

CABOT OIL & GAS CORP  
Form 10-Q  
October 26, 2012  
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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, D.C. 20549

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**FORM 10-Q**

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

**For the quarterly period ended September 30, 2012**

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

**Commission file number 1-10447**

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**CABOT OIL & GAS CORPORATION**

(Exact name of registrant as specified in its charter)

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**DELAWARE**  
(State or other jurisdiction of  
incorporation or organization)

**04-3072771**  
(I.R.S. Employer  
Identification Number)

**Three Memorial City Plaza**

**840 Gessner Road, Suite 1400, Houston, Texas 77024**

(Address of principal executive offices including ZIP code)

**(281) 589-4600**

(Registrant's telephone number, including area code)

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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 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 Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such 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   
(Do not check if a smaller reporting company)

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  No

As of October 22, 2012, there were 210,242,354 shares of Common Stock, Par Value \$.10 Per Share, outstanding.



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CABOT OIL & GAS CORPORATION

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Table of Contents**PART I. FINANCIAL INFORMATION****ITEM 1. Financial Statements****CABOT OIL & GAS CORPORATION****CONDENSED CONSOLIDATED BALANCE SHEET (Unaudited)**

| <b>(In thousands, except share amounts)</b>  | <b>September 30,<br/>2012</b> | <b>December 31,<br/>2011</b> |
|--|-------------------------------|------------------------------|
| <b>ASSETS</b>  |                               |                              |
| Current Assets   |                               |                              |
| Cash and Cash Equivalents  | \$ 37,501                     | \$ 29,911                    |
| Accounts Receivable, Net   | 103,634                       | 114,381                      |
| Income Taxes Receivable  | 1,183                         | 1,388                        |
| Inventories  | 17,696                        | 21,278                       |
| Derivative Instruments   | 61,723                        | 174,263                      |
| Other Current Assets   | 2,937                         | 4,579                        |
| <b>Total Current Assets</b>  | <b>224,674</b>                | <b>345,800</b>               |
| Properties and Equipment, Net (Successful Efforts Method)  | 4,218,921                     | 3,934,584                    |
| Derivative Instruments   | 4,379                         | 21,249                       |
| Other Assets   | 34,963                        | 29,860                       |
|  | <b>\$ 4,482,937</b>           | <b>\$ 4,331,493</b>          |
| <b>LIABILITIES AND STOCKHOLDERS EQUITY</b>   |                               |                              |
| Current Liabilities  |                               |                              |
| Accounts Payable   | \$ 276,149                    | \$ 217,294                   |
| Current Portion of Long-Term Debt  | 75,000                        |                              |
| Deferred Income Taxes  | 14,229                        | 55,132                       |
| Accrued Liabilities  | 47,412                        | 70,918                       |
| <b>Total Current Liabilities</b>   | <b>412,790</b>                | <b>343,344</b>               |
| Postretirement Benefits  | 40,993                        | 38,708                       |
| Long-Term Debt   | 987,000                       | 950,000                      |
| Deferred Income Taxes  | 837,319                       | 802,592                      |
| Asset Retirement Obligation  | 63,069                        | 60,142                       |
| Other Liabilities  | 41,479                        | 31,939                       |
| <b>Total Liabilities</b>   | <b>2,382,650</b>              | <b>2,226,725</b>             |
| Commitments and Contingencies  |                               |                              |
| Stockholders Equity  |                               |                              |
| Common Stock:  |                               |                              |
| Authorized 480,000,000 Shares of \$0.10 Par Value in 2012 and 240,000,000 Shares of \$0.10 Par Value in 2011 Issued 210,242,354 Shares and 209,019,458 Shares in 2012 and 2011, respectively | 21,024                        | 20,902                       |
| Additional Paid-in Capital   | 718,760                       | 724,377                      |

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|   |                     |              |
|---|---------------------|--------------|
| Retained Earnings                             | <b>1,336,594</b>    | 1,258,291    |
| Accumulated Other Comprehensive Income        | <b>27,258</b>       | 104,547      |
| Less Treasury Stock, at Cost:                 |                     |              |
| 404,400 Shares in 2012 and 2011, respectively | <b>(3,349)</b>      | (3,349)      |
| Total Stockholders' Equity                    | <b>2,100,287</b>    | 2,104,768    |
|   | <b>\$ 4,482,937</b> | \$ 4,331,493 |

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

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## CABOT OIL &amp; GAS CORPORATION

## CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS (Unaudited)

| (In thousands, except per share amounts)   | Three Months Ended<br>September 30, |                  | Nine Months Ended<br>September 30, |                  |
|--|-------------------------------------|------------------|------------------------------------|------------------|
|  | 2012                                | 2011             | 2012                               | 2011             |
| <b>OPERATING REVENUES</b>                  |                                     |                  |                                    |                  |
| Natural Gas                                | \$ 231,896                          | \$ 218,521       | \$ 639,729                         | \$ 588,976       |
| Crude Oil and Condensate                   | 57,870                              | 33,158           | 165,317                            | 79,792           |
| Brokered Natural Gas                       | 5,238                               | 9,467            | 23,831                             | 38,947           |
| Other                                      | 1,870                               | 971              | 5,790                              | 4,124            |
|  | <b>296,874</b>                      | <b>262,117</b>   | <b>834,667</b>                     | <b>711,839</b>   |
| <b>OPERATING EXPENSES</b>                  |                                     |                  |                                    |                  |
| Direct Operations                          | 28,269                              | 27,292           | 84,895                             | 76,878           |
| Transportation and Gathering               | 34,430                              | 19,768           | 97,827                             | 48,710           |
| Brokered Natural Gas                       | 4,258                               | 8,204            | 20,380                             | 33,362           |
| Taxes Other Than Income                    | 10,436                              | 7,042            | 39,873                             | 21,070           |
| Exploration                                | 9,303                               | 20,190           | 29,548                             | 31,090           |
| Depreciation, Depletion and Amortization   | 110,448                             | 90,293           | 335,421                            | 250,642          |
| General and Administrative                 | 23,829                              | 27,949           | 93,249                             | 78,254           |
|  | <b>220,973</b>                      | <b>200,738</b>   | <b>701,193</b>                     | <b>540,006</b>   |
| Gain / (Loss) on Sale of Assets            | (126)                               | 3,854            | 67,042                             | 36,408           |
| <b>INCOME FROM OPERATIONS</b>              | <b>75,775</b>                       | <b>65,233</b>    | <b>200,516</b>                     | <b>208,241</b>   |
| Interest Expense and Other                 | 16,219                              | 18,517           | 51,631                             | 53,928           |
| Income Before Income Taxes                 | 59,556                              | 46,716           | 148,885                            | 154,313          |
| Income Tax Expense                         | 22,948                              | 18,234           | 58,021                             | 58,268           |
| <b>NET INCOME</b>                          | <b>\$ 36,608</b>                    | <b>\$ 28,482</b> | <b>\$ 90,864</b>                   | <b>\$ 96,045</b> |
| <b>Earnings Per Share</b>                  |                                     |                  |                                    |                  |
| Basic                                      | \$ 0.17                             | \$ 0.14          | \$ 0.43                            | \$ 0.46          |
| Diluted                                    | \$ 0.17                             | \$ 0.14          | \$ 0.43                            | \$ 0.46          |
| <b>Weighted-Average Shares Outstanding</b> |                                     |                  |                                    |                  |
| Basic                                      | 209,656                             | 208,570          | 209,433                            | 208,463          |
| Diluted                                    | 211,226                             | 210,920          | 210,997                            | 210,631          |
| Dividends per common share                 | \$ 0.02                             | \$ 0.02          | \$ 0.06                            | \$ 0.05          |

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

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## CABOT OIL &amp; GAS CORPORATION

## CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (Unaudited)

| (In thousands)   | Three Months Ended<br>September 30, |           | Nine Months Ended<br>September 30, |            |
|--|-------------------------------------|-----------|------------------------------------|------------|
|  | 2012                                | 2011      | 2012                               | 2011       |
| Net Income   | \$ 36,608                           | \$ 28,482 | \$ 90,864                          | \$ 96,045  |
| Other Comprehensive Income / (Loss), net of taxes:                     |                                     |           |                                    |            |
| Reclassification Adjustment for Settled Hedge Contracts <sup>(1)</sup> | (37,294)                            | (13,982)  | (115,943)                          | (30,308)   |
| Changes in Fair Value of Hedge Contracts <sup>(2)</sup>                | (24,361)                            | 60,829    | 30,091                             | 98,607     |
| Defined Benefit Pension and Postretirement Plans:                      |                                     |           |                                    |            |
| Net Loss due to Remeasurement <sup>(3)</sup>                           |                                     | (2,487)   |                                    | (2,487)    |
| Settlement <sup>(4)</sup>  |                                     | 1,516     |                                    | 1,516      |
| Amortization of Net Obligation at Transition <sup>(5)</sup>            |                                     | 98        |                                    | 294        |
| Amortization of Prior Service Cost <sup>(6)</sup>                      |                                     | 141       | 135                                | 534        |
| Amortization of Net Loss <sup>(7)</sup>                                | 79                                  | 1,559     | 8,428                              | 5,530      |
| Foreign Currency Translation Adjustment <sup>(8)</sup>                 |                                     | 31        |                                    | 23         |
| Total Other Comprehensive Income / (Loss)                              | (61,576)                            | 47,705    | (77,289)                           | 73,709     |
| Comprehensive Income / (Loss)  | \$ (24,968)                         | \$ 76,187 | \$ 13,575                          | \$ 169,754 |

- (1) Net of income taxes of \$23,644 and \$8,570 for the three months ended September 30, 2012 and 2011, respectively, and \$73,507 and \$18,576 for the nine months ended September 30, 2012 and 2011, respectively.
- (2) Net of income taxes of \$15,444 and \$(37,314) for the three months ended September 30, 2012 and 2011, respectively, and \$(19,208) and \$(60,423) for the nine months ended September 30, 2012 and 2011, respectively.
- (3) Net of income taxes of \$0 and \$1,614 for the three months ended September 30, 2012 and 2011, respectively, and \$0 and \$1,614 for the nine months ended September 30, 2012 and 2011, respectively.
- (4) Net of income taxes of \$0 and \$(930) for the three months ended September 30, 2012 and 2011, respectively, and \$0 and \$(930) for the nine months ended September 30, 2012 and 2011, respectively.
- (5) Net of income taxes of \$0 and \$(60) for the three months ended September 30, 2012 and 2011, respectively, and \$0 and \$(180) for the nine months ended September 30, 2012 and 2011, respectively.
- (6) Net of income taxes of \$0 and \$(87) for the three months ended September 30, 2012 and 2011, respectively and \$(86) and \$(328) for the nine months ended September 30, 2012 and 2011, respectively.
- (7) Net of income taxes of \$(53) and \$(954) for the three months ended September 30, 2012 and 2011, respectively and \$(5,347) and \$(3,390) for the nine months ended September 30, 2012 and 2011, respectively.
- (8) Net of income taxes of \$0 and \$(6) for the three months ended September 30, 2012 and 2011, respectively and \$0 and \$(9) for the nine months ended September 30, 2012 and 2011, respectively.



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

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## CABOT OIL &amp; GAS CORPORATION

## CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (Unaudited)

| (In thousands)  | Nine Months Ended<br>September 30, |           |
|---|------------------------------------|-----------|
|   | 2012                               | 2011      |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>                                   |                                    |           |
| Net Income  | \$ 90,864                          | \$ 96,045 |
| Adjustments to Reconcile Net Income to Cash Provided by Operating Activities: |                                    |           |
| Depreciation, Depletion and Amortization                                      | 335,421                            | 250,642   |
| Deferred Income Tax Expense   | 42,714                             | 57,381    |
| (Gain) / Loss on Sale of Assets   | (67,042)                           | (36,408)  |
| Exploration Expense   | 12,118                             | 13,851    |
| Unrealized (Gain) / Loss on Derivative Instruments                            | 449                                | 950       |
| Amortization of Debt Issuance Costs   | 4,300                              | 3,317     |
| Stock-Based Compensation, Pension and Other                                   | 37,518                             | 42,432    |
| Changes in Assets and Liabilities:  |                                    |           |
| Accounts Receivable, Net  | 10,747                             | (7,124)   |
| Income Taxes  | 205                                | (36,115)  |
| Inventories   | 3,582                              | 1,371     |
| Other Current Assets  | (1,125)                            | (832)     |
| Accounts Payable and Accrued Liabilities                                      | (16,391)                           | (9,941)   |
| Other Assets and Liabilities  | 1,752                              | (203)     |
| Net Cash Provided by Operating Activities                                     | 455,112                            | 375,366   |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>                                   |                                    |           |
| Capital Expenditures  | (669,198)                          | (668,987) |
| Proceeds from Sale of Assets  | 132,740                            | 82,109    |
| Investment in Equity Method Investment  | (4,488)                            |           |
| Net Cash Used in Investing Activities   | (540,946)                          | (586,878) |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>                                   |                                    |           |
| Borrowings from Debt  | 280,000                            | 330,000   |
| Repayments of Debt  | (168,000)                          | (100,000) |
| Dividends Paid  | (12,561)                           | (9,379)   |
| Capitalized Debt Issuance Costs   | (5,005)                            | (1,025)   |
| Other   | (1,010)                            | (1,105)   |
| Net Cash Provided by Financing Activities                                     | 93,424                             | 218,491   |
| Net Increase / (Decrease) in Cash and Cash Equivalents                        | 7,590                              | 6,979     |
| Cash and Cash Equivalents, Beginning of Period                                | 29,911                             | 55,949    |
| Cash and Cash Equivalents, End of Period                                      | \$ 37,501                          | \$ 62,928 |

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



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**CABOT OIL & GAS CORPORATION**

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)**

**1. FINANCIAL STATEMENT PRESENTATION**

During interim periods, Cabot Oil & Gas Corporation (the Company) follows the same accounting policies disclosed in its Annual Report on Form 10-K for the year ended December 31, 2011 (Form 10-K) filed with the Securities and Exchange Commission (SEC). The interim financial statements should be read in conjunction with the notes to the consolidated financial statements and information presented in the Form 10-K. In management's opinion, the accompanying interim condensed consolidated financial statements contain all material adjustments, consisting only of normal recurring adjustments, necessary for a fair statement. The results for any interim period are not necessarily indicative of the expected results for the entire year.

