Rosetta Resources Inc.
Form 10-K
February 27, 2012
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

x **Annual Report Pursuant To Section 13 or 15(d) of the Securities Exchange Act of 1934**
For The Fiscal Year Ended December 31, 2011

OR

¨ **Transition Report Pursuant To Section 13 Or 15(d) of the Securities Exchange Act of 1934**
Commission File Number: 000-51801

ROSETTA RESOURCES INC.

(Exact name of registrant as specified in its charter)

Delaware	**43-2083519**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
717 Texas, Suite 2800, Houston, TX	**77002**
(Address of principal executive offices)	**(Zip Code)**

Registrant s telephone number, including area code: (713) 335-4000

Securities Registered Pursuant to Section 12(b) of the Act:

Common Stock, $.001 Par Value	**The Nasdaq Stock Market LLC (Nasdaq Global Select Market)**
(Title of Class)	**(Name of Exchange on which registered)**

Securities Registered Pursuant to Section 12 (g) of the Act:

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes x No ¨

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes ¨ No x

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x 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 x No ¨

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ¨

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.

Large accelerated filer	x	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 x

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant as of June 30, 2011 was approximately $2.7 billion based on the closing price of $51.54 per share on the Nasdaq Global Select Market.

The number of shares of the registrant s Common Stock, $.001 par value per share, outstanding as of February 17, 2012 was 53,266,855.

Documents Incorporated By Reference

Portions of the definitive proxy statement relating to the 2012 annual meeting of stockholders to be filed with the Securities and Exchange Commission are incorporated by reference in answer to Part III of this Form 10-K.

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CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Form 10-K contains forward-looking statements regarding factors that we believe may affect our performance in the future. Such statements typically are identified by terms expressing our future expectations or projections of revenues, earnings, earnings per share, cash flow, market share, capital expenditures, effects of operating initiatives, gross profit margin, debt levels, interest costs, tax benefits and other financial items. All forward-looking statements are based on assumptions about future events and are therefore inherently uncertain, and actual results may differ materially from those expected or projected. Important factors that may cause our actual results to differ materially from expectations or projections include those described under the heading Risk Factors in Item 1A of this Form 10-K. Forward-looking statements speak only as of the date of this report, and we undertake no obligation to update or revise such statements to reflect new circumstances or unanticipated events as they occur.

For a listing of oil and natural gas terms used in this report, see Glossary of Oil and Natural Gas Terms at the end of this report.

Part I

Items 1 and 2. Business and Properties

General

We are an independent exploration and production company engaged in the acquisition and development of onshore energy resources in the United States of America. Our operations are primarily located in South Texas, including our largest producing area in the Eagle Ford shale, and in the Southern Alberta Basin in Northwest Montana. Our headquarters are located in Houston, Texas, and we have field offices in Laredo and Catarina, Texas.

Rosetta Resources Inc. (together with its consolidated subsidiaries, we, our, us, the Company, Rosetta or like terms) was incorporated in Delaware in June 2005. We have grown our property base by developing and exploring our acreage, purchasing new undeveloped leases, acquiring oil and gas producing properties and drilling prospects from third parties and strategically divesting certain assets that were more gas-based. We operate in one geographic operating segment. See Item 8. Financial Statements and Supplementary Data, Note 15 Operating Segments.

Our Strategy

Our strategy is to increase stockholder value by delivering visible and sustainable growth from unconventional onshore domestic basins. As part of this strategy, we expect to continue developing as a successful unconventional resource player with sufficient project inventory to drive production growth. We recognize that there may be market cycles that could impact our growth strategy on a short-term basis. However, we believe our plan is fundamentally sound and emphasizes (i) developing our high return inventory in the Eagle Ford shale in South Texas, (ii) establishing new positions in resource plays through a balanced approach of exploration and producing property acquisitions, (iii) expanding our unconventional resource initiatives through the divestiture of lower return assets, (iv) applying technological expertise, (v) focusing on cost control and (vi) maintaining financial flexibility. We seek to continue our strategy while increasing stockholder value through sound stewardship, wise capital resource management, taking advantage of business cycles and emerging trends and minimizing liabilities through governmental compliance and protecting the environment. Below is a discussion of the key elements of our strategy.

