

RANGE RESOURCES CORP

Form 10-Q

April 29, 2009

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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549**

FORM 10-Q

(Mark one)

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934**

For the quarterly period ended March 31, 2009

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

(State or Other Jurisdiction of Incorporation or
Organization)

34-1312571

(IRS Employer Identification No.)

**100 Throckmorton Street, Suite 1200, Fort Worth,
Texas**

(Address of Principal Executive Offices)

76102

(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. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

(Do not check if a smaller reporting company)

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

Yes o No p

156,548,580 Common Shares were outstanding on April 24, 2009.

RANGE RESOURCES CORPORATION
FORM 10-Q
Quarter Ended March 31, 2009

Unless the context otherwise indicates, all references in this report to Range, we, us, or our are to Range Resources Corporation and its wholly-owned subsidiaries and its ownership interests in equity method investees.

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RANGE RESOURCES CORPORATION
CONSOLIDATED BALANCE SHEETS
(In thousands, except per share data)

	March 31, 2009	December 31, 2008
	(Unaudited)	
Assets		
Current assets:		
Cash and equivalents	\$ 756	\$ 753
Accounts receivable, less allowance for doubtful accounts of \$783 and \$954	110,372	162,201
Unrealized derivative gain	279,383	221,430
Inventory and other	22,052	19,927
Total current assets	412,563	404,311
Unrealized derivative gain	1,461	5,231
Equity method investments	152,132	147,126
Oil and gas properties, successful efforts method	6,260,597	6,039,644
Accumulated depletion and depreciation	(1,266,079)	(1,186,934)
	4,994,518	4,852,710
Transportation and field assets	151,169	142,662
Accumulated depreciation and amortization	(60,840)	(56,434)
	90,329	86,228
Other assets	64,255	66,937
Total assets	\$ 5,715,258	\$ 5,562,543
Liabilities		
Current liabilities:		
Accounts payable	\$ 197,457	\$ 250,640
Asset retirement obligations	2,313	2,055
Accrued liabilities	39,462	47,309
Deferred tax liability	46,480	32,984
Accrued interest	28,258	20,516
Unrealized derivative loss		10
Total current liabilities	313,970	353,514
Bank debt	807,000	693,000
Subordinated notes and other long term debt	1,097,770	1,097,668

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Deferred tax liability	798,040	783,391
Unrealized derivative loss	364	
Deferred compensation liability	103,482	93,247
Asset retirement obligations and other liabilities	86,061	83,890
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, 156,498,848 issued at March 31, 2009 and 155,609,387 issued at December 31, 2008	1,565	1,556
Common stock held in treasury, 233,900 shares at March 31, 2009 and December 31, 2008	(8,557)	(8,557)
Additional paid-in capital	1,705,798	1,695,268
Retained earnings	718,410	692,059
Accumulated other comprehensive income	91,355	77,507
Total stockholders equity	2,508,571	2,457,833
Total liabilities and stockholders equity	\$ 5,715,258	\$ 5,562,543

See accompanying notes.

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RANGE RESOURCES CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited, in thousands, except per share data)

	Three Months Ended March	
	31,	
	2009	2008
Revenues		
Oil and gas sales	\$ 203,189	\$ 307,384
Transportation and gathering	(505)	1,129
Derivative fair value income (loss)	75,547	(123,767)
Other	(1,794)	20,592
Total revenue	276,437	205,338
Costs and expenses		
Direct operating	35,541	32,950
Production and ad valorem taxes	8,257	13,840
Exploration	13,339	16,593
Abandonment and impairment of unproved properties	19,572	1,437
General and administrative	24,910	17,412
Deferred compensation plan	12,434	20,611
Interest expense	26,629	23,146
Depletion, depreciation and amortization	84,320	70,133
Total costs and expenses	225,002	196,122
Income from operations	51,435	9,216
Income tax expense		
Current		886
Deferred	18,827	6,590
Total income tax expense	18,827	7,476
Net income	\$ 32,608	\$ 1,740
Earnings per common share:		
Basic	\$ 0.21	\$ 0.01
Diluted	\$ 0.21	\$ 0.01
Dividends per common share	\$ 0.04	\$ 0.04

Weighted average common shares outstanding:

Basic	153,719	147,742
Diluted	157,231	153,790

See accompanying notes.