Certain reclassifications have been made to prior year statements to conform with current year presentation. These reclassifications have no impact on previously reported net income.

On January 3, 2012, the Board of Directors declared a 2-for-1 split of the Company's common stock in the form of a stock dividend. The stock dividend was distributed on January 25, 2012 to shareholders of record as of January 17, 2012. All common stock accounts and per share data have been retroactively adjusted to give effect to the 2-for-1 split of the Company's common stock.

With respect to the unaudited financial information of the Company as of September 30, 2012 and for the three and nine months ended September 30, 2012 and 2011, PricewaterhouseCoopers LLP reported that they have applied limited procedures in accordance with professional standards for a review of such information. However, their separate report dated October 26, 2012 appearing herein states that they did not audit and they do not express an opinion on that unaudited financial information. Accordingly, the degree of reliance on their report on such information should be restricted in light of the limited nature of the review procedures applied. PricewaterhouseCoopers LLP is not subject to the liability provisions of Section 11 of the Securities Act of 1933 for their report on the unaudited financial information because that report is not a report or a part of the registration statement prepared or certified by PricewaterhouseCoopers LLP within the meaning of Sections 7 and 11 of the Act.

***Recent Accounting Pronouncements***

In May 2011, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2011-04, Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs. The amendments in this update generally represent clarifications of Topic 820, but also include some instances where a particular principle or requirement for measuring fair value or disclosing information about fair value measurements has changed. This update results in common principles and requirements for measuring fair value and for disclosing information about fair value measurements in accordance with U.S. GAAP and IFRS. The amendments are effective for interim and annual periods beginning after December 15, 2011 and are to be applied prospectively. This update did not have any

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impact on the Company's consolidated financial position, results of operations or cash flows.

In June 2011, the FASB issued ASU No. 2011-05, Presentation of Comprehensive Income. ASU No. 2011-05 was amended in December 2011 by ASU No. 2011-12, Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in ASU No. 2011-05. ASU No. 2011-12 defers only those changes in ASU No. 2011-05 that relate to the presentation of reclassification adjustments. All other requirements in ASU No. 2011-05 are not affected by ASU No. 2011-12, including the requirement to report comprehensive income either in a single continuous financial statement or in two separate but consecutive financial statements. ASU No. 2011-05 and 2011-12 are effective for fiscal years (including interim periods) beginning after December 15, 2011. The Company has elected to present two separate but consecutive financial statements. These updates did not have any impact on the Company's consolidated financial position, results of operations or cash flows.

In December 2011, the FASB issued ASU No. 2011-11, Disclosures about Offsetting Assets and Liabilities. The amendments in this update require enhanced disclosures around financial instruments and derivative instruments that are either (1) offset in accordance with either Accounting Standards Codification (ASC) 210-20-45 or ASC 815-10-45 or (2) subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are offset in accordance with either ASC 210-20-45 or ASC 815-10-45. An entity should provide the disclosures required by those amendments retrospectively for all comparative periods presented. The amendments are effective during interim and annual periods beginning on or after January 1, 2013. This guidance will primarily impact the Company's disclosures associated with its commodity derivatives. The Company does not expect this guidance to have any impact on its consolidated financial position, results of operations or cash flows.

Table of Contents**2. PROPERTIES AND EQUIPMENT, NET**

Properties and equipment, net are comprised of the following:

| (In thousands)                                       | September 30,<br>2012 | December 31,<br>2011 |
|--|-----------------------|----------------------|
| Proved Oil and Gas Properties                        | \$ 5,618,507          | \$ 5,006,846         |
| Unproved Oil and Gas Properties                      | 478,999               | 478,942              |
| Gathering and Pipeline Systems                       | 238,962               | 238,660              |
| Land, Building and Other Equipment                   | 83,301                | 80,908               |
|  | <b>6,419,769</b>      | <b>5,805,356</b>     |
| Accumulated Depreciation, Depletion and Amortization | <b>(2,200,848)</b>    | <b>(1,870,772)</b>   |
|  | <b>\$ 4,218,921</b>   | <b>\$ 3,934,584</b>  |

At September 30, 2012, the Company did not have any projects that had exploratory well costs that were capitalized for a period of greater than one year after drilling.

***Divestitures***

In June 2012, the Company sold a 35% non-operated working interest associated with certain of its Pearsall shale undeveloped leaseholds in south Texas to a wholly-owned subsidiary of Osaka Gas Co., Ltd. (Osaka) for total consideration of approximately \$251.0 million. The Company received \$125.0 million in cash proceeds and Osaka agreed to fund 85% of the Company's share of future drilling and completion costs associated with these leaseholds until it has paid approximately \$126.0 million in accordance with a joint development agreement entered into at the closing. The drilling and completion carry will terminate two years after the closing of the transaction. The Company recognized a \$67.0 million gain on sale of assets associated with this sale.

During the first nine months of 2011, the Company entered into two participation agreements with third parties related to certain of its Haynesville and Bossier shale leaseholds in east Texas. Under the terms of the participation agreements, the third parties agreed to fund 100% of the cost to drill and complete certain Haynesville and Bossier shale wells in the related leaseholds over a multi-year period in exchange for a 75% working interest in the leaseholds. During the first nine months of 2011, the Company received reimbursement of drilling costs incurred of approximately \$11.2 million associated with wells that had commenced drilling prior to the execution of the participation agreements.

In May 2011, the Company sold certain of its Haynesville and Bossier Shale oil and gas properties in east Texas to a third party. The Company received approximately \$47.0 million in cash proceeds and recognized a \$34.2 million gain on sale of assets.

Table of Contents**3. ADDITIONAL BALANCE SHEET INFORMATION**

Certain balance sheet amounts are comprised of the following:

| (In thousands)                      | September 30,<br>2012 | December 31,<br>2011 |
|-------------------------------------|-----------------------|----------------------|
| <b>ACCOUNTS RECEIVABLE, NET</b>     |                       |                      |
| Trade Accounts                      | \$ 99,753             | \$ 111,306           |
| Joint Interest Accounts             | 3,804                 | 5,417                |
| Other Accounts                      | 1,092                 | 1,003                |
|                                     | <b>104,649</b>        | <b>117,726</b>       |
| Allowance for Doubtful Accounts     | (1,015)               | (3,345)              |
|                                     | <b>\$ 103,634</b>     | <b>\$ 114,381</b>    |
| <b>INVENTORIES</b>                  |                       |                      |
| Natural Gas in Storage              | \$ 10,122             | \$ 13,513            |
| Tubular Goods and Well Equipment    | 6,507                 | 7,146                |
| Other Accounts                      | 1,067                 | 619                  |
|                                     | <b>\$ 17,696</b>      | <b>\$ 21,278</b>     |
| <b>OTHER CURRENT ASSETS</b>         |                       |                      |
| Prepaid Balances and Other          | 2,937                 | 2,345                |
| Restricted Cash                     |                       | 2,234                |
|                                     | <b>\$ 2,937</b>       | <b>\$ 4,579</b>      |
| <b>OTHER ASSETS</b>                 |                       |                      |
| Deferred Compensation Plan          | \$ 11,462             | \$ 10,838            |
| Debt Issuance Cost                  | 18,385                | 17,680               |
| Equity Method Investment            | 4,450                 |                      |
| Other Accounts                      | 666                   | 1,342                |
|                                     | <b>\$ 34,963</b>      | <b>\$ 29,860</b>     |
| <b>ACCOUNTS PAYABLE</b>             |                       |                      |
| Trade Accounts                      | \$ 17,511             | \$ 18,253            |
| Natural Gas Purchases               | 4,277                 | 3,012                |
| Royalty and Other Owners            | 47,699                | 48,113               |
| Accrued Capital Costs               | 164,139               | 138,122              |
| Taxes Other Than Income             | 1,415                 | 2,076                |
| Drilling Advances                   | 33,244                | 1,489                |
| Wellhead Gas Imbalances             | 2,358                 | 2,312                |
| Other Accounts                      | 5,506                 | 3,917                |
|                                     | <b>\$ 276,149</b>     | <b>\$ 217,294</b>    |
| <b>ACCRUED LIABILITIES</b>          |                       |                      |
| Employee Benefits                   | \$ 16,360             | \$ 26,035            |
| Pension and Postretirement Benefits | 1,260                 | 6,331                |
| Taxes Other Than Income             | 12,450                | 12,297               |
| Interest Payable                    | 12,801                | 24,701               |
| Derivative Contracts                | 2,941                 | 385                  |
| Other Accounts                      | 1,600                 | 1,169                |
|                                     | <b>\$ 47,412</b>      | <b>\$ 70,918</b>     |
| <b>OTHER LIABILITIES</b>            |                       |                      |
| Deferred Compensation Plan          | \$ 22,668             | \$ 20,187            |
| Derivative Contracts                | 5,868                 |                      |
| Other Accounts                      | 12,943                | 11,752               |
|                                     | <b>\$ 41,479</b>      | <b>\$ 31,939</b>     |





Table of Contents**4. DEBT AND CREDIT AGREEMENTS**

The Company's debt and credit agreements consisted of the following:

| (In thousands)                                      | September 30,<br>2012 | December 31,<br>2011 |
|---|-----------------------|----------------------|
| <b>Long-Term Debt</b>                               |                       |                      |
| 7.33% Weighted-Average Fixed Rate Notes             | \$ 95,000             | \$ 95,000            |
| 6.51% Weighted-Average Fixed Rate Notes             | 425,000               | 425,000              |
| 9.78% Notes   | 67,000                | 67,000               |
| 5.58% Weighted-Average Fixed Rate Notes             | 175,000               | 175,000              |
| Credit Facility                                     | 300,000               | 188,000              |
| <b>Current Maturities</b>                           |                       |                      |
| 7.33% Weighted-Average Fixed Rate Notes             | (75,000)              |                      |
| <b>Long-Term Debt, excluding Current Maturities</b> | <b>\$ 987,000</b>     | <b>\$ 950,000</b>    |

In May 2012, the Company amended its revolving credit facility to adjust the margins associated with borrowings under the facility and extend the maturity date from September 2015 to May 2017. The credit facility, as amended, provides for an available credit line of \$900 million with an accordion feature, which allows the Company to increase the available credit line by an additional \$500 million if one or more of the existing or new banks agree to provide such increased amount. Interest rates under the credit facility are based on Euro-Dollars (LIBOR) or Base Rate (Prime) indications, plus a margin, as follows:

|                  | Debt Percentage |           |           |           |       |  |
|------------------|-----------------|-----------|-----------|-----------|-------|--|
|                  | <25%            | ≥25% <50% | ≥50% <75% | ≥75% <90% | ≥90%  |  |
| Eurodollar Loans | 1.50%           | 1.75%     | 2.00%     | 2.25%     | 2.50% |  |
| ABR Loans        | 0.50%           | 0.75%     | 1.00%     | 1.25%     | 1.50% |  |

As of September 30, 2012, the amended credit facility provided for a \$1.7 billion borrowing base. The other terms and conditions of the amended facility are generally consistent with the terms and conditions of the credit agreement prior to its amendment.

In conjunction with entering into the amendment to the credit facility, the Company incurred \$5.0 million of debt issuance costs, which were capitalized and will be amortized over the term of the amended credit facility. Approximately \$1.3 million in unamortized cost associated with the original credit facility was recognized as a debt extinguishment cost, which was included in Interest Expense and Other in the Condensed Consolidated Statement of Operations, and the remaining unamortized costs of \$11.0 million will be amortized over the term of the amended credit facility in accordance with ASC 470-50, Debt Modifications and Extinguishments.

At September 30, 2012, the Company had \$300.0 million of borrowings outstanding under the amended credit facility at a weighted-average interest rate of 2.3% and \$599.0 million available for future borrowings.

**5. EQUITY METHOD INVESTMENT**

*Constitution Pipeline Company, LLC*

The Company accounts for its investment in entities over which the Company has significant influence, but not control, using the equity method of accounting. Under the equity method of accounting, the Company records its proportionate share of net earnings, declared dividends and partnership distributions based on the most recently available financial statements of the investee (generally on a one month lag). The Company also evaluates its equity method investments for potential impairment whenever events or changes in circumstances indicate that there is an other-than-temporary decline in the value of the investment.

In February 2012, the Company entered into a Precedent Agreement with Constitution Pipeline Company, LLC (Constitution), at the time a wholly owned subsidiary of Williams Partners L.P., to develop and construct a 120 mile large diameter pipeline to transport its production in northeast Pennsylvania to both the New England and New York markets. Under the terms of the Precedent Agreement, the Company will have transportation rights for up to approximately 500,000 Mcf per day of capacity on the newly constructed pipeline, subject to regulatory approval and certain terms and conditions to be determined.

In April 2012, the Company entered into an Amended and Restated Limited Liability Company Agreement (LLC Agreement) with Constitution, which thereby became an unconsolidated investee. Under the terms of the LLC Agreement, the Company acquired a

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25% equity interest and agreed to invest approximately \$187 million, subject to a contribution cap of \$250 million. The investment, which is expected to occur over the next three years, will fund the development and construction of the pipeline and related facilities.

During the first nine months of 2012, the Company made contributions of \$4.5 million to fund costs associated with the project. The Company's net book value in this equity investment was \$4.5 million as of September 30, 2012 and is included in Other Assets in the Condensed Consolidated Balance Sheet. There were no material earnings or losses associated with Constitution during the first nine months of 2012. Earnings (losses) on Equity Method Investment are included in Interest Expense and Other in the Condensed Consolidated Statement of Operations.

**6. EARNINGS PER COMMON SHARE**

Basic EPS is computed by dividing net income (the numerator) by the weighted-average number of common shares outstanding for the period (the denominator). Diluted EPS is similarly calculated except that the denominator is increased using the treasury stock method to reflect the potential dilution that could occur if outstanding stock appreciation rights were exercised and stock awards were vested at the end of the applicable period.