Develop Our High Return Inventory in the Eagle Ford Shale. In 2010, Rosetta successfully delineated Gates Ranch comprised of approximately 26,500 acres in the liquids-rich portion of the Eagle Ford shale. We continued to build upon this success in 2011 by completing closer spaced wells in two pilot areas in the north

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half of Gates Ranch. The wells drilled in both pilot areas initially produced with similar rates to previous wells drilled on wider spacing and we will evaluate the long-term production results over the next few months from the pilot areas to determine optimum future spacing. We have also tested with positive results three new locations across 13,600 net acres outside Gates Ranch.

The Eagle Ford shale has become our largest producing area providing approximately 78% of our total production for 2011. In addition, approximately 53% of the production from the Eagle Ford shale in 2011 was from crude oil and natural gas liquids (NGLs). In a weak natural gas market, our extensive inventory of investment opportunities in the Eagle Ford shale provides higher economic returns than other opportunities in areas previously considered core to our operations. The Eagle Ford shale has become a major source of production and reserves for Rosetta and reflects the success of our transition to an unconventional resource player.

Establish New Positions in Resource Plays. We intend to extend our operational footprint into new areas within the U.S. characterized by a significant presence of resource potential that can be exploited utilizing our technological expertise. We strive to minimize the cost of entry into these plays through financial discipline in our leasehold acquisition activities and prudent management of financial and operational resources during the testing phase.

Expand Our Unconventional Resource Initiatives Through Divestiture of Lower Return Assets. With the growth of our shale activities, we have taken steps to streamline our operations by divesting assets that no longer fit our operating model and redeploying the sales proceeds from such divestitures into our growth initiatives. Since 2010, we have executed purchase and sale agreements relating to the sale of properties in nine states for an aggregate consideration of approximately $345 million. This strategy has allowed us to establish a competitive operating presence in the Eagle Ford shale, one of the most active shale basins in the U.S. that offers a growing inventory of drilling locations with attractive economics. As we continue to focus on our unconventional resource plays, we would consider divesting additional lower-return assets in 2012.

Apply Technological Expertise. We intend to maintain, further develop and apply the technological expertise that helped us achieve a net drilling success rate of 100% in 2011 and helped us establish a major production base in the Eagle Ford shale. Our definition of drilling success is a well that is producing or capable of production, including wells awaiting pipeline connections to commence deliveries or awaiting connection to production facilities. We use advanced geological and geophysical technologies, detailed petrophysical analyses, advanced reservoir engineering and sophisticated drilling, completion and stimulation techniques to grow our reserves, production and project inventory.

Focus on Cost Control. We manage all elements of our cost structure, including drilling and operating costs as well as overhead costs. We strive to minimize our drilling and operating costs by concentrating our activities within existing and new unconventional resource play areas where we can achieve efficiencies through economies of scale. As part of our strategy to minimize costs, we have taken aggressive steps to ensure access to transportation and processing facilities and oilfield services, specifically within the Eagle Ford shale, a region where midstream services are in high demand and infrastructure is under construction. In 2011, we incurred $22.3 million of costs related to these services and as we increase production within the Eagle Ford shale, our midstream service related costs will increase.

Maintain Financial Flexibility. As of December 31, 2011, we had drawn $30.0 million and had $295.0 million available for borrowing under our revolving credit facility. In early 2012, we borrowed an additional $50.0 million to invest in capital expenditures and as a result, we have $245.0 million available for borrowing under our revolving credit facility. We expect internally generated cash flows and cash on hand, supplemented by borrowings under the revolving credit facility and proceeds from asset divestitures, to provide financial flexibility to further develop our assets in the next few years. We intend to continue to actively manage our exposure to commodity price risk in the marketing of our oil, NGL and natural gas production. As of December 31, 2011, we have entered into a series of commodity derivative contracts for 2012 and 2013 as part of this strategy.

