RANGE RESOURCES CORP
Form 10-Q
October 23, 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 September 30, 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	(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 every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for shorter period that the registrant was required to submit such files).

Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, 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	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

249,505,145 Common Shares were outstanding on October 19, 2018

RANGE RESOURCES CORPORATION

FORM 10-Q

Quarter Ended September 30, 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. For certain industry specific terms used in the Form 10-Q, please see “Glossary of Certain Defined Terms” in our 2017 Annual Report on Form 10-K.

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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, 2018 (Unaudited)	December 31, 2017
Assets		
Current assets:		
Cash and cash equivalents	$357	$448
Accounts receivable, less allowance for doubtful accounts of $5,862 and $7,111	397,536	348,833
Derivative assets	103	58,607
Inventory and other	24,488	21,346
Total current assets	422,484	429,234
Derivative assets	1,114	273
Goodwill	1,641,197	1,641,197
Natural gas and oil properties, successful efforts method	13,643,196	13,216,453
Accumulated depletion and depreciation	(3,929,060)	(3,649,716)
	9,714,136	9,566,737
Other property and equipment	112,404	114,361
Accumulated depreciation and amortization	(101,402)	(99,695)
	11,002	14,666
Other assets	76,203	76,734
Total assets	$11,866,136	$11,728,841
Liabilities		
Current liabilities:		
Accounts payable	$225,874	$343,871
Asset retirement obligations	6,327	6,327
Accrued liabilities	386,671	317,531
Accrued interest	37,739	43,511
Derivative liabilities	97,256	44,233
Total current liabilities	753,867	755,473
Bank debt	1,257,199	1,208,467
Senior notes	2,855,048	2,851,754
Senior subordinated notes	48,653	48,585
Deferred tax liabilities	731,723	693,356
Derivative liabilities	11,751	9,789
Deferred compensation liabilities	86,794	101,102
Asset retirement obligations and other liabilities	303,813	286,043

Total liabilities	6,048,848	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, 249,504,124 issued at September 30, 2018 and 248,144,397 issued at December 31, 2017	2,495	2,481
Common stock held in treasury, 10,067 shares at September 30, 2018 and 14,967 shares at December 31, 2017	(404)	(599)
Additional paid-in capital	5,617,371	5,577,732
Accumulated other comprehensive loss	(1,124)	(1,332)
Retained earnings	198,950	195,990
Total stockholders' equity	5,817,288	5,774,272
Total liabilities and stockholders' equity	$ 11,866,136	$ 11,728,841

The accompanying notes are an integral part of these consolidated financial statements.

RANGE RESOURCES CORPORATION

CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited, in thousands, except per share data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Revenues and other income:				
Natural gas, NGLs and oil sales	$736,431	$507,541	$2,094,450	$1,573,128
Derivative fair value (loss) income	(34,591)	(88,426)	(151,890)	188,326
Brokered natural gas, marketing and other	109,385	63,117	267,448	170,544
Total revenues and other income	811,225	482,232	2,210,008	1,931,998
Costs and expenses:				
Direct operating	30,926	36,888	104,136	96,331
Transportation, gathering, processing and compression	304,562	191,645	819,100	560,883
Production and ad valorem taxes	9,427	11,993	29,493	31,125
Brokered natural gas and marketing	116,080	59,773	274,421	169,180
Exploration	8,299	22,767	23,517	45,769
Abandonment and impairment of unproved properties	6,549	42,568	73,244	52,181
General and administrative	43,722	53,035	159,722	152,853
Termination costs	(336)	(47)	(373)	4,049
Deferred compensation plan	223	(9,203)	(559)	(36,838)
Interest	54,801	49,179	161,048	144,206
Depletion, depreciation and amortization	164,266	159,749	487,558	462,074
Impairment of proved properties	—	63,679	22,614	63,679
Loss (gain) on the sale of assets	30	(102)	(149)	(23,509)
Total costs and expenses	738,549	681,924	2,153,772	1,721,983
Income (loss) before income taxes	72,676	(199,692)	56,236	210,015
Income tax expense (benefit):				
Current	—	—	—	—
Deferred	24,137	(71,992)	38,295	98,054
	24,137	(71,992)	38,295	98,054
Net income (loss)	$48,539	$(127,700)	$17,941	$111,961
Net income (loss) per common share:				
Basic	$0.19	$(0.52)	$0.07	$0.45
Diluted	$0.19	$(0.52)	$0.07	$0.45
Dividends paid per common share	$0.02	$0.02	$0.06	$0.06
Weighted average common shares outstanding:				
Basic	246,451	245,244	246,016	245,027
Diluted	247,166	245,244	246,879	245,280

The accompanying notes are an integral part of these consolidated financial statements.

RANGE RESOURCES CORPORATION

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(Unaudited, in thousands)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Net income (loss)	$48,539	$(127,700)	$17,941	$111,961
Other comprehensive income:				
Postretirement benefits:				
Prior service cost	91	—	276	—
Income tax benefit	(22)	—	(68)	—
Total comprehensive income (loss)	$48,608	$(127,700)	$18,149	$111,961

The accompanying notes are an integral part of these consolidated financial statements.

RANGE RESOURCES CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited, in thousands)

	Nine Months Ended September 30,	
	2018	2017
Operating activities:		
Net income	$17,941	$111,961
Adjustments to reconcile net income to net cash provided from operating activities:		
Deferred income tax expense	38,295	98,054
Depletion, depreciation and amortization and impairment	510,172	525,753
Exploration dry hole costs	4	9,166
Abandonment and impairment of unproved properties	73,244	52,181
Derivative fair value loss (income)	151,890	(188,326)
Cash settlements on derivative financial instruments	(40,272)	16,062
Allowance for bad debts	(1,250)	1,050
Amortization of deferred financing costs and other	4,163	4,184
Deferred and stock-based compensation	41,252	3,937
Gain on the sale of assets	(149)	(23,509)
Changes in working capital:		
Accounts receivable	(49,713)	(39,694)
Inventory and other	(822)	(1,504)
Accounts payable	(6,529)	44,715
Accrued liabilities and other	36,721	(13,498)
Net cash provided from operating activities	774,947	600,532
Investing activities:		
Additions to natural gas and oil properties	(781,554)	(771,067)
Additions to field service assets	(1,230)	(4,687)
Acreage purchases	(50,461)	(46,967)
Proceeds from disposal of assets	24,339	27,583
Purchases of marketable securities held by the deferred compensation plan	(34,953)	(25,410)
Proceeds from the sales of marketable securities held by the deferred compensation plan	37,311	28,755
Net cash used in investing activities	(806,548)	(791,793)
Financing activities:		
Borrowings on credit facilities	1,602,000	1,486,000
Repayments on credit facilities	(1,547,000)	(1,282,000)
Repayment of senior notes	—	(500)
Dividends paid	(14,950)	(14,876)
Debt issuance costs	(8,257)	(247)
Taxes paid for shares withheld	(3,143)	(6,971)
Change in cash overdrafts	(5,653)	5,588
Proceeds from the sales of common stock held by the deferred compensation plan	8,513	4,482
Net cash provided from financing activities	31,510	191,476
(Decrease) increase in cash and cash equivalents	(91)	215
Cash and cash equivalents at beginning of period	448	314

Cash and cash equivalents at end of period	$357	$529

The accompanying notes are an integral part of these consolidated financial statements.

