RANGE RESOURCES CORP
Form 10-Q
April 25, 2018

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 March 31, 2018

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 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

249,237,217 Common Shares were outstanding on April 20, 2018

RANGE RESOURCES CORPORATION

FORM 10-Q

Quarter Ended March 31, 2018

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)

	March 31, 2018 (Unaudited)	December 31, 2017
Assets		
Current assets:		
Cash and cash equivalents	$ 527	$ 448
Accounts receivable, less allowance for doubtful accounts of $7,112 and $7,111	294,448	348,833
Derivative assets	12,908	58,607
Inventory and other	30,064	21,346
Total current assets	337,947	429,234
Derivative assets	10,224	273
Goodwill	1,641,197	1,641,197
Natural gas and oil properties, successful efforts method	13,457,654	13,216,453
Accumulated depletion and depreciation	(3,807,356)	(3,649,716)
	9,650,298	9,566,737
Other property and equipment	114,566	114,361
Accumulated depreciation and amortization	(101,294)	(99,695)
	13,272	14,666
Other assets	77,230	76,734
Total assets	$ 11,730,168	$ 11,728,841
Liabilities		
Current liabilities:		
Accounts payable	$ 314,819	$ 343,871
Asset retirement obligations	6,327	6,327
Accrued liabilities	282,809	317,531
Accrued interest	36,488	43,511
Derivative liabilities	38,403	44,233
Total current liabilities	678,846	755,473
Bank debt	1,180,227	1,208,467
Senior notes	2,852,860	2,851,754
Senior subordinated notes	48,607	48,585
Deferred tax liabilities	736,054	693,356
Derivative liabilities	3,835	9,789
Deferred compensation liabilities	101,334	101,102
Asset retirement obligations and other liabilities	293,813	286,043
Total liabilities	5,895,576	5,954,569

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, 249,236,392 issued at March 31, 2018 and 248,144,397 issued at December 31, 2017	2,492	2,481
Common stock held in treasury, 14,072 shares at March 31, 2018 and 14,967 shares at December 31, 2017	(569)	(599)
Additional paid-in capital	5,593,675	5,577,732
Accumulated other comprehensive loss	(1,263)	(1,332)
Retained earnings	240,257	195,990
Total stockholders' equity	5,834,592	5,774,272
Total liabilities and stockholders' equity	$11,730,168	$11,728,841

See accompanying notes.

RANGE RESOURCES CORPORATION

CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited, in thousands, except per share data)

	Three Months Ended March 31,	
	2018	2017
Revenues and other income:		
Natural gas, NGLs and oil sales	$696,629	$559,450
Derivative fair value (loss) income	(14,009)	165,557
Brokered natural gas, marketing and other	59,979	51,648
Total revenues and other income	742,599	776,655
Costs and expenses:		
Direct operating	38,122	28,023
Transportation, gathering, processing and compression	244,628	177,648
Production and ad valorem taxes	9,926	9,163
Brokered natural gas and marketing	55,594	53,550
Exploration	7,719	8,504
Abandonment and impairment of unproved properties	11,773	4,420
General and administrative	68,417	47,496
Termination costs	(37)	4,192
Deferred compensation plan	(7,397)	(13,169)
Interest	52,385	47,101
Depletion, depreciation and amortization	162,266	149,821
Impairment of proved properties	7,312	—
Gain on the sale of assets	(23)	(22,600)
Total costs and expenses	650,685	494,149
Income before income taxes	91,914	282,506
Income tax expense:		
Current	—	—
Deferred	42,676	112,395
	42,676	112,395
Net income	$49,238	$170,111
Net income per common share:		
Basic	$0.20	$0.69
Diluted	$0.20	$0.69
Dividends paid per common share	$0.02	$0.02
Weighted average common shares outstanding:		
Basic	245,709	244,652
Diluted	246,594	244,803

See accompanying notes.

RANGE RESOURCES CORPORATION

STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited, in thousands)

	Three Months Ended March 31,	
	2018	2017
Net income	$49,238	$170,111
Other comprehensive income:		
Postretirement benefits:		
Prior service cost	92	—
Income tax benefit	(23)	—
Total comprehensive income	$49,307	$170,111

See accompanying notes.