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Our Strengths

Our business strategy is to continue our development as a successful unconventional resource player delivering continued growth and enhanced stockholder value. We believe the following key strengths have enabled us to achieve that strategy.

Early Entry and Highly Competitive Position in the Eagle Ford Shale. We hold an asset position in the Eagle Ford shale that we believe will provide a strong foundation for future growth. As of December 31, 2011, we held a 65,000 net acre leasehold position with approximately 78% lying in the liquids-rich area of the Eagle Ford shale.

Resource Assessment Capability and Inventory Generation. We have established multi-disciplinary teams that are skilled at conducting comprehensive resource assessments on a field and regional basis. This work helps us to indentify and catalog an inventory of low to moderate risk opportunities for multiple years of drilling projects. We expect to continue to add to our diversified portfolio of non-proved project inventory by entering into additional emerging unconventional resource plays.

Operational Control. We operate approximately 99% of our estimated proved reserves, which allows us to more effectively manage expenses and control the timing of capital spending on our exploration and development operations.

Experienced Management and Technical Team. Our executive management team has a broad knowledge of the exploration and production business with specific expertise in the areas where we operate. With the transition to an unconventional resource player, Rosetta recruited additional management and technical talent with previous experience in finding and developing unconventional resources. This collective ability is a competitive advantage in the execution of our business strategy.

Our Operating Areas

We own producing and non-producing oil and gas properties in proven or prospective basins that are primarily located in South Texas, including our largest producing area in the Eagle Ford shale, and in the Southern Alberta Basin in Northwest Montana. In 2011, we drilled 64 gross and 53 net wells, with a net success rate of 100%. The following is a summary of our major operating areas.

South Texas

As of December 31, 2011, we owned approximately 115,000 net acres in South Texas. Our production in South Texas comes from the Eagle Ford shale trend and the Lobo and Olmos fields, which averaged 25.3 MBoe/d (152 MMcfe/d) in 2011, an increase of approximately 116% from the prior year. In 2011, our production from properties outside the Eagle Ford shale averaged 3.9 MBoe/d (23 MMcfe/d), which was 27% lower than prior year, reflecting our decision to divert capital away from lower priced natural gas producing areas to our higher return program in the Eagle Ford shale.

Eagle Ford Shale Trend. The Eagle Ford shale has become our largest producing area where we hold approximately 65,000 net acres, with 50,000 net acres located in the liquids-rich area of the play. Our 2010 and 2011 activities were focused in our 26,500-acre position in the Gates Ranch area in Webb County. We also began testing our acreage position outside Gates Ranch located in the liquids portion of the Eagle Ford shale and drilled three discovery wells in 2011. In total, we drilled 55 gross wells in the Eagle Ford shale in 2011, all of which were successful. For 2011, the Eagle Ford shale provided approximately 78% of our total production. In addition, approximately 53% of our production mix from the Eagle Ford shale in 2011 was attributable to crude oil and NGLs.

Lobo Trend. Discovered in 1973, the South Texas Lobo trend is a complex, highly faulted sand trend that has produced over 8 Tcf of natural gas. The Lobo trend produces from tight sands with low permeability and high pressures at depths from 7,500 to 10,000 feet. In the South Texas Lobo trend, we have 470 square miles of

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3-D seismic and 258 operated producing wells. Our working interests range primarily from 50% to 100%, but most of our acreage is 100% owned and operated. In 2011, our average net daily production from the Lobo trend was 3.2 MBoe/d (19 MMcfe/d).