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 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 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.

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 third quarter and the nine months ended September 30, 2018 are not necessarily indicative of the results to be expected for the full year.

Inventory. As of September 30, 2018, we had $9.1 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 September 30, 2018, we also had commodity inventory of $1.5 million compared to $508,000 at December 31, 2017. Commodity inventory as of September 30, 2018 consists of 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

Lease Accounting Standard

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 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 and 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 and financial disclosures, in addition to developing any control changes necessary. While we have yet to finalize the impact this standards update will have on our consolidated financial statements, we believe the adoption will likely increase our recorded assets and liabilities related to our leases.

We will adopt this new standards update in first quarter 2019 using a modified retrospective approach and will recognize a right of use asset and lease liability on the adoption date. We plan to apply practical expedients provided in the standards update that allow, among other things, not to reassess contracts that commenced prior to the adoption. We also anticipate to elect a policy not to recognize right of use assets and lease liabilities related to short-term leases.

Financial Instruments – Credit Losses

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 will be adopted on a modified retrospective basis through 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 and financial disclosures.

Fair Value Measurement

In August 2018, an accounting standards update was issued which provides additional disclosure requirements for fair value measurements. This new standards update eliminates the requirement to disclose transfers between Level 1 and Level 2 of the fair value hierarchy and provides for additional disclosures for Level 3 fair value measurements. This new standards update is effective for us in first quarter 2020 and will be adopted on a prospective or retrospective basis depending on the changes that apply. We are evaluating the provisions of this standards update and assessing the impact, if any, it may have on our financial disclosures.

Recently Adopted

Pension Accounting Standard

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 was 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.

Modification of Share – Based Awards

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 consolidated financial position or results of operations.

Revenue Recognition Standard

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 standards using the modified retrospective method to all open contracts as of January 1, 2018. 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 September 30, 2018

	As Reported		Previous Revenue Recognition Method			
	$	$ Per mcfe	$	$ Per mcfe	Increase	$ Per mcfe
Revenues:						
Natural gas, NGLs and oil sales	$736,431	$3.53	$688,684	$3.30	$47,747	$0.23
Costs and expenses:						
Transportation, gathering, processing and compression	$304,562	$1.46	$256,815	$1.23	$47,747	$0.23
Net income	$48,539		$48,539		$—	

	Nine Months Ended September 30, 2018					
	As Reported		Previous Revenue Recognition Method			
	$	$ Per mcfe	$	$ Per mcfe	Increase	$ Per mcfe
Revenues:						
Natural gas, NGLs and oil sales	$2,094,450	$3.45	$1,966,731	$3.24	$127,719	$0.21
Costs and expenses:						
Transportation, gathering, processing and compression	$819,100	$1.35	$691,381	$1.14	$127,719	$0.21
Net income	$17,941		$17,941		$—	

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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.

Goodwill Standard

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.

Inventory Standard

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.

Classification in the Statement of 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.

Definition of a Business

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 loss on the sale of assets of $30,000 in third quarter 2018 compared to a pretax net gain of $102,000 in the same period of the prior year and a pretax net gain on the sale of assets of $149,000 in first nine months 2018 compared to a pretax net gain on the sale of assets of $23.5 million in first nine months 2017.

2018 Fourth Quarter Disposition Announcement

On October 15, 2018, we announced the simultaneous signing and closing of an agreement to sell a proportionately reduced 1% royalty on all our current Washington County, Pennsylvania leases for $300.0 million in proceeds. The transaction is subject to customary terms and conditions.

2018 Dispositions

Northern Oklahoma. In third quarter 2018, we sold properties in Northern Oklahoma for proceeds of $23.3 million and we recorded a net loss of $39,000 related to this sale, after closing adjustments.

Other. In third quarter 2018, we sold miscellaneous inventory and other assets for proceeds of $673,000, resulting in a pretax gain of $9,000. In first six months 2018, we sold miscellaneous inventory and other assets for proceeds of $366,000 resulting in a pretax gain of $179,000.

2017 Dispositions

Western Oklahoma. In first nine months 2017, we sold properties in Western Oklahoma for proceeds of $26.0 million and we recorded a gain of $22.1 million related to this sale, after closing adjustments and transaction fees.

Other. In third quarter 2017, we sold miscellaneous inventory and other assets for proceeds of $295,000, resulting in a pretax gain of $102,000. In first six months 2017, we sold miscellaneous unproved property, inventory and other assets for proceeds of $1.3 million resulting in a pretax gain of $1.3 million.

(5) REVENUES FROM CONTRACTS WITH CUSTOMERS

Revenue Recognition

Natural gas, NGLs and oil sales revenues are generally recognized at the point in time that control of the product is transferred to the customer and collectability is reasonably assured. See a more detailed summary of our product types below.

Natural Gas and NGLs Sales

Under our gas processing contracts, we deliver natural gas to a midstream processing entity at the wellhead or the inlet of the midstream processing entity's system. The midstream processing entity processes the natural gas and remits proceeds to us for the resulting sales of NGLs and residue gas. In these scenarios, we evaluate whether we are the principal or the agent in the transaction. For those contracts that we have concluded that we are the principal, the ultimate third party is our customer and we recognize revenue on a gross basis, with gathering, compression, processing, and transportation fees presented as an expense. Alternatively, for those contracts that we have concluded that we are the agent, the midstream processing entity is our customer and we recognize revenue based on the net amount of the proceeds received from the midstream processing entity.