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RANGE RESOURCES CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited, in thousands)

	Three Months Ended March	
	31,	
	2009	2008
Operating activities:		
Net income	\$ 32,608	\$ 1,740
Adjustments to reconcile net cash provided from operating activities:		
Loss from equity method investments	919	275
Deferred income tax expense	18,827	6,590
Depletion, depreciation and amortization	84,320	70,133
Exploration dry hole costs	123	4,968
Mark-to-market on oil and gas derivatives not designated as hedges	(31,525)	135,221
Abandonment and impairment of unproved properties	19,572	1,437
Unrealized derivative loss	453	3,249
Deferred and stock-based compensation	21,164	27,211
Amortization of deferred financing costs and other	1,050	629
Gain on sale of assets and other	(4)	(20,468)
Changes in working capital, net of amounts from business acquisitions:		
Accounts receivable	45,396	(31,356)
Inventory and other	(1,722)	1,278
Accounts payable	(38,099)	1,457
Accrued liabilities and other	(3,921)	3,939
Net cash provided from operating activities	149,161	206,303
Investing activities:		
Additions to oil and gas properties	(159,223)	(207,144)
Additions to field service assets	(6,106)	(6,813)
Acquisitions, net of cash acquired (including acreage purchases)	(84,405)	(333,358)
Investment in equity method investment and other assets	248	
Proceeds from disposal of assets	285	63,291
Purchase of marketable securities held by the deferred compensation plan	(2,148)	(2,896)
Proceeds from the sales of marketable securities held by the deferred compensation plan	1,250	1,692
Net cash used in investing activities	(250,099)	(485,228)
Financing activities:		
Borrowing on credit facilities	250,000	423,000
Repayment on credit facilities	(136,000)	(134,000)
Dividends paid	(6,257)	(6,003)
Debt issuance costs		(2)
Issuance of common stock	5,226	2,791
Cash overdrafts	(12,726)	(11,702)

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Proceeds from the sales of common stock held by the deferred compensation plan	713	949
Purchases of common stock held by the deferred compensation plan and other treasury stock purchases	(15)	(36)
Net cash provided from financing activities	100,941	274,997
Increase (decrease) in cash and equivalents	3	(3,928)
Cash and equivalents at beginning of period	753	4,018
Cash and equivalents at end of period	\$ 756	\$ 90

See accompanying notes.

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RANGE RESOURCES CORPORATION
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(Unaudited, in thousands)

	Three Months Ended March	
	31,	
	2009	2008
Net income	\$ 32,608	\$ 1,740
Other comprehensive (loss) income:		
Realized loss (gain) on hedge derivative contract settlements reclassified into earnings from other comprehensive (loss) income	(32,333)	(3,213)
Change in unrealized deferred hedging gains (losses)	46,181	(81,769)
Total comprehensive income (loss)	\$ 46,456	\$ (83,242)

See accompanying notes.

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RANGE RESOURCES CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

(1) ORGANIZATION AND NATURE OF BUSINESS

We are engaged in the exploration, development and acquisition of oil and gas properties primarily in the Southwestern, Appalachian and Gulf Coast regions of the United States. We seek to increase our reserves and production primarily through drilling and complementary acquisitions. Range Resources Corporation 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 2008 Annual Report on Form 10-K filed on February 25, 2009. 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 disclosed otherwise. These consolidated financial statements, including selected notes, have been prepared in accordance with the applicable rules of the Securities and Exchange Commission (SEC) and do not include all of the information and disclosures required by accounting principles generally accepted in the United States of America for complete financial statements. Certain reclassifications of prior year data have been made to conform to 2009 classifications.