Olmos Trend. We acquired a 70% non-operated working interest in 231 gross wells in the Olmos trend of South Texas in late 2008. In 2010, we acquired the remaining 30% working interest and obtained operatorship of these wells. Production from these wells averaged 0.7 MBoe/d (4 MMcfe/d) in 2011.

Rockies

Our Rockies operating area has historically included our DJ Basin, Pinedale, San Juan and Southern Alberta Basin assets. With the exception of our Southern Alberta Basin assets, most of these properties were divested in 2011 and 2010. The divestitures of these properties were not material to our operations but affect the comparability between periods. Remaining operations in the Rockies include our Southern Alberta Basin assets as well as multiple non-operated assets.

In 2011, we continued our exploratory initiative in the Southern Alberta Basin in Northwest Montana. The play is a westward analog of the industry s Bakken and Three Forks plays of the Williston Basin in Montana and North Dakota. We control approximately 300,000 net acres in the play, either through option or lease agreements.

In late 2009, we began an eleven-well vertical drilling program to assess the commerciality of the play that was completed during the second quarter of 2011. The results from that effort have increased our understanding of the play and contributed to the design of a horizontal drilling program that is currently underway. In 2011, we drilled four of the seven planned horizontal wells and drilling operations will continue on the remaining three wells in 2012.

Divestiture Activities

As part of our strategic decision to focus on the Eagle Ford shale, we divested certain gas-based assets that we believe did not offer the same investment opportunities or rates of return as our unconventional resources. In 2011, we divested our assets located in the DJ Basin in Colorado and in the Sacramento Basin in California for $255 million, and in 2010, we divested our assets located in Arkansas, Oklahoma, Mississippi, Texas, Louisiana, New Mexico and Wyoming for approximately $90 million. These divestitures were all subject to post-closing adjustments. See Item 8. Financial Statements and Supplementary Data, Note 4 - Property, Plant and Equipment.

On February 15, 2012, we entered into an agreement to sell our Lobo assets and a portion of our Olmos assets for $95.0 million, subject to customary adjustments and the receipt of appropriate consents for assignment.

Title to Properties

Our properties are subject to customary royalty interests, liens incident to operating agreements, liens for current taxes and other burdens, including other mineral encumbrances and restrictions as well as mortgage liens on at least 80% of our proved reserves in accordance with our credit facilities. We do not believe that any of these burdens materially interfere with our use of the properties in the operation of our business.

We believe that we generally have satisfactory title to or rights in all of our producing properties in accordance with standards generally accepted in the oil and gas industry. As is customary in the oil and gas industry, we make minimal investigation of title at the time we acquire undeveloped properties. We make title investigations and receive title opinions of local counsel only before we commence drilling operations. We believe that we have satisfactory title to all of our other assets. Although title to our properties is subject to encumbrances in certain cases, we believe that none of these burdens will materially detract from the value of our properties or from our interest therein or will materially interfere with our use in the operation of our business.

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Crude Oil, NGL and Natural Gas Operations

Production by Operating Area

The following tables present certain information with respect to our production data for the periods presented:

	For the Year Ended December 31, 2011			
	Oil (MBbls)	NGLs (MBbls)	Natural Gas (Bcf)	Equivalents (MBoe) (1)
Eagle Ford	1,747.4	2,396.2	22.1	7,824.2
South Texas	43.0	247.1	6.9	1,448.4
California	43.7		3.4	617.0
Rockies	9.5		0.9	153.2
Gulf Coast	19.6		0.1	29.2
Other Onshore	0.1			0.1
Total	1,863.3	2,643.3	33.4	10,072.1

	For the Year Ended December 31, 2010			
	Oil (MBbls)	NGLs (MBbls)	Natural Gas (Bcf)	Equivalents (MBoe) (1)
Eagle Ford	536.0	690.0	6.6	2,329.8
South Texas	68.0	381.0	11.2	2,311.6
California	27.0		13.6	2,295.3
Rockies	21.0	1.0	6.6	1,120.2
Gulf Coast	47.0	15.0	0.5	148.5
Other Onshore	39.0	9.0	0.7	163.6
Total	738.0	1,096.0	39.2	8,369.0

