CONCHO RESOURCES INC
Form 10-Q
November 07, 2013

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2013

or

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

For the transition period from ____________________ to ____________________

Commission file number: 1-33615

Concho Resources Inc.

(Exact name of registrant as specified in its charter)

Delaware	**76-0818600**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
One Concho Center 600 West Illinois Avenue Midland, Texas	**79701**

(Address of principal executive offices) (Zip code)

(432) 683-7443
(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 (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 þ No o

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 þ No o

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 þ	Accelerated filer o
Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No þ

Number of shares of the registrant's common stock outstanding at November 4, 2013: 105,061,575 shares

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CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

Various statements contained in or incorporated by reference into this report that express a belief, expectation, or intention, or that are not statements of historical fact, are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 (the “Securities Act”) and Section 21E of the Securities Exchange Act of 1934 (the “Exchange Act”). These forward-looking statements include statements, projections and estimates concerning our operations, performance, business strategy, oil and natural gas reserves, drilling program, capital expenditures, liquidity and capital resources, the timing and success of specific projects, outcomes and effects of litigation, claims and disputes, derivative activities and potential financing. Forward-looking statements are generally accompanied by words such as “estimate,” “project,” “predict,” “believe,” “expect,” “anticipate,” “potential,” “could,” “may,” “foresee,” “plan,” words that convey the uncertainty of future events or outcomes. Forward-looking statements are not guarantees of performance. We have based these forward-looking statements on our current expectations and assumptions about future events. These statements are based on certain assumptions and analyses made by us in light of our experience and our perception of historical trends, current conditions and expected future developments as well as other factors we believe are appropriate under the circumstances. Actual results may differ materially from those implied or expressed by the forward-looking statements. These forward-looking statements speak only as of the date of this report, or if earlier, as of the date they were made. We disclaim any obligation to update or revise these statements unless required by law, and we caution you not to rely on them unduly. While our management considers these expectations and assumptions to be reasonable, they are inherently subject to significant business, economic, competitive, regulatory and other risks, contingencies and uncertainties relating to, among other matters, the risks discussed in our Annual Report on Form 10-K for the year ended December 31, 2012 and in this report, as well as those factors summarized below:

- declines in the prices we receive for our oil and natural gas;
- uncertainties about the estimated quantities of oil and natural gas reserves;
- drilling and operating risks, including risks related to properties where we do not serve as the operator and risks related to hydraulic fracturing activities;
- the adequacy of our capital resources and liquidity including, but not limited to, access to additional borrowing capacity under our credit facility;
- the effects of government regulation, permitting and other legal requirements, including new legislation or regulation of hydraulic fracturing;
- difficult and adverse conditions in the domestic and global capital and credit markets;
- risks related to the concentration of our operations in the Permian Basin of Southeast New Mexico and West Texas;
- shortages of oilfield equipment, supplies, services and qualified personnel and increased costs for such equipment, supplies, services and personnel;
- potential financial losses or earnings reductions from our commodity price management program;
- risks and liabilities associated with acquired properties or businesses;

- uncertainties about our ability to successfully execute our business and financial plans and strategies;
- uncertainties about our ability to replace reserves and economically develop our current reserves;
- general economic and business conditions, either internationally or domestically;
- competition in the oil and natural gas industry; and
- uncertainty concerning our assumed or possible future results of operations.

Reserve engineering is a process of estimating underground accumulations of oil and natural gas that cannot be measured in an exact way. The accuracy of any reserve estimate depends on the quality of available data, the interpretation of such data and price and cost assumptions made by our reserve engineers. In addition, the results of drilling, testing and production activities may justify revisions of estimates that were made previously. If significant, such revisions would change the schedule of any further production and development drilling. Accordingly, reserve estimates may differ from the quantities of oil and natural gas that are ultimately recovered.

PART I – FINANCIAL INFORMATION

Item 1. Consolidated Financial Statements (Unaudited)

