls/day	$ 85.55	$ 100.00
2013	Swaps	6,325 bbls/day	$96.77	
2014	Swaps	7,000 bbls/day	$94.14	
2015	Swaps	2,000 bbls day	$90.20	
NGLs (Natural Gasoline)				
2013	Sold Swaps	8,000 bbls/day	$89.64	
2013	Re-purchased Swaps	1,500 bbls/day	$76.30	
NGLs (Propane)				
2013	Swaps	8,000 bbls/day	$36.79	
2014	Swaps	1,000 bbls/day	$40.32	

Every derivative instrument is required to be recorded on the balance sheet as either an asset or a liability measured at its fair value. Fair value is determined based on the difference between the fixed contract price and the underlying market price at the determination date. Changes in the fair value of our derivatives that qualified for hedge accounting are recorded as a component of AOCI in the stockholders equity section of the accompanying consolidated balance sheets, which is later transferred to natural gas, NGLs and oil sales when the underlying physical transaction occurs and the hedging contract is settled. As of June 30, 2013, an unrealized pre-tax derivative gain of $60.5 million was recorded in AOCI. See additional discussion below regarding the discontinuance of hedge accounting. If the derivative does not qualify as a hedge or is not designated as a hedge, changes in fair value of these non-hedge derivatives are recognized in earnings in derivative fair value income or loss.

For those derivative instruments that qualified or were designated for hedge accounting, settled transaction gains and losses are determined monthly, and are included as increases or decreases to natural gas, NGLs and oil sales in the period the hedged production is sold. Through February 28, 2013, we had elected to designate our commodity derivative instruments that qualified for hedge accounting as cash flow hedges. Natural gas, NGLs and oil sales include $30.5 million of gains in second quarter 2013 compared to gains of $78.6 million in the same period of 2012 related to settled hedging transactions. Natural gas, NGLs and oil sales include $67.0 million of gains in the first six months 2013 compared to gains of $136.2 million in the same period of 2012. Any ineffectiveness associated with these hedge derivatives is reflected in derivative fair value income in the accompanying statements of operations. The ineffective portion is generally calculated as the difference between the changes in fair value of the derivative and the estimated change in future cash flows from the item hedged. Derivative fair value income for the three months ended June 30, 2013 includes no ineffective gains or losses (unrealized and realized) compared to a gain of $1.9 million in the three months ended June 30, 2012. Derivative fair value income for the six months ended June 30, 2013 includes ineffective losses (unrealized and realized) of $2.9 million compared to a gain of $2.1 million in the same period of 2012. During the six months ended June 30, 2013, we recognized a pre-tax gain of $3.2 million in derivative fair value income as a result of the discontinuance of hedge accounting where we determined the transaction was probable not to occur primarily due to the sale of our Delaware and Permian Basin properties in New Mexico and West Texas.

Discontinuance of Hedge Accounting

Effective March 1, 2013, we elected to de-designate all commodity contracts that were previously designated as cash flow hedges and elected to discontinue hedge accounting prospectively. AOCI included $103.6 million ($63.2 million after tax) of unrealized net gains, representing the marked-to-market value of the effective portion of our cash flow hedges as of February 28, 2013. As a result of discontinuing hedge accounting, the marked-to-market values included in AOCI as of the de-designation date were frozen and will be reclassified into earnings in future periods as the underlying hedged transactions occur. As of June 30, 2013, we expect to reclassify into earnings $49.5 million of unrealized net gains in the remaining months of 2013 and $10.9 million of unrealized net gains in 2014 from AOCI.

With the election to de-designate hedging instruments, all of our derivative instruments continue to be recorded at fair value with unrealized gains and losses recognized immediately in earnings rather than in AOCI. These marked-to-market adjustments will produce a degree of earnings volatility that can be significant from period to period, but such adjustments will have no cash flow impact relative to changes in market prices. The impact to cash flow occurs upon settlement of the underlying contract.

14

Derivative Fair Value Income

The following table presents information about the components of derivative fair value income for the three months and the six months ended June 30, 2013 and 2012 (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Change in fair value of derivatives that did not qualify or were not designated for hedge accounting [(a)]	$159,371	$135,777	$ 62,569	$83,721
Realized loss on settlement natural gas [(a) (b)]	(24,543)		(23,728)	
Realized gain (loss) on settlement oil [(a) (b)]	(111)	768	(213)	(3,854)
Realized gain on settlement NGLs [(a) (b)]	3,043	10,152	2,148	5,760