RANGE RESOURCES CORP
Form 10-Q
October 22, 2009

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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, 2009

or

o **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 o

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 o

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 o	Non-Accelerated Filer o (Do not check if a smaller reporting company)	Smaller Reporting Company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes o No þ

157,733,941 Common Shares were outstanding on October 20, 2009.

RANGE RESOURCES CORPORATION
FORM 10-Q
Quarter Ended September 30, 2009

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 shares)

	September 30, 2009 (Unaudited)	December 31, 2008
Assets		
Current assets:		
Cash and equivalents	$ 859	$ 753
Accounts receivable, less allowance for doubtful accounts of $1,888 and $954	97,172	162,201
Unrealized derivative gain	78,410	221,430
Inventory and other	20,735	19,927
Total current assets	197,176	404,311
Unrealized derivative gain		5,231
Equity method investments	151,824	147,126
Oil and gas properties, successful efforts method	6,300,946	6,028,980
Accumulated depletion and depreciation	(1,429,007)	(1,186,934)
	4,871,939	4,842,046
Transportation and field assets	164,102	142,662
Accumulated depreciation and amortization	(69,824)	(56,434)
	94,278	86,228
Other assets	81,165	66,937
Total assets	$ 5,396,382	$ 5,551,879
Liabilities		
Current liabilities:		
Accounts payable	$ 135,881	$ 250,640
Asset retirement obligations	2,118	2,055
Accrued liabilities	59,328	47,309
Deferred tax liability	2,462	32,984
Accrued interest	37,002	20,516
Unrealized derivative loss	9,573	10
Total current liabilities	246,364	353,514
Bank debt	398,000	693,000
Subordinated notes and other long term debt	1,383,480	1,097,668

Deferred tax liability		759,406		779,218
Unrealized derivative loss		5,301		
Deferred compensation liability		132,517		93,247
Asset retirement obligations and other liabilities		85,985		83,890
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, 157,591,936 issued at September 30, 2009 and 155,609,387 issued at December 31, 2008		1,576		1,556
Common stock held in treasury, 233,900 shares at September 30, 2009 and December 31, 2008		(8,557)		(8,557)
Additional paid-in capital		1,743,276		1,695,268
Retained earnings		629,632		685,568
Accumulated other comprehensive income		19,402		77,507
Total stockholders equity		2,385,329		2,451,342
Total liabilities and stockholders equity	$	5,396,382	$	5,551,879

See 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,		Nine Months Ended September 30,	
	2009	**2008**	**2009**	**2008**
Revenues				
Oil and gas sales	$ 202,122	$ 347,720	$ 597,834	$ 1,002,726
Transportation and gathering	2,444	1,537	4,091	3,890
Derivative fair value (loss) income	(482)	272,869	65,209	(47,582)
Other	(443)	544	(6,624)	20,777
Total revenues	203,641	622,670	660,510	979,811
Costs and expenses				
Direct operating	31,111	36,532	101,480	106,710
Production and ad valorem taxes	7,600	15,210	23,421	45,106
Exploration	11,102	19,149	35,809	55,204
Abandonment and impairment of unproved properties	24,053	5,055	84,579	10,653
General and administrative	30,568	24,650	84,581	66,000
Deferred compensation plan	16,445	(37,515)	29,635	(9,365)
Interest expense	30,633	25,373	86,817	72,361
Depletion, depreciation and amortization	97,208	76,690	270,241	218,938
Total costs and expenses	248,720	165,144	716,563	565,607
(Loss) income from operations	(45,079)	457,526	(56,053)	414,204
Income tax (benefit) expense				
Current	(695)	2,374	(76)	4,209
Deferred	(14,566)	170,202	(18,884)	152,551
Total income tax (benefit) expense	(15,261)	172,576	(18,960)	156,760
Net (loss) income	$ (29,818)	$ 284,950	$ (37,093)	$ 257,444
(Loss) income per common share:				
Basic	$ (0.19)	$ 1.87	$ (0.24)	$ 1.71
Diluted	$ (0.19)	$ 1.81	$ (0.24)	$ 1.65

Dividends per common share	$ 0.04	$ 0.04	$ 0.12	$ 0.12
Weighted average common shares outstanding:				
Basic	154,653	152,765	154,257	150,487
Diluted	154,653	157,729	154,257	155,896

See accompanying notes.

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RANGE RESOURCES CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited, in thousands)

