RANGE RESOURCES CORP
Form 10-Q
October 24, 2017

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark one)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2017

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to

Commission File Number: 001-12209

RANGE RESOURCES CORPORATION

(Exact Name of Registrant as Specified in Its Charter)

Delaware	34-1312571
(State or Other Jurisdiction of	(IRS Employer
Incorporation or Organization)	Identification No.)
	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 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 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, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer		Accelerated Filer
Non-Accelerated Filer	(Do not check if smaller reporting company)	Smaller Reporting Company Emerging Growth Company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

Yes No

248,139,327 Common Shares were outstanding on October 23, 2017

RANGE RESOURCES CORPORATION

FORM 10-Q

Quarter Ended September 30, 2017

Unless the context otherwise indicates, all references in this report to "Range Resources," "Range," "we," "us," or "our" are to Range Resources Corporation and its directly and indirectly owned subsidiaries.

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PART I – FINANCIAL INFORMATION

ITEM 1. Financial Statements

RANGE RESOURCES CORPORATION

CONSOLIDATED BALANCE SHEETS

(In thousands, except per share data)

	September 30, 2017 (Unaudited)	December 31, 2016
Assets		
Current assets:		
Cash and cash equivalents	$ 529	$ 314
Accounts receivable, less allowance for doubtful accounts of $6,609 and $5,559	285,166	241,718
Derivative assets	30,176	13,278
Inventory and other	21,379	26,573
Total current assets	337,250	281,883
Derivative assets	512	205
Goodwill	1,641,197	1,654,292
Natural gas and oil properties, successful efforts method	13,061,390	12,386,153
Accumulated depletion and depreciation	(3,492,614)	(3,129,816)
	9,568,776	9,256,337
Other property and equipment	114,073	112,796
Accumulated depreciation and amortization	(98,469)	(95,923)
	15,604	16,873
Other assets	74,400	72,655
Total assets	$ 11,637,739	$ 11,282,245
Liabilities		
Current liabilities:		
Accounts payable	$ 317,112	$ 229,190
Asset retirement obligations	7,271	7,271
Accrued liabilities	277,355	265,843
Accrued interest	37,095	35,340
Derivative liabilities	32,533	165,009
Total current liabilities	671,366	702,653
Bank debt	1,082,708	876,428
Senior notes	2,850,692	2,848,591
Senior subordinated notes	48,562	48,498
Deferred tax liabilities	1,042,889	943,343
Derivative liabilities	16,292	24,491
Deferred compensation liabilities	91,014	119,231
Asset retirement obligations and other liabilities	296,736	310,642

Total liabilities	6,100,259	5,873,877
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, 248,138,258 issued at September 30, 2017 and 247,174,903 issued at December 31, 2016	2,481	2,471
Common stock held in treasury, 14,967 shares at September 30, 2017 and 30,547 shares at December 31, 2016	(599)	(1,209)
Additional paid-in capital	5,555,830	5,524,423
Retained earnings (deficit)	(20,232)	(117,317)
Total stockholders' equity	5,537,480	5,408,368
Total liabilities and stockholders' equity	$11,637,739	$11,282,245