Concho Resources Inc.
Consolidated Balance Sheets
Unaudited

(in thousands, except share and per share amounts)		**September 30, 2013**		**December 31, 2012**
Assets				
Current assets:				
Cash and cash equivalents	$	22	$	2,880
Accounts receivable, net of allowance for doubtful accounts:				
Oil and natural gas		277,045		198,053
Joint operations and other		277,286		202,738
Derivative instruments		872		35,942
Deferred income taxes		33,150		-
Prepaid costs and other		19,337		19,269
Total current assets		607,712		458,882
Property and equipment:				
Oil and natural gas properties, successful efforts method		10,852,246		9,455,599
Accumulated depletion and depreciation		(2,176,041)		(1,565,316)
Total oil and natural gas properties, net		8,676,205		7,890,283
Other property and equipment, net		111,705		103,141
Total property and equipment, net		8,787,910		7,993,424
Funds held in escrow		1,964		-
Deferred loan costs, net		76,377		77,609
Intangible asset - operating rights, net		28,980		30,076
Inventory		19,894		20,611
Noncurrent derivative instruments		-		2,769
Other assets		7,864		6,066
Total assets	$	9,530,701	$	8,589,437
Liabilities and Stockholders' Equity				
Current liabilities:				
Accounts payable:				
Trade	$	36,813	$	31,144
Related parties		-		185
Bank overdrafts		69,444		24,275
Revenue payable		194,008		162,073
Accrued and prepaid drilling costs		323,928		351,919
Derivative instruments		71,364		1,584
Deferred income taxes		-		8,566
Other current liabilities		178,727		160,340
Total current liabilities		874,284		740,086
Long-term debt		3,588,650		3,101,103
Deferred income taxes		1,302,249		1,186,621
Noncurrent derivative instruments		24,049		12,049
Asset retirement obligations and other long-term liabilities		96,756		83,382
Commitments and contingencies (Note J)				
Stockholders' equity:				

Common stock, $0.001 par value; 300,000,000 authorized; 105,194,283 and 104,668,427 shares issued at September 30, 2013 and December 31, 2012, respectively		105		105
Additional paid-in capital		2,019,540		1,982,714
Retained earnings		1,635,777		1,490,563
Treasury stock, at cost; 125,580 and 86,861 shares at September 30, 2013 and December 31, 2012, respectively		(10,709)		(7,186)
Total stockholders' equity		3,644,713		3,466,196
Total liabilities and stockholders' equity	$	9,530,701	$	8,589,437

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

Concho Resources Inc.
Consolidated Statements of Operations
Unaudited

(in thousands, except per share amounts)	Three Months Ended September 30, 2013	Three Months Ended September 30, 2012	Nine Months Ended September 30, 2013	Nine Months Ended September 30, 2012
Operating revenues:				
Oil sales	$ 553,068	$ 380,446	$ 1,412,887	$ 1,099,504
Natural gas sales	99,852	84,897	274,946	242,784
Total operating revenues	652,920	465,343	1,687,833	1,342,288
Operating costs and expenses:				
Oil and natural gas production	120,231	87,964	328,295	251,641
Exploration and abandonments	10,992	6,958	37,797	27,335
Depreciation, depletion and amortization	200,625	148,145	557,775	408,675
Accretion of discount on asset retirement obligations	1,574	1,084	4,410	2,826
Impairments of long-lived assets	-	-	65,375	-
General and administrative (including non-cash stock-based compensation of $9,923 and $7,959 for the three months ended September 30, 2013 and 2012, respectively, and $25,278 and $21,434 for the nine months ended September 30, 2013 and 2012, respectively)	40,836	35,492	125,120	95,994
(Gain) loss on derivatives not designated as hedges	168,610	135,415	157,303	(109,542)
Total operating costs and expenses	542,868	415,058	1,276,075	676,929
Income from operations	110,052	50,285	411,758	665,359
Other income (expense):				
Interest expense	(55,995)	(51,337)	(162,180)	(129,073)
Loss on extinguishment of debt	-	-	(28,616)	-
Other, net	(1,941)	(3,114)	(1,806)	(4,917)
Total other expense	(57,936)	(54,451)	(192,602)	(133,990)
Income (loss) from continuing operations before income taxes	52,116	(4,166)	219,156	531,369
Income tax (expense) benefit	(21,695)	995	(86,023)	(204,327)

Income (loss) from continuing operations		30,421		(3,171)		133,133		327,042
Income from discontinued operations, net of tax		-		9,159		12,081		29,360
Net income	$	30,421	$	5,988	$	145,214	$	356,402
Basic earnings per share:								
Income (loss) from continuing operations	$	0.29	$	(0.03)	$	1.27	$	3.17
Income from discontinued operations, net of tax		-		0.09		0.12		0.29
Net income	$	0.29	$	0.06	$	1.39	$	3.46
Diluted earnings per share:								
Income (loss) from continuing operations	$	0.29	$	(0.03)	$	1.27	$	3.15
Income from discontinued operations, net of tax		-		0.09		0.11		0.28
Net income	$	0.29	$	0.06	$	1.38	$	3.43