In certain natural gas processing agreements, we may elect to take our residue gas and/or NGLs in-kind at the tailgate of the midstream entity's processing plant and subsequently market the product on our own. Through the marketing process, we deliver product to the ultimate third party purchaser at a contractually agreed upon delivery point and receive a specified index price from the purchaser. In this scenario, we recognize revenue when control transfers to the purchaser at the delivery point based on the index price received from the purchaser. The gathering, processing and compression fees attributable to the gas processing contract, as well as any transportation fees incurred to deliver the product to the purchaser, are presented as transportation, gathering, processing and compression expense.

Oil Sales

Our oil sales contracts are generally structured in one of the following ways:

- We sell oil production at the wellhead and collect an agreed upon index price, net of transportation incurred by the purchaser (that is, a netback arrangement). In this scenario, we recognize revenue when control transfers to the purchaser at the wellhead at the net price received.
- We deliver oil to the purchaser at a contractually agreed upon delivery point at which the purchaser takes custody, title, and risk of loss of the product. Under this arrangement, we pay a third party to transport the product and receive a specified index price from the purchaser with no deduction. In this scenario, we recognize revenue when control transfers to the purchaser at the delivery point based on the price received from the purchaser. The third party costs are recorded as transportation, gathering, processing and compression expense.

Brokered Natural Gas, Marketing and Other

We realize brokered margins as a result of buying natural gas or NGLs utilizing separate purchase transactions, generally with separate counterparties and subsequently selling that natural gas or NGLs under our existing contracts to fulfill our contract commitments or utilizing existing infrastructure contracts to economically utilize available capacity. In these arrangements, we take control of the natural gas purchased prior to delivery of that gas under our existing gas contracts with a separate counterparty. Revenues and expenses related to brokering natural gas are reported gross as part of revenues and expenses in accordance with applicable accounting standards. Our net brokered margin was a loss of $6.7 million in third quarter 2018 and a loss of $7.0 million in first nine months 2018.

Disaggregation of Revenue

We have identified three material revenue streams in our business: natural gas sales, NGLs sales and oil sales. Brokered revenue attributable to each product sales type is included here because the volume of product that we purchase is subsequently sold to separate counterparties in accordance with existing sales contracts under which we also sell our production. Revenue attributable to each of our identified revenue streams is disaggregated below (in thousands):

	Three Months Ended September 30, 2018	Nine Months Ended September 30, 2018
Natural gas sales [(a)]	$500,194	$1,449,148
NGLs sales [(b)]	278,410	706,673
Oil sales	67,212	206,077
Total	$845,816	$2,361,898

[(a)] Natural gas sales revenue reported above for the third quarter includes $105.8 million of brokered revenues and $3.7 million of marketing revenue. The nine months includes $255.1 million of brokered revenues and $11.4 million of marketing revenue.

[(b)] NGLs sales revenue reported above for the third quarter includes ($153,000) of brokered revenues and for nine months includes $880,000 of brokered revenues.

Principal versus Agent

We engage in various types of transactions in which midstream entities process our wet gas and, in some scenarios, subsequently market the resulting NGLs and residue gas to third-party customers on our behalf. These types of transactions require judgment to determine whether we are the principal or the agent in the contract and, as a result, whether revenues are recorded gross or net.

Transaction Price Allocated to Remaining Performance Obligations

A significant number of our product sales are short-term in nature with a contract term of one year or less. For those contracts, we have utilized the practical expedient allowed in the new revenue accounting standard that exempts us from disclosure of the transaction price allocated to remaining performance obligations if the performance obligation is part of a contract that has an original expected duration of one year or less.

For our product sales that have a contract term greater than one year, we have also utilized the practical expedient that states that we are not required to disclose the transaction price allocated to remaining performance obligations if the variable consideration is allocated entirely to a wholly unsatisfied performance obligation. Under these sales contracts, each unit of product generally represents a separate performance obligation; therefore, future volumes are wholly unsatisfied and disclosure of the transaction price allocated to remaining performance obligations is not required. Currently, our product sales that have a contractual term greater than one year have no long-term fixed consideration.

Contract Balances

Under our sales contracts, we invoice customers once our performance obligations have been satisfied, at which point payment is unconditional. Accordingly, our product sales contracts do not give rise to contract assets or liabilities. Accounts receivable attributable to our revenue contracts with customers was $354.4 million at September 30, 2018 and $305.7 million at December 31, 2017.

Prior−Period Performance Obligations

We record revenue in the month production is delivered to the purchaser. However, settlement statements for certain gas and NGLs sales may be received for 30 to 90 days after the date production is delivered, and as a result, we are required to estimate the amount of production that was delivered to the purchaser and the price that will be received for the sale of the product. We record the differences between our estimates and the actual amounts for product sales in the month that payment is received from the purchaser. We have internal controls in place for our estimation process and any identified differences between our revenue estimates and actual revenue received historically have not been significant. For the three months and the nine months ended September 30, 2018, revenue recognized in the reporting period related to performance obligations satisfied in prior reporting periods was not material.

(6) INCOME TAXES

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Income tax expense (benefit)	$24,137	$(71,992)	$38,295	$98,054
Effective tax rate	33.2 %	36.1 %	68.1 %	46.7 %

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 third quarter and first nine months ended 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 September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Total income (loss) before income taxes	$72,676	$(199,692)	$56,236	$210,015
U.S. federal statutory rate	21 %	35 %	21 %	35 %
Total tax expense (benefit) at statutory rate	15,262	(69,892)	11,810	73,505
State and local income taxes, net of federal benefit	2,691	(6,537)	3,439	6,591
Non-deductible executive compensation	48	296	601	436
Equity compensation	6	56	2,146	4,808
Change in valuation allowances:				
Federal net operating loss carryforwards & other	—	69	—	3,487
State net operating loss carryforwards & other	5,558	4,286	19,194	10,498
Rabbi trust and other	100	(508)	1,499	(1,561)
Permanent differences and other	472	238	(394)	290
Total expense (benefit) for income taxes	$24,137	$(71,992)	$38,295	$98,054
Effective tax rate	33.2 %	36.1 %	68.1 %	46.7 %

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 September 30, 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 (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 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 sets 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		Nine Months Ended	
	September 30,		September 30,	
	2018	2017	2018	2017
Net income (loss), as reported	$48,539	$(127,700)	$17,941	$111,961
Participating earnings [a]	(590)	(58)	(224)	(1,251)
Basic net income (loss) attributed to common shareholders	47,949	(127,758)	17,717	110,710
Reallocation of participating earnings [a]	2	—	—	1
Diluted net income (loss) attributed to common shareholders	$47,951	$(127,758)	$17,717	$110,711
Net income (loss) per common share:				
Basic	$0.19	$(0.52)	$0.07	$0.45
Diluted	$0.19	$(0.52)	$0.07	$0.45