	Nine Months Ended September 30,	
	2009	**2008**
Operating activities:		
Net (loss) income	$ (37,093)	$ 257,444
Adjustments to reconcile net cash provided from operating activities:		
Loss (gain) from equity method investments	6,548	(170)
Deferred income tax (benefit) expense	(18,884)	152,551
Depletion, depreciation and amortization	270,241	218,938
Exploration dry hole costs	342	9,337
Mark-to-market on oil and gas derivatives not designated as hedges	83,393	3,184
Abandonment and impairment of unproved properties	84,579	10,653
Unrealized derivative loss (gain)	483	(1,862)
Deferred and stock-based compensation	58,844	13,413
Amortization of deferred financing costs and other	3,742	2,137
Loss (gain) on sale of assets and other	2,660	(19,415)
Changes in working capital:		
Accounts receivable	38,373	(64,468)
Inventory and other	(807)	(5,263)
Accounts payable	(67,076)	2,927
Accrued liabilities and other	18,423	20,982
Net cash provided from operating activities	443,768	600,388
Investing activities:		
Additions to oil and gas properties	(425,376)	(646,403)
Additions to field service assets	(21,959)	(20,651)
Acreage purchases	(118,724)	(733,767)
Investment in equity method investment	(6,099)	(25,460)
Other assets	8,604	(25,496)
Proceeds from disposal of assets	182,230	66,693
Purchase of marketable securities held by the deferred compensation plan	(6,932)	(9,300)
Proceeds from the sales of marketable securities held by the deferred compensation plan	3,155	6,605
Net cash used in investing activities	(385,101)	(1,387,779)
Financing activities:		
Borrowing on credit facilities	582,000	1,219,000
Repayment on credit facilities	(877,000)	(972,500)
Dividends paid	(18,843)	(18,404)
Debt issuance costs	(6,399)	(5,710)

Issuance of subordinated notes		285,201		250,000
Issuance of common stock		8,368		288,643
Change in cash overdrafts		(37,690)		20,785
Proceeds from the sales of common stock held by the deferred compensation plan		6,049		5,135
Purchases of common stock held by the deferred compensation plan and other treasury stock purchases		(247)		(3,311)
Net cash (used in) provided from financing activities		(58,561)		783,638
Increase (decrease) in cash and equivalents		106		(3,753)
Cash and equivalents at beginning of period		753		4,018
Cash and equivalents at end of period	$	859	$	265

See accompanying notes.

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RANGE RESOURCES CORPORATION
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(Unaudited, in thousands)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	**2008**	**2009**	**2008**
Net (loss) income	$ (29,818)	$ 284,950	$ (37,093)	$ 257,444
Other comprehensive (loss) income:				
Realized loss (gain) on hedge derivative contract settlements reclassified into earnings from other comprehensive (loss) income	(34,248)	25,538	(100,070)	53,300
Change in unrealized deferred hedging gains (losses)	(1,218)	222,569	41,965	(60,157)
Total comprehensive (loss) income	$ (65,284)	$ 533,057	$ (95,198)	$ 250,587

See accompanying notes.

RANGE RESOURCES CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

(1) ORGANIZATION AND NATURE OF BUSINESS

We are engaged in the exploration, development and acquisition of oil and gas properties primarily in the Southwestern and the Appalachian regions of the United States. We seek to increase our reserves and production primarily through drilling and complementary acquisitions. Range Resources Corporation 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

These interim financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in our current report on Form 8-K filed on August 10, 2009 (see additional information below). 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 disclosed otherwise. 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 for complete financial statements. We have evaluated events or transactions that occurred subsequent to September 30, 2009 through the date and time this quarterly report on Form 10-Q was filed.

In second quarter 2009, we identified certain mineral leases amounting to $8.2 million that expired in 2006, 2007, and 2008, which were not expensed as required. Based on Staff Accounting Bulletin No. 108 (SAB 108), we determined that these amounts were immaterial to each of the periods affected and, therefore, we were not required to amend our previously filed reports. However, if these adjustments were recorded in 2009, we believe the impact could be material to this year. Therefore, on August 10, 2009, we adjusted our previously reported results for 2006, 2007, and 2008 for these immaterial amounts (as required by SAB 108), by filing on Form 8-K revised consolidated financial statements for 2006, 2007 and 2008. In addition to recording additional mineral lease expirations, we made four other adjustments to prior year numbers to correct other immaterial items, which included the following adjustments: (1) tax expense of $3.5 million for discrete tax items recorded in 2008 related to 2007 (2) expense for volumetric ineffectiveness related to our derivative positions of $1.7 million recorded in 2008 related to 2007 (3) dry hole expense of $2.4 million not recorded in 2007 and (4) deferred compensation income of $7.1 million recorded in 2007 related to 2006 and prior years. The balance sheet as of December 31, 2008 has been adjusted to reflect the cumulative impact of such adjustments. As a result, oil and gas properties decreased by $10.7 million, deferred tax liability decreased $4.2 million and retained earnings decreased by $6.5 million. The effect of these adjustments on the three months and the nine months September 30, 2008 was to decrease net income $374,000 in the third quarter 2008 and increase net income $5.0 million for the nine months ended September 30, 2008.

We follow Financial Accounting Standards Board (FASB) Accounting Standards Codification Topic 932 Extractive Activities-Oil and Gas for recognizing impairment of capitalized costs related to unproved properties. These costs are capitalized and periodically evaluated (at least quarterly) as to recoverability based on changes brought about by economic factors and potential shifts in business strategy employed by management. We also consider time, geologic and engineering factors to evaluate the need for impairment of these costs. We continue to experience an increase in lease expirations and impairment expense caused by (1) current economic conditions, which have impacted our future drilling plans thereby increasing the amount of expected lease expirations and (2) the expansion of our unproved property positions in new shale plays. As economic conditions change and we continue to evaluate unproved properties, our estimates of expirations will likely change and we may increase or decrease impairment expense. We recorded abandonment and impairment expense in the three and nine months ended September 30, 2009 of $24.1 million and $84.6 million compared to $5.1 million and $10.7 million in the same periods of the prior year. The nine months ended September 30, 2009 includes the expiration of certain sizeable Barnett Shale leases.

