RANGE RESOURCES CORP
Form 10-Q
October 24, 2017

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark one)

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

OR

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

Commission File Number: 001-12209

RANGE RESOURCES CORPORATION

(Exact Name of Registrant as Specified in Its Charter)

Delaware	34-1312571
(State or Other Jurisdiction of 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

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

RANGE RESOURCES CORPORATION

FORM 10-Q

Quarter Ended September 30, 2017

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

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PART I – FINANCIAL INFORMATION

ITEM 1. Financial Statements

RANGE RESOURCES CORPORATION

CONSOLIDATED BALANCE SHEETS

(In thousands, except per share data)

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

Total liabilities	6,100,259	5,873,877
Commitments and contingencies		
Stockholders' Equity		
Preferred stock, $1 par, 10,000,000 shares authorized, none issued and outstanding	—	—
Common stock, $0.01 par, 475,000,000 shares authorized, 248,138,258 issued at September 30, 2017 and 247,174,903 issued at December 31, 2016	2,481	2,471
Common stock held in treasury, 14,967 shares at September 30, 2017 and 30,547 shares at December 31, 2016	(599)	(1,209)
Additional paid-in capital	5,555,830	5,524,423
Retained earnings (deficit)	(20,232)	(117,317)
Total stockholders' equity	5,537,480	5,408,368
Total liabilities and stockholders' equity	$ 11,637,739	$ 11,282,245

See accompanying notes.

RANGE RESOURCES CORPORATION

CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited, in thousands, except per share data)

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

See accompanying notes.

RANGE RESOURCES CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited, in thousands)

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

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

See accompanying notes.

RANGE RESOURCES CORPORATION

SELECTED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

(1) SUMMARY OF ORGANIZATION AND NATURE OF BUSINESS

Range Resources Corporation is a Fort Worth, Texas-based independent natural gas, natural gas liquids (“NGLs”) and oil company primarily engaged in the exploration, development and acquisition of natural gas and oil properties in the Appalachian and the North Louisiana regions of the United States. Our objective is to build stockholder value through consistent returns focused on the growth, on a per share debt-adjusted basis, of both reserves and production. Range is a Delaware corporation with our common stock listed and traded on the New York Stock Exchange under the symbol “RRC”.

(2) BASIS OF PRESENTATION

These interim financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Range Resources Corporation 2016 Annual Report on Form 10-K filed with the Securities and Exchange Commission (the “SEC”) on February 22, 2017. The results of operations for the third quarter and the nine months ended September 30, 2017 are not necessarily indicative of the results to be expected for the full year. These consolidated financial statements are unaudited but, in the opinion of management, reflect all adjustments necessary for fair presentation of the results for the periods presented. All adjustments are of a normal recurring nature unless otherwise disclosed. These consolidated financial statements, including selected notes, have been prepared in accordance with the applicable rules of the SEC and do not include all of the information and disclosures required by accounting principles generally accepted in the United States of America (“U.S. GAAP”) for complete financial statements.

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

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

(3) NEW ACCOUNTING STANDARDS

Not Yet Adopted

In May 2014, an accounting standards update was issued that supersedes the existing revenue recognition requirements. This standard includes a five-step revenue recognition model to depict the transfer of goods or services to customers in an amount that reflects the consideration to which we expect to be entitled in exchange for those goods or services. Among other things, the standard also eliminates industry-specific revenue guidance, requires enhanced disclosures about revenue, provides guidance for transactions that were not previously addressed comprehensively and improves guidance for multiple-element arrangements. This standard is effective for us in first quarter 2018 and we expect to adopt the new standard using the modified retrospective method of adoption. We are utilizing a bottom-up approach to analyze the impact of the new standard on our contracts by reviewing our current accounting policies and practices to identify potential differences that would result from applying the requirements of the new standard to our revenue contracts and the impact of adopting this standards update on our total revenues,

operating income (loss) and our consolidated balance sheet. We are currently completing our detailed analysis of our portfolio of contracts at the individual contract level as we continue to evaluate the impact of this accounting standards update on our consolidated results of operations, financial position, cash flows and financial disclosures, in addition to developing any process or control changes necessary. We have identified and implemented a number of control changes necessary for adoption.