We adhere to Statement of Financial Accounting Standards (SFAS) No. 19 Financial Accounting and Reporting by Oil and Gas Producing Companies, for recognizing impairment of capitalized costs related to unproved properties. These costs are capitalized and periodically evaluated (at least quarterly) as to recoverability based on changes brought about by economic factors and potential shifts in business strategy employed by management. We consider time, geologic and engineering factors to evaluate the need for impairment of these costs. We continue to experience an increase in lease expirations and impairment expense caused by current economic conditions which have impacted our future drilling plans thereby increasing the amount of expected lease expirations, and our rapid expansion of our unproved property positions in new shale plays. As economic conditions change and we continue to prove up unproved properties, our estimates of expirations likely will change and we may increase or decrease impairment expense. We recorded abandonment and impairment expense in the first quarter of 2009 of \$19.6 million versus \$1.4 million in the same period of the prior year.

(3) NEW ACCOUNTING STANDARDS

In February 2008, the Financial Accounting Standards Board (FASB) issued staff position (FSP) SFAS No. 157-2 which delayed the effective date of SFAS No. 157 for all non-financial assets and non-financial liabilities except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). This deferral of SFAS No. 157 primarily applied to our asset retirement obligation (ARO), which uses fair value measures at the date incurred to determine our liability and any property impairments that may occur. We adopted FSP SFAS No. 157-2 effective January 1, 2009 and the adoption did not have a material effect on our consolidated results of operations.

In June 2008, the FASB issued Staff Position No. EITF 03-6-1 Determining Whether Instruments Granted in Share-Based Payment Transactions are Participating Securities, (FSP EITF 03-6-1) which provides that unvested share-based payment awards that contain nonforfeitable rights to dividends or dividends equivalents (whether paid or unpaid) are participating securities and, therefore, need to be included in the earnings allocation in computing earnings per share under the two class method. We adopted FSP EITF 03-6-1 on January 1, 2009 with no impact on our reported earnings per share.

In March 2008, the FASB issued SFAS No. 161, Disclosure about Derivative Instruments and Hedging Activities, an amendment of FASB Statement No. 133. SFAS No. 161 amends and expands the disclosure requirements of SFAS No. 133 with the intent to provide users of financial statements with an enhanced understanding of: (i) how and why any entity uses derivative instruments; (ii) how derivative instruments and related hedged items are accounted for under SFAS No. 133 and its related interpretations; and (iii) how derivative instruments and related hedged items affect an entity's financial position, financial performance and cash flows. We adopted SFAS No. 161 on January 1, 2009. See Note 11 for additional disclosures required by SFAS No. 161.

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In December 2007, the FASB issued SFAS No. 141(R), Business Combinations. SFAS No. 141(R) replaces SFAS No. 141. The statement retains the purchase method of accounting for acquisitions, but requires a number of changes, including changes in the way assets and liabilities are recognized in the purchase method of accounting. It changes the recognition of assets acquired and liabilities assumed arising from contingencies, requires the capitalization of in-process

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research and development at fair value, and requires the expensing of acquisition-related costs as incurred. The statement will apply prospectively to business combinations occurring in our fiscal year beginning January 1, 2009. The adoption of adopting SFAS No. 141(R) did not have an effect on our reported financial position or earnings.

(4) DISPOSITIONS

In first quarter 2008, we sold East Texas properties for proceeds of \$64.4 million and recorded a gain of \$20.7 million. We are currently considering the possible sale of certain oil properties in West Texas as well as properties in other areas.

(5) INCOME TAXES

Income tax included in continuing operations was as follows (in thousands):

	Three Months Ended March 31,	
	2009	2008
Income tax expense	\$18,827	\$7,476
Effective tax rate	36.6%	81.1%

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 the three months ended March 31, 2009, our overall effective tax rate on income from operations was different than the statutory rate of 35% due primarily to state income taxes. For the three months ended March 31, 2008, our overall effective tax rate on income from operations was different than the statutory rate of 35% primarily due to state income taxes, a decrease in our deferred tax asset related to state tax carryforwards (\$1.5 million) and a valuation allowance against a deferred tax asset related to our deferred compensation plan (\$2.3 million). We expect our effective tax rate to be approximately 37% for the remainder of 2009.

At December 31, 2008, we had regular tax net operating loss (NOL) carryforwards of \$158.7 million and alternative minimum tax (AMT) NOL carryforwards of \$90.8 million that expire between 2012 and 2027. Our deferred tax asset related to regular NOL carryforwards at December 31, 2008 was \$10.2 million, net of the SFAS No. 123(R) deduction for unrealized benefits. At December 31, 2008, we have AMT credit carryforwards of \$1.8 million that are not subject to limitation or expiration.

