

CABOT OIL & GAS CORP
Form 10-Q
July 26, 2013
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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2013

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

Commission file number 1-10447

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)

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 July 22, 2013, there were 210,764,304 shares of Common Stock, Par Value \$.10 Per Share, outstanding.

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

(In thousands, except share amounts)	June 30, 2013	December 31, 2012
ASSETS		
Current assets		
Cash and cash equivalents	\$ 47,277	\$ 30,736
Accounts receivable, net	204,970	172,419
Income taxes receivable	7,273	
Inventories	18,276	14,173
Deferred income taxes	50,864	
Derivative instruments	69,644	50,824
Other current assets	4,889	2,158
Total current assets	403,193	270,310
Properties and equipment, net (Successful efforts method)	4,558,207	4,310,977
Derivative instruments	17,963	
Other assets	38,573	35,026
	\$ 5,017,936	\$ 4,616,313
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable	\$ 356,851	\$ 312,480
Current portion of long-term debt	75,000	75,000
Accrued liabilities	58,571	49,789
Income taxes payable	3,969	1,667
Deferred income taxes		5,203
Total current liabilities	494,391	444,139
Postretirement benefits	40,313	38,864
Long-term debt	1,067,000	1,012,000
Deferred income taxes	1,015,493	882,672
Asset retirement obligation	68,390	67,016
Other liabilities	46,108	40,175
Total liabilities	2,731,695	2,484,866
Commitments and contingencies		
Stockholders' equity		
Common stock:		
Authorized 480,000,000 shares of \$0.10 par value in 2013 and 2012, respectively		
Issued 210,758,335 shares and 210,429,731 shares in 2013 and 2012, respectively	21,076	21,043

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Additional paid-in capital	725,156	716,609
Retained earnings	1,496,795	1,373,264
Accumulated other comprehensive income / (loss)	46,563	23,880
Less treasury stock, at cost:		
404,400 shares in 2013 and 2012, respectively	(3,349)	(3,349)
Total stockholders' equity	2,286,241	2,131,447
	\$ 5,017,936	\$ 4,616,313

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

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CABOT OIL & GAS CORPORATION

CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS (Unaudited)

(In thousands, except per share amounts)	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
OPERATING REVENUES				
Natural gas	\$ 368,391	\$ 201,051	\$ 662,184	\$ 407,833
Crude oil and condensate	70,226	57,466	135,881	107,447
Brokered natural gas	8,244	5,149	19,137	18,593
Other	2,819	1,991	5,763	3,920
	449,680	265,657	822,965	537,793
OPERATING EXPENSES				
Direct operations	36,978	29,306	68,475	56,626
Transportation and gathering	52,648	33,139	98,869	63,397
Brokered natural gas cost	6,704	4,250	15,093	16,122
Taxes other than income	11,364	10,854	23,051	29,437
Exploration	4,529	16,244	8,553	20,245
Depreciation, depletion and amortization	151,389	114,616	300,042	224,973
General and administrative	21,608	46,872	57,312	69,421
	285,220	255,281	571,395	480,221
Gain / (loss) on sale of assets	276	67,703	180	67,168
INCOME FROM OPERATIONS	164,736	78,079	251,750	124,740
Interest expense and other	16,701	18,495	32,956	35,412
Income before income taxes	148,035	59,584	218,794	89,328
Income tax expense	58,921	23,647	86,856	35,073
NET INCOME	\$ 89,114	\$ 35,937	\$ 131,938	\$ 54,255
Earnings per share				
Basic	\$ 0.42	\$ 0.17	\$ 0.63	\$ 0.26
Diluted	\$ 0.42	\$ 0.17	\$ 0.62	\$ 0.26
Weighted-average shares outstanding				
Basic	210,349	209,512	210,250	209,320
Diluted	211,745	211,158	211,492	210,974
Dividends per common share	\$ 0.02	\$ 0.02	\$ 0.04	\$ 0.04

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

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CABOT OIL & GAS CORPORATION

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (Unaudited)

(In thousands)	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Net income	\$ 89,114	\$ 35,937	\$ 131,938	\$ 54,255
Other comprehensive income / (loss), net of taxes:				
Reclassification adjustment for settled hedge contracts (1)	(1,105)	(44,579)	(10,430)	(78,649)
Changes in fair value of hedge contracts (2)	69,839	11,246	32,864	54,451
Pension and postretirement benefits:				
Amortization of prior service cost (3)		67		135
Amortization of net loss (4)	124	4,174	249	8,349
Total other comprehensive income / (loss)	68,858	(29,092)	22,683	(15,714)
Comprehensive income / (loss)	\$ 157,972	\$ 6,845	\$ 154,621	\$ 38,541

(1) Net of income taxes of \$717 and \$28,263 for the three months ended June 30, 2013 and 2012, respectively, and \$6,762 and \$49,863 for the six months ended June 30, 2013 and 2012, respectively.

(2) Net of income taxes of \$(45,274) and \$(7,130) for the three months ended June 30, 2013 and 2012, respectively, and \$(21,303) and \$(34,653) for the six months ended June 30, 2013 and 2012, respectively.