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

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2018	2017	2018	2017
Weighted average common shares outstanding – basic	246,451	245,244	246,016	245,027
Effect of dilutive securities:				
Director and employee PSUs and RSUs	715	—	863	253
Weighted average common shares outstanding – diluted	247,166	245,244	246,879	245,280

Weighted average common shares outstanding-basic for third quarter 2018 excludes 3.0 million shares of restricted stock held in our deferred compensation plan compared to 2.9 million shares in third quarter 2017 (although all awards are issued and outstanding upon grant). Weighted average common shares outstanding-basic for first nine months 2018 excludes 3.1 million shares of restricted stock compared to 2.8 million for first nine months 2017. For third quarter 2018, equity grants of 506,000 and for first nine months 2018, equity grants of 755,000 were outstanding but not included in the computation of diluted net income per share because the grant prices were greater than the average market price of our common shares and would be anti-dilutive to the computations. Due to our net loss in third quarter 2017, all outstanding equity grants have been excluded from the computation of diluted net loss per share because the effect would have been anti-dilutive to the computations. For first nine months 2017, equity grants of 1.1 million were outstanding but not included in the computation of diluted net income per share because the grant prices were greater than the average market price of our common shares and would be anti-dilutive to the computations. For purposes of calculating diluted weighted average common shares, non-vested restricted stock and performance based equity awards are included in the computation using the treasury stock method with the deemed proceeds equal to the average unrecognized compensation during the period.

(8) Capitalized Costs and Accumulated Depreciation, Depletion and Amortization [a]

	September 30, 2018	December 31, 2017
	(in thousands)	
Natural gas and oil properties:		
Properties subject to depletion	$11,041,412	$10,572,453
Unproved properties	2,601,784	2,644,000
Total	13,643,196	13,216,453
Accumulated depreciation, depletion and amortization	(3,929,060)	(3,649,716)
Net capitalized costs	$9,714,136	$9,566,737

[a] Includes capitalized asset retirement costs and the associated accumulated amortization.

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(9) INDEBTEDNESS

We had the following debt outstanding as of the dates shown below (bank debt interest rate at September 30, 2018 is shown parenthetically). No interest was capitalized during the three months or nine months ended September 30, 2018 or the year ended December 31, 2017 (in thousands).

	September 30, 2018	December 31, 2017
Bank debt (3.9%)	$1,266,000	$1,211,000
Senior notes:		
4.875% senior notes due 2025	750,000	750,000
5.00% senior notes due 2023	741,531	741,531
5.00% senior notes due 2022	580,032	580,032
5.75% senior notes due 2021	475,952	475,952
5.875% senior notes due 2022	329,244	329,244
Other senior notes due 2022	590	590
Total senior notes	2,877,349	2,877,349
Senior subordinated notes:		
5.00% senior subordinated notes due 2023	7,712	7,712
5.00% senior subordinated notes due 2022	19,054	19,054
5.75% senior subordinated notes due 2021	22,214	22,214
Total senior subordinated notes	48,980	48,980
Total debt	4,192,329	4,137,329
Unamortized premium	5,070	6,027
Unamortized debt issuance costs	(36,499)	(34,550)
Total debt net of debt issuance costs	$4,160,900	$4,108,806

Bank Debt

In April 2018, 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 and has a maturity date of April 13, 2023. The bank credit facility provides for a maximum facility amount of $4.0 billion and an initial borrowing base of $3.0 billion. The bank credit facility provides for a borrowing base subject to redeterminations annually by May and for event-driven unscheduled redeterminations. As of September 30, 2018, our bank group was composed of twenty-seven financial institutions with no one bank holding more than 5.8% of the total facility. The borrowing base may be increased or decreased based on our request and sufficient proved reserves, as determined by the bank group. The commitment amount may be increased to the borrowing base, subject to payment of a mutually acceptable commitment fee to those banks agreeing to participate in the facility increase. On September 30, 2018, bank commitments total $2.0 billion and the outstanding balance under our bank credit facility was $1.3 billion, before deducting debt issuance costs. Additionally, we had $281.4 million of undrawn letters of credit leaving $452.6 million of committed borrowing capacity available under the facility. During a non-investment grade period, borrowings under the bank credit facility can either be at the alternate base rate ("ABR," as defined in the bank credit facility agreement) plus a spread ranging from 0.25% to 1.25% or LIBOR borrowings at the LIBOR Rate (as defined in the bank credit facility agreement) plus a spread ranging from 1.25% to 2.25%. 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 3.9% for third quarter 2018 compared to 2.8% for third quarter 2017. The weighted average interest rate was 3.7% for first nine months 2018 compared to 2.6% for first nine months 2017. A commitment fee is paid on the undrawn balance based on an annual rate of 0.30% to 0.375%. At September 30, 2018, the commitment fee was 0.35% and the interest rate margin was 1.75% on our LIBOR loans and 0.75% on our base rate loans.

At any time during which we have an investment grade debt rating from Moody's Investors Service, Inc. or Standard & Poor's Ratings Services and we have elected, at our discretion, to effect the investment grade rating period, certain collateral security requirements, including the borrowing base requirement and restrictive covenants, will cease to apply and an additional financial covenant (as defined in the bank credit facility) will be imposed. During the investment grade period, borrowings under the credit facility can either be at the ABR plus a spread ranging from 0.125% to 0.75% or at the LIBOR Rate plus a spread ranging from 1.125% to 1.75% depending on our debt rating. The commitment fee paid on the undrawn balance would range from 0.15% to 0.30%. We currently do not have an investment grade debt rating.

Senior Notes

In September 2016, in conjunction with the acquisition of Memorial Resource Development Corp. (the "MRD Merger"), we issued $329.2 million senior unsecured 5.875% notes due 2022 (the "5.875% Notes"). In addition, we also completed a debt exchange offer to exchange senior subordinated notes for the following senior notes (in thousands):

	Principal Amount
5.00% senior notes due 2023	$741,531
5.00% senior notes due 2022	$580,032
5.75% senior notes due 2021	$475,952

All of the notes were offered to qualified institutional buyers and to non-U.S. persons outside the United States in compliance with Rule 144A and Regulation S under the Securities Act of 1933, as amended (the "Securities Act"). On October 5, 2017, the 5.875% Notes, the 5.00% senior notes due 2023, the 5.00% senior notes due 2022 and the 5.75% senior notes due 2021 (collectively, the "Old Notes") were exchanged for an equal principal amount of registered notes pursuant to an effective registration statement on Form S-4 filed with the SEC on August 9, 2017 under the Securities Act (the "New Notes"). The New Notes are identical to the Old Notes except the New Notes are registered under the Securities Act and do not have restrictions on transfer, registration rights or provisions for additional interest. Under certain circumstances, if we experience a change of control, noteholders may require us to repurchase all of our senior notes at 101% of the aggregate principal amount plus accrued and unpaid interest, if any.