The following is a calculation of basic and diluted weighted-average shares outstanding:

| (In thousands)  | Three Months Ended<br>September 30, |         | Nine Months Ended<br>September 30, |         |
|---|-------------------------------------|---------|------------------------------------|---------|
|   | 2012                                | 2011    | 2012                               | 2011    |
| Weighted-Average Shares - Basic   | 209,656                             | 208,570 | 209,433                            | 208,463 |
| Dilution Effect of Stock Appreciation Rights and Stock Awards at End of Period                                    | 1,570                               | 2,350   | 1,564                              | 2,168   |
| Weighted-Average Shares - Diluted   | 211,226                             | 210,920 | 210,997                            | 210,631 |
| Weighted-Average Stock Awards and Shares Excluded from Diluted Earnings per Share due to the Anti-Dilutive Effect | 46                                  |         | 102                                |         |

**7. COMMITMENTS AND CONTINGENCIES***Transportation Agreements*

During the first nine months of 2012, the Company entered into a liquids transportation agreement that commenced in the third quarter of 2012. The Company's total future minimum transportation commitments as of September 30, 2012 are as follows:

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(In thousands)

|            |    |                  |
|------------|----|------------------|
| 2012       | \$ | 28,117           |
| 2013       |    | 121,920          |
| 2014       |    | 127,620          |
| 2015       |    | 127,698          |
| 2016       |    | 128,071          |
| Thereafter |    | 1,289,626        |
|            | \$ | <b>1,823,052</b> |

For further information on the Company's transportation agreements, please refer to Note 7 of the Notes to the Consolidated Financial Statements in the 2011 Form 10-K.

### *Legal Matters*

#### *Preferential Purchase Right Litigation*

In September 2005, the Company and Linn Energy, LLC were sued by Power Gas Marketing & Transmission, Inc. in the Court of Common Pleas of Indiana County, Pennsylvania. The lawsuit seeks unspecified damages arising out of the Company's 2003 sale of oil and gas properties located in Indiana County, Pennsylvania, to Linn Energy, LLC. The plaintiff alleges breach of a preferential purchase right regarding those properties contained in a 1969 joint operating agreement to which the plaintiff was a party. The Company initially obtained judgment as a matter of law as to all claims in a decision by the trial court dated February 2007. Plaintiff

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appealed the ruling to the Pennsylvania Superior Court, where the ruling in favor of the Company was reversed and remanded to the trial court in March 2008. The Company appealed the Superior Court ruling to the Pennsylvania Supreme Court, but in December 2008 that Court declined to review. Effective July 2008, Linn Energy, LLC sold the subject properties to XTO Energy, Inc., giving rise to a second lawsuit for unspecified damages filed in September 2009 by EXCO North Coast Energy, Inc., as successor in interest to Power Gas Marketing & Transmission, Inc., against the Company, Linn Energy, LLC and XTO Energy, Inc. The second lawsuit has been consolidated into the first lawsuit. A bench trial was held in early June 2012. Closing arguments have been set for mid-January 2013.

The Company believes that the plaintiff's claims lack merit and does not consider a loss related to this matter to be probable; however, due to the inherent uncertainties of litigation, a loss is possible. In the event that the Company is found liable, the potential loss is currently estimated to be less than \$15 million.

***Other***

The Company is also a defendant in various other legal proceedings arising in the normal course of business. All known liabilities are accrued based on management's best estimate of the potential loss. While the outcome and impact of these legal proceedings on the Company cannot be predicted with certainty, management believes that the resolution of these proceedings will not have a material effect on the Company's financial position, results of operations or cash flows.

***Contingency Reserves***

When deemed necessary, the Company establishes reserves for certain legal proceedings. The establishment of a reserve is based on an estimation process that includes the advice of legal counsel and subjective judgment of management. While management believes these reserves to be adequate, it is reasonably possible that the Company could incur additional losses with respect to those matters in which reserves have been established. The Company believes that any such amount above the amounts accrued is not material to the Condensed Consolidated Financial Statements. Future changes in facts and circumstances not currently foreseeable could result in the actual liability exceeding the estimated ranges of loss and amounts accrued.

***Environmental Matters***

***Pennsylvania Department of Environmental Protection***

On December 15, 2010, the Company entered into a consent order and settlement agreement (CO&SA) with the Pennsylvania Department of Environmental Protection (PaDEP), addressing a number of environmental issues originally identified in 2008 and 2009, including alleged releases of drilling mud and other substances, alleged record keeping violations at various wells and alleged natural gas contamination of water supplies to 14 households in Susquehanna County, Pennsylvania. On January 11, 2011, certain of the affected households appealed the CO&SA to the Pennsylvania Environmental Hearing Board (PEHB). On October 17, 2011, the Company requested PaDEP approval to resume hydraulic fracturing and new natural gas well drilling operations in the affected area, along with a request to cease temporary water deliveries to the

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affected households. On October 18, 2011, the PaDEP concurred that temporary water deliveries to the property owners are no longer necessary. On November 18, 2011, certain of the affected households appealed this order to the PEHB, which appeal was later consolidated with the CO&SA appeal.

The Company is in continuing discussions with the PaDEP to address the results of the Company's natural gas well test data, water quality sampling and water well headspace screenings, which were required pursuant to the CO&SA. On August 21, 2012, the PaDEP notified the Company that it could commence completion operations on existing wells within the concerned area.

As of September 30, 2012, the Company has paid \$1.3 million in settlement of fines and penalties sought or claimed by the PaDEP related to this matter and all of the affected households have accepted the \$4.2 million that was placed into escrow for their benefit. Furthermore, as of October 18, 2012, all of the appellants have dismissed their appeal to the PEHB. With the withdrawal of these appeals, the Company does not believe it has any further exposure related to this matter.

For additional information on the PaDEP matter, refer to Note 7 of the Notes to the Consolidated Financial Statements in the 2011 Form 10-K.

### *United States Environmental Protection Agency*

By letter dated January 6, 2012, the United States Environmental Protection Agency (EPA) sent a Required Submission of Information - Dimock Township Drinking Water Contamination letter to the Company pursuant to the Comprehensive Environmental Response, Compensation, and Liability Act of 1980, as amended (CERCLA). The Required Submission of Information requested all

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documents, water sampling results and any other correspondence related to the Company's activities in the area of concern. The Company provided information pursuant to the request.

Upon review of information from Dimock residents, the PaDEP, and the Company, the EPA determined that further water well sampling was necessary and initiated two rounds of water sampling to address concerns about drinking water in Dimock. In July 2012, based on the outcome of the water sampling, the EPA determined that levels of contaminants do not pose a health concern and that it would take no further action.

**8. DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES**

The Company periodically enters into commodity derivative instruments to hedge its exposure to price fluctuations on natural gas and crude oil production. The Company's credit agreement restricts the ability of the Company to enter into commodity hedges other than to hedge or mitigate risks to which the Company has actual or projected exposure or as permitted under the Company's risk management policies and not subjecting the Company to material speculative risks. All of the Company's derivatives are used for risk management purposes and are not held for trading purposes.

As of September 30, 2012, the Company had the following outstanding commodity derivatives:

| Commodity and Derivative Type                            | Weighted-Average Contract Price |         | Volume |      | Contract Period       |
|--|---------------------------------|---------|--------|------|-----------------------|
| <b>Derivatives Designated as Hedging Instruments</b>     |                                 |         |        |      |                       |
| Natural Gas Swaps  | \$5.22                          | per Mcf | 24,131 | Mmcf | Oct. 2012 - Dec. 2012 |
| Natural Gas Collars                                      | \$3.60 Floor / \$4.17 Ceiling   | per Mcf | 2,963  | Mmcf | Nov. 2012 - Dec. 2012 |
| Natural Gas Collars                                      | \$5.15 Floor / \$6.18 Ceiling   | per Mcf | 10,637 | Mmcf | Jan. 2013 - Dec. 2013 |
| Natural Gas Collars                                      | \$5.15 Floor / \$6.23 Ceiling   | per Mcf | 7,092  | Mmcf | Jan. 2013 - Dec. 2013 |
| Natural Gas Collars                                      | \$3.09 Floor / \$4.12 Ceiling   | per Mcf | 35,458 | Mmcf | Jan. 2013 - Dec. 2013 |
| Natural Gas Collars                                      | \$3.40 Floor / \$4.12 Ceiling   | per Mcf | 17,729 | Mmcf | Jan. 2013 - Dec. 2013 |
| Natural Gas Collars                                      | \$3.35 Floor / \$4.01 Ceiling   | per Mcf | 35,458 | Mmcf | Jan. 2013 - Dec. 2013 |
| Natural Gas Collars                                      | \$3.60 Floor / \$4.17 Ceiling   | per Mcf | 17,729 | Mmcf | Jan. 2013 - Dec. 2013 |
| Crude Oil Swaps  | \$100.45                        | per Bbl | 460    | Mbbl | Oct. 2012 - Dec. 2012 |
| Crude Oil Swaps  | \$101.90                        | per Bbl | 1,095  | Mbbl | Jan. 2013 - Dec. 2013 |
| <b>Derivatives Not Designated as Hedging Instruments</b> |                                 |         |        |      |                       |
| Natural Gas Basis Swaps                                  | \$(0.25)                        | per Mcf | 4,284  | Mmcf | Oct. 2012 - Dec. 2012 |

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In October 2012, the Company entered into additional natural gas collar arrangements with floor prices ranging from \$3.76 to \$3.86 per Mcf and ceiling prices ranging from \$4.14 to \$4.36 per Mcf covering 35,458 Mmcf of the Company's anticipated natural gas production for 2013.

The change in fair value of derivatives designated as hedges that is effective is recorded to Accumulated Other Comprehensive Income / (Loss) in Stockholders' Equity in the Condensed Consolidated Balance Sheet. The ineffective portion of the change in fair value of derivatives designated as hedges, if any, and the change in fair value of derivatives not designated as hedges are recorded currently in earnings as a component of Natural Gas Revenue and Crude Oil and Condensate Revenue, as appropriate, in the Condensed Consolidated Statement of Operations.



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The following disclosures reflect the impact of derivative instruments on the Company's condensed consolidated financial statements:

*Effect of Derivative Instruments on the Condensed Consolidated Balance Sheet*

| (In thousands)   | Balance Sheet Location                      | Fair Value<br>Asset (Liability) |                   |
|--|---|---------------------------------|-------------------|
|  |   | September 30, 2012              | December 31, 2011 |
| <b>Derivatives Designated as Hedging Instruments</b>     |   |                                 |                   |
| Commodity Contracts                                      | Derivative Instruments (current assets)     | \$ 62,532                       | \$ 177,389        |
| Commodity Contracts                                      | Accrued Liabilities                         | (2,941)                         | (385)             |
| Commodity Contracts                                      | Derivative Instruments (non-current assets) | 4,379                           | 21,249            |
| Commodity Contracts                                      | Other Liabilities                           | (5,868)                         |                   |
|  |   | <b>58,102</b>                   | <b>198,253</b>    |
| <b>Derivatives Not Designated as Hedging Instruments</b> |   |                                 |                   |
| Commodity Contracts                                      | Derivative Instruments (current assets)     | (809)                           | (3,126)           |
|  |   | \$ 57,293                       | \$ 195,127        |

At September 30, 2012 and December 31, 2011, unrealized gains of \$58.1 million (\$35.6 million, net of tax) and \$198.3 million (\$121.4 million, net of tax), respectively, were recorded in Accumulated Other Comprehensive Income / (Loss). Based upon estimates at September 30, 2012, the Company expects to reclassify \$36.5 million in after-tax income associated with its commodity hedges from Accumulated Other Comprehensive Income / (Loss) to the Condensed Consolidated Statement of Operations over the next 12 months.

*Effect of Derivative Instruments on the Condensed Consolidated Statement of Operations*

| Derivatives Designated as Hedging Instruments<br>(In thousands) | Amount of Gain / (Loss) Recognized in OCI on Derivative<br>(Effective Portion) |           |                                    |            | Location of Gain (Loss)<br>Reclassified from<br>Accumulated OCI into<br>Income | Amount of Gain / (Loss) Reclassified from Accumulated OCI into<br>Income (Effective Portion) |           |                                    |           |
|---|--|-----------|------------------------------------|------------|--|--|-----------|------------------------------------|-----------|
|   | Three Months Ended<br>September 30,  |           | Nine Months Ended<br>September 30, |            |  | Three Months Ended<br>September 30,  |           | Nine Months Ended<br>September 30, |           |
|   | 2012   | 2011      | 2012                               | 2011       |  | 2012   | 2011      | 2012                               | 2011      |
| Commodity Contracts   | \$ (39,805)  | \$ 98,143 | \$ 49,299                          | \$ 159,030 | Natural Gas Revenues   | \$ 57,139  | \$ 21,170 | \$ 183,867                         | \$ 48,318 |
|   |  |           |                                    |            | Crude Oil and Condensate<br>Revenues   | 3,799  | 1,382     | 5,583                              | 566       |
|   |  |           |                                    |            |  | \$ 60,938  | \$ 22,552 | \$ 189,450                         | \$ 48,884 |

For the three and nine months ended September 30, 2012 and 2011, respectively, there was no ineffectiveness recorded in our Condensed Consolidated Statement of Operations related to our derivative instruments.

| Derivatives Not Designated as Hedging Instruments<br>(In thousands) | Location of Gain (Loss) Recognized<br>in Income on Derivative | Three Months Ended<br>September 30, |         | Nine Months Ended<br>September 30, |          |
|---|---|-------------------------------------|---------|------------------------------------|----------|
|   |   | 2012                                | 2011    | 2012                               | 2011     |
| Commodity Contracts   | Natural Gas Revenues  | \$ (149)                            | \$ (64) | \$ (449)                           | \$ (950) |

*Additional Disclosures about Derivative Instruments and Hedging Activities*

The use of derivative instruments involves the risk that the counterparties will be unable to meet their obligation under the agreement. The Company enters into derivative contracts with multiple counterparties in order to limit its exposure to individual counterparties. The Company also has netting arrangements with all of its counterparties that allow it to offset payables against receivables from separate derivative contracts with that counterparty.

