RANGE RESOURCES CORP
Form 10-Q
April 28, 2014

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 March 31, 2014

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.)
	76102
100 Throckmorton Street, Suite 1200	

Fort Worth, Texas
(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

163,879,524 Common Shares were outstanding on April 25, 2014

RANGE RESOURCES CORPORATION

FORM 10-Q

Quarter Ended March 31, 2014

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 share data)

	March 31, 2014 (Unaudited)	December 31, 2013
Assets		
Current assets:		
Cash and cash equivalents	$246	$348
Accounts receivable, less allowance for doubtful accounts of $2,487 and $2,494	221,304	179,667
Derivative assets	80	4,421
Deferred tax asset	40,362	51,414
Inventory and other	17,353	12,451
Total current assets	279,345	248,301
Derivative assets	15,917	9,233
Equity method investments	123,791	129,034
Natural gas and oil properties, successful efforts method	9,309,743	9,032,881
Accumulated depletion and depreciation	(2,397,089)	(2,274,444)
	6,912,654	6,758,437
Transportation and field assets	120,036	118,625
Accumulated depreciation and amortization	(87,955)	(85,841)
	32,081	32,784
Other assets	118,987	121,297
Total assets	$7,482,775	$7,299,086
Liabilities		
Current liabilities:		
Accounts payable	$273,756	$258,431
Asset retirement obligations	5,037	5,037
Accrued liabilities	164,585	161,520
Accrued interest	32,303	44,375
Derivative liabilities	72,854	26,198
Total current liabilities	548,535	495,561
Bank debt	594,000	500,000
Subordinated notes	2,640,866	2,640,516
Deferred tax liability	778,955	771,980
Derivative liabilities	142	25
Deferred compensation liability	235,307	247,537
Asset retirement obligations and other liabilities	235,289	229,015
Total liabilities	5,033,094	4,884,634
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, 163,763,190 issued at March 31, 2014 and 163,441,414 issued at December 31, 2013	1,638	1,634
Common stock held in treasury, 93,275 shares at March 31, 2014 and 98,520 shares at December 31, 2013	(3,455)	(3,637)
Additional paid-in capital	1,969,948	1,959,636
Retained earnings	476,554	450,583
Accumulated other comprehensive income	4,996	6,236
Total stockholders' equity	2,449,681	2,414,452
Total liabilities and stockholders' equity	$7,482,775	$7,299,086

See accompanying notes.

RANGE RESOURCES CORPORATION

CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited, in thousands, except per share data)

	Three Months Ended March 31, 2014	2013
Revenues and other income:		
Natural gas, NGLs and oil sales	$572,017	$398,239
Derivative fair value loss	(146,850)	(99,875)
Loss on the sale of assets	(353)	(166)
Brokered natural gas, marketing and other	32,528	21,041
Total revenues and other income	457,342	319,239
Costs and expenses:		
Direct operating	39,795	30,188
Transportation, gathering and compression	74,161	62,416
Production and ad valorem taxes	11,678	11,383
Brokered natural gas and marketing	34,129	22,315
Exploration	14,846	16,780
Abandonment and impairment of unproved properties	9,995	15,218
General and administrative	49,212	84,058
Deferred compensation plan	(2,035)	42,360
Interest expense	45,401	42,210
Depletion, depreciation and amortization	128,682	115,101
Total costs and expenses	405,864	442,029
Income (loss) from operations before income taxes	51,478	(122,790)
Income tax expense (benefit)		
Current	6	25
Deferred	18,951	(47,205)
	18,957	(47,180)
Net income (loss)	$32,521	$(75,610)
Net income (loss) per common share:		
Basic	$0.20	$(0.47)
Diluted	$0.20	$(0.47)
Dividends paid per common share	$0.04	$0.04
Weighted average common shares outstanding:		
Basic	160,794	160,125
Diluted	161,825	160,125

See accompanying notes.

RANGE RESOURCES CORPORATION

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(Unaudited, in thousands)

	Three Months Ended March 31, 2014	Three Months Ended March 31, 2013
Net income (loss)	$32,521	$(75,610)
Other comprehensive income (loss):		
Realized loss (gain) on hedge derivative contract settlements reclassified into natural gas, NGLs and oil sales from other comprehensive income, net of taxes [1]	—	(14,840)
De-designated hedges reclassified into natural gas, NGLs and oil sales, net of taxes [2]	(1,240)	(7,425)
De-designated hedges reclassified to derivative fair value income, net of taxes [3]	—	(1,390)
Change in unrealized deferred hedging (losses) gains, net of taxes [4]	—	(4,203)
Total comprehensive income (loss)	$31,281	$(103,468)

(1) Amounts are net of income tax benefit of $9,488 for the three months ended March 31, 2013.

