The Credit Agreement contains typical and customary representations, warranties, covenants and events of default. The Credit Agreement includes restrictive covenants requiring the Borrower to maintain a consolidated leverage ratio of no greater than three and one half times to one and, as long as the Company's debt rating is below investment grade, the maintenance of an annual ratio of the net present value of the Company's oil and gas properties to total funded debt of no less than one and one half times to one. At December 31, 2012, the Company was in compliance with all of its debt covenants under the Credit Agreement.

Senior Notes: The Company's Senior Notes rank pari passu with the Company's Credit Agreement. Payment of the Senior Notes is guaranteed by Ultra Petroleum Corp. and UP Energy Corporation. The Senior Notes are pre-payable in whole or in part at any time and are subject to representations, warranties, covenants and events of default customary for a senior note financing. At December 31, 2012, the Company was in compliance with all of its debt covenants under the Senior Notes.

Other long-term obligations: These costs primarily relate to the long-term portion of production taxes payable and our asset retirement obligations.

6. SHARE BASED COMPENSATION:

The Company sponsors a share based compensation plan: the 2005 Stock Incentive Plan (the "2005 Plan"). The plan is administered by the Compensation Committee of the Board of Directors (the "Committee"). The share based compensation plan is an important component of the total compensation package offered to the Company's key service providers, and reflects the importance that the Company places on motivating and rewarding superior results.

The 2005 Plan was adopted by the Company's Board of Directors on January 1, 2005 and approved by the Company's shareholders on April 29, 2005. The purpose of the 2005 Plan is to foster and promote the long-term financial success of the Company and to increase shareholder value by attracting, motivating and retaining key employees, consultants, and outside directors, and providing such participants with a program for obtaining an ownership interest in the Company that links and aligns their personal interests with those of the Company's shareholders, and thus, enabling such participants to share in the long-term growth and success of the Company. To accomplish these goals, the 2005 Plan permits the granting of incentive stock options, non-statutory stock options, stock appreciation rights, restricted stock, and other stock-based awards, some of which may require the satisfaction of performance-based criteria in order to be payable to participants. The Committee determines the terms and conditions of the awards, including, any vesting requirements and vesting restrictions or forfeitures that may occur. The Committee may grant awards under the 2005 Plan until December 31, 2014, unless terminated sooner by the Board of Directors.

Valuation and Expense Information

	Year Ended December 31,		
	2012	2011	2010
Total cost of share-based payment plans	$15,835	$21,688	$21,805
Amounts capitalized in fixed assets	$ 5,079	$ 7,769	$ 8,861
Amounts charged against income, before income tax benefit	$10,756	$13,919	$12,944
Amount of related income tax benefit recognized in income	$ 4,463	$ 4,997	$ 4,595

ULTRA PETROLEUM CORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Securities Authorized for Issuance Under Equity Compensation Plans

As of December 31, 2012, the Company had the following securities issuable pursuant to outstanding award agreements or reserved for issuance under the Company's previously approved stock incentive plans. Upon exercise, shares issued will be newly issued shares or shares issued from treasury.

Plan Category	Number of Securities to be Issued Upon Exercise of Outstanding Options	Weighted Average Exercise Price of Outstanding Options	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in the First Column)
Equity compensation plans approved by security holders	1,357	$ 49.03	3,075
Equity compensation plans not approved by security holders	n/a	n/a	n/a
Total	1,357	$ 49.03	3,075

Changes in Stock Options and Stock Options Outstanding

The following table summarizes the changes in stock options for the three year period ended December 31, 2012:

	Number of Options	Weighted Average Exercise Price (US$)		
Balance, December 31, 2009	3,504	$ 1.49	to	$ 98.87
Forfeited	(68)	$ 51.60	to	$ 76.01
Exercised	(1,206)	$ 1.49	to	$ 45.95
Balance, December 31, 2010	2,230	$ 3.91	to	$ 98.87
Forfeited	(99)	$ 51.60	to	$ 75.18
Exercised	(672)	$ 3.91	to	$ 33.57
Balance, December 31, 2011	1,459	$ 16.97	to	$ 98.87
Forfeited	(68)	$ 25.08	to	$ 75.18
Exercised	(34)	$ 16.97	to	$ 19.18
Balance, December 31, 2012	1,357	$ 16.97	to	$ 98.87

ULTRA PETROLEUM CORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The following table summarizes information about the stock options outstanding and exercisable at December 31, 2012:

	Options Outstanding and Exercisable			
Range of Exercise Price	Number Outstanding	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price	Aggregate Intrinsic Value
$16.97 - $16.97	40	1.32	$16.97	$ 46
$25.68 - $55.58	604	2.61	$ 39.21	$ —
$46.05 - $65.04	166	3.53	$ 56.44	$ —
$49.05 - $65.94	362	4.31	$54.66	$ —
$51.14 - $98.87	185	5.42	$ 70.24	$ —

The aggregate intrinsic value in the preceding tables represents the total pre-tax intrinsic value, based on the Company's closing stock price of $18.13 on December 31, 2012, which would have been received by the option holders had all option holders exercised their options as of that date. The total number of in-the-money options exercisable as of December 31, 2012 was 40,000 options.