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,	
	2017	2016	2017	2016
Revenues and other income:				
Natural gas, NGLs and oil sales	$507,541	$304,477	$1,573,128	$738,570
Derivative fair value (loss) income	(88,426)	64,556	188,326	(11,334)
Brokered natural gas, marketing and other	63,117	44,174	170,544	119,181
Total revenues and other income	482,232	413,207	1,931,998	846,417
Costs and expenses:				
Direct operating	36,888	22,387	96,331	67,112
Transportation, gathering, processing and compression	191,645	138,764	560,883	400,871
Production and ad valorem taxes	11,993	6,717	31,125	18,653
Brokered natural gas and marketing	59,773	44,622	169,180	122,105
Exploration	22,767	6,943	45,769	18,641
Abandonment and impairment of unproved properties	42,568	6,082	52,181	23,769
General and administrative	53,035	41,024	152,853	127,745
MRD Merger expenses	—	33,791	—	36,412
Termination costs	(47)	136	4,049	303
Deferred compensation plan	(9,203)	(11,636)	(36,838)	30,166
Interest	49,179	45,967	144,206	121,464
Depletion, depreciation and amortization	159,749	131,489	462,074	374,440
Impairment of proved properties and other assets	63,679	—	63,679	43,040
(Gain) loss on the sale of assets	(102)	2,597	(23,509)	7,544
Total costs and expenses	681,924	468,883	1,721,983	1,392,265
(Loss) income before income taxes	(199,692)	(55,676)	210,015	(545,848)
Income tax (benefit) expense:				
Current	—	—	—	—
Deferred	(71,992)	(13,705)	98,054	(185,169)
	(71,992)	(13,705)	98,054	(185,169)
Net (loss) income	$(127,700)	$(41,971)	$111,961	$(360,679)
Net (loss) income per common share:				
Basic	$(0.52)	$(0.23)	$0.45	$(2.10)
Diluted	$(0.52)	$(0.23)	$0.45	$(2.10)
Dividends paid per common share	$0.02	$0.02	$0.06	$0.06
Weighted average common shares outstanding:				
Basic	245,244	180,683	245,027	171,571
Diluted	245,244	180,683	245,280	171,571

See accompanying notes.

RANGE RESOURCES CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited, in thousands)

	Nine Months Ended September 30,	
	2017	2016
Operating activities:		
Net income (loss)	$111,961	$(360,679)
Adjustments to reconcile net income (loss) to net cash provided from operating activities:		
Deferred income tax expense (benefit)	98,054	(185,169)
Depletion, depreciation and amortization and impairment	525,753	417,480
Exploration dry hole costs	9,166	2
Abandonment and impairment of unproved properties	52,181	23,769
Derivative fair value (income) loss	(188,326)	11,334
Cash settlements on derivative financial instruments	16,062	260,657
Allowance for bad debt	1,050	800
Amortization of deferred financing costs and other	4,184	5,383
Deferred and stock-based compensation	3,937	72,689
(Gain) loss on the sale of assets	(23,509)	7,544
Changes in working capital:		
Accounts receivable	(39,694)	31,985
Inventory and other	(1,504)	(776)
Accounts payable	44,715	(41,268)
Accrued liabilities and other	(13,498)	(37,914)
Net cash provided from operating activities	600,532	205,837
Investing activities:		
Additions to natural gas and oil properties	(771,067)	(339,446)
Additions to field service assets	(4,687)	(1,542)
Acreage purchases	(46,967)	(29,203)
MRD Merger, net of cash acquired	—	7,180
Proceeds from disposal of assets	27,583	191,834
Purchases of marketable securities held by the deferred compensation plan	(25,410)	(33,460)
Proceeds from the sales of marketable securities held by the deferred compensation plan	28,755	37,900
Net cash used in investing activities	(791,793)	(166,737)
Financing activities:		
Borrowings on credit facilities	1,486,000	1,887,000
Repayments on credit facilities	(1,282,000)	(1,045,000)
Repayment of Memorial credit facility	—	(597,000)
Repayment of senior notes	(500)	(273,011)
Debt issuance costs	(247)	(6,381)
Dividends paid	(14,876)	(11,654)
Taxes paid for shares withheld	(6,971)	(3,800)
Change in cash overdrafts	5,588	432
Proceeds from the sales of common stock held by the deferred compensation plan	4,482	10,385
Net cash provided from (used in) financing activities	191,476	(39,029)

Increase in cash and cash equivalents	215	71
Cash and cash equivalents at beginning of period	314	471
Cash and cash equivalents at end of period	$529	$542

See accompanying notes.

RANGE RESOURCES CORPORATION

SELECTED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

(1) SUMMARY OF ORGANIZATION AND NATURE OF BUSINESS

Range Resources Corporation 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 the North Louisiana regions of the United States. Our objective is to build stockholder value through consistent returns focused on the growth, on a per share debt-adjusted basis, of both reserves and production. 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

These interim financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Range Resources Corporation 2016 Annual Report on Form 10-K filed with the Securities and Exchange Commission (the "SEC") on February 22, 2017. The results of operations for the third quarter and the nine months ended September 30, 2017 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 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.