(2) Amounts are net of income tax benefit of $924 for the three months ended March 31, 2014 and $4,747 for the three months ended March 31, 2013.

(3) Amounts relate to transactions not probable of occurring and are presented net of income tax benefit of $889 for the three months ended March 31, 2013.

(4) Amounts are net of income tax benefit of $2,687 for the three months ended March 31, 2013.

See accompanying notes.

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RANGE RESOURCES CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited, in thousands)

	Three Months Ended March 31, 2014	2013
Operating activities:		
Net income (loss)	$32,521	$(75,610)
Adjustments to reconcile net income (loss) to net cash provided from operating activities:		
Loss from equity method investments, net of distributions	2,732	610
Deferred income tax expense (benefit)	18,951	(47,205)
Depletion, depreciation and amortization	128,682	115,101
Exploration dry hole costs	1	(159)
Abandonment and impairment of unproved properties	9,995	15,218
Derivative fair value loss	146,850	99,875
Cash settlements on derivative financial instruments that do not qualify for hedge accounting	(104,584)	382
Amortization of deferred financing costs and other	2,873	2,080
Deferred and stock-based compensation	12,593	54,991
Loss on the sale of assets	353	166
Changes in working capital:		
Accounts receivable	(41,643)	1,292
Inventory and other	(5,358)	166
Accounts payable	9,997	17,061
Accrued liabilities and other	(32,742)	17,281
Net cash provided from operating activities	181,221	201,249
Investing activities:		
Additions to natural gas and oil properties	(226,331)	(259,601)
Additions to field service assets	(3,084)	(1,071)
Acreage purchases	(50,690)	(8,794)
Equity method investments	2,511	1,885
Proceeds from disposal of assets	294	38,196
Purchases of marketable securities held by the deferred compensation plan	(8,247)	(17,936)
Proceeds from the sales of marketable securities held by the deferred compensation plan	9,310	6,316
Net cash used in investing activities	(276,237)	(241,005)
Financing activities:		
Borrowing on credit facilities	412,000	368,000
Repayment on credit facilities	(318,000)	(1,060,000)
Issuance of subordinated notes	—	750,000
Dividends paid	(6,550)	(6,521)
Debt issuance costs	—	(12,098)
Issuance of common stock	—	343
Change in cash overdrafts	(1,122)	(12,458)
Proceeds from the sales of common stock held by the deferred compensation plan	8,586	12,432

Net cash provided from financing activities	94,914	39,698
Decrease in cash and cash equivalents	(102)	(58)
Cash and cash equivalents at beginning of period	348	252
Cash and cash equivalents at end of period	$246	$194

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, natural 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 2013 Annual Report on Form 10-K filed on February 26, 2014. The results of operations for the first quarter ended March 31, 2014 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 years reported amounts in order to conform with the current year presentation including reclassifications between accounts payable and accrued liabilities within cash flow from operating activities and a change in the presentation for our derivative activities. These reclassifications have no impact on previously reported net income, stockholders’ equity or cash flows.

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 are recognized in derivative fair value income or loss immediately each quarter as derivative contracts are settled and marked to market. For additional information, see Note 11.

(3) NEW ACCOUNTING STANDARDS

Recently Adopted

In February 2013, an accounting standards update was issued to provide guidance for the recognition, measurement, and disclosure of obligations resulting from joint and several liability arrangements for which the total amount of the obligation is fixed at the reporting date, except for obligations such as asset retirement and environmental obligations, contingencies, guarantees, income taxes and retirement benefits, which are separately addressed within U.S. GAAP. An entity is required to measure obligations resulting from joint and several liability arrangements for which the total amount of the obligation is fixed at the reporting date as the sum of (1) the amount the entity agreed to pay on the basis of its arrangement among its co-obligors and (2) any amount the entity expects to pay on behalf of its co-obligors. Disclosure of the nature of the obligation, including how the liability arose, the relationship with other co-obligors and the terms and conditions of the arrangement is required. In addition, the total outstanding amount under the arrangement, not reduced by the effect of any amounts that may be recoverable from other entities, plus the carrying amount of any liability or receivable recognized must be disclosed. This accounting standards update is effective for us beginning in first quarter 2014 and should be applied retrospectively for those in-scope obligations resulting from joint and several liability arrangements that exist at the beginning of 2014. Early adoption was permitted and we adopted this new standard in first quarter 2014 which did not have an impact on our consolidated results of operations, financial position or cash flows.