The following table summarizes information about the weighted-average grant-date fair value of share options:

	2012	2011	2010
Non-vested share options at beginning of year	$ —	$ 30.72	$26.28
Non-vested share options at end of year	$ —	$ —	$ 30.72
Options vested during the year	$ —	$ 30.73	$ 23.86
Options forfeited during the year	$27.05	$25.80	$ 28.36

The fair value of stock options that vested during the years ended December 31, 2011 and 2010 was $6.4 million and $9.8 million, respectively. As of December 31, 2011, all options fully vested; therefore, no options vested during the year ended December 31, 2012. The total intrinsic value of stock options exercised during the years ended December 31, 2012, 2011 and 2010 was $0.3 million, $21.5 million and $50.7 million, respectively.

At December 31, 2012, there was no unrecognized compensation cost related to non-vested, employee stock options as all options fully vested as of December 31, 2011.

PERFORMANCE SHARE PLANS:

Long Term Incentive Plans. The Company offers a Long Term Incentive Plan ("LTIP") in order to further align the interests of key employees with shareholders and to give key employees the opportunity to share in the long-term performance of the Company when specific corporate financial and operational goals are achieved. Each LTIP covers a performance period of three years. In 2010, 2011 and 2012, the Compensation Committee (the "Committee") approved an award consisting of performance-based restricted stock units to be awarded to each participant.

For each LTIP award, the Committee establishes performance measures at the beginning of each performance period. Under each LTIP, the Committee establishes a percentage of base salary for each participant which is multiplied by the participant's base salary to derive a Long Term Incentive Value as a "target" value which corresponds to the number of shares of the Company's common stock the participant is eligible to receive if the target level for all performance measures is met. In addition, each participant is assigned threshold and maximum award levels in the event that actual performance is below or above target levels. For the 2010, 2011 and 2012 LTIP awards, the Committee established the following performance measures: return on equity, reserve replacement ratio, and production growth.

For the year ended December 31, 2012, the Company recognized $7.9 million in pre-tax compensation expense related to the 2010, 2011 and 2012 LTIP awards of restricted stock units. For the year ended December 31, 2011, the Company recognized $10.7 million in pre-tax compensation expense related to the 2009, 2010 and 2011 LTIP awards of restricted stock units. For the year ended December 31, 2010, the Company recognized $8.6 million in pre-tax compensation expense related to the 2008, 2009 and 2010 LTIP awards of restricted stock units. The amounts recognized during the year ended December 31, 2012 assumes that maximum performance objectives are attained under each plan. If the Company ultimately attains these performance objectives, the associated total compensation, estimated at December 31, 2012, for each of the three year performance periods is expected to be approximately $11.7 million, $11.9 million, and $12.1 million related to the 2010, 2011 and 2012 LTIP awards of restricted stock units, respectively. The 2009 LTIP Common Stock Award was paid in shares of the Company's stock to employees during the first quarter of 2012 and totaled $24.1 million (409,160 net shares).

7. DERIVATIVE FINANCIAL INSTRUMENTS:

Objectives and Strategy: The Company's major market risk exposure is in the pricing applicable to its natural gas and oil production. Realized pricing is currently driven primarily by the prevailing price for the Company's Wyoming natural gas production. Historically, prices received for natural gas production have been volatile and unpredictable. Pricing volatility is expected to continue.

Historically, the Company has entered into various types of derivative instrument transactions to manage its exposure to commodity price risk and to provide a level of certainty in the Company's forward cash flows supporting the Company's capital investment program. Because forward natural gas prices for 2013 production were low in 2012, the Company did not hedge any of its forecast 2013 natural gas production. As a result of the Company not having hedged any of its 2013 production, its earnings and cash flows may be more volatile during 2013 than in prior years.

The Company's hedging policy limits the amounts of resources hedged to not more than 50% of its forecast production without Board approval. As a result of its hedging activities, the Company may realize prices that are less than or greater than the spot prices that it would have received otherwise.

Fair Value of Commodity Derivatives: FASB ASC 815 requires that all derivatives be recognized on the balance sheet as either an asset or liability and be measured at fair value. Changes in the derivative's fair value are recognized currently in earnings unless specific hedge accounting criteria are met. The Company does not apply hedge accounting to any of its derivative instruments.

Derivative contracts that do not qualify for hedge accounting treatment are recorded as derivative assets and liabilities at fair value on the balance sheet and the associated unrealized gains and losses are recorded as current expense or income in the income statement. Unrealized gains or losses on commodity derivatives represent the non-cash change in the fair value of these derivative instruments and do not impact operating cash flows on the cash flow statement.