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

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

Recently Adopted

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

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

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

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

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

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

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

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

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

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

(4) ACQUISITIONS AND DISPOSITIONS

Memorial Merger

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

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

Purchase price:	
Shares of Range common stock issued to Memorial stockholders	77,042,749
Range common stock price per share at September 15, 2016 (close)	$39.37
Total purchase price	$3,033,173
Plus fair value of liabilities assumed by Range:	
Accounts payable	$55,624
Other current liabilities	108,367
Long-term debt	1,204,449
Deferred taxes	547,706
Other long-term liabilities	77,223
Total purchase price plus liabilities assumed	$5,026,542
Fair value of Memorial assets:	
Cash and equivalents	$7,180
Other current assets	99,969
Derivative instruments	152,994
Natural gas and oil properties:	
Proved property	1,122,311

Unproved property	1,999,187
Other property and equipment	3,579
Goodwill [a]	1,641,197
Other	125
Total asset value	$5,026,542

[a] Goodwill will not be deductible for income tax purposes.

The fair value measurements of derivative instruments assumed were determined based on published forward commodity price curves as of the date of the MRD Merger and represent Level 2 inputs. Derivative instruments in an asset position include a measure of counterparty nonperformance risk and the fair values of commodity derivative instruments in a liability position include a measure of our own nonperformance risk, based on the current published credit default swap rates and other market based indicators. The fair value measurements of long-term debt were estimated based on published market prices and represent Level 1 inputs.

The fair value measurements of natural gas and oil properties and asset retirement obligations are based on inputs that are not observable in the market and therefore represent Level 3 inputs. The fair values of natural gas and oil properties and asset retirement obligations were measured using valuation techniques that convert future cash flows to a single discounted amount. Significant inputs to the valuation of natural gas and oil properties include estimates of: (i) recoverable reserves, (ii) production rates, (iii) future operating and development costs, (iv) future commodity prices and (v) a market-based weighted average costs of capital rate. These inputs require significant judgments and estimates by management at the time of the valuation and may be subject to change. Management utilized the assistance of a third party valuation expert to estimate the value of natural gas and oil properties acquired. In some cases, certain amounts allocated to unproved properties are based on a market approach using third party published data which provides lease pricing information based on certain geographic areas and represent Level 2 inputs.

Goodwill is attributed to net deferred tax liabilities arising from the differences between the purchase price allocated to Memorial's assets and liabilities based on fair value and the tax basis of these assets and liabilities. In addition, the total consideration for the MRD Merger included a control premium, which resulted in a higher value compared to the fair value of net assets acquired. There are also other qualitative assumptions of long-term factors that the MRD Merger creates including additional potential for exploration and development opportunities, additional scale and efficiencies in other basins in which we operate and substantial operating and administrative synergies.

The results of operations attributable to Memorial are included in our consolidated statements of operations beginning on September 16, 2016. We recognized $369.9 million of natural gas, oil and NGLs revenues and $220.0 million of field net operating income from these assets from January 1, 2017 to September 30, 2017.

Pro forma Financial Information. The following pro forma condensed combined financial information was derived from the historical financial statements of Range and Memorial and gives effect to the MRD Merger as if it had occurred on January 1, 2016. The information below reflects pro forma adjustments for the issuance of Range common stock in exchange for Memorial's outstanding shares of common stock, as well as pro forma adjustments based on available information and certain assumptions that we believe are reasonable, including (i) the depletion of Memorial's fair-valued proved oil and gas properties and (ii) the estimated tax impacts of the pro forma adjustments. Additionally, pro forma results for the nine months ended September 30, 2016 were adjusted to exclude $36.4 million of merger-related costs incurred by Range and $7.1 million incurred by Memorial. The pro forma results of operations do not include any cost savings or other synergies that may result from the MRD Merger or any estimated costs that have been or will be incurred by us to integrate the Memorial assets. The pro forma condensed combined financial information is not necessarily indicative of the results that might have actually occurred had the MRD Merger taken place on January 1, 2016. In addition, the pro forma financial information below is not intended to be a projection of future results (in thousands, except per share amounts).