(3) NEW ACCOUNTING STANDARDS

In February 2008, the FASB issued Accounting Standards Codification (ASC) 820 10 (formerly Financial Staff Position SFAS No. 157-2), which delayed the effective date of ASC 820 - 10 (formerly SFAS No. 157) for all

non-financial assets and non-financial liabilities except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). This deferral primarily applied to our asset retirement obligation, which uses fair value measures at the date incurred to determine our liability and any property impairments that may occur. We adopted the provisions of this standard effective January 1, 2009 and the adoption did not have a material effect on our consolidated results of operations or financial position.

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In June 2008, the FASB issued ASC 260 10 (formerly Staff Position No. EITF 03-6-1), Determining Whether Instruments Granted in Share-Based Payment Transactions are Participating Securities, which provides that unvested share-based payment awards that contain nonforfeitable rights to dividends or dividend equivalents (whether paid or unpaid) are participating securities and, therefore, need to be included in the earnings allocation in computing earnings per share under the two class method. We adopted the provisions of this standard on January 1, 2009 with no impact on our reported earnings per share.

In March 2008, the FASB issued ASC 815- 10 (formerly SFAS No. 161), which amends and expands disclosure requirements with the intent to provide users of financial statements with an enhanced understanding of: (i) how and why any entity uses derivative instruments; (ii) how derivative instruments and related hedged items are accounted for; and (iii) how derivative instruments and related hedged items affect an entity s financial position, financial performance and cash flows. The provisions of this standard were adopted on January 1, 2009. See Note 11 for additional disclosures about our derivative instruments and hedging activities.

In December 2007, the FASB issued ASC 805-10 (formerly SFAS No. 141(R)), Business Combinations, which retains the purchase method of accounting for acquisitions, but requires a number of changes, including changes in the way assets and liabilities are recognized in the purchase method of accounting. It changes the recognition of assets acquired and liabilities assumed arising from contingencies, requires the capitalization of in-process research and development at fair value, and requires the expensing of acquisition-related costs as incurred. The provisions of this standard will apply prospectively to business combinations occurring in our fiscal year beginning January 1, 2009 and the adoption did not have an impact on our financial position or results of operations.

In April 2009, the FASB issued additional application guidance and enhancements to disclosures regarding fair value measurements. ASC 825-10 (formerly FASB Staff Position No. FAS 107-1 and APB 28-1), Interim Disclosures about Fair Value of Financial Instruments, enhances consistency in financial reporting by increasing the frequency of fair value disclosures. ASC 820 10 (formerly FASB Staff Position No. FAS 157-4), Determining Fair Value when the Volume and Level of Activity for the Asset or Liability have Significantly Decreased and Identifying Transactions that are Not Orderly, provides guidelines for making fair value measurements more consistent. We adopted the provisions of these standards for the period ended June 30, 2009, which did not have an impact on our financial position or results of operations.

In May 2009, the FASB issued ASC 855-10 (formerly SFAS No. 165), Subsequent Events, which establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. We adopted this standard upon issuance with no impact on our financial position or results of operations.

In June 2009, the FASB issued ASC 105-10 (formerly SFAS No. 168), Accounting Standards Codification™ and the Hierarchy of Generally Accepted Accounting Principles. The FASB Accounting Standards Codification™ (Codification) has become the source of authoritative accounting principles recognized by the FASB to be applied by nongovernmental entities in the preparation of financial statements in accordance with GAAP. All existing accounting standard documents are superseded by the Codification and any accounting literature not included in the Codification will not be authoritative. However, rules and interpretive releases of the SEC issued under the authority of federal securities laws will continue to be the source of authoritative generally accepted accounting principles for SEC registrants. Effective September 30, 2009, all references made to GAAP in our consolidated financial statements will include the new Codification numbering system along with original references. The Codification does not change or alter existing GAAP and, therefore, will not have an impact on our financial position, results of operations or cash flows.

(4) DISPOSITIONS

In second quarter 2009, we sold certain oil properties located in West Texas for proceeds of $182.0 million. The proceeds from the sale of these properties were credited to oil and gas properties, with no gain or loss recognized, as the disposition did not materially impact the depletion rate of the remaining properties in the amortization base. In first quarter 2008, we sold East Texas properties for proceeds of $64.4 million and recorded a gain of $20.1 million.

(5) INCOME TAXES

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
Income tax (benefit) expense	$(15,261)	$172,576	$(18,960)	$156,760
Effective tax rate	33.9%	37.7%	33.8%	37.8%

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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 (loss), except for discrete items. Income taxes for discrete items are computed and recorded in the period that the specific transaction occurs. For the three months ended September 30, 2009, our overall effective tax rate on pre-tax loss from operations was different than the statutory rate of 35% due primarily to state income taxes, valuation allowances and other permanent differences. For the three months ended September 30, 2008, our overall effective tax rate on pre-tax income from operations was different than the statutory rate of 35% due primarily to state income taxes and valuation allowance. For the nine months ended September 30, 2009, our overall effective tax rate on loss from operations was different than the statutory rate of 35% due primarily to state income taxes, valuation allowance and other permanent differences. For the nine months September 30, 2008, our overall effective tax rate on income from operations was different than the statutory rate due primarily to state income taxes.