Certain counterparties to the Company's derivative instruments are also lenders under its credit facility. The Company's credit facility and derivative instruments contain certain cross default and acceleration provisions that may require immediate payment of its derivative liability in certain situations.

Table of Contents**9. FAIR VALUE MEASUREMENTS**

ASC 820, Fair Value Measurements and Disclosures, established a formal framework for measuring fair values of assets and liabilities in financial statements. ASC 820 also established a formal fair value hierarchy based on the inputs used to measure fair value. The hierarchy gives the highest priority to Level 1 measurements and the lowest priority to Level 3 measurements. The Company has classified its assets and liabilities into these levels depending upon the data relied on to determine the fair values. For further information regarding the fair value hierarchy, refer to Note 13 of the Notes to the Consolidated Financial Statements in the 2011 Form 10-K.

*Non-Financial Assets and Liabilities*

The Company discloses or recognizes its non-financial assets and liabilities, such as impairments of long-lived assets, at fair value on a nonrecurring basis. As none of the Company's non-financial assets and liabilities were impaired as of September 30, 2012 and 2011 and no other assets or liabilities were required to be measured at fair value on a non-recurring basis, additional disclosures are not provided.

*Financial Assets and Liabilities*

The Company's financial assets and liabilities are measured at fair value on a recurring basis. The following fair value hierarchy table presents information about the Company's financial assets and liabilities measured at fair value on a recurring basis:

| (In thousands)             | Quoted Prices in<br>Active Markets<br>for Identical<br>Assets (Level 1) | Significant<br>Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) | September 30,<br>2012 |
|----------------------------|---|---|--|-----------------------|
| <b>Assets</b>              |   |   |  |                       |
| Deferred Compensation Plan | \$ 11,462   | \$  | \$   | \$ 11,462             |
| Derivative Contracts       |   | 12,471  | 53,631   | 66,102                |
| Total Assets               | \$ 11,462   | \$ 12,471   | \$ 53,631  | \$ 77,564             |
| <b>Liabilities</b>         |   |   |  |                       |
| Deferred Compensation Plan | \$ 22,668   | \$  | \$   | \$ 22,668             |
| Derivative Contracts       |   |   | 8,809  | 8,809                 |
| Total Liabilities          | \$ 22,668   | \$  | \$ 8,809   | \$ 31,477             |

| (In thousands)             | Quoted Prices in<br>Active Markets<br>for Identical<br>Assets (Level 1) | Significant<br>Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) | December 31,<br>2011 |
|----------------------------|---|---|--|----------------------|
| <b>Assets</b>              |   |   |  |                      |
| Deferred Compensation Plan | \$ 10,838   | \$  | \$   | \$ 10,838            |

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|                            |    |        |    |         |         |            |
|----------------------------|----|--------|----|---------|---------|------------|
| Derivative Contracts       |    |        |    | 195,512 |         | 195,512    |
| Total Assets               | \$ | 10,838 | \$ | \$      | 195,512 | \$ 206,350 |
| <b>Liabilities</b>         |    |        |    |         |         |            |
| Deferred Compensation Plan | \$ | 20,187 | \$ | \$      |         | 20,187     |
| Derivative Contracts       |    |        |    | 385     |         | 385        |
| Total Liabilities          | \$ | 20,187 | \$ | \$      | 385     | \$ 20,572  |

The Company's investments associated with its Deferred Compensation Plan consist of mutual funds and deferred shares of the Company's common stock that are publicly traded and for which market prices are readily available.

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The derivative contracts were measured based on quotes from the Company's counterparties. Such quotes have been derived using an income approach that considers various inputs including current market and contractual prices for the underlying instruments, quoted forward prices for natural gas and crude oil, basis differentials, volatility factors and interest rates, such as a LIBOR curve for a similar length of time as the derivative contract term, as applicable. These estimates are verified using relevant NYMEX futures contracts or are compared to multiple quotes obtained from counterparties for reasonableness. The determination of the fair values presented above also incorporates a credit adjustment for non-performance risk. The Company measured the non-performance risk of its counterparties by reviewing credit default swap spreads for the various financial institutions in which it has derivative transactions, while non-performance risk of the Company is evaluated using a market credit spread provided by the Company's bank.

The significant unobservable inputs for Level 3 derivative contracts include basis differentials and volatility factors. An increase (decrease) in these unobservable inputs would result in an increase (decrease) in fair value, respectively. The Company does not have access to the specific assumptions used in its counterparties' valuation models. Consequently, additional disclosures regarding significant Level 3 unobservable inputs were not provided.

The following table sets forth a reconciliation of changes in the fair value of financial assets and liabilities classified as Level 3 in the fair value hierarchy:

| (In thousands)                                   | Three Months Ended<br>September 30, |            | Nine Months Ended<br>September 30, |            |
|--|-------------------------------------|------------|------------------------------------|------------|
|  | 2012                                | 2011       | 2012                               | 2011       |
| Balance at beginning of period                   | \$ 129,213                          | \$ 48,415  | \$ 195,127                         | \$ 14,746  |
| Total Gains / (Losses) (Realized or Unrealized): |                                     |            |                                    |            |
| Included in Earnings (1)                         | 56,990                              | 22,488     | 183,418                            | 47,934     |
| Included in Other Comprehensive Income           | (85,466)                            | 75,591     | (153,008)                          | 110,146    |
| Settlements                                      | (55,915)                            | (22,552)   | (181,100)                          | (48,884)   |
| Transfers In and/or Out of Level 3               |                                     |            | 385                                |            |
| Balance at end of period                         | \$ 44,822                           | \$ 123,942 | \$ 44,822                          | \$ 123,942 |

(1) Unrealized losses of \$0.1 million and \$0.1 million for the three months ended September 30, 2012 and 2011, respectively, and unrealized losses of \$0.4 million and \$1.0 million for the nine months ended September 30, 2012 and 2011, respectively, were included in Natural Gas Revenues in the Condensed Consolidated Statement of Operations.

There were no transfers between Level 1 and Level 2 measurements for the nine months ended September 30, 2012 and 2011.

### ***Fair Value of Other Financial Instruments***

The estimated fair value of financial instruments is the amount at which the instrument could be exchanged currently between willing parties. The carrying amounts reported in the Condensed Consolidated Balance Sheet for cash and cash equivalents, accounts receivable and accounts payable approximate fair value due to the short-term maturities of these instruments.

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The fair value of long-term debt is the estimated cost to acquire the debt, including a credit spread for the difference between the issue rate and the period end market rate. The credit spread is the Company's default or repayment risk. The credit spread (premium or discount) is determined by comparing the Company's fixed-rate notes and credit facility to new issuances (secured and unsecured) and secondary trades of similar size and credit statistics for both public and private debt. The fair value of all fixed-rate notes and the credit facility is based on interest rates currently available to the Company. The Company's long-term debt is valued using an income approach and classified as Level 3 in the fair value hierarchy.

The Company uses available market data and valuation methodologies to estimate the fair value of debt. The carrying amounts and fair values of long-term debt are as follows:

| (In thousands)                               | September 30, 2012 |                         | December 31, 2011  |                         |
|--|--------------------|-------------------------|--------------------|-------------------------|
|  | Carrying<br>Amount | Estimated Fair<br>Value | Carrying<br>Amount | Estimated Fair<br>Value |
| Long-Term Debt                               | \$ 1,062,000       | \$ 1,195,717            | \$ 950,000         | \$ 1,082,531            |
| Current Maturities                           | (75,000)           | (78,095)                |                    |                         |
| Long-Term Debt, excluding Current Maturities | \$ 987,000         | \$ 1,117,622            | \$ 950,000         | \$ 1,082,531            |

Table of Contents**10. ACCUMULATED COMPREHENSIVE INCOME / (LOSS)**

Changes in the components of Accumulated Other Comprehensive Income / (Loss), net of taxes, for the nine months ended September 30, 2012 were as follows:

| (In thousands)  | Net Gains /<br>(Losses) on Cash<br>Flow Hedges | Defined Benefit<br>Pension and<br>Postretirement<br>Plans | Total            |
|---|--|---|------------------|
| Balance at December 31, 2011  | \$ 121,358                                     | \$ (16,811)   | \$ 104,547       |
| Net change in unrealized gain on cash flow hedges, net of taxes of \$54,299               | (85,852)                                       |   | (85,852)         |
| Net change in defined benefit pension and postretirement plans, net of taxes of \$(5,433) |  | 8,563   | 8,563            |
| <b>Balance at September 30, 2012</b>  | <b>\$ 35,506</b>                               | <b>\$ (8,248)</b>   | <b>\$ 27,258</b> |

**11. PENSION AND OTHER POSTRETIREMENT BENEFITS**

The components of net periodic benefit costs, included in General and Administrative Expense in the Condensed Consolidated Statement of Operations, were as follows:

| (In thousands)                                   | Three Months Ended<br>September 30, |          | Nine Months Ended<br>September 30, |           |
|--|-------------------------------------|----------|------------------------------------|-----------|
|  | 2012                                | 2011     | 2012                               | 2011      |
| <b>Qualified and Non-Qualified Pension Plans</b> |                                     |          |                                    |           |
| Interest Cost                                    | \$                                  | \$ 650   | \$ 922                             | \$ 2,251  |
| Expected Return on Plan Assets                   |                                     | (945)    | (1,748)                            | (3,265)   |
| Settlement                                       |                                     | 2,446    | 7,111                              | 2,446     |
| Amortization of Prior Service Cost               |                                     | 228      | 221                                | 862       |
| Amortization of Net Loss                         |                                     | 2,373    | 13,083                             | 8,498     |
| Net Periodic Pension Cost                        | \$                                  | \$ 4,752 | \$ 19,589                          | \$ 10,792 |
| <b>Postretirement Benefits</b>                   |                                     |          |                                    |           |
| Current Period Service Cost                      | \$                                  | \$ 234   | \$ 1,280                           | \$ 1,004  |
| Interest Cost                                    |                                     | 351      | 1,187                              | 1,402     |
| Amortization of Net Loss                         |                                     | 132      | 692                                | 422       |
| Amortization of Net Obligation at Transition     |                                     | 158      |                                    | 474       |
| Total Postretirement Benefit Cost                | \$                                  | \$ 717   | \$ 3,159                           | \$ 3,302  |

*Termination and Amendment of Qualified Pension Plan*

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In July 2010, the Company notified its employees of its plan to terminate its qualified pension plan, with the plan and its related trust to be liquidated following appropriate filings with the Pension Benefit Guaranty Corporation and Internal Revenue Service, effective September 30, 2010. The Company then amended and restated the qualified pension plan to freeze benefit accruals, to provide for termination of the plan, to allow for an early retirement enhancement to be available to all active participants as of September 30, 2010 regardless of their age and years of service as of that date, and to make certain changes that were required or made desirable as a result of developments in the law.

On March 14, 2012, the Internal Revenue Service provided the Company with a favorable determination letter for the termination of the Company's qualified pension plan. In June and July 2012, the Company made final contributions of \$9.6 million and \$3.6 million, respectively, to fund the liquidation of the trust under the qualified pension plan. As of September 30, 2012, the benefit obligations associated with the qualified pension plan were fully satisfied.

For further information regarding termination and amendment of the Company's pension plans, refer to Note 5 of the Notes to the Consolidated Financial Statements in the 2011 Form 10-K.



Table of Contents**12. STOCK-BASED COMPENSATION**

Stock-based compensation expense during the first nine months of 2012 and 2011 was \$23.4 million and \$29.3 million, respectively, and is included in General and Administrative Expense in the Condensed Consolidated Statement of Operations. Stock-based compensation expense in the third quarter of 2012 and 2011 was \$10.4 million and \$10.0 million, respectively.

***Restricted Stock Awards***

During the first nine months of 2012, 4,350 restricted stock awards were granted with a weighted-average grant date per share value of \$32.18. The fair value of restricted stock grants is based on the average of the high and low stock price on the grant date. The Company used an annual forfeiture rate assumption of 6.0% for purposes of recognizing stock-based compensation expense for restricted stock awards.

***Restricted Stock Units***

During the first nine months of 2012, 38,304 restricted stock units were granted to non-employee directors of the Company with a grant date per share value of \$36.55. The fair value of these units is measured at the average of the high and low stock price on grant date and compensation expense is recorded immediately. These units immediately vest and will be issued when the director ceases to be a director of the Company.

***Stock Appreciation Rights***

During the first nine months of 2012, 120,442 stock appreciation rights (SARs) were granted to employees. These awards allow the employee to receive common stock of the Company equal to the intrinsic value over the \$35.18 strike price during the contractual term of seven years. The Company calculates the fair value using a Black-Scholes model. The assumptions used in the Black-Scholes fair value calculation on the date of grant for SARs are as follows:

|  |         |
|--|---------|
| Weighted-Average Value per Stock Appreciation Right<br>Granted During the Period | \$16.31 |
| Assumptions  |         |
| Stock Price Volatility   | 55.3%   |
| Risk Free Rate of Return   | 0.9%    |
| Expected Dividend Yield  | 0.3%    |
| Expected Term (in years)   | 5.0     |

***Performance Share Awards***

During the first nine months of 2012, three types of performance share awards were granted to employees for a total of 518,602 performance shares, which included 401,141 performance share awards based on performance conditions measured against the Company's internal performance metrics and 117,461 performance share awards based on market conditions. The Company used an annual forfeiture rate assumption ranging from 0% to 6% for purposes of recognizing stock-based compensation expense for all performance share awards. The performance period for the awards granted in 2012 commenced on January 1, 2012 and ends on December 31, 2014. Refer to Note 11 of the Notes to the Consolidated Financial Statements in the 2011 Form 10-K for further description of the various types of performance share awards.