	Three Months Ended September 30, 2016	Nine Months Ended September 30, 2016
Revenues	$521,669	$1,080,768
Net loss	$(18,257)	$(431,225)
Loss per share:		

Basic	$(0.08)	$(1.77)
Diluted	$(0.08)	$(1.77)

2017 Dispositions

We recognized a pretax net gain on the sale of assets of $102,000 in third quarter 2017 compared to a pretax net loss of $2.6 million in the same period of the prior year and a pretax net gain on the sale of assets of $23.5 million in first nine months 2017 compared to a pretax net loss of $7.5 million in the same period of the prior year.

Western Oklahoma. In first nine months 2017, we sold certain 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 properties, inventory, other assets and surface acreage for proceeds of $1.3 million resulting in a pretax gain of $1.3 million.

2016 Dispositions

Western Oklahoma. In third quarter 2016, we sold properties in Western Oklahoma for proceeds of $900,000 and we recorded a loss of $2.6 million. In first six months 2016, we sold certain properties in Western Oklahoma for proceeds of $77.7 million and we recorded a $2.7 million loss related to this sale, after closing adjustments and transaction fees.

Pennsylvania. In first nine months 2016, we sold our non-operated interest in certain wells and gathering facilities in northeast Pennsylvania for proceeds of $111.5 million. After closing adjustments, we recorded a loss of $2.1 million related to this sale.

Other. In third quarter 2016, we sold miscellaneous inventory and surface property for proceeds of $131,000 resulting in a gain of $30,000. In first six months 2016, we sold miscellaneous proved and unproved properties, inventory, other assets and surface acreage for proceeds of $1.7 million resulting in a pretax loss of $198,000. Included in the $1.7 million of proceeds is $1.2 million received from the sale of proved properties in Mississippi and South Texas.

(5) GOODWILL

During 2016, we recorded goodwill associated with the MRD Merger, which represents 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 impairment test is typically performed during the fourth quarter; however, we performed an impairment test as of third quarter 2017 due to a significant decline of our market capitalization. Management utilized the assistance of a third-party valuation expert to determine the fair value of our business (our reporting unit). The fair value was determined based on both a market and an income approach. The fair value measurement using an income approach was based on internally developed estimates of future production levels, prices, drilling and operating costs and discount rates, which are Level 3 inputs. As a result of this measurement, the fair value of our business exceeded the carrying value of net assets and we did not record an impairment charge during third quarter 2017.

(6) INCOME TAXES

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Income tax (benefit) expense	$(71,992)	$(13,705)	$98,054	$(185,169)
Effective tax rate	36.1 %	24.6 %	46.7 %	33.9 %

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 nine months ended September 30, 2017 and 2016, our overall effective tax rate was different than the federal statutory rate of 35% due primarily to state income taxes and other tax items which are detailed below (dollars in thousands).

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Total (loss) income before income taxes	$(199,692)	$(55,676)	$210,015	$(545,848)

U.S. federal statutory rate	35 %	35 %	35 %	35 %
Total tax (benefit) expense at statutory rate	(69,892)	(19,487)	73,505	(191,047)
State and local income taxes, net of federal benefit	(6,537)	(2,007)	6,591	(17,963)
Non-deductible executive compensation	296	446	436	1,128
Non-deductible transaction costs	—	4,838	—	4,838
Tax less than book equity compensation	56	44	4,808	5,374
Change in valuation allowances:				
Federal net operating loss carryforwards & other	69	—	3,487	—
State net operating loss carryforwards & other	4,286	2,815	10,498	10,514
Rabbi trust and other	(508)	(620)	(1,561)	1,656
Permanent differences and other	238	266	290	331
Total (benefit) expense for income taxes	$(71,992)	$(13,705)	$98,054	$(185,169)
Effective tax rate	36.1 %	24.6 %	46.7 %	33.9 %