In April 2014, an accounting standards update was issued that raised the threshold for a disposal to qualify as a discontinued operation and requires new disclosures of both discontinued operations and certain other material disposal transactions that do not meet the revised definition of a discontinued operations. Under the updated standard, a disposal of a component or group of components of an entity is required to be reported as discontinued operations if the disposal represents a strategic shift that has (or will have) a major effect on an entity's operations and financial results when the component or group of components of the entity (1) has been disposed of by a sale, (2) has been disposed of other than by sale or (3) is classified as held for sale. This accounting standards update is effective for annual periods beginning on or after December 15, 2014 and is applied prospectively. Early adoption is permitted but only for disposals (or classifications that are held for sale) that have not been reported in financial statements previously issued or available for use. We adopted this new standard in first quarter 2014. There was no impact to our consolidated results of operations, financial position or cash flows as there were no disposals or assets held for sale in first quarter 2014.

(4) DISPOSITIONS

2014 Dispositions

In December 2013, we announced our plan to offer for sale certain of our properties in the Permian Basin. These properties included approximately 90,000 (70,000 net) acres, almost all of which are held by production in Glasscock and Sterling Counties and are currently producing approximately 28 Mmcfe per day. The data room opened in January 2014 and we received bids in late February. In late April, an agreement related to this transaction was executed, subject to board approval. The completion of this transaction is dependent upon continuing due diligence procedures and there can be no assurance the transaction will be completed. In first quarter 2014, we also sold miscellaneous unproved and proved properties for proceeds of $294,000 resulting in a pre-tax loss of $353,000.

2013 Dispositions

In first quarter 2013, we sold miscellaneous proved properties and inventory for proceeds of $38.2 million resulting in a pre-tax loss of $166,000.

(5) INCOME TAXES

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

	Three Months Ended March 31,	
	2014	2013
Income tax expense (benefit)	$18,957	$(47,180)
Effective tax rate	36.8 %	38.4 %

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 first quarter ended March 31, 2014 and 2013, our overall effective tax rate on operations was different than the federal statutory rate of 35% due primarily to state income taxes, valuation allowances and other permanent differences.

(6) INCOME (LOSS) PER COMMON SHARE

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

	Three Months Ended March 31,	
	2014	2013
Net income (loss), as reported	$32,521	$(75,610)
Participating basic earnings [(a)]	(560)	(109)
Basic net income (loss) attributed to common shareholders	31,961	(75,719)
Reallocation of participating earnings [(a)]	3	—
Diluted net income (loss) attributed to common shareholders	$31,964	$(75,719)
Net income (loss) per common share:		
Basic	$0.20	$(0.47)
Diluted	$ 0.20	$(0.47)

(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 March 31,	
	2014	2013
Denominator:		
Weighted average common shares outstanding – basic	160,794	160,125
Effect of dilutive securities:		
Director and employee stock options and SARs	1,031	—
Weighted average common shares outstanding – diluted	161,825	160,125

Weighted average common shares – basic for the three months ended March 31, 2014 excludes 2.8 million shares and the three months ended March 31, 2013 excludes 2.7 million shares of restricted stock held in our deferred compensation plans (although all awards are issued and outstanding upon grant). Due to our loss from continuing operations for the three months ended March 31, 2013, we excluded all outstanding stock appreciation rights (“SARs”) and restricted stock from the computation of diluted net loss per share because the effect would have been anti-dilutive to the computations.