RANGE RESOURCES CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited, in thousands)

	Three Months Ended March 31, 2018	2017
Operating activities:		
Net income	$49,238	$170,111
Adjustments to reconcile net income to net cash provided from operating activities:		
Deferred income tax expense	42,676	112,395
Depletion, depreciation and amortization and impairment	169,578	149,821
Exploration dry hole costs	2	—
Abandonment and impairment of unproved properties	11,773	4,420
Derivative fair value loss (income)	14,009	(165,557)
Cash settlements on derivative financial instruments	8,925	(4,181)
Amortization of deferred financing costs and other	1,312	1,310
Deferred and stock-based compensation	18,527	962
Gain on the sale of assets	(23)	(22,600)
Changes in working capital:		
Accounts receivable	53,913	(4,690)
Inventory and other	(5,294)	2,868
Accounts payable	47,453	24,384
Accrued liabilities and other	(41,517)	(43,381)
Net cash provided from operating activities	370,572	225,862
Investing activities:		
Additions to natural gas and oil properties	(308,641)	(186,727)
Additions to field service assets	(239)	(1,565)
Acreage purchases	(25,355)	(28,725)
Proceeds from disposal of assets	40	26,053
Purchases of marketable securities held by the deferred compensation plan	(13,153)	(12,388)
Proceeds from the sales of marketable securities held by the deferred compensation plan	11,928	10,231
Net cash used in investing activities	(335,420)	(193,121)
Financing activities:		
Borrowings on credit facilities	528,000	448,000
Repayments on credit facilities	(557,000)	(484,000)
Repayment of senior notes	—	(500)
Dividends paid	(4,971)	(4,951)
Taxes paid for shares withheld	(2,659)	(5,879)
Change in cash overdrafts	922	11,803
Proceeds from the sales of common stock held by the deferred compensation plan	635	3,017
Net cash used in financing activities	(35,073)	(32,510)
Increase in cash and cash equivalents	79	231
Cash and cash equivalents at beginning of period	448	314
Cash and cash equivalents at end of period	$527	$545

See accompanying notes.

RANGE RESOURCES CORPORATION

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 growth, on a per share debt-adjusted basis, of both 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

These interim financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Range Resources Corporation 2017 Annual Report on Form 10-K filed with the Securities and Exchange Commission (the "SEC") on February 28, 2018. The results of operations for the first quarter ended March 31, 2018 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.

Inventory. As of March 31, 2018, we had $9.9 million of material and supplies inventory compared to $12.1 million at December 31, 2017. 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 net realized value, on a first-in, first-out basis. At March 31, 2018, we also had commodity inventory of $5.8 million compared to $508,000 at December 31, 2017. Commodity inventory as of March 31, 2018 consists of natural gas and NGLs held in storage or as line fill in pipelines.

Unproved Properties. Impairment of a significant portion of our unproved properties is assessed and amortized on an aggregate basis based on our average holding period, expected forfeiture rate and anticipated drilling success. In certain circumstances, our future plans to develop acreage may accelerate our impairment.

(3) NEW ACCOUNTING STANDARDS

Not Yet Adopted

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 will 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 do not plan to early adopt this new standard. This standard does not apply to leases to explore for or use minerals, oil or natural gas resources, including the right to explore for those natural resources and rights to use the land in which those natural resources are contained. We are evaluating each of our lease arrangements but have not determined the aggregate amount of change. We are currently enhancing our systems to track and calculate additional information necessary for adoption of this standard. 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. We believe this new guidance will likely increase our recorded assets and liabilities that are not currently recognized under currently applicable guidance.

In June 2016, an accounting standards update was issued that changes the impairment model for trade receivables, net investments in leases, debt securities, loans and certain other instruments. The standards update requires the use of a forward-looking “expected loss” model as opposed to the current “incurred loss” model. This standards update is effective for us in first quarter 2020 and should be adopted on a modified retrospective basis though a cumulative-effect adjustment to retained earnings as of the beginning of the adoption period. Early adoption is permitted starting January 2019. We are evaluating the provisions of this accounting standards update and assessing the impact, if any, it may have on our consolidated results of operations, financial position or cash flows.