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(7) (LOSS) 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		Nine Months Ended	
	September 30,		September 30,	
	2017	2016	2017	2016
Net (loss) income, as reported	$(127,700)	$(41,971)	$111,961	$(360,679)
Participating earnings [a]	(58)	(56)	(1,251)	(167)
Basic net (loss) income attributed to common shareholders	(127,758)	(42,027)	110,710	(360,846)
Reallocation of participating earnings [a]	—	—	1	—
Diluted net (loss) income attributed to common shareholders	$(127,758)	$(42,027)	$110,711	$(360,846)
Net (loss) income per common share:				
Basic	$(0.52)	$(0.23)	$0.45	$(2.10)
Diluted	$(0.52)	$(0.23)	$0.45	$(2.10)

(a) Restricted Stock Awards represent participating securities because they participate in nonforfeitable dividends or distributions with common equity owners. Income allocable to participating securities represents the distributed and undistributed earnings attributable to the participating securities. Participating securities, however, do not participate in undistributed net losses.

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

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2017	2016	2017	2016
Weighted average common shares outstanding – basic [1]	245,244	180,683	245,027	171,571
Effect of dilutive securities:				
Director and employee PSUs and RSUs	—	—	253	—
Weighted average common shares outstanding – diluted	245,244	180,683	245,280	171,571

(1) 2017 includes common stock issued in connection with the exchange of 77.0 million shares for all outstanding Memorial common stock on September 16, 2016.

Weighted average common shares outstanding–basic for third quarter 2017 excludes 2.9 million shares of restricted stock held in our deferred compensation plan compared to 2.8 million shares in third quarter 2016 (although all awards are issued and outstanding upon grant). Weighted average common shares outstanding-basic for both the first nine months 2017 and the first nine months 2016 exclude 2.8 million shares of restricted stock. Due to our net loss from operations for the three months ended September 30, 2017, we excluded all outstanding stock appreciation rights (“SARs”), restricted stock and performance shares from the computation of diluted net loss per share because the effect would have been anti-dilutive. For first nine months 2017, SARs of 659,000 were outstanding but not included in the

computation of diluted net income per share because the grant prices of the SARs were greater than the average market price of the common shares and would be anti-dilutive to the computations. In addition, there were 405,000 shares of equity awards for first nine months 2017 excluded from the computation of diluted net income per share because their effect would have been antidilutive. Due to our net loss from operations for the three months and the nine months ended September 30, 2016, we excluded all outstanding SARs, restricted stock and performance shares from the computation of diluted net loss per share because the effect would have been anti-dilutive.

(8) SUSPENDED EXPLORATORY WELL COSTS

We capitalize exploratory well costs until a determination is made that the well has either found proved reserves or that it is impaired. Capitalized exploratory well costs are included in natural gas and oil properties in the accompanying consolidated balance sheets. If an exploratory well is determined to be impaired, the well costs are charged to exploration expense in the accompanying consolidated statements of operations. We do not have any suspended exploratory well costs as of September 30, 2017. The following table reflects the change in capitalized exploratory well costs for the nine months ended September 30, 2017 and the year ended December 31, 2016 (in thousands):

	September 30, 2017	December 31, 2016
Balance at beginning of period	$7,412	$4,161
Additions to capitalized exploratory well costs pending the determination of proved reserves	1,388	9,128
Reclassifications to wells, facilities and equipment based on determination of proved reserves	—	(5,877)
Capitalized exploratory well costs charged to expense	(8,800)	—
Balance at end of period	—	7,412
Less exploratory well costs that have been capitalized for a period of one year or less	—	(7,412)
Capitalized exploratory well costs that have been capitalized for a period greater than one year	$—	$—
Number of projects that have exploratory well costs that have been capitalized greater than one year	—	—

(9) INDEBTEDNESS

We had the following debt outstanding as of the dates shown below (bank debt interest rate at September 30, 2017 is shown parenthetically). No interest was capitalized during the three months or the nine months ended September 30, 2017 or the year ended December 31, 2016 (in thousands).