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(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 three months ended March 31, 2014 and the year ended December 31, 2013 (in thousands except for number of projects):

	March 31, 2014	December 31, 2013
Balance at beginning of period	$ 6,964	$ 57,360
Additions to capitalized exploratory well costs pending the determination of proved reserves	5,552	39,832
Reclassifications to wells, facilities and equipment based on determination of proved reserves	—	(84,840)
Capitalized exploratory well costs charged to expense	—	—
Divested wells	—	(5,388)
Balance at end of period	12,516	6,964
Less exploratory well costs that have been capitalized for a period of one year or less	(5,552)	—
Capitalized exploratory well costs that have been capitalized for a period greater than one year	$ 6,964	$ 6,964
Number of projects that have exploratory well costs that have been capitalized for a period greater than one year	1	1

As of March 31, 2014, $7.0 million of capitalized exploratory well costs have been capitalized for more than one year which relates to one well in our Marcellus Shale area where we are evaluating pipeline options. The following table provides an aging of capitalized exploratory well costs that have been suspended for more than one year as of March 31, 2014 (in thousands):

	Total	2013	2012	2011
Capitalized exploratory well costs that have been capitalized for more than one year	$6,964	$110	$6,801	$ 53

(8) INDEBTEDNESS

We had the following debt outstanding as of the dates shown below (bank debt interest rate at March 31, 2014 is shown parenthetically) (in thousands). No interest was capitalized during the three months ended March 31, 2014 or the year ended December 31, 2013:

	March 31, 2014	December 31, 2013
Bank debt (1.9%)	$594,000	$ 500,000

Senior subordinated notes:		
8.00% senior subordinated notes due 2019, net of $9,134 and $9,484 discount, respectively	290,866	290,516
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	750,000
Total debt	$ 3,234,866	$ 3,140,516

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 March 31, 2014, 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 3, 2014, 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 bank credit 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 our payment of a mutually acceptable commitment fee to those banks. As of March 31, 2014, the outstanding balance under our bank credit facility was $594.0 million. Additionally, we had $127.4 million of undrawn letters of credit leaving $1.0 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 in the bank credit facility) 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 2.0% for the three months ended March 31, 2014 compared to 2.1% for the three months ended March 31, 2013. A commitment fee is paid on the undrawn balance based on an annual rate of 0.35% to 0.50%. At March 31, 2014, the commitment fee was 0.375% and the interest rate margin was 1.75% on our LIBOR loans and 0.75% on our base rate loans.

Senior Subordinated 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.

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 are in compliance with our covenants under the bank credit facility at March 31, 2014.

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 March 31, 2014, we are in compliance with these covenants.

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(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 three months ended March 31, 2014 is as follows (in thousands):

	Three Months Ended March 31, 2014
Beginning of period	$ 230,077
Liabilities incurred	2,128
Liabilities settled	(384)
Disposition of wells	(122)
Accretion expense	3,707
Change in estimate	1,089
End of period	236,495
Less current portion	(5,037)
Long-term asset retirement obligations	$ 231,458

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 2013:

	Three Months Ended March 31, 2014	Year Ended December 31, 2013
Beginning balance	163,342,894	162,514,098
SARs exercised	48,280	278,916
Restricted stock granted	74,553	401,122
Restricted stock units vested	198,943	119,480
Treasury shares issued	5,245	29,278
Ending balance	163,669,915	163,342,894

(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. The fair value of our derivative 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 loss of $53.4 million at March 31, 2014. These contracts expire monthly through December 2016. The following table sets forth our derivative volumes by year as of March 31, 2014:

Period	Contract Type	Volume Hedged	Weighted Average Hedge Price
Natural Gas			
2014	Collars	447,500 Mmbtu/day	$ 3.84–$ 4.48
2015	Collars	145,000 Mmbtu/day	$ 4.07–$ 4.56
2014	Swaps	240,145 Mmbtu/day	$ 4.18
2015	Swaps	234,966 Mmbtu/day	$ 4.19
2016	Swaps	60,000 Mmbtu/day	$ 4.18
Crude Oil			
2014	Collars	2,000 bbls/day	$ 85.55–$ 100.00
2014	Swaps	9,169 bbls/day	$ 94.40
2015	Swaps	6,000 bbls day	$ 89.48
NGLs (C3-Propane)			
2014	Swaps	12,000 bbls/day	$ 1.02/gallon
NGLs (NC4-Normal butane)			
2014	Swaps	4,000 bbls/day	$ 1.34/gallon
NGLs (C5-Natural Gasoline)			
2014	Swaps	1,000 bbls/day	$ 2.11/gallon