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

Concho Resources Inc.
Consolidated Statement of Stockholders' Equity
Unaudited

(in thousands)	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Retained Earnings	Treasury Stock Shares	Treasury Stock Amount	Total Stockholders' Equity
BALANCE AT DECEMBER 31, 2012	104,668	$ 105	$ 1,982,714	$ 1,490,563	87	$ (7,186)	$ 3,466,196
Net income	-	-	-	145,214	-	-	145,214
Stock options exercised	139	-	2,304	-	-	-	2,304
Grants of restricted stock	484	-	-	-	-	-	-
Cancellation of restricted stock	(97)	-	-	-	-	-	-
Stock-based compensation	-	-	25,278	-	-	-	25,278
Excess tax benefits related to stock-based compensation	-	-	9,244	-	-	-	9,244
Purchase of treasury stock	-	-	-	-	39	(3,523)	(3,523)
BALANCE AT SEPTEMBER 30, 2013	105,194	$ 105	$ 2,019,540	$ 1,635,777	126	$ (10,709)	$ 3,644,713

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

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Concho Resources Inc.
Consolidated Statements of Cash Flows
Unaudited

	Nine Months Ended September 30,	
(in thousands)	**2013**	**2012**
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 145,214	$ 356,402
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, depletion and amortization	557,775	408,675
Accretion of discount on asset retirement obligations	4,410	2,826
Impairments of long-lived assets	65,375	-
Exploration and abandonments, including dry holes	13,159	15,224
Non-cash stock-based compensation expense	25,278	21,434
Deferred income taxes	75,808	203,107
Loss on disposition of assets, net	1,717	285
(Gain) loss on derivatives not designated as hedges	157,303	(109,542)
Discontinued operations	(12,250)	28,591
Other non-cash items	17,020	9,066
Changes in operating assets and liabilities, net of acquisitions and dispositions:		
Accounts receivable	(113,226)	(54,752)
Prepaid costs and other	(1,866)	(14,894)
Inventory	434	(8,528)
Accounts payable	4,407	(4,919)
Revenue payable	44,983	(3,673)
Other current liabilities	(40,897)	(3,666)
Net cash provided by operating activities	944,644	845,636
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures on oil and natural gas properties	(1,426,349)	(2,334,246)
Additions to other property and equipment	(21,311)	(47,489)
Proceeds from the disposition of assets	15,212	4,419
Funds held in escrow	(1,964)	17,394
Settlements paid on derivatives not designated as hedges	(37,684)	(7,485)
Net cash used in investing activities	(1,472,096)	(2,367,407)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from issuance of debt	3,283,875	3,856,500
Payments of debt	(2,798,400)	(2,336,000)
Exercise of stock options	2,304	8,062
Excess tax benefit from stock-based compensation	9,244	18,522
Payments for loan costs	(14,075)	(23,926)
Purchase of treasury stock	(3,523)	(2,721)
Bank overdrafts	45,169	1,283
	524,594	1,521,720

Net cash provided by financing activities		
Net decrease in cash and cash equivalents	(2,858)	(51)
Cash and cash equivalents at beginning of period	2,880	342
Cash and cash equivalents at end of period	$ 22	$ 291

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

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Concho Resources Inc.

Condensed Notes to Consolidated Financial Statements

September 30, 2013

Unaudited

Note A. ***Organization and nature of operations***

Concho Resources Inc. (the “Company”) is a Delaware corporation formed on February 22, 2006. The Company’s principal business is the acquisition, development and exploration of oil and natural gas properties primarily located in the Permian Basin region of Southeast New Mexico and West Texas.

Note B. ***Summary of significant accounting policies***

Principles of consolidation. The consolidated financial statements of the Company include the accounts of the Company and its wholly-owned subsidiaries. The Company consolidates the financial statements of these entities. All material intercompany balances and transactions have been eliminated.

Use of estimates in the preparation of financial statements. Preparation of financial statements in conformity with generally accepted accounting principles in the United States of America (“U.S. GAAP”) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from these estimates. Depletion of oil and natural gas properties is determined using estimates of proved oil and natural gas reserves. There are numerous uncertainties inherent in the estimation of quantities of proved reserves and in the projection of future rates of production and the timing of development expenditures. Similarly, evaluations for impairment of proved and unproved oil and natural gas properties are subject to numerous uncertainties including, among others, estimates of future recoverable reserves and commodity price outlooks. Other significant estimates include, but are not limited to, the asset retirement obligations, fair value of derivative financial instruments, fair value measurements for business combinations and fair value of stock-based compensation.