***Awards Based on Performance Conditions.*** The performance awards based on internal metrics had a grant date per share value of \$35.18, which is based on the average of the high and low stock price on the grant date. These awards represent the right to receive up to 100% of the award in shares of common stock. Of the 401,141 performance awards based on internal metrics, 117,461 shares have a three-year graded performance period. For these shares, one-third of the shares are issued on each anniversary date following the date of grant, provided that the Company has \$100 million or more of operating cash flow for the year preceding the vesting date. If the Company does not meet this metric for the applicable period, then the portion of the performance shares that would have been issued on that date will be forfeited.

For the remaining 283,680 performance awards, the actual number of shares issued at the end of the performance period will be determined based on the Company's performance against three performance criteria set by the Company's Compensation Committee. An employee will earn one-third of the award granted for each internal performance metric that the Company meets at the end of the

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performance period. These performance criteria are based on the Company's average production, average finding costs and average reserve replacement over the three-year performance period.

Based on the Company's probability assessment at September 30, 2012, it is considered probable that criteria for these awards will be met.

**Awards Based on Market Conditions.** The 117,461 performance shares based on market conditions are earned, or not earned, based on the comparative performance of the Company's common stock measured against sixteen other companies in the Company's peer group over a three-year performance period. These performance shares have both an equity and liability component. The equity portion of the 2012 awards was valued on the grant date (February 16, 2012) and was not marked to market. The liability portion of the awards was valued as of September 30, 2012 on a mark-to-market basis.

The following assumptions were used to value the equity and liability components of the Company's performance share awards based on market conditions using a Monte Carlo model:

|                          | Grant Date | September 30, 2012 |
|--------------------------|------------|--------------------|
| Value per Share          | \$28.31    | \$29.39 - \$44.56  |
| Assumptions:             |            |                    |
| Stock Price Volatility   | 46.7%      | 36.2% - 50.7%      |
| Risk Free Rate of Return | 0.4%       | 0.1% - 0.3%        |
| Expected Dividend Yield  | 0.2%       | 0.2%               |

***Supplemental Employee Incentive Plan***

On May 1, 2012, the Company's Board of Directors adopted a new Supplemental Employee Incentive Plan (Plan) to replace the previously adopted supplemental employee incentive plan that expired on June 30, 2012. There were no amounts paid under the expired plan. The Plan commenced on July 1, 2012 and is intended to provide a compensation tool tied to stock market value creation to serve as an incentive and retention vehicle for full-time, non-officer employees by providing for cash payments in the event the Company's common stock reaches a specified trading price. The Plan is accounted for as a liability award under ASC 718, Compensation - Stock Compensation. The Company recognized stock-based compensation expense / (benefit) of \$1.6 million and (\$0.1) million for the three and nine months ended September 30, 2012, respectively, which is included in General and Administrative expense in the Condensed Consolidated Statement of Operations.

The Plan provides for a payout if, for any 20 trading days out of any 60 consecutive trading days, the closing price per share of the Company's common stock equals or exceeds the price goal of \$50 per share by June 30, 2014 (interim trigger date) or \$75 per share by June 30, 2016 (final trigger date). Under the Plan, each eligible employee may receive (upon approval by the Compensation Committee) a distribution of 20% of base salary if the interim trigger is met or 50% of base salary if the final trigger is met (or an incremental 30% of base salary if the Company paid interim distributions upon achievement of the interim trigger).

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In accordance with the Plan, in the event the interim or final trigger date occurs between July 1, 2012 and December 31, 2014, 25% of the total distribution will be paid immediately and the remaining 75% will be deferred and paid at a future date as described in the Plan. For final trigger dates occurring between January 1, 2015 and June 30, 2016, total distribution will be paid immediately.

The Compensation Committee can increase any of the payments as applied to any employee if desired. Any deferred portion will only be paid if the participant is employed by the Company, or has terminated employment by reason of retirement, death or disability (as provided in the Plan). Payments are subject to certain other restrictions contained in the Plan.

Table of Contents**13. ASSET RETIREMENT OBLIGATION**

Activity related to the Company's asset retirement obligation is as follows:

| <b>(In thousands)</b>                |           |               |
|--------------------------------------|-----------|---------------|
| Balance at December 31, 2011         | \$        | 60,142        |
| Liabilities incurred                 |           | 1,731         |
| Liabilities settled                  |           | (1,050)       |
| Accretion expense                    |           | 2,283         |
| Change in Estimate                   |           | (37)          |
| <b>Balance at September 30, 2012</b> | <b>\$</b> | <b>63,069</b> |

**14. INCREASE IN AUTHORIZED SHARES**

In May 2012, the stockholders of the Company approved an increase in the authorized number of shares of common stock from 240 million to 480 million shares.

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**Report of Independent Registered Public Accounting Firm**

To the Board of Directors and Stockholders of

Cabot Oil & Gas Corporation:

We have reviewed the accompanying condensed consolidated balance sheet of Cabot Oil & Gas Corporation and its subsidiaries (the Company) as of September 30, 2012, and the related condensed consolidated statements of operations and comprehensive income for the three and nine month periods ended September 30, 2012 and 2011, and the condensed consolidated statement of cash flows for the nine month periods ended September 30, 2012 and 2011. These interim financial statements are the responsibility of the Company's management.

We conducted our review in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board (United States), the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the accompanying condensed consolidated interim financial statements for them to be in conformity with accounting principles generally accepted in the United States of America.

We previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet as of December 31, 2011, and the related consolidated statements of operations, stockholders' equity, comprehensive income and of cash flows for the year then ended (not presented herein), and in our report dated February 28, 2012, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated balance sheet information as of December 31, 2011, is fairly stated in all material respects in relation to the consolidated balance sheet from which it has been derived.

/s/ PricewaterhouseCoopers LLP

Houston, Texas

October 26, 2012

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**ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**

The following review of operations for the three and nine month periods ended September 30, 2012 and 2011 should be read in conjunction with our Condensed Consolidated Financial Statements and the Notes included in this Form 10-Q and with the Consolidated Financial Statements, Notes and Management's Discussion and Analysis included in the Cabot Oil & Gas Corporation Annual Report on Form 10-K for the year ended December 31, 2011 (Form 10-K).

On January 3, 2012, the Board of Directors declared a 2-for-1 split of our common stock in the form of a stock dividend. The stock dividend was distributed on January 25, 2012 to shareholders of record as of January 17, 2012. All common stock accounts and per share data have been retroactively adjusted to give effect to the 2-for-1 split of our common stock.

*Overview*

On an equivalent basis, our production for the nine months ended September 30, 2012 increased by 42% compared to the nine months ended September 30, 2011. For the nine months ended September 30, 2012, we produced 188.9 Bcfe compared to 132.7 Bcfe for the nine months ended September 30, 2011. Natural gas production was 178.4 Bcf and crude oil/condensate/NGL production was 1,760 Mbbls for the first nine months of 2012. Natural gas production increased by 40% when compared to the first nine months of 2011, which had production of 127.2 Bcf. This increase was primarily a result of increased production in the Marcellus shale associated with our drilling program and infrastructure installation and upgrades in Susquehanna County, Pennsylvania. Partially offsetting the natural gas production increase in the Marcellus shale were decreases in natural gas production in east Texas due to reduced drilling activity and normal production declines along with the sale of oil and gas properties in Colorado, Utah and Wyoming in the fourth quarter of 2011. Crude oil/condensate/NGL production increased by 91%, to 1,760 Mbbls, when compared to the first nine months of 2011, which had production of 920 Mbbls, primarily due to our focus on liquids projects associated with our Eagle Ford shale drilling program in south Texas and the Marmaton oil play in Oklahoma.

Our average realized natural gas price for the first nine months of 2012 was \$3.57 per Mcf, 23% lower than the \$4.64 per Mcf price realized in the first nine months of 2011. Our average realized crude oil price for the first nine months of 2012 was \$100.30 per Bbl, 12% higher than the \$89.69 per Bbl price realized in the first nine months of 2011. These realized prices include realized gains and losses resulting from commodity derivatives. For information about the impact of these derivatives on realized prices, refer to Results of Operations below. Commodity prices are determined by many factors that are outside of our control. Historically, commodity prices have been volatile, and we expect them to remain volatile. Commodity prices are affected by changes in market supply and demand, which are impacted by overall economic activity, weather, pipeline capacity constraints, inventory storage levels, basis differentials and other factors. As a result, we cannot accurately predict future natural gas, NGL and crude oil prices and, therefore, we cannot determine with any degree of certainty what effect increases or decreases will have on our capital program, production volumes or future revenues.

Operating revenues for the nine months ended September 30, 2012 increased by \$122.8 million, or 17%, from the nine months ended September 30, 2011. Natural gas revenues, excluding unrealized gains/losses from the change in fair value of our derivatives not designated as hedges, increased by \$50.3 million, or 9%, for the nine months ended September 30, 2012 as compared to the nine months ended September 30, 2011 as the increase in natural gas production more than offset the lower realized natural gas prices. Crude oil and condensate revenues increased by \$85.5 million, or 107%, for the first nine months of 2012 as compared to the first nine months of 2011, due to increased crude oil production and realized crude oil prices. Brokered natural gas revenues decreased by \$15.1 million, or 39%, due to a lower sales price and brokered volumes.

In addition to production volumes and commodity prices, finding and developing sufficient amounts of crude oil and natural gas reserves at economical costs are critical to our long-term success. For 2012, we expect to spend approximately \$900 million to \$950 million in capital and exploration expenditures, using proceeds from the sale of assets to supplement our cash flows from operations in order to fund incremental capital and exploration expenditures above previously budgeted amounts. We believe our existing cash on hand, operating cash flows, borrowings under our credit facility, if required, and proceeds from the sale of assets will be more than sufficient to fund our capital and exploration spending in the current year. We will continue to assess the natural gas and crude oil price environment along with our liquidity position and may increase or decrease our capital and exploration expenditures accordingly. For the nine months ended September 30, 2012, we invested approximately \$712.9 million in our exploration and development efforts.

During the first nine months of 2012, we drilled 104 gross wells (94 development, four exploratory and six extension wells) with a success rate of 97% compared to 85 gross wells (73 development, five exploratory and seven extension wells) with a success rate of 99% for the comparable period of the prior year. For the full year of 2012, we plan to drill approximately 150 to 170 gross wells.



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Our 2012 strategy will remain consistent with 2011. We remain focused on pursuing drilling opportunities that provide more predictable results on our accumulated acreage position. Additionally, we intend to maintain spending discipline and manage our balance sheet in an effort to ensure sufficient liquidity, including cash resources and available credit. For 2012, we have allocated our planned program for capital and exploration expenditures primarily to the Marcellus shale in northeast Pennsylvania, the Eagle Ford oil shale in south Texas, including a portion toward the Pearsall shale (below the Eagle Ford oil shale), and the Marmaton oil play in Oklahoma. We believe these strategies are appropriate for our portfolio of projects and the current commodity pricing environment and will continue to add shareholder value over the long-term.

In June 2012, we sold a 35% non-operated working interest associated with certain of our Pearsall shale undeveloped leaseholds in south Texas. For further information, please refer to *Divestitures* under Note 2 in the Notes to the Condensed Consolidated Financial Statements.

The preceding paragraphs, discussing our strategic pursuits and goals, contain forward-looking information. Please read *Forward-Looking Information* for further details.

***Financial Condition***

*Capital Resources and Liquidity*

Our primary sources of cash for the nine months ended September 30, 2012 were funds generated from the sale of natural gas and crude oil production (including realizations from our derivative instruments), proceeds from the sale of assets and net borrowings under our credit facility. These cash flows were primarily used to fund our capital and exploration expenditures, contributions to our pension plan and payment of dividends. See below for additional discussion and analysis of cash flow.

Operating cash flow fluctuations are substantially driven by commodity prices, changes in our production volumes and operating expenses. Prices for natural gas and crude oil have historically been and continue to be volatile, including seasonal influences characterized by peak demand and higher prices in the winter heating season; however, the impact of other risks and uncertainties, as described in our Form 10-K and other filings with the Securities and Exchange Commission, have also influenced prices throughout the recent years. In addition, fluctuations in cash flow may result in an increase or decrease in our capital and exploration expenditures. See *Results of Operations* for a review of the impact of prices and volumes on revenues.

Our working capital is also substantially influenced by variables discussed above. From time to time, our working capital will reflect a surplus, while at other times it will reflect a deficit. This fluctuation is not unusual. We believe we have adequate availability under our credit facility and liquidity available to meet our working capital requirements.

| <b>(In thousands)</b>                       | <b>Nine Months Ended<br/>September 30,</b> |             |
|---|--|-------------|
|   | <b>2012</b>                                | <b>2011</b> |
| Cash Flows Provided by Operating Activities | \$ 455,112                                 | \$ 375,366  |

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|  |    |           |    |           |
|--|----|-----------|----|-----------|
| Cash Flows Used in Investing Activities                |    | (540,946) |    | (586,878) |
| Cash Flows Provided by Financing Activities            |    | 93,424    |    | 218,491   |
| Net Increase / (Decrease) in Cash and Cash Equivalents | \$ | 7,590     | \$ | 6,979     |

**Operating Activities.** Net cash provided by operating activities in the first nine months of 2012 increased by \$79.7 million over the first nine months of 2011. This increase was primarily due to favorable changes in working capital and long-term assets and liabilities and higher operating revenues partially offset by higher operating expenses (excluding non-cash expenses). The increase in operating revenues was primarily due to an increase in equivalent production and higher realized crude oil prices partially offset by lower realized natural gas prices. Equivalent production volumes increased by 42% for the nine months ended September 30, 2012 compared to the nine months ended September 30, 2011 as a result of higher natural gas and crude oil production. Average realized crude oil prices increased by 12% compared to the same period while average realized natural gas prices decreased by 23% for the first nine months of 2012 compared to the first nine months of 2011.

See Results of Operations for additional information relative to commodity price, production and operating expense movements. We are unable to predict future commodity prices and, as a result, cannot provide any assurance about future levels of net cash provided by operating activities. Realized prices may decline in future periods.