(6) EARNINGS PER COMMON SHARE

Basic income per share is based on weighted average number of common shares outstanding. Diluted income per share includes exercise of stock options, stock appreciation rights and restricted shares, provided the effect is not anti-dilutive. The following table sets forth the computation of basic and diluted earnings per common share (in thousands except per share amounts):

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	Three Months Ended March 31,	
	2009	2008
Numerator:		
Net income	\$ 32,608	\$ 1,740
Denominator:		
Weighted average common shares outstanding basic	153,719	147,742
Effect of dilutive securities:		
Employee stock options, SARs and stock held in the deferred compensation plan	3,512	6,048
Weighted average common shares diluted	157,231	153,790
Earnings per common share:		
Basic net income	\$ 0.21	\$ 0.01
Diluted net income	\$ 0.21	\$ 0.01

The weighted average common shares basic amount excludes 2.3 million shares at March 31, 2009 and 2.1 million shares at March 31, 2008, of restricted stock that is held in our deferred compensation plan (although all restricted stock is issued and outstanding upon grant). Stock appreciation rights, or SARs, for 1.7 million shares for the three months ended March 31, 2009 were outstanding but not included in the computations 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. SARs for 500 shares for the three months ended March 31, 2008 were outstanding but not included in the computations 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.

(7) SUSPENDED EXPLORATORY WELL COSTS

The following table reflects the changes in capitalized exploratory well costs for the three months ended March 31, 2009 and the year ended December 31, 2008 (in thousands):

	March 31, 2009	December 31, 2008
Beginning balance at January 1	\$ 47,623	\$ 15,053
Additions to capitalized exploratory well costs pending the determination of proved reserves	10,198	43,968
Reclassifications to wells, facilities and equipment based on determination of proved reserves		(3,847)
Capitalized exploratory well costs charged to expense		(7,551)
Balance at end of period	57,821	47,623
Less exploratory well costs that have been capitalized for a period of one year or less	(50,416)	(41,681)
Capitalized exploratory well costs that have been capitalized for a period greater than one year	\$ 7,405	\$ 5,942

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Number of projects that have exploratory well costs that have been capitalized
for a period greater than one year

The \$57.8 million of capitalized exploratory well costs at March 31, 2009 was incurred in 2009 (\$6.9 million), in 2008 (\$45.0 million) and in 2007 (\$5.9 million).

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We had the following debt outstanding as of the dates shown below (in thousands) (bank debt interest rate at March 31, 2009 is shown parenthetically). No interest expense was capitalized during the three months ended March 31, 2009 and 2008.

	March 31, 2009	December 31, 2008
Bank debt (2.6%)	\$ 807,000	\$ 693,000
Subordinated debt:		
7.375% Senior Subordinated Notes due 2013, net of discount	198,064	197,968
6.375% Senior Subordinated Notes due 2015	150,000	150,000
7.5% Senior Subordinated Notes due 2016, net of discount	249,605	249,595
7.5% Senior Subordinated Notes due 2017	250,000	250,000
7.25% Senior Subordinated Notes due 2018	250,000	250,000
Other	101	105
Total debt	\$ 1,904,770	\$ 1,790,668