	September 30, 2017	December 31, 2016
Bank debt (2.8%)	$1,086,000	$882,000
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	1,090
Total senior notes	2,877,349	2,877,849
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	4,012,329	3,808,829
Unamortized premium	6,336	7,241
Unamortized debt issuance costs	(36,703)	(42,553)
Total debt net of debt issuance costs	$3,981,962	$3,773,517

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Bank Debt

In October 2014, 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 October 16, 2019. The bank credit facility provides for a maximum facility amount of $4.0 billion. The bank credit facility provides for a borrowing base subject to redeterminations annually by May and for event-driven unscheduled redeterminations. As part of our annual redetermination completed on March 21, 2017, our borrowing base was reaffirmed at $3.0 billion and our bank commitment was also reaffirmed at $2.0 billion. As of September 30, 2017, our bank group was composed of twenty-nine 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. As of September 30, 2017, the outstanding balance under our bank credit facility was $1.1 billion, before deducting debt issuance costs. Additionally, we had $285.8 million of undrawn letters of credit leaving $628.2 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 2.8% in third quarter 2017 compared to 2.3% in third quarter 2016. The weighted average interest rate was 2.6% for first nine months 2017 compared to 2.3% for first nine months 2016. A commitment fee is paid on the undrawn balance based on an annual rate of 0.30% to 0.375%. At September 30, 2017, the commitment fee was 0.3% and the interest rate margin was 1.5% on our LIBOR loans and 0.5% 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 May 2015, we issued $750.0 million aggregate principal amount of 4.875% senior notes due 2025 (the “Outstanding Notes”) for net proceeds of $737.4 million after underwriting discounts and commissions of $12.6 million. The notes were issued at par and were offered to qualified institutional buyers and non-U.S. persons outside of the United States in compliance with Rule 144A and Regulation S under the Securities Act of 1933, as amended (the “Securities Act”). On April 8, 2016, all of the Outstanding Notes were exchanged for an equal principal amount of registered 4.875% senior notes due 2025 pursuant to an effective registration statement on Form S-4 filed with the SEC on February 29, 2016 under the Securities Act (the “Exchange Notes”). The Exchange Notes are identical to the Outstanding Notes except the Exchange 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.

In September 2016, in conjunction with 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. 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, 2017.

(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, 2017 is as follows (in thousands):

	Nine Months Ended September 30,
	2017
Beginning of period	$ 257,943
Liabilities incurred	5,597
Liabilities settled	(6,125)

Disposition of wells	(2,427)
Accretion expense	11,022
Change in estimate	862
End of period	266,872
Less current portion	(7,271)
Long-term asset retirement obligations	$ 259,601

Accretion expense is recognized as a component of depreciation, depletion and amortization expense in the accompanying consolidated statements of operations.

(11) CAPITAL STOCK

We have authorized capital stock of 485.0 million shares which includes 475.0 million shares of common stock and 10.0 million shares of preferred stock. We currently have no preferred stock issued or outstanding. The following is a schedule of changes in the number of common shares outstanding since the beginning of 2016:

	Nine Months Ended September 30, 2017	Year Ended December 31, 2016
Beginning balance	247,144,356	169,316,460
MRD Merger	—	77,042,749
Restricted stock grants	536,536	490,609
Restricted stock units vested	341,358	266,541
PSU-TSR units settled	85,461	—
Shares retired	—	(739)
Treasury shares issued	15,580	28,736
Ending balance	248,123,291	247,144,356