Recently Adopted

In March 2017, an accounting standards update was issued which provides additional guidance on the presentation of net benefit cost in the statement of operations. Employers will present the service cost component of net periodic benefit cost in the same consolidated results of operations line item as other employee compensation costs arising from services rendered during the period. This new standards update is effective for annual reporting periods in first quarter 2018 and must be applied retrospectively. We adopted this standards update in first quarter 2018. The adoption did not impact our consolidated results of operations, financial position, cash flows or disclosures. We had no service cost recorded prior to 2018 due to the implementation of our postretirement benefit plan at the end of 2017. In 2018, our service cost is recorded in general and administrative expense.

In May 2017, an accounting standards update was issued which clarifies what constitutes a modification of a share-based award. This standards update is intended to provide clarity and reduce both diversity in practice and cost and complexity to a change to the terms or conditions of a share-based payment award. We adopted this standards update in first quarter 2018. The adoption of this standard did not have a material impact on our financial position or consolidated results of operations.

In May 2014, an accounting standards update was issued that superseded the existing revenue recognition requirements. This standard included 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 eliminated industry-specific revenue guidance, required enhanced disclosures about revenue, provided guidance for transactions that were not previously addressed comprehensively and improved guidance for multiple-element arrangements. This standard was effective for us in first quarter 2018 and we adopted the new standard using the modified retrospective method. We utilized a bottom-up approach to analyze the impact of the new standard 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 and our consolidated balance sheet. Our implementation of this standard did not result in a cumulative-effect adjustment on date of adoption; however, our financial statement presentation related to revenue received from certain gas processing contracts changed. Based on previous accounting guidance, certain of our gas processing contracts were reported in revenue at the net price (net of processing costs) we receive. Upon adoption of this accounting standards update, these contracts are now reported as a gross price received at a delivery point and separate transportation, marketing and processing expense. The impact of adoption of the new revenue recognition standard on our current period results is as follows (in thousands):

	Three Months Ended March 31, 2018					
	As Reported		Previous Revenue Recognition Method			
	$	$ Per mcfe	$	$ Per mcfe	Increase	$ Per mcfe
Revenues:						
Natural gas, NGLs and oil sales	$696,629	$3.53	$658,802	$3.34	$37,827	$0.19
Costs and expenses:						
Transportation, gathering, processing and compression	$244,628	$1.24	$206,801	$1.05	$37,827	$0.19
Net income	$49,238		$49,238		$—	

Changes to natural gas, NGLs and oil sales and transportation, gathering, processing, and compression expenses is due to the conclusion that we represent the role of principal in a certain gas processing and marketing agreement with a midstream entity in accordance with the new accounting standard. This represents a change from our previous conclusion utilizing the principal versus agent indication that we acted as the agent in that agreement. As a result, we were required to modify our presentation to present revenue on a gross basis for amounts expected to be received from third-party customers through the marketing process, with expenses incurred prior to control of the products transferring to the midstream entity at the tailgate of the plant presented as transportation, gathering, processing and compression expense.

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 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.

In July 2015, an accounting standards update was issued that requires an entity to measure inventory at the lower of cost or net realizable value. This excludes inventory measured using LIFO or the retail inventory method. This standard was effective for us in first quarter 2017 and was applied prospectively. Adoption of this standard did not have an impact on our consolidated results of operations, financial position or cash flows.

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 should be applied retrospectively with early adoption permitted. We adopted this new standard in fourth quarter 2017 on a retrospective basis. Adoption of this standard did not have an impact on our consolidated cash flow statement presentation.

In January 2017, an accounting standards update was issued which clarifies the definition of a business. This new standard is effective for us in first quarter 2018 with early adoption permitted. We adopted this new standard in fourth quarter 2017. Adoption of this standard did not have a significant impact on our consolidated results of operations, financial position or cash flows.