Senior Subordinated Notes

If we experience a change of control, noteholders may require us to repurchase all or a portion 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 are subordinated to existing and future senior debt that we or our subsidiary guarantors are permitted to incur.

Guarantees

Range is a holding company which owns no operating assets and has no significant operations independent of its subsidiaries. The guarantees by our subsidiaries, which are directly or indirectly owned by Range, of our senior notes, senior subordinated notes and our bank credit facility 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

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 certain investments. In addition, we are required to maintain a ratio of EBITDAX (as defined in the bank credit facility agreement) to cash interest expense of equal to or greater than 2.5 and a current ratio (as defined in the bank credit facility agreement) of no less than 1.0. In addition, the ratio of the present value of proved reserves (as defined in the credit agreement) to total debt must be equal to or greater than 1.5 until Range has two investment grade ratings. We were in compliance with applicable covenants under the bank credit facility at September 30, 2018.

(10) 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 lives. 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 nine months ended September 30, 2018 is as follows (in thousands):

	Nine Months Ended September 30, 2018
Beginning of period	$ 276,855
Liabilities incurred	2,668
Disposition of wells	(8,665)
Acquisitions	13,438
Liabilities settled	(3,803)
Accretion expense	12,132
Change in estimate	4,347
End of period	296,972
Less current portion	(6,327)
Long-term asset retirement obligations	$ 290,645

Accretion expense is recognized as a component of depreciation, depletion and amortization expense in the accompanying consolidated statements of operations. Acquisitions include an increase in our interest in certain properties in Northwest Pennsylvania.

(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 utilize commodity swaps, collars, calls or swaptions 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") for natural gas and crude oil or Mont Belvieu for NGLs, approximated a net loss of $104.8 million at September 30, 2018. These contracts expire monthly through December 2020. The following table sets forth our commodity-based derivative volumes by year as of September 30, 2018, excluding our basis and freight swaps which are discussed separately below:

Period	Contract Type	Volume Hedged	Weighted Average Hedge Price
Natural Gas			
2018	Swaps	1,193,370 Mmbtu/day	$ 2.96
2019	Swaps	594,589 Mmbtu/day	$ 2.82
2018	Calls	70,000 Mmbtu/day	$ 3.10 (1)
2018	Swaptions	160,000 Mmbtu/day	$ 3.07 (2)
2019	Swaptions	298,014 Mmbtu/day	$ 2.86 (2)
2020	Swaptions	10,000 Mmbtu/day	$ 2.75 (2)
Crude Oil			
2018	Swaps	8,500 bbls/day	$ 53.20
2019	Swaps	7,000 bbls/day	$ 55.26
2020	Swaps	1,500 bbls/day	$ 60.63
2019	Collars	1,000 bbls/day	$ 63.00 – $ 73.03
NGLs (C3-Propane)			
2018	Swaps	11,668 bbls/day	$ 0.74/gallon
January – June 2019	Swaps	7,500 bbls/day	$ 0.92/gallon
2018	Collars	5,000 bbls/day	$ 0.95 – $ 1.04
January – March 2019	Collars	6,500 bbls/day	$ 0.92 – $1.02
NGLs (NC4-Normal Butane)			
2018	Swaps	5,500 bbls/day	$ 0.91/gallon
January – March 2019	Swaps	2,250 bbls/day	$ 1.22/gallon
NGLs (C5-Natural Gasoline)			
2018	Swaps	5,402 bbls/day	$ 1.24/gallon
2019	Swaps	2,178 bbls/day	$ 1.42/gallon

(1) Weighted average deferred premium of $0.16.

(2) Contains a combined derivative instrument consisting of a fixed price swap and a sold option to extend or double the volume. For October through December of 2018, we have swaps in place for 160,000 Mmbtu per day on which the counterparty can elect to extend the contract through December 2019 at a weighted average price of $3.07. We have swaps in place for 2019 for 185,000 Mmbtu/day on which the counterparty can elect to double the volume at a

weighted average price of $2.89. We also have swaps in place for 2019 for 150,000 Mmbtu per day on which the counterparty can elect to extend the contract through December 2020 at a weighted average price of $2.81. For 2020, we have swaps in place for 10,000 Mmbtu/day on which the counterparty can elect to double the volume at a weighted average price of $2.75.

Every derivative instrument is required to be recorded on the balance sheet as either an asset or a liability measured at its fair value. We recognize all changes in fair value of these derivatives as earnings in derivative fair value income or loss in the periods in which they occur.

Basis Swap Contracts

In addition to the swaps, collars, calls and swaptions described above, at September 30, 2018, we had natural gas basis swap contracts which lock in the differential between NYMEX Henry Hub and certain of our physical pricing indices. These contracts settle monthly through September 2021 and include a total volume of 73,660,000 Mmbtu. The fair value of these contracts was a loss of $1.3 million at September 30, 2018.

At September 30, 2018, we also had propane spread swap contracts which lock in the differential between Mont Belvieu and international propane indices. The contracts settle monthly through December 2019 and include a total volume of 1,943,000 barrels. The fair value of these contracts was a loss of $2.0 million at September 30, 2018.

Freight Swap Contracts

In connection with our international propane sales, we utilize propane swaps. To further hedge our propane price, at September 30, 2018, we had freight swap contracts on the Baltic Exchange which lock in the freight rate for a specific trade route. These contracts settle monthly through December 2019 and cover 5,000 metric tons per month with a fair value gain of $301,000 at September 30, 2018. These contracts use observable third-party pricing inputs that we consider to be Level 2 fair value classification.