(6) EARNINGS (LOSS) PER COMMON SHARE

Basic income (loss) per share is based on weighted average number of common shares outstanding. Diluted income (loss) per share includes restricted stock, the exercise of stock options, stock appreciation rights (or SARs), provided the effect is not anti-dilutive. The following table sets forth the computation of basic and diluted earnings (loss) per common share (in thousands except per share amounts):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
Numerator:				
Net (loss) income	$ (29,818)	$ 284,950	$ (37,093)	$ 257,444
Denominator:				
Weighted average common shares outstanding basic	154,653	152,765	154,257	150,487
Effect of dilutive securities:				
Employee stock options, SARs and stock held in the deferred compensation plan		4,964		5,409
Weighted average common shares diluted	154,653	157,729	154,257	155,896
Loss per common share:				
Basic net (loss) income	$ (0.19)	$ 1.87	$ (0.24)	$ 1.71
Diluted net (loss) income	$ (0.19)	$ 1.81	$ (0.24)	$ 1.65

The weighted average common shares basic amount excludes 2.7 million shares at September 30, 2009 and 2.3 million shares at September 30, 2008, of restricted stock that is held in our deferred compensation plan (although all restricted stock is issued and outstanding upon grant). Due to our net loss from operations for the three months and the nine months ended September 30, 2009, we excluded 7.6 million of outstanding stock options/SARs and 2.7 million of restricted stock held in our deferred compensation plans from the computations of diluted net loss per share because the effect would have been anti-dilutive. Stock appreciation rights for 1.1 million shares for the three months ended September 30, 2008 and 187,000 shares for the nine months ended September 30, 2008 were outstanding but not included in the computations of diluted net income per share because the grant prices of the SARs were greater than the average market price of the common shares and would be anti-dilutive to the computations.

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(7) SUSPENDED EXPLORATORY WELL COSTS

The following table reflects the changes in capitalized exploratory well costs for the nine months ended September 30, 2009 and the year ended December 31, 2008 (in thousands):

	September 30, 2009	December 31, 2008
Beginning balance at January 1	$ 47,623	$ 15,053
Additions to capitalized exploratory well costs pending the determination of proved reserves	35,377	43,968
Reclassifications to wells, facilities and equipment based on determination of proved reserves	(12,234)	(3,847)
Capitalized exploratory well costs charged to expense		(7,551)
Balance at end of period	70,766	47,623
Less exploratory well costs that have been capitalized for a period of one year or less	(44,470)	(41,681)
Capitalized exploratory well costs that have been capitalized for a period greater than one year	$ 26,296	$ 5,942
Number of projects that have exploratory well costs that have been capitalized for a period greater than one year	13	3

The $70.8 million of capitalized exploratory well costs at September 30, 2009 was incurred in 2009 ($21.3 million), in 2008 ($43.5 million) and in 2007 ($6.0 million). Of the thirteen projects that have exploratory costs capitalized for more than one year, twelve projects are Marcellus Shale wells, which are waiting on the completions of pipelines.

(8) INDEBTEDNESS

We had the following debt outstanding as of the dates shown below (in thousands) (bank debt interest rate at September 30, 2009 is shown parenthetically). No interest expense was capitalized during the three months or the nine months ended September 30, 2009 and 2008.

	September 30, 2009	December 31, 2008
Bank debt (2.2%)	$ 398,000	$ 693,000
Subordinated debt:		
7.375% Senior Subordinated Notes due 2013, net of discount	198,262	197,968
6.375% Senior Subordinated Notes due 2015	150,000	150,000
7.5% Senior Subordinated Notes due 2016, net of discount	249,626	249,595
7.5% Senior Subordinated Notes due 2017	250,000	250,000
7.25% Senior Subordinated Notes due 2018	250,000	250,000
8.0% Senior Subordinated Notes due 2019, net of discount	285,592	
Other		105

Total debt	$ 1,781,480	$ 1,790,668

Bank Debt

In October 2006, 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 September 30, 2009, the borrowing base was $1.5 billion and our facility amount was $1.25 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 September 30, 2009, our borrowing base was reaffirmed at $1.5 billion and our facility amount was also reaffirmed at $1.25 billion. Our current bank group is comprised of twenty-six commercial banks each holding between 2.4% and 5.0% of the total facility. Of those twenty-six banks, thirteen are domestic banks and thirteen are foreign banks or wholly owned subsidiaries of foreign banks. The facility amount may be increased up to the borrowing base amount with twenty days notice, subject to payment of a mutually acceptable commitment fee to those banks agreeing to participate in the facility amount increase. At September 30, 2009, the outstanding balance under the bank credit facility was $398.0 million

and there was $852.0 million of borrowing capacity available under the facility amount. The loan matures October 25, 2012. Borrowing under the bank credit facility can either be the Alternate Base Rate (as defined) plus a spread ranging from 0.875% to 1.625% or LIBOR borrowings at the adjusted LIBO Rate (as defined) plus a spread ranging from 1.75% 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 part of the base rate loans to LIBOR loans. The weighted average interest rate on the bank credit facility was 2.2% for the three months ended September 30, 2009 compared to 4.3% for the three months ended September 30, 2008. The weighted average interest rate on the bank credit facility was 2.5% for the nine months ended September 30, 2009 compared to 4.7% in the same period of the prior year. A commitment fee is paid on the undrawn balance based on an annual rate of between 0.375% and 0.50%. At September 30, 2009, the commitment fee was 0.375% and the interest rate margin was 1.75% on our LIBOR loans and 0.875% on our base rate loans. At October 20, 2009, the interest rate (including applicable margin) was 2.1%.