Every derivative instrument is required to be recorded on the balance sheet as either an asset or a liability measured at its fair value. Through February 28, 2013, changes in the fair value of our derivatives that qualified for hedge accounting were recorded as a component of accumulated other comprehensive income ("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 March 31, 2014, an unrealized pre-tax derivative gain of $8.1 million ($5.0 million after tax) 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 were determined monthly, and were included as increases or decreases to natural gas, NGLs and oil sales in the period the hedged production was 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 $2.2 million of gains in first quarter 2014 compared to gains of $36.5 million in the same period of 2013 related to settled hedging transactions. Any ineffectiveness associated with these hedge derivatives is reflected in derivative fair value income or loss 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 loss for the three months ended March 31, 2014 includes no ineffective gains or losses compared to a loss of $2.9 million in the three months ended March 31, 2013. During the three months ended March 31, 2013, we recognized a pre-tax gain of $2.3 million in derivative fair value loss 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 natural gas, NGLs and oil sales in future periods as the underlying hedged transactions occur. As of March 31, 2014, we expect to reclassify into earnings $8.1 million of unrealized net gains in the remaining months of 2014.

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.

Basis Swap Contracts

At March 31, 2014, we had natural gas basis swap contracts that are not designated for hedge accounting, which lock in the differential between NYMEX and certain of our physical pricing options in Appalachia. These contracts are for 254,164 Mmbtu/day and settle monthly through March 2015. The fair value of these contracts was a loss of $3.7 million on March 31, 2014.

Derivative Assets and Liabilities

The combined fair value of derivatives included in the accompanying consolidated balance sheets as of March 31, 2014 and December 31, 2013 is summarized below. The assets and liabilities are netted where derivatives with both gain and loss positions are held by a single counterparty and we have master netting arrangements. The tables below provide additional information relating to our master netting arrangements with our derivative counterparties (in thousands):

		March 31, 2014		
		Gross Amounts of Recognized Assets	Gross Amounts Offset in the Balance Sheet	Net Amounts of Assets Presented in the Balance Sheet
Derivative assets:				
Natural gas	–swaps	$8,347	$—	$ 8,347
	–collars	7,328	(584)	6,744
	–basis swaps	3,123	(3,123)	—
Crude oil	–swaps	1,179	(273)	906
NGLs	–C3 swaps	1,877	(1,877)	—
	–C4 swaps	3,159	(3,159)	—
		$25,013	$(9,016)	$ 15,997

	March 31, 2014		
	Gross Amounts of Recognized (Liabilities)	Gross Amounts Offset in the Balance Sheet	Net Amounts of (Liabilities) Presented in the Balance Sheet
Derivative (liabilities):			

Natural gas	–swaps	$(27,720)	$ —	$ (27,720)
	–collars	(26,738)	584	(26,154)
	–basis swaps	(6,762)	3,123	(3,639)
Crude oil	–swaps	(10,027)	273	(9,754)
	–collars	(972)	—	(972)
NGLs	–C3 swaps	(9,692)	1,877	(7,815)
	–C4 swaps	—	3,159	3,159
	–C5 swaps	(101)	—	(101)
		$(82,012)	$ 9,016	$ (72,996)

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		December 31, 2013 Gross Amounts of Recognized Assets	Gross Amounts Offset in the Balance Sheet	Net Amounts of Assets Presented in the Balance Sheet
Derivative assets:				
Natural gas	–swaps	$4,240	$(1,218)	$ 3,022
	–collars	16,057	(7,671)	8,386
	–basis swaps	7,686	(7,686)	—
Crude oil	–swaps	3,567	(1,321)	2,246
NGLs	–C3 swaps	826	(826)	—
	–C4 swaps	863	(863)	—
	–C5 swaps	121	(121)	—
		$33,360	$(19,706)	$ 13,654

		December 31, 2013 Gross Amounts of Recognized (Liabilities)	Gross Amounts Offset in the Balance Sheet	Net Amounts of (Liabilities) Presented in the Balance Sheet
Derivative (liabilities):				
Natural gas	–swaps	$(4,790)	$ 1,218	$ (3,572)
	–collars	(13,345)	7,671	(5,674)
	–basis swaps	(3,756)	7,686	3,930
Crude oil	–swaps	(4,711)	1,321	(3,390)
	–collars	(398)	—	(398)
NGLs	–C3 swaps	(18,172)	826	(17,346)
	–C4 swaps	(757)	863	106
	–C5 swaps	—	121	121
		$(45,929)	$ 19,706	$ (26,223)