(4) DISPOSITIONS

We recognized a pretax net gain on the sale of assets of $23,000 in first quarter 2018 compared to a pretax net gain of $22.6 million in the same period of the prior year.

2018 Dispositions

Other. In first quarter 2018, we sold miscellaneous inventory and other assets for proceeds of $40,000 resulting in a pretax gain of $23,000.

2017 Dispositions

Western Oklahoma. In first quarter 2017, we sold properties in Western Oklahoma for proceeds of $26.0 million and we recorded a gain of $22.5 million related to this sale, after closing adjustments and transaction fees.

Other. In first quarter 2017, we sold miscellaneous proved and unproved properties, inventory, other assets and surface acreage for proceeds of $53,000 resulting in a pretax gain of $69,000.

(5) GOODWILL

During 2016, we recorded goodwill associated with the acquisition of Memorial Resource Development Corp. (the “MRD Merger”), which represented the cost of the acquired entity over the net amounts assigned to assets acquired and liabilities assumed. Goodwill is assessed for impairment whenever events or circumstances indicate that impairment of the carrying value of goodwill is likely, but no less often than annually. During fourth quarter 2017, we performed our annual qualitative assessment of goodwill to determine whether it was more likely than not that the fair value of our business (our reporting unit) was less than its carrying amount. Based on the results of this assessment, we determined it was not likely that goodwill was impaired. We are not aware of any events or circumstances that occurred during first quarter 2018 that would have more likely than not reduced the fair value of our reporting unit below its carrying value.

(6) INCOME TAXES

Income tax expense was as follows (in thousands):

	Three Months Ended March 31,	
	2018	2017
Income tax expense	$42,676	$112,395
Effective tax rate	46.4 %	39.8 %

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, 2018 and 2017, our overall effective tax rate was different than the federal statutory rate due primarily to state income taxes (including adjustments to state income tax valuation allowances), equity compensation and other tax items which are detailed below (in thousands).

	Three Months Ended March 31, 2018	2017
Total income before income taxes	$91,914	$282,506
U.S. federal statutory rate	21 %	35 %
Total tax expense at statutory rate	19,302	98,877
State and local income taxes, net of federal benefit	4,494	8,982
Non-deductible executive compensation	262	140
Tax less than book equity compensation	664	2,524
Change in valuation allowances:		
Federal net operating loss carryforwards & other	—	856
State net operating loss carryforwards & other	15,678	2,086
Rabbi trust and other	1,381	(1,122)
Permanent differences and other	895	52
Total expense for income taxes	$42,676	$112,395
Effective tax rate	46.4 %	39.8 %

On December 22, 2017, the Tax Cuts and Jobs Act of 2017 was signed into law. The law significantly reformed the Internal Revenue Code of 1986, as amended. The reduction in the corporate tax rate required a one-time revaluation of certain tax related assets and liabilities to reflect their value at the lower corporate tax rate of 21%. Due to the complexities involved in the accounting for the enactment of the new law, the SEC Staff Accounting Bulletin ("SAB") 118 allowed a provisional estimate for the year ended December 31, 2017, which we made. As of March 31, 2018, we have not made any material adjustments to our provisional estimate at year-end 2017. We have made a reasonable estimate of the effect on our deferred tax balances. We will continue to analyze the impact of the new law and additional impacts will be recorded as they are identified during the measurement period provided for in SAB 118.

(7) INCOME PER COMMON SHARE

Basic income or loss per share attributable to common shareholders is computed as (1) income or loss attributable to common shareholders (2) less income allocable to participating securities (3) divided by weighted average basic shares outstanding. Diluted income or loss per share attributable to common shareholders 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, 2018	2017

Net income, as reported	$49,238	$170,111
Participating earnings [(a)]	(568)	(1,882)
Basic net income attributed to common shareholders	48,670	168,229
Reallocation of participating earnings [(a)]	2	1
Diluted net income attributed to common shareholders	$48,672	$168,230
Net income per common share:		
Basic	$0.20	$0.69
Diluted	$0.20	$0.69

[(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.

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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,	
	2018	2017
Weighted average common shares outstanding-basic	245,709	244,652
Effe		