Bank Debt

In October 2006, we entered into an amended and restated revolving bank facility, which we refer to as our bank debt or our bank credit facility, which is secured by substantially all of our assets. The bank credit facility provides for an initial commitment equal to the lesser of the facility amount or the borrowing base. On March 31, 2009, the borrowing base was \$1.5 billion and our facility amount was \$1.25 billion. The bank credit facility provides for a borrowing base subject to redeterminations semi-annually each April and October and for event-driven unscheduled redeterminations. Our current bank group is comprised of twenty-six commercial banks each holding between 2.3% and 5.0% of the total facility. Of those twenty-six banks, thirteen are domestic banks and thirteen are foreign banks or wholly owned subsidiaries of foreign banks. The facility amount may be increased up to the borrowing base amount with twenty days notice, subject to payment of a mutually acceptable commitment fee to those banks agreeing to participate in the facility amount increase. At March 31, 2009, the outstanding balance under the bank credit facility was \$807.0 million and there was \$443.0 million of borrowing capacity available under the facility amount. The loan matures October 25, 2012. Borrowing under the bank credit facility can either be the Alternate Base Rate (as defined) plus a spread ranging from 0.875% to 1.625% or LIBOR borrowings at the adjusted LIBO Rate (as defined) plus a spread ranging from 1.75% to 2.5%. The applicable spread is dependent upon borrowings relative to the borrowing base. We may elect, from time to time, to convert all or any part of our LIBOR loans to base rate loans or to convert all or any part of the base rate loans to LIBOR loans. The weighted average interest rate on the bank credit facility was 2.6% for the three months ended March 31, 2009 compared to 5.0% for the three months ended March 31, 2008. A commitment fee is paid on the undrawn balance based on an annual rate of between 0.375% and 0.50%. At March 31, 2009, the commitment fee was 0.375% and the interest rate margin was 2.0% on our LIBOR loans. At April 24, 2009, the interest rate (including applicable margin) was 2.7%.

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 investments. In addition, we are required to maintain a ratio of debt to EBITDAX (as defined in the credit agreement) of no greater than 4.0 to 1.0 and a current ratio (as defined in the credit agreement) of no less than 1.0 to 1.0. We were in compliance with our covenants under the bank credit facility at March 31, 2009.

The indentures governing our senior subordinated notes contain various restrictive covenants that are substantially identical and may limit our ability to, among other things, pay cash dividends, incur additional indebtedness, sell

assets, enter into transactions with affiliates, or change the nature of our business. At March 31, 2009, we were in compliance with these covenants.

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Our asset retirement obligation primarily represents the estimated present value of the amount we will incur to plug, abandon and remediate our producing properties at the end of their productive lives. Significant inputs used in determining such obligations include estimates of plugging and abandonment costs, estimated future inflation rates and well life. A reconciliation of our liability for plugging, abandonment and remediation costs for the three months ended March 31, 2009 is as follows (in thousands):

	Three Months Ended March 31, 2009
Beginning of period	\$ 83,457
Liabilities incurred	575
Liabilities settled	(355)
Accretion expense	1,618
Change in estimate	546
End of period	\$ 85,841

Accretion expense is recognized as a component of depreciation, depletion and amortization on our statement of operations.

(10) CAPITAL STOCK

We have authorized capital stock of 485 million shares, which includes 475 million shares of common stock and 10 million shares of preferred stock. The following is a summary of changes in the number of common shares outstanding since the beginning of 2008:

	Three Months Ended March 31, 2009	Year Ended December 31, 2008
Beginning balance	155,375,487	149,511,997
Public offering		4,435,300
Stock options/SARs exercised	685,566	1,339,536
Restricted stock grants	203,895	167,054
Treasury shares		(78,400)
Ending balance	156,264,948	155,375,487

Treasury Stock

The Board of Directors has approved up to \$10.0 million of repurchases of common stock based on market conditions and opportunities. We have \$6.8 million remaining under this authorization.

(11) DERIVATIVE ACTIVITIES

We use commodity based derivative contracts to manage exposures to commodity price fluctuations. We do not enter into these arrangements for speculative or trading purposes. These contracts consist of collars and fixed price swaps. We do not utilize complex derivatives such as swaptions, knockouts or extendable swaps. At March 31, 2009, we had open swap contracts covering 24.6 Bcf of gas at prices averaging \$7.47 per mcf. We also had collars covering 54.5 Bcf of gas at weighted average floor and cap prices of \$7.39 to \$8.01 per mcf and 2.2 million barrels of oil at weighted average floor and cap prices of \$64.01 to \$76.00 per barrel. Their fair value, represented by the estimated amount that would be realized upon termination, based on a comparison of the contract prices and a reference price,

generally New York Mercantile Exchange (NYMEX), on March 31, 2009, was a net unrealized pre-tax gain of \$274.6 million. These contracts expire monthly through December 2009.

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The following table sets forth our derivative volumes as of March 31, 2009:

Period Natural Gas	Contract Type &nb	Volume Hedged	Average Hedge Price
-----------------------	----------------------	---------------	------------------------