The effects of our cash flow hedges (or those derivatives that previously qualified for hedge accounting) on AOCI in the accompanying consolidated balance sheets is summarized below (in thousands):

	Three Months Ended March 31, Change in Hedge Derivative Fair Value		Realized Gain (Loss) Reclassified from OCI into Revenue (a)	
	2014	2013	2014	2013
Swaps	$ —	$ 125	$ 836	$ 8,047
Collars	—	(7,015)	1,328	30,732

Income taxes	—	2,687	(924)	(15,124)
	$ —	$(4,203)	$1,240	$23,655

(a) For realized gains upon derivative contract settlement, the reduction in AOCI is offset by an increase in revenues, NGLs and oil sales. For realized losses upon derivative contract settlement, the increase in AOCI is offset by a decrease in revenues. See additional discussion above regarding the discontinuance of hedge accounting.

The effects of our non-hedge derivatives (or those derivatives that do not qualify for hedge accounting) and the ineffective portion of our hedge derivatives on our consolidated statements of operations is summarized below (in thousands):

	Three Months Ended March 31,					
	Gain (Loss) Recognized in Income (Non-hedge Derivatives)		Gain (Loss) Recognized in Income (Ineffective Portion)		Derivative Fair Value Income (Loss)	
	2014	2013	2014	2013	2014	2013
Swaps	$(44,073)	$(43,076)	$ —	$ (1,995)	$(44,073)	$(45,071)
Re-purchased swaps	—	1,185	—	—	—	1,185
Collars	(39,148)	(55,003)	—	(896)	(39,148)	(55,899)
Call options	(63,629)	(90)	—	—	(63,629)	(90)
Total	$(146,850)	$(96,984)	$ —	$ (2,891)	$(146,850)	$(99,875)

(12) FAIR VALUE MEASUREMENTS

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. There are three approaches for measuring the fair value of assets and liabilities: the market approach, the income approach and the cost approach, each of which includes multiple valuation techniques. The market approach uses prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities. The income approach uses valuation techniques to measure fair value by converting future amounts, such as cash flows or earnings, into a single present value amount using current market expectations about those future amounts. The cost approach is based on the amount that would currently be required to replace the service capacity of an asset. This is often referred to as current replacement cost. The cost approach assumes that the fair value would not exceed what it would cost a market participant to acquire or construct a substitute asset of comparable utility, adjusted for obsolescence.

The fair value accounting standards do not prescribe which valuation technique should be used when measuring fair value and does not prioritize among the techniques. These standards establish a fair value hierarchy that prioritizes the inputs used in applying the various valuation techniques. Inputs broadly refer to the assumptions that market participants use to make pricing decisions, including assumptions about risk. Level 1 inputs are given the highest priority in the fair value hierarchy while Level 3 inputs are given the lowest priority. The three levels of the fair value hierarchy are as follows:

Level 1 – Observable inputs that reflect unadjusted quoted prices for identical assets or liabilities in active markets as of the reporting date. Active markets are those in which transactions for the asset or liability occur in sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2 – Observable market-based inputs or unobservable inputs that are corroborated by market data. These are inputs other than quoted prices in active markets included in Level 1, which are either directly or indirectly observable as of the reporting date.

Level 3 – Unobservable inputs that are not corroborated by market data and may be used with internally developed methodologies that result in management’s best estimate of fair value.

Valuation techniques that maximize the use of observable inputs are favored. Assets and liabilities 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.

Fair Values – Recurring

We use a market approach for our recurring fair value measurements and endeavor to use the best information available. The following tables present the fair value hierarchy table for assets and liabilities measured at fair value, on a recurring basis (in thousands):

	Fair Value Measurements at March 31, 2014 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 March 31, 2014

Trading securities held in the deferred compensation plans	$67,119	$ —	$ —	$67,119
Derivatives –swaps	—	(32,979)	—	(32,979)
–collars	—	(20,381)	—	(20,381)
–basis swaps	—	(3,611)	(28)	(3,639)

	Fair Value Measurements at December 31, 2013 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 December 31, 2013
Trading securities held in the deferred compensation plans	$67,766	$ —	$ —	$ 67,766
Derivatives –swaps	—	(18,812)	—	(18,812)
–collars	—	2,314	—	2,314
–basis swaps	—			