	For the Year Ended December 31, 2009			
	Oil (MBbls)	NGLs (MBbls)	Natural Gas (Bcf)	Equivalents (MBoe) (1)
Eagle Ford	9.0	12.0	0.4	88.4
South Texas	121.9	549.1	17.2	3,526.4
California	28.0		15.3	2,580.5
Rockies	20.0		6.8	1,152.7
Gulf Coast	135.0	38.0	3.3	720.6
Other Onshore	80.0	21.0	1.5	356.5
Total	393.9	620.1	44.5	8,425.1

(1) Oil equivalents are determined under the relative energy content method by using the ratio of 6.0 Mcf of natural gas to 1.0 Bbl of oil or NGLs.

For additional information regarding our oil, NGL and natural gas production, production prices and production costs, see Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations.

Proved Reserves

There are a number of uncertainties inherent in estimating quantities of proved reserves, including many factors beyond our control, such as commodity pricing. Therefore, the reserve information in this report

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represents only estimates. Reserve engineering is a subjective process of estimating underground accumulations of oil and natural gas that cannot be measured in an exact manner. The accuracy of any reserve estimate is a function of the quality of available data and of engineering and geological interpretation and judgment. As a result, estimates of different engineers may vary. In addition, results of drilling, testing and production subsequent to the date of an estimate may justify revising the original estimate. Accordingly, initial reserve estimates are often different from the quantities of oil, NGLs and natural gas that are ultimately recovered. The meaningfulness of such estimates depends primarily on the accuracy of the assumptions upon which they were based. Except to the extent that we acquire additional properties containing proved reserves or conduct successful exploration and development activities, or both, our proved reserves will decline as reserves are produced.

As of December 31, 2011, we had an estimated 161 MMBoe (965 Bcfe) of proved reserves, including 36,370 MBbls of oil, 50,219 MBbls of NGLs and 446 Bcf of natural gas, of which 36% was proved developed. Based on the 2011 twelve-month first-day-of-the-month historical average prices as adjusted for basis and quality differentials for West Texas Intermediate oil of $92.71 per Bbl and Henry Hub natural gas of $4.12 per MMBtu, our reserves had an estimated standardized measure of discounted future net cash flows of $1.7 billion as of December 31, 2011.

The following table sets forth, by operating area, a summary of our estimated net proved reserve information as of December 31, 2011:

	Estimated Proved Reserves at December 31, 2011 (1)(2)									
	Developed				Undeveloped					Percent
	Oil (MMBbls)	NGLs (MMBbls)	Natural Gas (Bcf)	Total (MMBoe) (3)	Oil (MMBbls)	NGLs (MMBbls)	Natural Gas (Bcf)	Total (MMBoe) (3)	Total (MMBoe) (3)	of Total Reserves
Eagle Ford	11.4	14.8	121.0	46.3	24.6	33.6	268.7	103.0	149.3	93%
South Texas	0.3	1.8	55.8	11.4					11.4	7%
Rockies (4)	0.1		0.2	0.1					0.1	0%
Other Onshore			0.3	0.1					0.1	0%
Total	11.8	16.6	177.3	57.9	24.6	33.6	268.7	103.0	160.9	100%

(1) These estimates are based upon a reserve report prepared using internally developed reserve estimates and criteria in compliance with the Securities and Exchange Commission (SEC) guidelines and audited by Netherland, Sewell & Associates, Inc. (NSAI), independent petroleum engineers. See Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations Critical Accounting Policies and Estimates and Item 8. Financial Statements and Supplementary Data Supplemental Oil and Gas Disclosures. NSAI s report is attached as Exhibit 99.1 to this Form 10-K.

(2) The reserve volumes and values were determined under the