Interim financial statements. The accompanying consolidated financial statements of the Company have not been audited by the Company’s independent registered public accounting firm, except that the consolidated balance sheet at December 31, 2012 is derived from audited consolidated financial statements. In the opinion of management, the accompanying consolidated financial statements reflect all adjustments necessary to present fairly the Company’s consolidated financial statements. All such adjustments are of a normal, recurring nature. In preparing the accompanying consolidated financial statements, management has made certain estimates and assumptions that affect reported amounts in the consolidated financial statements and disclosures of contingencies. Actual results may differ from those estimates. The results for interim periods are not necessarily indicative of annual results.

Certain disclosures have been condensed in or omitted from these consolidated financial statements. Accordingly, these condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2012.

Earnings per share. The Company grants non-vested restricted stock awards that meet the definition of a participating security. The Company calculates earnings per share (“EPS”) using the two-class method.

Deferred loan costs. Deferred loan costs are stated at cost, net of amortization, which is computed using the effective interest and straight-line methods. The Company had deferred loan costs of $76.4 million and $77.6 million, net of accumulated amortization of $45.4 million and $38.8 million, at September 30, 2013 and December 31, 2012, respectively.

Concho Resources Inc.

Condensed Notes to Consolidated Financial Statements

September 30, 2013

Unaudited

Future amortization expense of deferred loan costs at September 30, 2013 was as follows:

(in thousands)		
Remaining 2013	$	3,329
2014		13,503
2015		13,820
2016		8,476
2017		5,994
2018		6,376
Thereafter		24,879
Total	$	76,377

Intangible assets. The Company has capitalized certain operating rights acquired in an acquisition. The gross operating rights, which have no residual value, are amortized over the estimated economic life of 25 years. Impairment will be assessed if indicators of potential impairment exist or when there is a material change in the remaining useful economic life. The following table reflects the gross and net intangible assets at September 30, 2013 and December 31, 2012:

(in thousands)		**September 30, 2013**		**December 31, 2012**
Gross intangible - operating rights	$	36,557	$	36,557
Accumulated amortization		(7,577)		(6,481)
Net intangible - operating rights	$	28,980	$	30,076

The following table reflects amortization expense from continuing and discontinued operations for the three and nine months ended September 30, 2013 and 2012:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(in thousands)	**2013**	**2012**	**2013**	**2012**
Amortization expense	$ 365	$ 388	$ 1,096	$ 1,162

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Concho Resources Inc.

Condensed Notes to Consolidated Financial Statements

September 30, 2013

Unaudited

The following table reflects the estimated aggregate amortization expense for each of the periods presented below at September 30, 2013:

(in thousands)		
Remaining 2013	$	365
2014		1,461
2015		1,461
2016		1,461
2017		1,461
2018		1,461
Thereafter		21,310
Total	$	28,980

Oil and natural gas sales and imbalances. Oil and natural gas revenues are recorded at the time of delivery to pipelines for the account of the purchaser or at the time of physical transfer to the purchaser. The Company follows the sales method of accounting for oil and natural gas sales, recognizing revenues based on the Company's share of actual proceeds from the oil and natural gas sold to purchasers. Oil and natural gas imbalances are generated on properties for which two or more owners have the right to take production "in-kind" and, in doing so, take more or less than their respective entitled percentage. Imbalances are tracked by well, but the Company does not record any receivable from or payable to the other owners unless the imbalance has reached a level at which it exceeds the remaining reserves in the respective well. If reserves are insufficient to offset the imbalance and the Company is in an overtake position, a liability is recorded for the amount of shortfall in reserves valued at a contract price or the market price in effect at the time the imbalance is generated. If the Company is in an undertake position, a receivable is recorded for an amount that is reasonably expected to be received, not to exceed the current market value of such imbalance. The Company has no material recorded or unrecorded imbalances.

Treasury stock. Treasury stock purchases are recorded at cost. Upon reissuance, the cost of treasury shares held is reduced by the average purchase price per share of the aggregate treasury shares held.

General and administrative expense. The Company receives fees for the operation of jointly-owned oil and natural gas properties and records such reimbursements as reductions of general and administrative expense. Such fees from continuing and discontinued operations totaled approximately $4.2 million and $4.4 million for the three months ended September 30, 2013 and 2012, respectively, and $13.5 million and $12.5 million for the nine months ended September 30, 2013 and 2012, respectively.

Reclassifications. Certain prior period amounts have been reclassified to conform to the 2013 presentation. These reclassifications had no impact on net income, total stockholders' equity or cash flows.

Recent accounting pronouncements. In December 2011, the Financial Accounting Standards Board (the "FASB") issued amendments that require enhanced disclosure regarding financial instruments and derivative instruments that are either (i) offset in accordance with the current definition of "right of setoff" or the current balance sheet netting for derivative instruments allowed under current U.S. GAAP or (ii) subject to an enforceable master netting arrangement or similar

Concho Resources Inc.