Derivative Assets and Liabilities

The combined fair value of derivatives included in the accompanying consolidated balance sheets as of September 30, 2018 and December 31, 2017 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):

		September 30, 2018		
		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	$6,503	$(4,745)	$ 1,758
	–swaptions	12,893	(12,700)	193
	–basis swaps	1,246	(1,112)	134
Crude oil	–swaps	—	(799)	(799)
	–collars	—	(69)	(69)
NGLs	–C3 propane swaps	3	(3)	—
	–C3 propane spread swaps	25,747	(25,747)	—
Freight	–swaps	301	(301)	—
		$46,693	$(45,476)	$ 1,217

September 30, 2018		
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	$ (10,030)	$ 4,745	$ (5,285)
	–swaptions	(8,759)	12,700	3,941
	–basis swaps	(2,548)	1,112	(1,436)
	–calls	(504)	—	(504)
Crude oil	–swaps	(57,424)	799	(56,625)
	–collars	(717)	69	(648)
NGLs	–C3 propane swaps	(20,363)	3	(20,360)
	–C3 propane collars	(3,237)	—	(3,237)
	–C3 propane spread swaps	(27,741)	25,747	(1,994)
	–NC4 butane swaps	(8,223)	—	(8,223)
	–C5 natural gasoline swaps	(14,937)	—	(14,937)
Freight	–swaps	—	301	301
		$ (154,483)	$ 45,476	$ (109,007)

		December 31, 2017		
		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	$87,794	$(4,106)	$83,688
	–swaptions	18,817	(8,103)	10,714
	–basis swaps	1,815	(6,673)	(4,858)
	–collars	3,039	(500)	2,539
Crude oil	–swaps	2	(7,928)	(7,926)
NGLs	–C2 ethane swaps	57	—	57
	–C3 propane swaps	—	(12,556)	(12,556)
	–C3 propane collars	85	(85)	—
	–C3 propane spread swaps	12,762	(12,762)	—
	–NC4 butane swaps	—	(6,051)	(6,051)
	–C5 natural gasoline swaps	—	(6,727)	(6,727)
Freight	–swaps	276	(276)	—
		$124,647	$(65,767)	$58,880

		December 31, 2017		
		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	$(216)	$4,106	$3,890
	–swaptions	(12,283)	8,103	(4,180)
	–basis swaps	(9,580)	6,673	(2,907)
	–collars	—	500	500
Crude oil	–swaps	(24,726)	7,928	(16,798)
NGLs	–C3 propane swaps	(34,325)	12,556	(21,769)
	–C3 propane collars	—	85	85
	–C3 propane spread swaps	(13,983)	12,762	(1,221)
	–NC4 butane swaps	(11,188)	6,051	(5,137)

	–C5 natural gasoline swaps	(13,488)	6,727	(6,761)
Freight	–swaps	—	276	276
		$(119,789)	$65,767	$ (54,022)

The effects of our derivatives on our consolidated statements of operations are summarized below (in thousands):

	Derivative Fair Value (Loss) Income			
	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2018	2017	2018	2017
Commodity swaps	$(35,868)	$(87,861)	$(143,598)	$172,457
Swaptions	7,093	(7,602)	4,100	(7,602)
Collars	(3,965)	956	(4,031)	15,221
Puts	—	(73)	—	9,646
Calls	197	104	526	1,144
Basis swaps	(2,350)	6,113	(9,043)	(2,554)
Freight swaps	302	(63)	156	14
Total	$(34,591)	$(88,426)	$(151,890)	$188,326

(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 do 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 for which there is little, if any, market activity for the asset or liability being measured. These inputs reflect management’s best estimates of the assumptions market participants would use in determining fair value. Our Level 3 measurements consist of instruments using standard pricing models and other valuation methods that utilize unobservable pricing inputs that are significant to the overall 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.

Significant uses of fair value measurements include:

- impairment assessments of long-lived assets;
- impairment assessments of goodwill; and
- recorded value of derivative instruments and trading securities.

The need to test long-lived assets and goodwill can be based on several indicators, including a significant reduction in prices of natural gas, oil and condensate, NGLs, sustained declines in our common stock, unfavorable adjustments to reserves, significant changes in the expected timing of production, other changes to contracts or changes in the regulatory environment in which a property is located.

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 September 30, 2018 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, 2018
Trading securities held in the deferred compensation plans	$67,108	$—	$ —	$67,108
Derivatives –swaps	—	(104,471)	—	(104,471)
–collars	—	(717)	(3,237)	(3,954)
–calls	—	(504)	—	(504)
–basis swaps	—	(3,296)	—	(3,296)
–freight swaps	—	301	—	301
–swaptions	—	—	4,134	4,134

	Fair Value Measurements at December 31, 2017 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, 2017
Trading securities held in the deferred compensation plans	$67,117	$ —	$ —	$ 67,117
Derivatives –swaps	—	3,910	—	3,910
–collars	—	3,039	85	3,124

–basis swaps	—	(9,025)	39	(8,986)
–freight swaps	—	276	—	276
–swaptions	—	—	6,534	6,534

Our trading securities in Level 1 are exchange-traded and measured at fair value with a market approach using end of period 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. As of September 30, 2018, a portion of our natural gas derivative instruments contains swaptions where the counterparty has the right, but not the obligation, to enter into a fixed price swap on a pre-determined date. Derivatives in Level 3 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. Subjectivity in the volatility factors utilized can cause a significant change in the fair value measurement of our swaptions. The following is a reconciliation of the beginning and ending balances for derivative instruments classified as Level 3 in the fair value hierarchy (in thousands):

	As of September 30, 2018
Balance at December 31, 2017	$ 6,658
Total losses:	
Included in earnings	1,876
Settlements	(4,690)
Transfer out of Level 3 [1]	(2,947)
Balance at September 30, 2018	$ 897

[1] During first nine months 2018, we transferred $2.9 million of swaption contracts out of Level 3 due to the exercise of these swaptions by our counterparties.

Our trading securities held in the deferred compensation plan are accounted for using the mark-to-market accounting method and are included in other assets in the accompanying consolidated balance sheets. 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 or losses are included in deferred compensation plan expense in the accompanying consolidated statements of operations. For third quarter 2018, interest and dividends were $225,000 and the mark-to-market adjustment was a gain of $1.3 million compared to interest and dividends of $1.5 million and a mark-to-market gain of $1.1 million in third quarter 2017. For first nine months 2018, interest and dividends were $606,000 and the mark-to-market gain was $522,000 compared to interest and dividends of $2.4 million and mark-to-market gain of $4.1 million in the same period of the prior year.

Fair Values—Goodwill

During 2016, we recorded goodwill associated with 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. Our policy is to first assess qualitative factors in order to determine whether fair value is more likely than not less than carrying value. Certain qualitative factors used in our evaluation include, among other things, the result of the most recent quantitative assessment of the goodwill impairment test, macroeconomic conditions; industry and market conditions (including commodity prices and cost factors); overall financial performance; and others relevant entity-specific events. If, after considering these events and circumstances, we determine that it is more likely than not that the fair value is less than carrying value, a quantitative goodwill test is performed. 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 nine months 2018 that would have more likely than not reduced the fair value of our reporting unit below its carrying value.