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**Investing Activities.** Cash flows used in investing activities decreased by \$45.9 million for the first nine months of 2012 compared to the first nine months of 2011. The decrease was primarily due an increase of \$50.6 million in proceeds from sale of assets, partially offset by \$4.5 million of capital contributions associated with our equity method investment in Constitution Pipeline Company, LLC (Constitution).

**Financing Activities.** Cash flows provided by financing activities decreased by \$125.1 million from the first nine months of 2011 to the first nine months of 2012. This decrease was primarily due to \$118.0 million lower net borrowings (\$50.0 million decrease in borrowings and \$68.0 million increase in repayments of debt), \$4.0 million higher debt issuance costs associated with our amended credit facility and \$3.2 million higher dividend payments.

In May 2012, we amended our revolving credit facility to adjust the margins associated with borrowings under the facility and extend the maturity date from September 2015 to May 2017. The credit facility, as amended, provides for an available credit line of \$900 million and contains a \$500 million accordion feature whereby we may increase the available credit line to \$1.4 billion, if one or more of the existing banks or new banks agree to provide such increased commitment amount. As of September 30, 2012, the borrowing base under our amended credit facility was \$1.7 billion.

At September 30, 2012, we had \$300.0 million of borrowings outstanding under the amended credit facility at a weighted-average interest rate of 2.3% and \$599.0 million available for future borrowings.

We were in compliance in all material respects with our debt covenants as of September 30, 2012.

We strive to manage our debt at a level below the available credit line in order to maintain borrowing capacity. Our revolving credit facility includes a covenant limiting our total debt. Management believes that, with internally generated cash flow from operations, existing cash on hand, proceeds from the sale of assets and availability under our revolving credit facility, if required, we have the capacity to finance our spending plans, service our debt obligations as they become due and maintain our strong financial position.

*Capitalization*

Information about our capitalization is as follows:

| (In thousands)         | September 30,<br>2012 | December 31,<br>2011 |
|------------------------|-----------------------|----------------------|
| Debt (1)               | \$ 1,062,000          | \$ 950,000           |
| Stockholders Equity    | 2,100,287             | 2,104,768            |
| Total Capitalization   | \$ 3,162,287          | \$ 3,054,768         |
| Debt to Capitalization | 34%                   | 31%                  |

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|                           |    |        |    |        |
|---------------------------|----|--------|----|--------|
| Cash and Cash Equivalents | \$ | 37,501 | \$ | 29,911 |
|---------------------------|----|--------|----|--------|

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*(1) Includes \$75.0 million of current portion of long-term debt at September 30, 2012 and \$300.0 million and \$188.0 million of borrowings outstanding under our revolving credit facility at September 30, 2012 and December 31, 2011, respectively.*

During the nine months ended September 30, 2012, we paid dividends of \$12.6 million (\$0.06 per share) on our common stock. A regular dividend has been declared for each quarter since we became a public company in 1990.

### *Capital and Exploration Expenditures*

On an annual basis, we generally fund most of our capital and exploration activities, excluding any significant oil and gas property acquisitions, with cash generated from operations and, if necessary, borrowings under our revolving credit facility. We budget these capital expenditures based on our current estimate of future commodity prices and projected cash flows for the year.

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The following table presents major components of capital and exploration expenditures:

| (In thousands)          | Nine Months Ended<br>September 30, |            |
|-------------------------|------------------------------------|------------|
|                         | 2012                               | 2011       |
| Capital Expenditures    |                                    |            |
| Drilling and Facilities | \$ 602,820                         | \$ 561,017 |
| Leasehold Acquisitions  | 74,426                             | 60,922     |
| Pipeline and Gathering  | (365)                              | 7,218      |
| Other                   | 6,457                              | 6,452      |
|                         | <b>683,338</b>                     | 635,609    |
| Exploration Expense     | <b>29,548</b>                      | 31,090     |
| Total                   | \$ <b>712,886</b>                  | \$ 666,699 |

For the full year of 2012, we plan to drill approximately 150 to 170 gross wells. Our 2012 drilling program includes between \$900 million to \$950 million in total planned capital and exploration expenditures, using proceeds from the sale of assets to supplement our cash flows from operations in order to fund incremental capital and exploration expenditures above previously budgeted amounts. See [Overview](#) for additional information regarding the current year drilling program. We will continue to assess the natural gas and crude oil price environment along with our liquidity position and may increase or decrease our capital and exploration expenditures accordingly.

*Contractual Obligations*

We have various contractual obligations in the normal course of our operations. For further information, please refer to [Transportation Agreements](#) under Note 7 in the Notes to the Condensed Consolidated Financial Statements for changes in our commitments for the first nine months of 2012. There have been no other material changes to our contractual obligations described under [Gas Transportation Agreements](#), [Drilling Rig Commitments](#), [Hydraulic Fracturing Services Commitments](#) and [Lease Commitments](#) as disclosed in Note 7 in the Notes to Consolidated Financial Statements included in our 2011 Form 10-K.

In February 2012, we entered into a Precedent Agreement with Constitution, at that time a wholly owned subsidiary of Williams Partners L.P., to develop and construct a 120 mile large diameter pipeline to transport our production in northeast Pennsylvania to both the New England and New York markets. In April 2012, we entered into an Amended and Restated Limited Liability Company Agreement with Constitution. Refer to Note 5 in the Notes to Condensed Consolidated Financial Statements for further details.

*Critical Accounting Policies and Estimates*

Our discussion and analysis of our financial condition and results of operations are based upon our condensed consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted and adopted in the United States. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses. See our 2011 Form 10-K for further discussion of our critical accounting policies.

*Recent Accounting Pronouncements*

In May 2011, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2011-04, Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs. The amendments in this update generally represent clarifications of Topic 820, but also include some instances where a particular principle or requirement for measuring fair value or disclosing information about fair value measurements has changed. This update results in common principles and requirements for measuring fair value and for disclosing information about fair value measurements in accordance with U.S. GAAP and IFRS. The amendments are effective for interim and annual periods beginning after December 15, 2011 and are to be applied prospectively. This update did not have any impact on our consolidated financial position, results of operations or cash flows.

In June 2011, the FASB issued ASU No. 2011-05, Presentation of Comprehensive Income. ASU No. 2011-05 was amended in December 2011 by ASU No. 2011-12, Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in ASU No. 2011-05. ASU No. 2011-12 defers only those changes in ASU No. 2011-05 that relate to the presentation of reclassification adjustments. All other requirements in ASU No. 2011-05 are not affected by ASU No. 2011-12, including the requirement to report comprehensive income either in a single continuous financial statement or in two separate but consecutive financial statements. ASU No. 2011-05 and 2011-12 are effective for fiscal years (including interim

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periods) beginning after December 15, 2011. We elected to present two separate but consecutive financial statements. These updates did not have any impact on our consolidated financial position, results of operations or cash flows.

In December 2011, the FASB issued ASU No. 2011-11, Disclosures about Offsetting Assets and Liabilities. The amendments in this update require enhanced disclosures around financial instruments and derivative instruments that are either (1) offset in accordance with either Accounting Standards Codification (ASC) 210-20-45 or ASC 815-10-45 or (2) subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are offset in accordance with either ASC 210-20-45 or ASC 815-10-45. An entity should provide the disclosures required by those amendments retrospectively for all comparative periods presented. The amendments are effective during interim and annual periods beginning on or after January 1, 2013. This guidance will primarily impact our disclosures associated with our commodity derivatives. We do not expect this guidance to have any impact on our consolidated financial position, results of operations or cash flows.

**Results of Operations***Third Quarters of 2012 and 2011 Compared*

We reported net income in the third quarter of 2012 of \$36.6 million, or \$0.17 per share, compared to \$28.5 million, or \$0.14 per share in the third quarter of 2011. The increase in net income was primarily due to an increase in equivalent production and higher realized crude oil prices partially offset by lower realized natural gas prices and higher operating costs.

*Revenue, Price and Volume Variances*

Below is a discussion of revenue, price and volume variances.

| Revenue Variances (In thousands) | Three Months Ended September 30, |            | Variance  |         |
|----------------------------------|----------------------------------|------------|-----------|---------|
|                                  | 2012                             | 2011       | Amount    | Percent |
| Natural Gas (1)                  | \$ 232,045                       | \$ 218,585 | \$ 13,460 | 6%      |
| Crude Oil and Condensate         | 57,870                           | 33,158     | 24,712    | 75%     |
| Brokered Natural Gas             | 5,238                            | 9,467      | (4,229)   | (45)%   |
| Other                            | 1,870                            | 971        | 899       | 93%     |

(1) Natural Gas Revenues exclude the unrealized loss of \$0.1 million and \$0.1 million from the change in fair value of our derivatives not designated as hedges in 2012 and 2011, respectively.

| Three Months Ended September 30, | Variance | Increase (Decrease) |      |      |
|----------------------------------|----------|---------------------|------|------|
|                                  |          |                     | 2012 | 2011 |

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| <b>Price Variances</b>           |    |               |    |        |    |        |       |    |          |
|----------------------------------|----|---------------|----|--------|----|--------|-------|----|----------|
| Natural Gas (1)                  | \$ | <b>3.68</b>   | \$ | 4.58   | \$ | (0.90) | (20)% | \$ | (55,170) |
| Crude Oil and Condensate (2)     | \$ | <b>101.34</b> | \$ | 86.89  | \$ | 14.45  | 17%   |    | 8,283    |
| Total                            |    |               |    |        |    |        |       | \$ | (46,887) |
| <b>Volume Variances</b>          |    |               |    |        |    |        |       |    |          |
| Natural Gas (Mmcf)               |    | <b>62,692</b> |    | 47,707 |    | 14,985 | 31%   | \$ | 68,630   |
| Crude Oil and Condensate (Mbbbl) |    | <b>571</b>    |    | 382    |    | 189    | 49%   |    | 16,429   |
| Total                            |    |               |    |        |    |        |       | \$ | 85,059   |

(1) These prices include the realized impact of derivative instrument settlements, which increased the price by \$0.91 per Mcf in 2012 and \$0.44 per Mcf in 2011.

(2) These prices include the realized impact of derivative instrument settlements, which increased the price by \$6.65 per Bbl in 2012 and \$3.62 per Bbl in 2011.

*Natural Gas Revenues*

The increase in natural gas revenues of \$13.5 million, excluding the impact of unrealized losses, is due to increased production during the third quarter of 2012, partially offset by lower realized natural gas prices. The increase in production was primarily a result of higher production in the Marcellus shale associated with our drilling program and infrastructure installation and upgrades in Susquehanna County, Pennsylvania. Partially offsetting the increase in natural gas production in the Marcellus shale were decreases in natural gas production in east Texas due to reduced drilling activity and normal production declines along with the sale of oil and gas properties in Colorado, Utah and Wyoming in the fourth quarter of 2011.



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*Crude Oil and Condensate Revenues*

The increase in crude oil and condensate revenues of \$24.7 million is primarily due to our focus on liquids projects associated with our Eagle Ford shale drilling program in south Texas and the Marmaton oil play in Oklahoma and higher realized oil prices.

*Brokered Natural Gas Revenue and Cost*

|  | Three Months Ended<br>September 30, |          | Amount    | Variance<br>Percent | Price and<br>Volume<br>Variances<br>(In thousands) |
|--|-------------------------------------|----------|-----------|---------------------|--|
|  | 2012                                | 2011     |           |                     |  |
| <b>Brokered Natural Gas Sales</b>            |                                     |          |           |                     |  |
| Sales Price (\$/Mcf)                         | \$ 3.28                             | \$ 4.99  | \$ (1.71) | (34)%               | \$ (2,712)   |
| Volume Brokered (Mmcf)                       | x 1,595                             | x 1,899  | (304)     | (16)%               | (1,517)  |
| Brokered Natural Gas Revenues (In thousands) | \$ 5,238                            | \$ 9,467 |           |                     | \$ (4,229)   |
| <b>Brokered Natural Gas Purchases</b>        |                                     |          |           |                     |  |
| Purchase Price (\$/Mcf)                      | \$ 2.67                             | \$ 4.32  | \$ (1.65) | (38)%               | \$ 2,633   |
| Volume Brokered (Mmcf)                       | x 1,595                             | x 1,899  | (304)     | (16)%               | 1,313  |
| Brokered Natural Gas Cost (In thousands)     | \$ 4,258                            | \$ 8,204 |           |                     | \$ 3,946   |
| Brokered Natural Gas Margin (In thousands)   | \$ 980                              | \$ 1,263 |           |                     | \$ (283)   |

The decreased brokered natural gas margin of \$0.3 million is primarily a result of a decrease in sales price that outpaced the decrease in purchase price and lower brokered volumes.