(12) 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 typically do not utilize complex derivatives, as we utilize commodity swaps, collars, options or combinations thereof 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. In third quarter 2017, we entered into combined natural gas derivative instruments containing a fixed price swap and a sold option to extend or double the volume (referred to as a swaption in the table below). The swap price is a fixed price determined at the time of the swaption contract. If the option is exercised, the contract will become a swap treated consistently with our fixed-price swaps. 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 $14.6 million at September 30, 2017. These contracts expire monthly through December 2019. The following table sets forth our commodity-based derivative volumes by year as of September 30, 2017, excluding our basis and freight swaps which are discussed separately below:

Period	Contract Type	Volume Hedged	Weighted Average Hedge Price
Natural Gas			
2017	Swaps [(1)]	878,370 Mmbtu/day	$ 3.21
2018	Swaps	477,534 Mmbtu/day	$ 3.22
January-March 2019	Swaps	50,000 Mmbtu/day	$ 3.01
2017	Collars [(1)]	122,609 Mmbtu/day	$ 3.45–$ 4.11
2018	Collars	60,000 Mmbtu/day	$ 3.40–$ 3.76
2017	Purchased Puts [(1)]	185,870 Mmbtu/day	$ 3.50 [(2)]
2017	Sold Calls	17,935 Mmbtu/day	$ 3.75 [(3)]
April-December 2018	Swaptions	320,000 Mmbtu/day [(4)]	$ 3.04 [(4)]
2019	Swaptions	60,000 Mmbtu/day [(4)]	$ 3.00 [(4)]
Crude Oil			
2017	Swaps [(1)]	9,511 bbls/day	$ 56.03
2018	Swaps	6,000 bbls/day	$ 52.96
2019	Swaps	1,000 bbls/day	$ 51.50
NGLs (C2-Ethane)			
2017	Swaps	3,000 bbls/day	$ 0.27/gallon
2018	Swaps	250 bbls/day	$ 0.29/gallon
NGLs (C3-Propane)			
2017	Swaps	17,576 bbls/day	$ 0.61/gallon
2018	Swaps	8,935 bbls/day	$0.66/gallon
NGLs (NC4-Normal Butane)			
2017	Swaps	9,000 bbls/day	$ 0.76/gallon
2018	Swaps	4,558 bbls/day	$ 0.81/gallon
NGLs (C5-Natural Gasoline)			
2017	Swaps	6,416 bbls/day	$ 1.08/gallon

2018	Swaps	4,027 bbls/day	$ 1.17/gallon

(1) Includes derivative instruments assumed in connection with the MRD Merger.
(2) Weighted average deferred premium is ($0.32).
(3) Weighted average deferred premium is $0.31.
(4) Contains a combined derivative instrument consisting of a fixed price swap and a sold option to extend or double the volume. For April through December of 2018, we have swaps in place for 160,000 Mmbtu per day on which the counterparty can elect to double the volume at a weighted average price of $3.02. We also 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. In 2019, if the counterparty elects to double the volume, we would have additional swaps covering 60,000 Mmbtu per day at a weighted average price of $3.00.

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 described above, at September 30, 2017, we had natural gas basis swap contracts which lock in the differential between NYMEX Henry Hub and certain of our physical pricing indices primarily in Appalachia. These contracts settle monthly through March 2019 and include a total volume of 130,120,000 Mmbtu. The fair value of these contracts was a loss of $4.7 million on September 30, 2017.

At September 30, 2017, we also had propane basis swap contracts which lock in the differential between Mont Belvieu and international propane indices. The contracts settle monthly through December 2018 and include a total volume of 659,000 barrels in 2017 and 750,000 barrels in 2018. The fair value of these contracts was a gain of $1.1 million on September 30, 2017.

Freight Swap Contracts

In connection with our international propane basis swaps, at September 30, 2017, we had freight swap contracts which lock in the freight rate for a specific trade route on the Baltic Exchange. These contracts settle monthly in fourth quarter 2017 through December 2018 and cover 5,000 metric tons per month with a fair value gain of $45,000 on September 30, 2017.