(3) Net of income taxes of \$0 and \$(43) for the three months ended June 30, 2013 and 2012, respectively, and \$0 and \$(86) for the six months ended June 30, 2013 and 2012, respectively.

(4) Net of income taxes of \$(81) and \$(2,647) for the three months ended June 30, 2013 and 2012, respectively, and \$(161) and \$(5,294) for the six months ended June 30, 2013 and 2012, respectively.

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

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CABOT OIL & GAS CORPORATION

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (Unaudited)

(In thousands)	Six Months Ended	
	2013	June 30, 2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 131,938	\$ 54,255
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation, depletion and amortization	300,042	224,973
Deferred income tax expense	69,662	27,073
(Gain) / loss on sale of assets	(180)	(67,168)
Exploration expense	806	10,925
Unrealized (gain) / loss on derivative instruments		300
Amortization of debt issuance costs	1,842	3,334
Stock-based compensation, pension and other	27,355	26,987
Changes in assets and liabilities:		
Accounts receivable, net	(32,551)	25,214
Inventories	(4,103)	9,293
Other current assets	(2,733)	(3,691)
Accounts payable and accrued liabilities	9,661	(28,675)
Income taxes	(4,971)	4,775
Other assets and liabilities	547	3,547
Stock-based compensation tax benefit	(7,348)	
Net cash provided by operating activities	489,967	291,142
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital expenditures	(524,056)	(411,327)
Proceeds from sale of assets	906	132,715
Investment in equity method investment	(4,250)	(2,088)
Net cash used in investing activities	(527,400)	(280,700)
CASH FLOWS FROM FINANCING ACTIVITIES		
Borrowings from debt	325,000	170,000
Repayments of debt	(270,000)	(148,000)
Stock-based compensation tax benefit	7,348	
Dividends paid	(8,407)	(8,368)
Capitalized debt issuance costs		(5,005)
Other	33	(339)
Net cash provided by financing activities	53,974	8,288
Net (decrease) / increase in cash and cash equivalents	16,541	18,730
Cash and cash equivalents, beginning of period	30,736	29,911
Cash and cash equivalents, end of period	\$ 47,277	\$ 48,641

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, 2012 (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.

With respect to the unaudited financial information of the Company as of June 30, 2013 and for the three and six months ended June 30, 2013 and 2012, 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 July 26, 2013 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

Effective January 1, 2013, the Company adopted the amended disclosure requirements prescribed in Accounting Standards Update (ASU) No. 2011-11, *Disclosures about Offsetting Assets and Liabilities* and ASU No. 2013-01, *Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities*. This guidance impacted the disclosures associated with the Company's commodity derivatives (Note 7) and did not impact its consolidated financial position, results of operations or cash flows.

Effective January 1, 2013, the Company adopted the amended disclosure requirements prescribed in ASU No. 2013-02, *Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income*. This guidance impacted the Company's disclosures associated with items reclassified from accumulated other comprehensive income / (loss) (Note 9) and did not impact its consolidated financial position, results of operations or cash flows.

2. PROPERTIES AND EQUIPMENT, NET

Properties and equipment, net are comprised of the following:

(In thousands)	June 30, 2013	December 31, 2012
Proved oil and gas properties	\$ 6,245,196	\$ 5,724,940
Unproved oil and gas properties	458,047	467,483
Gathering and pipeline systems	240,062	239,656
Land, building and other equipment	90,690	86,137
	7,033,995	6,518,216
Accumulated depreciation, depletion and amortization	(2,475,788)	(2,207,239)
	\$ 4,558,207	\$ 4,310,977

At June 30, 2013, 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.

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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 Company recognized a \$67.0 million gain on sale of assets associated with this sale. The drilling and completion carry under the joint development agreement will terminate two years after the closing of the transaction; however, based on the Company's current drilling and completion activities in the Pearsall Shale, the Company expects that the carry will be fully satisfied in the second half of 2013.

3. ADDITIONAL BALANCE SHEET INFORMATION

Certain balance sheet amounts are comprised of the following:

(In thousands)	June 30, 2013	December 31, 2012
Accounts receivable, net		
Trade accounts	\$ 193,695	\$ 165,070
Joint interest accounts	6,694	5,659
Other accounts	6,260	2,817
	206,649	173,546
Allowance for doubtful accounts	(1,679)	(1,127)
	\$ 204,970	\$ 172,419
Inventories		
Natural gas in storage	\$ 8,629	\$ 7,494
Tubular goods and well equipment	9,274	6,392
Other accounts	373	287
	\$ 18,276	\$ 14,173
Other current assets		
Prepaid balances and other	4,889	2,158
	\$ 4,889	\$ 2,158
Other assets		
Deferred compensation plan	\$ 11,416	\$ 10,608
Debt issuance cost	15,578	17,420
Equity method investment	11,501	6,915
Other accounts	78	83
	\$ 38,573	\$ 35,026
Accounts payable		
Trade accounts	\$ 19,134	\$ 14,037
Natural gas purchases	6,335	4,892
Royalty and other owners	81,743	66,321
Accrued capital costs	184,891	164,862