*Impact of Derivative Instruments on Operating Revenues*

The following table reflects the increase / (decrease) to revenue from the realized impact of cash settlements for derivative instruments designated as cash flow hedges and the net unrealized change in fair value of other financial derivative instruments:

| (In thousands)                                | Three Months Ended September 30, |           |
|---|----------------------------------|-----------|
|   | 2012                             | 2011      |
| <b>Cash Flow Hedges</b>                       |                                  |           |
| Natural Gas                                   | \$ 57,139                        | \$ 21,170 |
| Crude Oil                                     | 3,799                            | 1,382     |
| <b>Other Financial Derivative Instruments</b> |                                  |           |

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|                         |           |           |
|-------------------------|-----------|-----------|
| Natural Gas Basis Swaps | (149)     | (64)      |
|                         | \$ 60,789 | \$ 22,488 |

Table of Contents*Operating and Other Expenses*

| (In thousands)                           | Three Months Ended<br>September 30, |            | Amount     | Variance |         |
|--|-------------------------------------|------------|------------|----------|---------|
|  | 2012                                | 2011       |            | Amount   | Percent |
| <b>Operating and Other Expenses</b>      |                                     |            |            |          |         |
| Direct Operations                        | \$ 28,269                           | \$ 27,292  | \$ 977     | 4%       |         |
| Transportation and Gathering             | 34,430                              | 19,768     | 14,662     | 74%      |         |
| Brokered Natural Gas                     | 4,258                               | 8,204      | (3,946)    | (48)%    |         |
| Taxes Other Than Income                  | 10,436                              | 7,042      | 3,394      | 48%      |         |
| Exploration                              | 9,303                               | 20,190     | (10,887)   | (54)%    |         |
| Depreciation, Depletion and Amortization | 110,448                             | 90,293     | 20,155     | 22%      |         |
| General and Administrative               | 23,829                              | 27,949     | (4,120)    | (15)%    |         |
| Total Operating Expense                  | \$ 220,973                          | \$ 200,738 | \$ 20,235  | 10%      |         |
| (Gain) / Loss on Sale of Assets          | \$ 126                              | \$ (3,854) | \$ (3,980) | (103)%   |         |
| Interest Expense and Other               | 16,219                              | 18,517     | (2,298)    | (12)%    |         |
| Income Tax Expense                       | 22,948                              | 18,234     | 4,714      | 26%      |         |

Total costs and expenses from operations increased by \$20.2 million, or 10%, in the third quarter of 2012 compared to the same period of 2011. The primary reasons for this fluctuation are as follows:

- Direct Operations increased \$1.0 million largely due to higher operating costs primarily driven by increased production. Contributing to the increase are higher employee related costs, partially offset by decreased workover activity.
- Transportation and Gathering increased \$14.7 million due to an increase in production and higher transportation rates and the commencement of various transportation and gathering arrangements in the fourth quarter of 2011 and the first nine months of 2012, primarily in northeast Pennsylvania.
- Brokered Natural Gas decreased \$4.0 million. See the preceding table titled *Brokered Natural Gas Revenue and Cost* for further analysis.
- Taxes Other Than Income increased \$3.4 million primarily due to additional costs associated with the passage of an impact fee in Pennsylvania on Marcellus shale production that was imposed by the state legislature in February 2012.
- Exploration decreased \$10.9 million primarily due to lower exploratory dry hole costs associated with an exploratory well in Montana that was expensed in 2011 partially offset by higher geological and geophysical costs due to increased processing of seismic data.

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- Depreciation, Depletion and Amortization increased \$20.2 million, of which \$26.8 million was due to higher equivalent production volumes for the quarter ended September 30, 2012 compared to the quarter ended September 30, 2011. The increase in depreciation and depletion was partially offset by a decrease in amortization of unproved properties of \$6.5 million as the result of a decrease in amortization rates due to the success of our drilling programs in Pennsylvania and south Texas and the sale of certain Pearsall shale undeveloped leaseholds in south Texas in the second quarter of 2012. These decreases were partially offset by increased lease acquisition costs.
- General and Administrative decreased \$4.1 million primarily due a decrease in costs related to our terminated pension plan, which was fully settled in the second quarter of 2012. There were no pension costs incurred in the third quarter of 2012.

### *Gain / (Loss) on Sale of Assets*

An aggregate loss of \$0.1 million was recognized in the third quarter of 2012. During the third quarter of 2011, an aggregate gain of \$3.9 million was recognized primarily due to the sale of non-core assets as part of our ongoing portfolio management program.

Table of Contents*Interest Expense and Other*

Interest expense and other decreased \$2.3 million primarily due to a decrease in weighted-average borrowings under our credit facility based on daily balances of approximately \$274.0 million during the third quarter of 2012 compared to approximately \$407.7 million during the third quarter of 2011 and a lower weighted-average effective interest rate on our credit facility borrowings of approximately 2.5% during the third quarter of 2012 compared to approximately 3.7% during the third quarter of 2011.

*Income Tax Expense*

Income tax expense increased \$4.7 million primarily due to higher pretax income, partially offset by a slightly lower effective tax rate. The effective tax rate for the third quarter of 2012 and 2011 was 38.5% and 39.0%, respectively.

*Nine Months of 2012 and 2011 Compared*

We reported net income in the first nine months of 2012 of \$90.9 million, or \$0.43 per share, compared to net income in the first nine months of 2011 of \$96.0 million, or \$0.46 per share. The decrease in net income was primarily due to lower realized natural gas prices and higher operating costs offset by increased equivalent production and higher realized crude oil prices. Net income was also affected by a higher gain on sale of assets during the first nine months of 2012.

*Revenue, Price and Volume Variances*

Below is a discussion of revenue, price and volume variances.

| Revenue Variances (In thousands) | Nine Months Ended September 30, |            | Amount    | Variance |         |
|----------------------------------|---------------------------------|------------|-----------|----------|---------|
|                                  | 2012                            | 2011       |           |          | Percent |
| Natural Gas (1)                  | \$ 640,178                      | \$ 589,926 | \$ 50,252 |          | 9%      |
| Crude Oil and Condensate         | 165,317                         | 79,792     | 85,525    |          | 107%    |
| Brokered Natural Gas             | 23,831                          | 38,947     | (15,116)  |          | (39)%   |
| Other                            | 5,790                           | 4,124      | 1,666     |          | 40%     |

(1) Natural Gas Revenues exclude the unrealized loss of \$0.4 million and \$1.0 million from the change in fair value of our derivatives not designated as hedges in 2012 and 2011, respectively.

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|                                  | Nine Months Ended September 30, |          | Variance  |         | Increase<br>(Decrease) |
|----------------------------------|---------------------------------|----------|-----------|---------|------------------------|
|                                  | 2012                            | 2011     | Amount    | Percent | (In thousands)         |
| <b>Price Variances</b>           |                                 |          |           |         |                        |
| Natural Gas (1)                  | \$ 3.57                         | \$ 4.64  | \$ (1.07) | (23)%   | \$ (188,637)           |
| Crude Oil and Condensate (2)     | \$ 100.30                       | \$ 89.69 | \$ 10.61  | 12%     | 17,579                 |
| Total                            |                                 |          |           |         | \$ (171,058)           |
| <b>Volume Variances</b>          |                                 |          |           |         |                        |
| Natural Gas (Mmcf)               | 178,351                         | 127,206  | 51,145    | 40%     | \$ 238,889             |
| Crude Oil and Condensate (Mbbbl) | 1,648                           | 890      | 758       | 85%     | 67,946                 |
| Total                            |                                 |          |           |         | \$ 306,835             |

(1) These prices include the realized impact of derivative instrument settlements, which increased the price by \$1.03 per Mcf in 2012 and \$0.38 per Mcf in 2011.

(2) These prices include the realized impact of derivative instrument settlements, which increased the price by \$3.39 per Bbl in 2012 and \$0.64 per Bbl in 2011.

*Natural Gas Revenues*

The increase in natural gas revenues of \$50.3 million, excluding the impact of unrealized losses discussed above, is due to increased production during the first nine months of 2012, partially offset by lower realized natural gas prices. The increase in production was primarily a result of higher production in the Marcellus shale associated with our drilling program and infrastructure installation and upgrades in Susquehanna County, Pennsylvania. Partially offsetting the natural gas production increase in the Marcellus shale were decreases in natural gas production in east Texas due to reduced drilling activity and normal production declines along with the sale of oil and gas properties in Colorado, Utah and Wyoming in the fourth quarter of 2011.

Table of Contents*Crude Oil and Condensate Revenues*

The increase in crude oil and condensate revenues of \$85.5 million primarily due to our focus on liquids projects associated with our Eagle Ford shale drilling program in south Texas and the Marmaton oil play in Oklahoma and higher realized oil prices.

*Brokered Natural Gas Revenue and Cost*

|  | Nine Months Ended<br>September 30, |           | Variance<br>Amount | Variance<br>Percent | Price and<br>Volume<br>Variances<br>(In thousands) |
|--|------------------------------------|-----------|--------------------|---------------------|--|
|  | 2012                               | 2011      |                    |                     |  |
| <b>Brokered Natural Gas Sales</b>            |                                    |           |                    |                     |  |
| Sales Price (\$/Mcf)                         | \$ 3.54                            | \$ 5.15   | \$ (1.61)          | (31)%               | \$ (10,857)  |
| Volume Brokered (Mmcf)                       | x 6,733                            | x 7,560   | (827)              | (11)%               | (4,259)  |
| Brokered Natural Gas Revenues (In thousands) | \$ 23,831                          | \$ 38,947 |                    |                     | \$ (15,116)  |
| <b>Brokered Natural Gas Purchases</b>        |                                    |           |                    |                     |  |
| Purchase Price (\$/Mcf)                      | \$ 3.03                            | \$ 4.41   | \$ (1.38)          | (31)%               | \$ 9,335   |
| Volume Brokered (Mmcf)                       | x 6,733                            | x 7,560   | (827)              | (11)%               | 3,647  |
| Brokered Natural Gas Cost (In thousands)     | \$ 20,380                          | \$ 33,362 |                    |                     | \$ 12,982  |
| Brokered Natural Gas Margin (In thousands)   | \$ 3,451                           | \$ 5,585  |                    |                     | \$ (2,134)   |

The decreased brokered natural gas margin of \$2.1 million is primarily a result of a decrease in sales price that outpaced a decrease in the purchase price and lower brokered volumes.

*Impact of Derivative Instruments on Operating Revenues*

The following table reflects the increase / (decrease) to revenue from the realized impact of cash settlements for derivative instruments designated as cash flow hedges and the net unrealized change in fair value of other financial derivative instruments:

| (In thousands)                                | Nine Months Ended September 30, |           |
|---|---------------------------------|-----------|
|   | 2012                            | 2011      |
| <b>Cash Flow Hedges</b>                       |                                 |           |
| Natural Gas                                   | \$ 183,867                      | \$ 48,318 |
| Crude Oil                                     | 5,583                           | 566       |
| <b>Other Financial Derivative Instruments</b> |                                 |           |
| Natural Gas Basis Swaps                       | (449)                           | (950)     |

|    |                |    |        |
|----|----------------|----|--------|
| \$ | <b>189,001</b> | \$ | 47,934 |
|----|----------------|----|--------|



Table of Contents*Operating and Other Expenses*

| (In thousands)                           | Nine Months Ended<br>September 30, |             | Amount     | Variance | Percent |
|--|------------------------------------|-------------|------------|----------|---------|
|  | 2012                               | 2011        |            |          |         |
| <b>Operating and Other Expenses</b>      |                                    |             |            |          |         |
| Direct Operations                        | \$ 84,895                          | \$ 76,878   | \$ 8,017   |          | 10%     |
| Transportation and Gathering             | 97,827                             | 48,710      | 49,117     |          | 101%    |
| Brokered Natural Gas                     | 20,380                             | 33,362      | (12,982)   |          | (39)%   |
| Taxes Other Than Income                  | 39,873                             | 21,070      | 18,803     |          | 89%     |
| Exploration                              | 29,548                             | 31,090      | (1,542)    |          | (5)%    |
| Depreciation, Depletion and Amortization | 335,421                            | 250,642     | 84,779     |          | 34%     |
| General and Administrative               | 93,249                             | 78,254      | 14,995     |          | 19%     |
| Total Operating Expense                  | \$ 701,193                         | \$ 540,006  | \$ 161,187 |          | 30%     |
| (Gain) / Loss on Sale of Assets          | \$ (67,042)                        | \$ (36,408) | \$ 30,634  |          | 84%     |
| Interest Expense and Other               | 51,631                             | 53,928      | (2,297)    |          | (4)%    |
| Income Tax Expense                       | 58,021                             | 58,268      | (247)      |          | (0)%    |

Total costs and expenses from operations increased by \$161.2 million, or 30%, in the first nine months of 2012 compared to the same period of 2011. The primary reasons for this fluctuation are as follows:

- Direct Operations increased \$8.0 million largely due to higher operating costs primarily driven by increased production. Contributing to the increase are higher employee related costs, leased production equipment, and saltwater disposal costs. These increases are partially offset by decreased workover activity.
- Transportation and Gathering increased \$49.1 million primarily due to an increase in production and higher transportation rates and the commencement of various transportation and gathering arrangements throughout 2011 and the first nine months of 2012, primarily in northeast Pennsylvania.
- Brokered Natural Gas decreased \$13.0 million. See the preceding table titled *Brokered Natural Gas Revenue and Cost* for further analysis.
- Taxes Other Than Income increased \$18.8 million primarily due to additional costs associated with the passage of an impact fee in Pennsylvania on Marcellus shale production that was imposed by state legislature in February 2012, higher production tax expense due to increased oil production in south Texas and Oklahoma and fewer production tax incentives received in the first nine month of 2012 compared to the first nine months of 2011. Costs associated with the impact fee in Pennsylvania includes approximately \$8.3 million related to wells drilled prior to 2012.

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- Exploration decreased \$1.5 million primarily due to lower exploratory dry hole costs and geological and geophysical costs as a result of fewer acquisitions and purchases of seismic data. These decreases were partially offset by higher employee related costs.
  
- Depreciation, Depletion and Amortization increased by \$84.8 million, of which \$93.8 million was due to higher equivalent production volumes, partially offset by a decrease in amortization of unproved properties of \$ 8.7 million as a result of a decrease in amortization rates due to the success of our drilling programs in Pennsylvania and south Texas and the sale of certain Pearsall shale undeveloped leaseholds in south Texas in the second quarter of 2012.
  
- General and Administrative increased by \$15.0 million primarily due to \$9.5 million higher pension expense associated with the termination of our qualified pension plan and the related settlement that occurred in the second quarter 2012 and higher legal costs and professional fees of \$6.6 million. Also contributing to the increase was the accrual of \$1.9 million associated with fines and penalties assessed in the second quarter of 2012 by the Office of Natural Resources Revenue for certain alleged reporting matters (which we are disputing) related to properties we no longer own. These increases were partially offset by \$5.9 million lower stock-based compensation expense primarily associated with the mark-to-market of our liability-based performance awards due to changes in our stock price for the nine months ended September 30, 2012 compared to the nine months ended September 30, 2011, partially offset by an increase of our supplemental employee incentive plan liability.

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*Gain / (Loss) on Sale of Assets*

An aggregate gain of \$67.0 million was recognized in the first nine month of 2012 primarily due to the sale of certain of our Pearsall shale undeveloped leaseholds in south Texas. During the first nine months of 2011, an aggregate gain of \$36.4 million was recognized primarily due to the sale of the undeveloped leaseholds in east Texas and the sale of non-core assets as part of our ongoing portfolio management program.