Senior Subordinated Notes

In May 2009, we issued $300.0 million aggregate principal amount of 8.0% senior subordinated notes due 2019 (8.0% Notes). The 8.0% Notes were issued at a discount, which is being amortized over the life of the 8.0% Notes. Interest on the 8.0% Notes is payable semi-annually, in May and November, and is guaranteed by certain of our subsidiaries. We may redeem the 8.0% Notes, in whole or in part, at any time on or after May 15, 2014, at redemption prices of 104.0% of the principal amount as of May 15, 2014 declining to 100.0% on May 15, 2017 and thereafter. Before May 15, 2012, we may redeem up to 35% of the original aggregate principal amount of the 8.0% Notes at a redemption price equal to 108.0% of the principal amount thereof, plus accrued and unpaid interest, if any, with the proceeds of certain equity offerings, provided that at least 65% of the original aggregate principal amount of the 8.0% Notes remain 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.

Debt Covenants

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 4.0 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 September 30, 2009.

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 September 30, 2009, we were in compliance with these covenants.

(9) ASSET RETIREMENT OBLIGATIONS

Our asset retirement obligation primarily represents the estimated present value of the amount 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. A reconciliation of our liability for plugging, abandonment and remediation costs for the nine months ended September 30, 2009 is as follows (in thousands):

	Nine Months Ended September 30, 2009
Beginning of period	$ 83,457
Liabilities incurred	1,364
Liabilities settled	(533)

Liabilities sold		(7,287)
Accretion expense		4,431
Change in estimate		2,551
End of period	$	83,983

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Accretion expense is recognized as a component of depreciation, depletion and amortization on our consolidated statement of operations.

(10) CAPITAL STOCK

We have authorized capital stock of 485 million shares, which includes 475 million shares of common stock and 10 million shares of preferred stock. The following is a summary of changes in the number of common shares outstanding since the beginning of 2008:

	Nine Months Ended September 30, 2009	Year Ended December 31, 2008
Beginning balance	155,375,487	149,511,997
Public offering		4,435,300
Stock options/SARs exercised	1,032,671	1,339,536
Restricted stock grants	475,306	167,054
Treasury shares		(78,400)
Issued for acreage purchases	474,572	
Ending balance	157,358,036	155,375,487

Treasury Stock

The Board of Directors has approved up to $10.0 million of repurchases of common stock based on market conditions and opportunities. During 2008, we repurchased 78,400 shares of common stock at an average price of $41.11 for a total of $3.2 million. We have $6.8 million remaining under this authorization.

(11) DERIVATIVE ACTIVITIES

We use commodity based derivative contracts to manage exposures to commodity price fluctuations. We do not enter into these arrangements for speculative or trading purposes. These contracts consist of collars and fixed price swaps. We do not utilize complex derivatives such as swaptions, knockouts or extendable swaps. At September 30, 2009, we had open swap contracts covering 7.1 Bcf of gas at prices averaging $8.16 per mcf. We also had collars covering 78.9 Bcf of gas at weighted average floor and cap prices of $5.96 to $7.70 per mcf and 0.6 million barrels of oil at weighted average floor and cap prices of $63.43 to $76.01 per barrel. Their fair value, represented by the estimated amount that would be realized upon termination, based on a comparison of the contract prices and a reference price, generally New York Mercantile Exchange (NYMEX), on September 30, 2009, was a net unrealized pre-tax gain of $80.5 million. These contracts expire monthly through December 2010.

The following table sets forth our derivative volumes and average hedge prices as of September 30, 2009:

Period	Contract Type	Volume Hedged	Average Hedge Price
Natural Gas			
2009	Swaps	76,739 Mmbtu/day	$8.16
2009	Collars	184,837 Mmbtu/day	$7.64-$8.53
2010	Collars	169,671 Mmbtu/day	$5.50-$7.47
Crude Oil			
2009	Collars	6,000 bbl/day	$63.43-$76.01

As required by the Derivatives and Hedging Topic of the Codification, every derivative instrument is recorded on the balance sheet as either an asset or a liability measured at its fair value. Fair value is generally determined based on the difference between the fixed contract price and the underlying estimated market price at the determination date. Changes in the fair value of effective cash flow hedges are recorded as a component of Accumulated other comprehensive income (loss), (AOCI) on our consolidated balance sheet which is later transferred to earnings when the underlying physical transaction occurs. Amounts included in AOCI at September 30, 2009 and December 31, 2008 relate solely to our derivative activities. If the derivative does not qualify as a hedge or is not designated as a hedge, changes in fair value of the derivative are recognized in earnings. As of September 30, 2009, an unrealized pre-tax derivative gain of $30.8 million was recorded in AOCI. This gain is expected to be reclassified into earnings as a $38.3 million gain in 2009 and as a $7.5 million loss in 2010. The actual reclassification to earnings will be based on market prices at the contract settlement date.