Derivative Assets and Liabilities

The combined fair value of derivatives included in the accompanying consolidated balance sheets as of September 30, 2017 and December 31, 2016 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, 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	$37,288	$(12,385)	$ 24,903
	–swaptions	9,092	(8,711)	381
	–basis swaps	3,782	(2,774)	1,008
	–collars	6,214	(2,101)	4,113
	–puts	8,547	(4,238)	4,309
Crude oil	–swaps	7,133	(2,918)	4,215
NGLs	–C2 ethane swaps	82	(82)	—
	–C3 propane swaps	—	(2,956)	(2,956)
	–C3 propane basis swaps	18,169	(18,169)	—
	–NC4 butane swaps	34	(4,340)	(4,306)
	–C5 natural gasoline swaps	115	(1,094)	(979)

Freight	–swaps	47	(47)	—
		$ 90,503	$ (59,815)	$ 30,688

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		September 30, 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	$(10,805)	$12,385	$1,580
	–swaptions	(16,694)	8,711	(7,983)
	–basis swaps	(8,458)	2,774	(5,684)
	–collars	—	2,101	2,101
	–puts	—	4,238	4,238
	–calls	(29)	—	(29)
Crude oil	–swaps	(1,031)	2,918	1,887
NGLs	–C2 ethane swaps	(125)	82	(43)
	–C3 propane swaps	(36,046)	2,956	(33,090)
	–C3 propane basis swaps	(17,072)	18,169	1,097
	–NC4 butane swaps	(13,700)	4,340	(9,360)
	–C5 natural gasoline swaps	(4,678)	1,094	(3,584)
Freight	–swaps	(2)	47	45
		$(108,640)	$59,815	$(48,825)

		December 31, 2016		
		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	$13,213	$(11,425)	$1,788
	–basis swaps	12,535	(9,437)	3,098
	–collars	6,298	(6,298)	—
	–puts	18,159	(15,429)	2,730
Crude oil	–swaps	9,356	(3,489)	5,867
NGLs	–C2 ethane swaps	53	(53)	—
	–C3 propane basis swaps	17,396	(17,396)	—

	–NC4 butane swaps	4	(4)	—
Freight	–swaps	65	(65)	—
		$77,079	$(63,596)	$ 13,483

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		December 31, 2016		
		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	$(158,359)	$11,425	$(146,934)
	–basis swaps	(687)	9,437	8,750
	–collars	(2,625)	6,298	3,673
	–puts	—	15,429	15,429
	–calls	(1,041)	—	(1,041)
Crude oil	–swaps	(13,206)	3,489	(9,717)
NGLs	–C2 ethane swaps	(1,008)	53	(955)
	–C3 propane swaps	(32,437)	—	(32,437)
	–C3 propane basis swaps	(18,138)	17,396	(742)
	–NC4 butane swaps	(13,419)	4	(13,415)
	–C5 natural gasoline swaps	(12,176)	—	(12,176)
Freight	–swaps	—	65	65
		$(253,096)	$63,596	$(189,500)

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

	Derivative Fair Value (Loss) Income			
	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Commodity swaps	$(87,861)	$38,662	$172,457	$(40,270)
Swaptions	(7,602)	—	(7,602)	—
Collars	956	1,320	15,221	1,320
Puts	(73)	2,842	9,646	2,842
Calls	104	—	1,144	—
Basis swaps	6,113	21,853	(2,554)	24,929
Freight swaps	(63)	(121)	14	(155)
Total	$(88,426)	$64,556	$188,326	$(11,334)

(13) 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, 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 September 30, 2017
Trading securities held in the deferred compensation plans	$64,784	$ —	$ —	$ 64,784
Derivatives –swaps	—	(21,733)	—	(21,733)
–collars	—	6,214	—	6,214
–puts	—	8,547	—	8,547
–calls	—	(29)	—	(29)
–basis swaps	—	(3,601)	22	