*Interest Expense and Other*

Interest expense and other decreased by \$2.3 million primarily due to a decrease in weighted-average borrowings under our credit facility based on daily balances of approximately \$266.5 million during the first nine months of 2012 compared to approximately \$340.2 million during the first nine months of 2011 coupled with a lower weighted-average effective interest rate on our credit facility borrowings of approximately 3.2% during the first nine months of 2012 compared to approximately 4.0% during the first nine months of 2011. These decreases were partially offset by an increase of \$1.3 million of debt extinguishment costs associated with our credit facility amendment in the first nine months of 2012.

*Income Tax Expense*

Income tax expense decreased by \$0.2 million primarily due to lower pretax income offset by a higher effective tax rate. The effective tax rate for the first nine months of 2012 and 2011 was 39.0% and 37.7%, respectively. The effective tax rate in 2012 was higher due to an increase in estimated state tax liabilities and non-deductible expenses.

*Forward-Looking Information*

The statements regarding future financial and operating performance and results, strategic pursuits and goals, market prices, future hedging activities, and other statements that are not historical facts contained in this report are forward-looking statements. The words expect, project, estimate, believe, anticipate, intend, budget, plan, forecast, predict, may, should, could, will and similar expressions are forward-looking statements. These statements involve risks and uncertainties, including, but not limited to, market factors, market prices (including geographic basis differentials) of natural gas and oil, results of future drilling and marketing activity, future production and costs, legislative and regulatory initiatives, electronic, cyber or physical security breaches and other factors detailed in this document and in our other Securities and Exchange Commission filings. If one or more of these risks or uncertainties materialize, or if underlying assumptions prove incorrect, actual outcomes may vary materially from those included in this document.

**ITEM 3. Quantitative and Qualitative Disclosures about Market Risk**

*Market Risk*

Our primary market risk is exposure to crude oil and natural gas prices. Realized prices are mainly driven by worldwide prices for crude oil and spot market prices for North American natural gas production. Commodity prices are volatile and unpredictable.

*Derivative Instruments and Hedging Activity*

Our hedging strategy is designed to reduce the risk of price volatility for our production in the natural gas and crude oil markets. A hedging committee that consists of members of senior management oversees our hedging activity. Our hedging arrangements apply to only a portion of our production and provide only partial price protection. These hedging arrangements limit the benefit to us in periods of increasing prices, but offer protection in the event of price declines. Further, if our counterparties defaulted, this protection might be limited as we might not receive the benefits of the hedges. Please read the discussion below as well as Note 8 of the Notes to the Condensed Consolidated Financial Statements for a more detailed discussion of our hedging arrangements.

Periodically, we enter into derivative commodity instruments to hedge our exposure to price fluctuations on natural gas and crude oil production. Our credit agreement restricts our ability to enter into commodity hedges other than to hedge or mitigate risks to which we have actual or projected exposure or as permitted under our risk management policies and not subjecting us to material speculative risks. All of our derivatives are used for risk management purposes and are not held for trading purposes. Under our swap agreements, we receive a fixed price on a notional quantity of natural gas or crude oil in exchange for paying a variable price based on a market-based index, such as the NYMEX gas and crude oil futures. Under our collar agreements, if the index price rises above the ceiling price, we pay the counterparty. If the index price falls below the floor price, the counterparty pays us.

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As of September 30, 2012, we had the following outstanding commodity derivatives:

| Commodity and Derivative Type                            | Weighted-Average Contract Price       | Volume      | Contract Period       | Net Unrealized Gain / (Loss) (In thousands) |
|--|---------------------------------------|-------------|-----------------------|---|
| <b>Derivatives Designated as Hedging Instruments</b>     |                                       |             |                       |   |
| Natural Gas Swaps  | \$5.22 per Mcf                        | 24,131 Mmcf | Oct. 2012 - Dec. 2012 | 43,456                                      |
| Natural Gas Collars                                      | \$3.60 Floor / \$4.17 Ceiling per Mcf | 2,963 Mmcf  | Nov. 2012 - Dec. 2012 | 517   |
| Natural Gas Collars                                      | \$5.15 Floor / \$6.18 Ceiling per Mcf | 10,637 Mmcf | Jan. 2013 - Dec. 2013 | 13,694                                      |
| Natural Gas Collars                                      | \$5.15 Floor / \$6.23 Ceiling per Mcf | 7,092 Mmcf  | Jan. 2013 - Dec. 2013 | 9,140                                       |
| Natural Gas Collars                                      | \$3.09 Floor / \$4.12 Ceiling per Mcf | 35,458 Mmcf | Jan. 2013 - Dec. 2013 | (8,780)                                     |
| Natural Gas Collars                                      | \$3.40 Floor / \$4.12 Ceiling per Mcf | 17,729 Mmcf | Jan. 2013 - Dec. 2013 | (3,028)                                     |
| Natural Gas Collars                                      | \$3.35 Floor / \$4.01 Ceiling per Mcf | 35,458 Mmcf | Jan. 2013 - Dec. 2013 | (8,100)                                     |
| Natural Gas Collars                                      | \$3.60 Floor / \$4.17 Ceiling per Mcf | 17,729 Mmcf | Jan. 2013 - Dec. 2013 | (1,397)                                     |
| Crude Oil Swaps  | \$100.45 per Bbl                      | 460 Mbbl    | Oct. 2012 - Dec. 2012 | 3,547                                       |
| Crude Oil Swaps  | \$101.90 per Bbl                      | 1,095 Mbbl  | Jan. 2013 - Dec. 2013 | 8,947                                       |
|  |                                       |             |                       | <b>\$ 57,996</b>                            |
| <b>Derivatives Not Designated as Hedging Instruments</b> |                                       |             |                       |   |
| Natural Gas Basis Swaps                                  | \$(0.25) per Mcf                      | 4,284 Mmcf  | Oct. 2012 - Dec. 2012 | (809)                                       |
|  |                                       |             |                       | <b>\$ 57,187</b>                            |

The amounts set forth under the net unrealized gain / (loss) column in the table above represent our total unrealized gain position at September 30, 2012 and exclude the impact of non-performance risk. Non-performance risk was primarily evaluated by reviewing credit default swap spreads for the various financial institutions in which we have derivative transactions, while our non-performance risk is evaluated using a market credit spread provided by one of our banks.

We had natural gas swaps covering 71.9 Bcf, or 40%, of our natural gas production for the first nine months of 2012 at an average price of \$5.22 per Mcf.

We had natural gas basis swaps covering 12.8 Bcf, or 7%, of our natural gas production for the first nine months of 2012 at an average price of \$(0.25) per Mcf.

We had crude oil swaps covering 1,249 Mbbl, or 76%, of our crude oil production for the first nine months of 2012 at an average price of \$100.00 per Bbl.

In October 2012, we entered into additional natural gas collar arrangements with floor prices ranging from \$3.76 to \$3.86 per Mcf and ceiling prices ranging from \$4.14 to \$4.36 per Mcf covering 35,458 Mmcf of our anticipated natural gas production for 2013.

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We are exposed to market risk on derivative instruments to the extent of changes in market prices of natural gas and crude oil. However, the market risk exposure on these derivative contracts is generally offset by the gain or loss recognized upon the ultimate sale of the commodity. Although notional contract amounts are used to express the volume of natural gas price agreements, the amounts that can be subject to credit risk in the event of non-performance by third parties are substantially smaller. We do not anticipate any material impact on our financial results due to non-performance by third parties. Our derivative contract counterparties are Bank of America, Bank of Montreal, BNP Paribas, Goldman Sachs, JPMorgan Chase, and Morgan Stanley.

The preceding paragraphs contain forward-looking information concerning future production and projected gains and losses, which may be impacted both by production and by changes in the future market prices of energy commodities. See [Forward-Looking Information](#) for further details.

Table of Contents*Fair Market Value of Financial Instruments*

The estimated fair value of financial instruments is the amount at which the instrument could be exchanged currently between willing parties. The carrying amounts reported in the Condensed Consolidated Balance Sheet for cash and cash equivalents, accounts receivable, and accounts payable approximate fair value due to the short-term maturities of these instruments.

The fair value of long-term debt is the estimated cost to acquire the debt, including a credit spread for the difference between the issue rate and the period end market rate. The credit spread is our default or repayment risk. The credit spread (premium or discount) is determined by comparing our fixed-rate notes and credit facility to new issuances (secured and unsecured) and secondary trades of similar size and credit statistics for both public and private debt. The fair value of all of the fixed-rate notes and credit facility is based on interest rates currently available to us.

We use available market data and valuation methodologies to estimate the fair value of debt. The carrying amounts and fair values of long-term debt are as follows:

| (In thousands)                               | September 30, 2012 |                      | December 31, 2011 |                      |
|--|--------------------|----------------------|-------------------|----------------------|
|  | Carrying Amount    | Estimated Fair Value | Carrying Amount   | Estimated Fair Value |
| Long-Term Debt                               | \$ 1,062,000       | \$ 1,195,717         | \$ 950,000        | \$ 1,082,531         |
| Current Maturities                           | (75,000)           | (78,095)             |                   |                      |
| Long-Term Debt, excluding Current Maturities | \$ 987,000         | \$ 1,117,622         | \$ 950,000        | \$ 1,082,531         |

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**ITEM 4. Controls and Procedures**

As of the end of the current reported period covered by this report, the Company carried out an evaluation, under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures pursuant to Rules 13a-15 and 15d-15 of the Securities Exchange Act of 1934 (the Exchange Act). Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures are effective, in all material respects, with respect to the recording, processing, summarizing and reporting, within the time periods specified in the Commission's rules and forms, of information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act.

There were no changes in the Company's internal control over financial reporting that occurred during the third quarter of 2012 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

**PART II. OTHER INFORMATION**

**ITEM 1. Legal Proceedings**

*Legal Matters*

The information set forth under the heading Legal Matters in Note 7 of the Notes to Condensed Consolidated Financial Statements included in Item 1 of Part I of this quarterly report is incorporated by reference in response to this item.

In August 2011, the Company received a subpoena from the New York Attorney General's Office requesting documents and information regarding the Company's shale and unconventional reservoir reserves calculations. The Company has provided documents and information to the Attorney General's Office responsive to the request.

*Environmental Matters*

The information set forth under the heading Environmental Matters in Note 7 of the Notes to Condensed Consolidated Financial Statements included in Item 1 of Part I of this quarterly report is incorporated by reference in response to this item.



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The Company has received a number of Notices of Violation from the Pennsylvania Department of Environmental Protection (PaDEP) relating to alleged violations, primarily with respect to the Pennsylvania Clean Streams Law, the Pennsylvania Oil and Gas Act and the Pennsylvania Solid Waste Management Act and the rules and regulations promulgated thereunder. The Company has responded to these Notices of Violation, has remediated the areas in question and is actively cooperating with the PaDEP. While the Company cannot predict with certainty whether these Notices of Violation will result in fines and/or penalties, if fines and/or penalties are imposed, the aggregate of these fines and/or penalties could result in monetary sanctions in excess of \$100,000.

On June 27, 2012, the Company received a letter from the United States Army Corps of Engineers (USACE) regarding the Company's construction of 60,000 linear feet of a natural gas pipeline in Susquehanna County, Pennsylvania in 2008. The USACE is investigating whether construction of certain sections of the pipeline was in compliance with the Clean Water Act. This pipeline was sold to a third party in 2010. We are actively cooperating with the USACE's investigation regarding this matter.

### **ITEM 1A. Risk Factors**

For additional information about the risk factors facing the Company, see Item 1A of Part I of the Company's Annual Report on Form 10-K for the year ended December 31, 2011.

### **ITEM 2. Unregistered Sales of Equity Securities and Use of Proceeds**

#### *Issuer Purchases of Equity Securities*

The Board of Directors has authorized a share repurchase program under which the Company may purchase shares of common stock in the open market or in negotiated transactions. There is no expiration date associated with the authorization. During the nine months ended September 30, 2012, the Company did not repurchase any shares of common stock. All purchases executed to date have been through open market transactions. The maximum number of remaining shares that may be purchased under the plan as of September 30, 2012 was 9,590,600.

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**ITEM 6. Exhibits**

| <b>Exhibit<br/>Number</b> | <b>Description</b>  |
|---------------------------|---|
| 10.1                      | Second Amendment to Amended and Restated Credit Agreement, dated as of July 18, 2012, among the Company, JPMorgan Chase Bank, N.A., as Administrative Agent, Banc of America Securities and Bank of Montreal as Co-Syndication Agents, BNP Paribas and Wells Fargo as Co-Documentation Agents, and the Lenders party thereto. |
| 15.1                      | Awareness letter of PricewaterhouseCoopers LLP  |
| 31.1                      | 302 Certification - Chairman, President and Chief Executive Officer   |
| 31.2                      | 302 Certification - Vice President, Chief Financial Officer and Treasurer   |
| 32.1                      | 906 Certification   |
| 101.INS                   | XBRL Instance Document  |
| 101.SCH                   | XBRL Taxonomy Extension Schema Document   |
| 101.CAL                   | XBRL Taxonomy Extension Calculation Linkbase Document   |
| 101.DEF                   | XBRL Taxonomy Extension Definition Linkbase Document  |
| 101.LAB                   | XBRL Taxonomy Extension Label Linkbase Document   |
| 101.PRE                   | XBRL Taxonomy Extension Presentation Linkbase Document  |

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**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

CABOT OIL & GAS CORPORATION  
(Registrant)

October 26, 2012

By: /S/ DAN O. DINGES  
**Dan O. Dinges**  
**Chairman, President and**  
**Chief Executive Officer**  
**(Principal Executive Officer)**

October 26, 2012

By: /S/ SCOTT C. SCHROEDER  
**Scott C. Schroeder**  
**Vice President, Chief Financial Officer and**  
**Treasurer**  
**(Principal Financial Officer)**

October 26, 2012

By: /S/ TODD M. ROEMER  
**Todd M. Roemer**  
**Controller**  
**(Principal Accounting Officer)**