For those derivative instruments that qualify for hedge accounting, settled transaction gains and losses are determined monthly, and are included as increases or decreases to oil and gas sales in the period the hedged production is sold. Oil and gas sales include $54.4 million of gains in the three months ended September 30, 2009 compared to losses of $41.2 million in the three months ended September 30, 2008 related to settled hedging transactions. For the nine months ended September 30, 2009, oil and gas sales include $158.8 million of gains compared to losses of $86.0 million in the same period of the prior period related to settled hedging transactions. Any ineffectiveness associated with these hedges is reflected in the statement of operations caption called Derivative fair value income (loss). The ineffective portion is calculated as the difference between the change in fair value of the derivative and the estimated change in future cash flows from the item hedged. The three months ended September 30, 2009 include ineffective unrealized losses of $386,000 compared to unrealized gains of $4.6 million in the same period of 2008. The nine months ended September 30, 2009 include ineffective unrealized losses of $483,000 compared to unrealized gains of $1.9 million in the same period of 2008.

To designate a derivative as a cash flow hedge, we document at the hedge s inception our assessment that the derivative will be highly effective in offsetting expected changes in cash flows from the item hedged. This assessment, which is updated at least quarterly, is generally based on the most recent relevant historical correlation between the derivative and the item hedged. The ineffective portion of the hedge is calculated as the difference between the change in fair value of the derivative and the estimated change in cash flows from the item hedged. If, during the derivative s term, we determine the hedge is no longer highly effective, hedge accounting is prospectively discontinued and any remaining unrealized gains or losses, based on the effective portion of the derivative at that date, are reclassified to earnings as oil or gas sales when the underlying transaction occurs. If it is determined that the designated hedge transaction is not probable to occur, any unrealized gains or losses are recognized immediately in the statement of operations as a Derivative fair value income or loss. During the first nine months of 2009, there were gains of $5.4 million reclassified into earnings as a result of the discontinuance of hedge accounting treatment for these derivatives. Due to the sale of certain West Texas oil properties in the second quarter 2009, we liquidated four oil commodity contracts and received proceeds of $119,000 in July 2009.

Some of our derivatives do not qualify for hedge accounting but provide an economic hedge of our exposure to commodity price risk associated with anticipated future oil and gas production. These contracts are accounted for using the mark-to-market accounting method. We recognize all unrealized and realized gains and losses related to these contracts in the consolidated statement of operations caption called Derivative fair value income (loss) (see table below).

In addition to the swaps and collars discussed above, we have entered into basis swap agreements, which do not qualify for hedge accounting and are marked to market. The price we receive for our gas production can be more or less than the NYMEX price because of adjustments for delivery location (basis), relative quality and other factors; therefore, we have entered into basis swap agreements that effectively fix a portion of our basis adjustments. The fair value of the basis swaps was a net unrealized pre-tax loss of $16.9 million at September 30, 2009 and these basis swaps expire through 2011.

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Derivative Fair Value (Loss) Income

The following table presents information about the components of derivative fair value (loss) income in the three months and the nine months ended September 30, 2009 and 2008 (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
Hedge ineffectiveness realized	$ 1,581	$ (213)	$ 3,159	$ 2
unrealized	(386)	4,553	(483)	1,862
Change in fair value of derivatives that do not qualify for hedge accounting[a]	(53,323)	294,317	(83,393)	(3,184)
Realized gain (loss) on settlements gas[a] [b]	51,619	(18,520)	138,361	(30,192)
Realized gain (loss) on settlements oil[a] [b]	27	(7,268)	7,565	(16,070)
Derivative fair value (loss) income	$ (482)	$ 272,869	$ 65,209	$ (47,582)

[a] Derivatives that do not qualify for hedge accounting.

[b] These amounts represent the realized gains and losses on settled derivatives that do not qualify for hedge accounting, which before settlement are included in the category above called change in fair value of derivatives that do not qualify for hedge accounting.

The combined fair value of derivatives included in our consolidated balance sheets as of September 30, 2009 and December 31, 2008 is summarized below (in thousands). We conduct derivative activities with thirteen financial institutions, eleven of which are secured lenders in our bank credit facility. We believe all of these institutions are acceptable credit risks. At times, such risks may be concentrated with certain counterparties. The credit worthiness of our counterparties is subject to periodic review. On our balance sheet, derivative assets and liabilities are netted where derivatives with both gain and loss positions are held by a single counterparty.

	September 30, 2009	December 31, 2008
Derivative assets:		
Natural gas swaps	$ 24,698	$ 57,280
collars	59,680	121,781
basis swaps	(5,406)	12,434
Crude oil collars	(562)	35,166
	$ 78,410	$ 226,661
Derivative liabilities:		
Natural gas swaps	$	$
collars	(3,306)	
basis swaps	(11,511)	(10)
Crude oil collars	(57)	
	$ (14,874)	$ (10)

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The table below provides data about the fair value of our derivative contracts. Derivative assets and liabilities shown below are presented as gross assets and liabilities, without regard to master netting arrangements which are considered in the presentation of derivative assets and liabilities in our consolidated balance sheets (in thousands):