Fair Values—Non-recurring

Our proved natural gas and oil properties are reviewed for impairment periodically as events or changes in circumstances indicate the carrying amount may not be recoverable. In second quarter 2018, we increased our interest in certain properties in our shallow legacy oil and natural gas assets in Northwest Pennsylvania for a minimal dollar amount for which the fair value was previously determined to be zero. As a result, in second quarter 2018, we recorded additional impairment of $15.3 million related to these properties. In first quarter 2018, there were indicators that the carrying value of certain of our oil gas properties in Oklahoma may be impaired and undiscounted future cash flows attributed to these assets indicated their carrying amounts were not expected to be recovered. Their remaining fair value was measured using a market approach based upon the potential sale of these properties, which is a Level 3 input. We recorded non-cash charges in first quarter 2018 of $7.3 million related to these properties. In third quarter 2017, there were indicators that the carrying value of certain of our properties in Oklahoma and the Texas Panhandle may be impaired and undiscounted future cash flows attributed to these assets indicated their carrying amounts were not expected to be recovered. We also considered the potential sale of these assets. We recorded non-cash charges in third quarter 2017 of $63.7 million related to these properties. The following presents the value of these assets measured at fair value on a non-recurring basis at the time impairment was recorded (in thousands):

Three Months Ended				Nine Months Ended			
September 30,				September 30,			
2018		2017		2018		2017	
Fair Value	Impairment	Fair Value	Impairment	Fair Value	Impairment	Fair Value	Impairment

Natural gas and oil properties	$—	$—	$85,597	$63,679	$32,516	$22,614	$85,597	$63,679

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Fair Values—Reported

The following presents the carrying amounts and the fair values of our financial instruments as of September 30, 2018 and December 31, 2017 (in thousands):

	September 30, 2018		December 31, 2017	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Assets:				
Commodity swaps, options and basis swaps	$1,217	$1,217	$58,880	$58,880
Marketable securities [(a)]	67,108	67,108	67,117	67,117
(Liabilities):				
Commodity swaps, options and basis swaps	(109,007)	(109,007)	(54,022)	(54,022)
Bank credit facility [(b)]	(1,266,000)	(1,266,000)	(1,211,000)	(1,211,000)
5.75% senior notes due 2021 [(b)]	(475,952)	(489,555)	(475,952)	(493,872)
5.00% senior notes due 2022 [(b)]	(580,032)	(574,493)	(580,032)	(578,727)
5.875% senior notes due 2022 [(b)]	(329,244)	(334,439)	(329,244)	(339,200)
Other senior notes due 2022 [(b)]	(590)	(586)	(590)	(591)
5.00% senior notes due 2023 [(b)]	(741,531)	(728,576)	(741,531)	(735,614)
4.875% senior notes due 2025 [(b)]	(750,000)	(712,193)	(750,000)	(733,755)
5.75% senior subordinated notes due 2021 [(b)]	(22,214)	(22,825)	(22,214)	(22,192)
5.00% senior subordinated notes due 2022 [(b)]	(19,054)	(18,863)	(19,054)	(18,741)
5.00% senior subordinated notes due 2023 [(b)]	(7,712)	(7,567)	(7,712)	(7,614)
Deferred compensation plan [(c)]	(112,827)	(112,827)	(114,414)	(114,414)

(a) Marketable securities, which are held in our deferred compensation plans, are actively traded on major exchanges.
(b) The book value of our bank debt approximates fair value because of its floating rate structure. The fair value of our senior notes and our senior subordinated notes is based on end of period market quotes which are Level 2 inputs.
(c) The fair value of our deferred compensation plan is updated at the closing price on the balance sheet date which is a Level 1 input.

Our current assets and liabilities include financial instruments, the most significant of which are trade accounts receivable and payable. We believe the carrying values of our current assets and liabilities approximate fair value. Our fair value assessment incorporates a variety of considerations, including (1) the short-term duration of the instruments and (2) our historical and expected incurrence of bad debt expense. Non-financial liabilities initially measured at fair value include asset retirement obligations. For additional information, see Note 10.

Concentrations of Credit Risk

As of September 30, 2018, our primary concentrations of credit risk are the risks of not collecting accounts receivable and the risk of a counterparty's failure to perform under derivative obligations. 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 securities are obtained as deemed necessary to limit our risk of loss. Our allowance for uncollectable receivables was $5.9 million at September 30, 2018 and $7.1 million at December 31, 2017. Our derivative exposure to credit risk is diversified primarily among major investment grade financial institutions, where we have master netting agreements which provide for offsetting payables against receivables from separate derivative contracts. To manage counterparty risk associated with our derivatives, we select and monitor our counterparties based on our assessment of their financial strength and/or credit ratings. We may also limit the level of exposure with any single counterparty. At September 30,

2018, our derivative counterparties include twenty-one financial institutions, of which all but five are secured lenders in our bank credit facility. At September 30, 2018, our net derivative liability includes a net payable of $23.9 million to these five counterparties that are not participants in our bank credit facility.

(13) STOCK-BASED COMPENSATION PLANS

Stock-Based Awards

We have one active equity-based stock plan, our Amended and Restated 2005 Equity-Based Incentive Compensation Plan, which we refer to as the 2005 Plan. Under this plan, various awards may be issued to non-employee directors and employees pursuant to decisions of the Compensation Committee, which is composed of only non-employee, independent directors. To better align the timing of senior officer equity awards with our proxy statement filing in 2018, senior officer equity grants were in March 2018 rather than May, as in previous years.

Total Stock-Based Compensation Expense

Stock-based compensation represents amortization of restricted stock and performance units. Unlike the other forms of stock-based compensation, the mark-to-market adjustment of the liability related to the vested restricted stock held in our deferred

compensation plan is directly tied to the change in our stock price and not directly related to the functional expenses and therefore, is not allocated to the functional categories. The following details the allocation of stock-based compensation to functional expense categories (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Direct operating expense	$537	$517	$1,667	$1,563
Brokered natural gas and marketing expense	403	389	1,001	1,040
Exploration expense	405	561	1,527	1,596
General and administrative expense	5,607	9,959	38,332	35,156
Termination costs	—	(31)	—	1,665
Total stock-based compensation	$6,952	$11,395	$42,527	$41,020

Stock-Based Awards

Restricted Stock Awards. We grant restricted stock units under our equity-based stock compensation plan. These restricted stock units, which we refer to as restricted stock Equity Awards, generally vest over a three year period, contingent on the recipient's continued employment. The grant date fair value of the Equity Awards is based on the fair market value of our common stock on the date of grant.