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Taxes other than income	6,947	10,224
Drilling advances	51,026	44,203
Producer gas imbalances	1,368	1,602
Other accounts	5,407	6,339
	\$ 356,851	\$ 312,480
Accrued liabilities		
Employee benefits	\$ 20,779	\$ 16,011
Postretirement benefits	1,304	1,304
Taxes other than income	11,374	8,735
Interest payable	22,128	22,329
Derivative instruments		192
Other accounts	2,986	1,218
	\$ 58,571	\$ 49,789
Other liabilities		
Deferred compensation plan	\$ 30,385	\$ 23,893
Other accounts	15,723	16,282
	\$ 46,108	\$ 40,175

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

(In thousands)	June 30, 2013	December 31, 2012
Total debt		
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	380,000	325,000
Current maturities		
7.33% weighted-average fixed rate notes	(75,000)	(75,000)
Long-term debt, excluding current maturities	\$ 1,067,000	\$ 1,012,000

Effective April 17, 2013, the lenders under the Company's revolving credit facility approved an increase in the Company's borrowing base from \$1.7 billion to \$2.3 billion as part of the annual redetermination under the terms of the credit facility. The Company's commitments under the credit facility of \$900.0 million remained unchanged. At June 30, 2013, the Company had \$380.0 million of borrowings outstanding under its revolving credit facility at a weighted-average interest rate of 2.0% and \$519.0 million available for future borrowings.

5. 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.

(In thousands)	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Weighted-average shares - basic	210,349	209,512	210,250	209,320
Dilution effect of stock appreciation rights and stock awards at end of period	1,396	1,646	1,242	1,654
Weighted-average shares - diluted	211,745	211,158	211,492	210,974
Weighted-average stock awards and shares excluded from diluted earnings per share due to the anti-dilutive effect	1	122	287	179

6. COMMITMENTS AND CONTINGENCIES

Contractual Obligations

The Company has various contractual obligations in the normal course of its operations. Except for certain amended transportation agreements and two new drilling rig commitments described below, there have been no material changes to our contractual obligations described under Transportation Agreements , Drilling Rig Commitments and Lease Commitments as disclosed in Note 8 in the Notes to Consolidated Financial Statements included in the Form 10-K.

Transportation Agreements

During the second quarter of 2013, the Company amended certain natural gas transportation agreements associated with the Company's production in Pennsylvania. This amendment increased the Company's future aggregate obligations under its transportation agreements by approximately \$25.3 million compared to those amounts in disclosed in Note 8 in the Notes to Consolidated Financial Statements included in the Form 10-K.

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Drilling Rig Commitments

During the second quarter of 2013, the Company entered into two drilling rig commitments for its capital program in the Marcellus Shale that are expected to commence in the third and fourth quarters of 2013 and have initial terms of two and three years, respectively. There have been no material changes to the Company's existing drilling rig commitments previously disclosed in Note 8 in the Notes to the Consolidated Financial Statements included in the Form 10-K. The future minimum commitments under all of the Company's drilling rig commitments as of June 30, 2013 are approximately \$7.0 million in 2013, \$14.9 million in 2014, \$6.8 million in 2015 and \$4.4 million in 2016.

Legal Matters

The Company is a defendant in various legal proceedings arising in the normal course of business. All known liabilities are accrued when management determines they are probable based on its 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. During 2010 and 2011, the Company paid a total of \$1.3 million in settlement of fines and penalties sought or claimed by the PaDEP related to this matter. 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 affected households pursuant to prior consent orders with the PaDEP. 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. All appellants have accepted their portion of the \$2.2 million that was placed into escrow in 2011 for their benefit and on October 18, 2012 had dismissed their appeal to the PEHB. Subsequent to the withdrawal of the appeals, the PEHB allowed three groups of appellants to reinstate their appeal. It is expected that the PEHB will hold a hearing with respect to the appellants appeal in the second half of 2013.

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.

7. DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

The Company periodically enters into commodity derivative instruments to hedge its exposure to price fluctuations related to its 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 where such derivatives do not subject 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.

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As of June 30, 2013, the Company had the following outstanding commodity derivatives:

Type of Contract	Volume		Contract Period	Range (I)	Floor	Collars	Ceiling	Swaps
					Weighted Average (I)	Range (I)	Weighted Average (I)	Weighted Average (I)
Natural gas collars	8.9	Bcf	Jul. 2013 - Dec. 2013	\$	\$ 5.15	\$ 6.18-\$6.23	\$	6.20
Natural gas collars	109.0	Bcf	Jul. 2013 - Dec. 2013	\$ 3.09-\$4.37	\$ 3.63	\$ 3.98-\$5.02	\$	4.27
Natural gas collars	53.3	Bcf	Jul. 2013 - Dec. 2014	\$ 3.60-\$3.96	\$ 3.78	\$ 4.55-\$4.59	\$	4.57
Natural gas collars	124.1	Bcf	Jan. 2014 - Dec. 2014	\$ 3.86-\$4.37	\$ 4.19	\$ 4.63-\$4.80	\$	4.70
Crude oil swaps	552	Mbbl	Jul. 2013 - Dec. 2013					