	September 30, 2009			December 31, 2008		
	Assets	(Liabilities)		Assets	(Liabilities)	
	Carrying Value	Carrying Value	Net Carrying Value	Carrying Value	Carrying Value	Net Carrying Value
Derivatives that qualify for cash flow hedge accounting:						
Collars[1]	$ 44,848	$ (1,964)	$ 42,884	$ 124,193	$	$ 124,193
	$ 44,848	$ (1,964)	$ 42,884	$ 124,193	$	$ 124,193
Derivatives that do not qualify for hedge accounting:						
Swaps[1]	$ 24,697	$	$ 24,697	$ 57,280	$	$ 57,280
Collars[1]	13,190	(318)	12,872	32,754		32,754
Basis swaps[1]	594	(17,511)	(16,917)	12,481	(57)	12,424
	$ 38,481	$ (17,829)	$ 20,652	$ 102,515	$ (57)	$ 102,458

(1) Included in unrealized derivative gain/(loss) on our balance sheet.

The effects of our cash flow hedges on accumulated other comprehensive income (loss) on the consolidated balance sheets are summarized below:

	Three Months Ended September 30,			
	Change in Hedge Derivative Fair Value		Realized Gain (Loss) Reclassified from OCI into Revenue[a]	
	2009	2008	2009	2008
Swaps	$	$ 26,398	$	$ (22,893)
Collars	(1,934)	332,584	54,362	(18,298)
Income taxes	716	(136,413)	(20,114)	15,653
	$ (1,218)	$ 222,569	$ 34,248	$ (25,538)

	Nine Months Ended September 30,			
	Change in Hedge Derivative Fair Value		Realized Gain (Loss) Reclassified from OCI into Revenue[a]	
	2009	2008	2009	2008
Swaps	$	$ (39,276)	$	$ (19,765)
Collars	67,386	(57,750)	158,842	(66,203)
Income taxes	(25,421)	36,869	(58,772)	32,668
	$ 41,965	$ (60,157)	$ 100,070	$ (53,300)

(a) For realized gains upon contract settlement, the reduction in other comprehensive income is offset by an increase in oil and gas revenue. For realized losses upon contract settlement, the increase in other comprehensive income is offset by a decrease in oil and gas revenue.

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The effects of our non-hedge derivatives and the ineffective portion of our hedge derivatives on our consolidated statement of operations is summarized below:

	Three Months Ended September 30,					
	Gain (Loss) Recognized in Income (Non-Hedge)		Gain (Loss) Recognized in Income (Ineffective Portion)		Derivative Fair Value Income (Loss)	
	2009	2008	2009	2008	2009	2008
Swaps	$ 6,540	$ 194,821	$	$ 802	$ 6,540	$ 195,623
Collars	4,976	70,819	1,195	3,538	6,171	74,357
Basis Swaps	(13,193)	2,889			(13,193)	2,889
Total	$ (1,677)	$ 268,529	$ 1,195	$ 4,340	$ (482)	$ 272,869

	Nine Months Ended September 30,					
	Gain (Loss) Recognized in Income (Non-Hedge)		Gain (Loss) Recognized in Income (Ineffective Portion)		Derivative Fair Value Income (Loss)	
	2009	2008	2009	2008	2009	2008
Swaps	$ 60,098	$ (43,080)	$	$ (655)	$ 60,098	$ (43,735)
Collars	29,846	(19,731)	2,676	2,519	32,522	(17,212)
Basis Swaps	(27,411)	13,365			(27,411)	13,365
Total	$ 62,533	$ (49,446)	$ 2,676	$ 1,864	$ 65,209	$ (47,582)

(12) FAIR VALUE MEASUREMENTS

We use a market approach for our fair value measurements and endeavor to use the best information available. Accordingly, valuation techniques that maximize the use of observable impacts are favored. The following presents the fair value hierarchy table for assets and liabilities measured at fair value, on a recurring basis (in thousands):

	Fair Value Measurements at September 30, 2009 Using:			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Carrying Value as of September 30, 2009
Trading securities held in the deferred compensation plans	$ 44,428	$	$	$ 44,428

Derivatives swaps	24,698	24,698
collars	55,755	55,755
basis swaps	(16,917)	(16,917)

These items are classified in their entirety based on the lowest priority level of input that is significant to the fair value measurement. The assessment of the significance of a particular input to the fair value measurement requires judgment and may affect the placement of assets and liabilities within the levels of the fair value hierarchy. Our trading securities in Level 1 are exchange-traded and measured at fair value with a market approach using September 30, 2009 market values. Derivatives in Level 2 are measured at fair value with a market approach using third-party pricing services, which have been corroborated with data from active markets or broker quotes.

Our trading securities held in the deferred compensation plan are accounted for using the mark-to-market accounting method and are included in the balance sheet category called other assets. We elected to adopt the fair value option to simplify our accounting for the investments in our deferred compensation plan. Interest, dividends, and mark-to-market gains/losses are included in the statement of operations category called Deferred compensation plan expense. For the three months ended September 30, 2009, interest and dividends were $45,000 and mark-to-market was a gain of $5.7 million. For the three months ended September 30, 2008, interest and dividends were $52,000 and the mark-to-market was a loss of $6.3 million. For the nine months ended September 30, 2009, interest and dividends were $138,000 and mark-to-market was a

gain of $9.1 million. For the nine months ended September 30, 2008, interest and dividends were $319,000 and the mark-to-market was a loss of $11.5 million.