The Compensation Committee also grants restricted stock to certain employees and non-employee directors of the board of directors as part of their compensation. We also grant restricted stock to certain employees for retention purposes. Compensation expense is recognized over the balance of the vesting period, which is typically three years for employee grants and immediate vesting for non-employee directors. All restricted stock awards are issued at prevailing market prices at the time of the grant and the vesting is based upon an employee's continued employment with us. Prior to vesting, all restricted stock awards have the right to vote such stock and receive dividends thereon. Upon grant of these restricted shares, which we refer to as restricted stock Liability Awards, the majority of these shares are generally placed in our deferred compensation plan and, upon vesting, withdrawals are allowed in either cash or in stock. These Liability Awards are classified as a liability and are remeasured at fair value each reporting period. This mark-to-market amount is reported in deferred compensation plan expense in the accompanying consolidated statements of operations. Historically, we have used authorized but unissued shares of stock when restricted stock is granted. However, we also utilize treasury shares when available.

Stock-Based Performance Units. We grant three types of performance share awards: two based on performance conditions measured against internal performance metrics (Production Growth Awards or "PG-PSUs" and Reserve Growth Awards or "RG-PSUs") and one based on market conditions measured based on Range's performance relative to a predetermined peer group (TSR Awards or "TSR-PSUs").

Each unit granted represents one share of our common stock. These units are settled in stock and the amount of the payout is based on (1) the vesting percentage, which can be from zero to 200% based on performance achieved and (2) the value of our common stock on the vesting date which is determined by the Compensation Committee. Dividend equivalents may accrue during the performance period and would be paid in stock at the end of the performance period. The performance period for the TSR-PSUs is three years. The performance period for the PG/RG-PSUs is based on annual performance targets earned over a three-year period.

SARs. At September 30, 2018, there were 1,104 SARs outstanding.

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Restricted Stock – Equity Awards

In first nine months 2018, we granted 1.8 million restricted stock Equity Awards to employees at an average price of $16.97 which generally vest over a three-year period compared to 883,000 at an average price of $32.81 in first nine months 2017. We recorded compensation expense for these awards of $18.2 million in first nine months 2018 compared to $18.1 million in the same period of 2017. Restricted stock Equity Awards are not issued to employees until such time as they are vested and the employees do not have the option to receive cash.

Restricted Stock – Liability Awards

In first nine months 2018, we granted 877,000 shares of restricted stock Liability Awards as compensation to employees at an average price of $15.30 which vests generally over a three-year period and 138,000 shares were granted to non-employee directors at an average price of $15.54 with immediate vesting. The timing of equity grants to senior officers was moved to March 2018 to align with our proxy statement filings compared to grants in May in previous years. In first nine months 2017, we granted 451,000 shares of restricted stock Liability Awards as compensation to employees at an average price of $25.95 with vesting generally over a three-year period and 90,000 shares were granted to non-employee directors at an average price of $25.01 with immediate vesting. We recorded compensation expense for these Liability Awards of $11.0 million in first nine months 2018 compared to $12.0 million in first nine months 2017. The majority of these awards are held in our deferred compensation plan, are classified as a liability and are remeasured at fair value each reporting period. This mark-to-market amount is reported as deferred compensation expense in our consolidated statements of operations (see additional discussion below). The following is a summary of the status of our non-vested restricted stock outstanding at September 30, 2018:

	Restricted Stock Equity Awards		Restricted Stock Liability Awards	
	Shares	Weighted Average Grant Date Fair Value	Shares	Weighted Average Grant Date Fair Value
Outstanding at December 31, 2017	833,058	$ 31.64	55,202	$ 32.26
Granted	1,816,432	16.97	877,191	15.30
Vested	(792,382)	23.76	(733,634)	15.99
Forfeited	(191,332)	21.74	(23,900)	19.76
Outstanding at September 30, 2018	1,665,776	$ 20.53	174,859	$ 17.14

Stock-Based Performance Units

Production Growth and Reserve Growth Awards. The PG-PSUs and RG-PSUs vest at the end of the three-year performance period. The performance metrics for each year are set by the Compensation Committee no later than March 31 of such year. If the performance metric for the applicable period is not met, then the portion is considered forfeited. The following is a summary of our non-vested PG/RG-PSUs awards outstanding at September 30, 2018:

	Number of Units	Weighted Average Grant Date Fair Value

Outstanding at December 31, 2017	122,921	$18.66
Units granted [a]	440,938	15.22
Forfeited [b]	(27,061)	23.03
Outstanding at September 30, 2018	536,798	$15.61

[a] Amounts granted reflect the number of performance units granted; however, the actual payout of shares will be between zero and 200% depending on achievement of specifically identified performance targets.

[b] The first of three tranches of PG-PSUs granted in 2017 are considered forfeited as the performance metric was not met.

We recorded PG/RG-PSUs compensation expense of $5.8 million in first nine months 2018 compared to $124,000 in first nine months 2017.

TSR Awards. TSR-PSUs granted are earned, or not earned, based on the comparative performance of Range's common stock measured against a predetermined group of companies in the peer group over a three-year performance period. The fair value of the TSR-PSUs is estimated on the date of grant using a Monte Carlo simulation model which utilizes multiple input variables that determine the probability of satisfying the market condition stipulated in the award grant and calculates the fair value of the award. The fair value is recognized as stock-based compensation expense over the three year performance period. Expected volatilities utilized in the model were estimated using a combination of a historical period consistent with the remaining performance period of three years and option implied volatilities. The risk-free interest rate was based on the United States Treasury rate for a term commensurate with the life of the grant. The following assumptions were used to estimate the fair value of PSUs granted during first nine months 2018 and 2017:

	Nine Months Ended September 30,	
	2018	2017
Risk-free interest rate	2.42 %	1.49 %
Expected annual volatility	48 %	44 %
Grant date fair value per unit	$18.51	$26.26

The following is a summary of our non-vested TSR – PSUs award activities:

	Number of Units	Weighted Average Grant Date Fair Value
Outstanding at December 31, 2017	1,009,842	$ 38.38
Units granted [a]	329,486	18.51
Vested and issued [b]	(73,985)	56.81
Forfeited	(197,457)	55.46
Outstanding at September 30, 2018	1,067,886	$ 27.81

[a] These amounts reflect the number of performance units granted. The actual payout of shares may be between zero and 200% of the performance units granted depending on the total shareholder return ranking compared to our peer companies at the vesting date.