On September 16, 2016, we issued approximately 77.0 million shares of common stock in exchange for all outstanding shares of common stock of Memorial Resources Development Corp. ("Memorial" or "MRD Merger") using an exchange ratio of 0.375 of a share of Range common stock for each share of Memorial common stock. For additional information, see Note 4.

Inventory. As of September 30, 2017, we had $11.7 million of material and supplies inventory compared to $9.4 million at December 31, 2016. Material and supplies inventory consists of primarily tubular goods and equipment used in our operations and is stated at lower of specific cost of each inventory item or market. At September 30, 2017, we also had commodity inventory of $2.2 million compared to $8.3 million at December 31, 2016. Commodity inventory as of September 30, 2017 consists of natural gas and NGLs held in storage or as line fill in pipelines.

(3) NEW ACCOUNTING STANDARDS

Not Yet Adopted

In May 2014, an accounting standards update was issued that supersedes the existing revenue recognition requirements. This standard includes a five-step revenue recognition model to depict the transfer of goods or services to customers in an amount that reflects the consideration to which we expect to be entitled in exchange for those goods or services. Among other things, the standard also eliminates industry-specific revenue guidance, requires enhanced disclosures about revenue, provides guidance for transactions that were not previously addressed comprehensively and improves guidance for multiple-element arrangements. This standard is effective for us in first quarter 2018 and we expect to adopt the new standard using the modified retrospective method of adoption. We are utilizing a bottom-up approach to analyze the impact of the new standard on our contracts by reviewing our current accounting policies and practices to identify potential differences that would result from applying the requirements of the new standard to our revenue contracts and the impact of adopting this standards update on our total revenues, operating income (loss) and our consolidated balance sheet. We are currently completing our detailed analysis of our portfolio of contracts at the individual contract level as we continue to evaluate the impact of this accounting standards update on our consolidated results of operations, financial position, cash flows and financial disclosures, in addition to developing any process or control changes necessary. We have identified and implemented a number of control changes necessary for adoption.

In February 2016, an accounting standards update was issued that requires an entity to recognize a right-of-use asset and lease liability for all leases with terms of more than twelve months. Classification of leases as either a finance or operating lease will determine the recognition, measurement and presentation of expenses. This accounting standards update also requires certain quantitative and qualitative disclosures about leasing arrangements. This standard is effective for us in first quarter 2019 and should be applied using a modified retrospective approach for leases that exist or are entered into after the beginning of the earliest comparative period in the financial statements and early adoption is permitted. We are evaluating the provisions of this accounting standards update and assessing the impact it will have on our consolidated results of operations, financial position or cash flows but based on our preliminary review of the update, we expect that we will have operating leases with durations greater than twelve months on our balance sheet. As we continue to evaluate and implement the standard, we will provide additional information about the expected financial impact at a future date.

In August 2016, an accounting standards update was issued that clarifies how entities classify certain cash receipts and cash payments on the statement of cash flows. The guidance is effective for us in first quarter 2018 and will be applied retrospectively with early adoption permitted. We are evaluating the provisions of this accounting standards update and assessing the impact, if any, it may have on our consolidated cash flow statement presentation.

Recently Adopted

In March 2016, an accounting standards update was issued that simplifies several aspects of the accounting for share-based payment award transactions. Among other things, this new guidance requires all income tax effects of share-based awards to be recognized in the statement of operations when the awards vest or are settled, allows an employer to repurchase more of an employee's shares for tax withholding purposes without triggering liability accounting and allows a policy election to account for forfeitures as they occur. This new standard is effective for annual periods beginning after December 15, 2016. Early adoption is permitted. We elected to early adopt this accounting standards update in fourth quarter 2016 and reflected any adjustments as of January 1, 2016, the beginning of the annual period that includes the interim period of adoption. The following summarizes the impact of the adoption of this update on our consolidated financial statements:

Income taxes - Upon adoption of this standard, all excess tax benefits and tax deficiencies (including tax benefits of dividends on share-based payment awards) are recognized as income tax expense or benefit in our consolidated statements of operations. The tax effects of exercised or vested awards are treated as discrete items in the reporting period in which they occur. Adoption of this new standard resulted in the recognition of an excess tax deficiency in our provision for income taxes rather than paid-in capital of $2.1 million for the year ended December 31, 2016 and affected our previously reported first quarter 2016 results as follows (in thousands, except per share data):

	Three Months Ended March 31, 2016	
	As Reported	As Adjusted
	(unaudited)	
Statements of Operations		
Income tax benefit	$(44,038)	$(41,976)
Net loss	(91,710)	(93,772)
Basic earnings per share	(0.55)	(0.56)
Diluted earnings per share	(0.55)	(0.56)

In addition, we recorded a cumulative-effect adjustment to retained earnings (deficit) and reduced our deferred tax liability by $101.1 million for previously unrecognized tax benefits due to our NOL position as of December 31, 2016.

Forfeitures - Prior to adoption, share-based compensation expense was recognized on a straight line basis, net of estimated forfeitures, such that expense was recognized only for share-based awards that are expected to vest. We have elected to continue to estimate forfeitures.

Statements of cash flows - The presentation requirements for cash flows related to employee taxes paid for withheld shares were adjusted retrospectively. These cash flows have historically been presented as an operating activity. Upon adoption of this new standard, these cash outflows were classified as a financing activity. Prior periods have been adjusted as follows (in thousands):

As Reported Net cash provided from	As Adjusted Net cash provided from operating

	operating activities	activities
Three months ended March 31, 2016	$87,424	$90,785
Six months ended June 30, 2016	169,604	173,201
Nine months ended September 30, 2016	202,037	205,837

	As Reported Net cash used in financing activities	As Adjusted Net cash used in financing activities
Three months ended March 31, 2016	$(72,473)	$(75,834)
Six months ended June 30, 2016	(95,411)	(99,008)
Nine months ended September 30, 2016	(35,229)	(39,029)

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In January 2017, an accounting standards update was issued that eliminates the requirements to calculate the implied fair value of goodwill to measure goodwill impairment charge. Instead, entities will record an impairment charge based on the excess of a reporting unit's carrying amount over its fair value. This standard is effective for annual periods beginning after December 15, 2019 and should be applied on a prospective basis. Early adoption is permitted for any goodwill impairment tests performed in first quarter 2017 or later. We elected to adopt this accounting standards update in first quarter 2017. The adoption did not have a significant impact on our consolidated results of operations, financial position, cash flows or financial disclosures; however, this standard did change our policy for our annual goodwill impairment assessment by eliminating the requirement to calculate the implied fair value of goodwill.

(4) ACQUISITIONS AND DISPOSITIONS

Memorial Merger

On September 16, 2016, we completed our merger with Memorial which was accomplished through the merger of Medina Merger Sub, Inc., a Delaware corporation and a direct, wholly-owned subsidiary of Range, with and into Memorial, with Memorial surviving as a wholly-owned subsidiary of Range. The results of Memorial's operations since the effective time of the MRD Merger are included in our consolidated statements of operations. The MRD Merger was effected through the issuance of approximately 77.0 million shares of Range common stock in exchange for all outstanding shares of Memorial using an exchange ratio of 0.375 of a share of Range common stock for each share of Memorial common stock. At the effective time of the MRD Merger, Memorial's liabilities, which are reflected in Range's consolidated financial statements, included approximately $1.2 billion fair value of outstanding debt. In the last nine months of 2016, we incurred MRD Merger-related expenses of approximately $37.2 million which includes consulting, investment banking, advisory, legal and other merger-related fees.

Allocation of Purchase Price. The MRD Merger has been accounted for as a business combination, using the acquisition method. The following table represents the final allocation of the total purchase price of the MRD Merger to the assets acquired and the liabilities assumed based on the fair value at the effective time of the MRD Merger, with any excess of the purchase price over the estimated fair value of the identifiable net assets acquired recorded as goodwill (in thousands, except shares and stock price):

Purchase price:	
Shares of Range common stock issued to Memorial stockholders	