The following table presents the carrying amounts and the fair values of our financial instruments as of September 30, 2009 and December 31, 2008 (in thousands):

	September 30, 2009		December 31, 2008	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Assets:				
Commodity swaps and collars	$ 78,410	$ 78,410	$ 226,661	$ 226,661
Marketable securities[a]	44,428	44,428	33,473	33,473
Liabilities:				
Commodity swaps and collars	(14,874)	(14,874)	(10)	(10)
Long-term debt[b]	(1,781,480)	(1,789,230)	(1,790,668)	(1,621,793)

(a) Marketable securities are held in our deferred compensation plans.

(b) The book value of our bank debt approximates fair value because of its floating rate structure. The fair value of our senior subordinated notes is based on end of period market quotes.

Concentration of Credit Risk

Most of our receivables are from a diverse group of companies, including major energy companies, pipeline companies, local distribution companies, financial institutions and end-users in various industries. Letters of credit or other appropriate security are obtained as necessary to limit risk of loss. Our allowance for uncollectible receivables was $1.9 million at September 30, 2009 and $954,000 at December 31, 2008. Commodity-based contracts expose us to the credit risk of nonperformance by the counterparty to the contracts. These contracts consist of collars and fixed price swaps. This exposure is diversified among major investment grade financial institutions and we have master netting agreements with the counterparties that provide for offsetting payables against receivables from separate derivative contracts. Our derivative counterparties include thirteen financial institutions, eleven of which are secured lenders in our bank credit facility. Mitsui & Co. and J. Aron & Company are the two counterparties not in our bank group. At September 30, 2009, our net derivative asset includes a payable to J. Aron & Company of $965,000 and a receivable from Mitsui & Co. for $4.9 million. None of our derivative contracts have margin requirements or

collateral provisions that would require funding prior to the scheduled cash settlement date.

(13) EMPLOYEE BENEFIT AND EQUITY PLANS

We have two active equity-based stock plans. Under these plans, incentive and nonqualified options, SARs and annual cash incentive awards may be issued to directors and employees pursuant to decisions of the Compensation Committee, which is made up of non-employee, independent directors from the Board of Directors. All awards granted have been issued at prevailing market prices at the time of the grant. Since the middle of 2005, only SARs have been granted under the plans to limit the dilutive impact of our equity plans. Information with respect to stock option and SARs activities is summarized below:

	Shares	Weighted Average Exercise Price
Outstanding on December 31, 2008	7,248,666	$ 26.15
Granted	1,705,429	36.85
Exercised	(1,287,291)	13.44
Expired/forfeited	(61,548)	40.08
Outstanding on September 30, 2009	7,605,256	$ 30.58

The following table shows information with respect to outstanding stock options and SARs at September 30, 2009:

	Outstanding			Exercisable	
Range of Exercise Prices	Shares	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price
$1.29 $9.99	933,036	2.18	$ 3.39	933,036	$ 3.39
10.00 19.99	1,390,634	0.65	16.79	1,390,634	16.79
20.00 29.99	1,150,961	1.48	24.30	1,140,261	24.28
30.00 39.99	2,424,333	3.34	34.14	767,380	34.42
40.00 49.99	619,437	4.59	41.73	55,485	41.69
50.00 59.99	713,440	3.39	58.49	214,387	58.57
60.00 69.99	26,677	3.63	65.40	8,529	65.33
70.00 75.00	346,738	3.64	75.00	122,563	75.00
Total	7,605,256	2.54	$ 30.58	4,632,275	$ 22.72

The weighted average fair value of an option/SAR to purchase one share of common stock granted during 2009 was $15.41. The fair value of each stock option/SAR granted during 2009 was estimated as of the date of grant using the Black-Scholes-Merton option-pricing model based on the following average assumptions: risk-free interest rate of 1.5%; dividend yield of 0.4%; expected volatility of 59%; and an expected life of 3.5 years.

As of September 30, 2009, the aggregate intrinsic value (the difference in value between exercise and market price) of the awards outstanding was $158.6 million. The aggregate intrinsic value and weighted average remaining contractual life of stock option awards currently exercisable was $128.7 million and 1.7 years. As of September 30, 2009, the number of fully vested awards and awards expected to vest was 7.5 million. The weighted average exercise price and weighted average remaining contractual life of these awards was $30.35 and 2.5 years and the aggregate intrinsic value was $157.2 million. As of September 30, 2009, unrecognized compensation cost related to the awards was $32.1 million, which is expected to be recognized over a weighted average period of 1.2 years. Of the 7.6 million stock option/SARs outstanding at September 30, 2009, 1.6 million are stock options and 6.0 million are SARs.

Restricted Stock Grants

During the first nine months of 2009, 539,000 shares of restricted stock (or non-vested shares) were issued to employees at an average price of $37.83 with a three-year vesting period and 22,700 shares were granted to our directors at an average price of $41.60 with immediate vesting. In the first nine months of 2008, we issued 314,000 shares of restricted stock as compensation to employees at an average price of $65.40 with a three-year vesting period and 10,800 shares were granted to our directors at a price of $75.00 with immediate vesting. We recorded compensation expense related to restricted stock gra