Condensed Notes to Consolidated Financial Statements

September 30, 2013

Unaudited

agreement. The Company adopted this update on January 1, 2013, and the update did not have a significant impact on the consolidated financial statements.

Note C. ***Exploratory well costs***

The Company capitalizes exploratory well costs until a determination is made that the well has either found proved reserves or that it is impaired. After an exploratory well has been completed and found oil and natural gas reserves, a determination may be pending as to whether the oil and natural reserves can be classified as proved. In those circumstances, the Company continues to capitalize the well or project costs pending the determination of proved status if (i) the well has found a sufficient quantity of reserves to justify its completion as a producing well and (ii) the Company is making sufficient progress assessing the reserves and the economic and operating viability of the project. The capitalized exploratory well costs are carried in unproved oil and natural gas properties. See Note R for the proved and unproved components of oil and natural gas properties. If the exploratory well is determined to be impaired, the well costs are charged to expense.

The following table reflects the Company's capitalized exploratory well activity during the three and nine months ended September 30, 2013:

(in thousands)		**Three Months Ended September 30, 2013**		**Nine Months Ended September 30, 2013**
Beginning capitalized exploratory well costs	$	180,433	$	118,806
Additions to exploratory well costs pending the determination of proved reserves		262,743		806,327
Reclassifications due to determination of proved reserves		(270,461)		(752,349)
Exploratory well costs charged to expense		-		(69)
Ending capitalized exploratory well costs	$	172,715	$	172,715

Concho Resources Inc.

Condensed Notes to Consolidated Financial Statements

September 30, 2013

Unaudited

The following table provides an aging at September 30, 2013 and December 31, 2012 of capitalized exploratory well costs based on the date drilling was completed:

(in thousands)		September 30, 2013		December 31, 2012
Exploratory wells in progress	$	27,176	$	22,837
Capitalized exploratory well costs that have been capitalized for a period of one year or less		124,464		95,969
Capitalized exploratory well costs that have been capitalized for a period greater than one year		21,075		-
Total capitalized exploratory well costs	$	172,715	$	118,806

Northern Midland Basin project. At September 30, 2013, the Company had approximately $6.3 million of suspended well costs greater than one year recorded for the first well in the Company's Northern Midland Basin project. The Company is currently in the process of drilling a second well to continue to evaluate the viability of this project.

Southern Delaware Basin projects. At September 30, 2013, the Company had approximately $9.5 million of suspended well costs greater than one year recorded for two vertical wells where multiple zones are being evaluated in the Company's Southern Delaware Basin project. The Company is assessing options to drill horizontal laterals to continue evaluation of the targets.

Other projects. At September 30, 2013, the Company had approximately $5.3 million of suspended well costs greater than one year recorded for three wells that have encountered technical difficulties that the Company plans to recomplete.

Exploratory well counts. At September 30, 2013, the Company had 75 gross exploratory wells either drilling or waiting on results from completion and testing, of which 20 wells were in the Delaware Basin area, 28 wells were in the Texas Permian area and 27 wells were in the New Mexico Shelf area.

Concho Resources Inc.

Condensed Notes to Consolidated Financial Statements

September 30, 2013

Unaudited

Note D. ***Acquisitions***

Three Rivers Acquisition. In July 2012, the Company acquired certain producing and non-producing assets from Three Rivers Operating Company LLC and certain affiliated entities (the "Three Rivers Acquisition") for cash consideration of approximately $1.0 billion. The Three Rivers Acquisition was primarily funded with borrowings under the Company's credit facility. The Company's results of operations prior to July 2012 do not include results from the Three Rivers Acquisition.

The following table reflects the fair value of the acquired asset and liabilities with the Three Rivers Acquisition:

(in thousands)		
Fair value of net assets:		
Proved oil and natural gas properties	$	683,482
Unproved oil and natural gas properties		359,109
Total assets acquired		1,042,591
Current liabilities, including current portion of asset retirement obligations		(2,229)
Asset retirement obligations assumed		(26,002)
Fair value of net assets acquired	$	1,014,360
Fair value of consideration paid for net assets:		
Cash consideration	$	1,014,360

Concho Resources Inc.

Condensed Notes to Consolidated Financial Statements

September 30, 2013

Unaudited

PDC Acquisition. In February 2012, the Company acquired certain producing and non-producing assets from Petroleum Development Corporation (the “PDC Acquisition”) for cash consideration of approximately $189.2 million. The PDC Acquisition was primarily funded with borrowings under the Company’s credit facility. The Company’s results of operations prior to March 2012 do not include results from the PDC Acquisition.

The following table reflects the fair value of the acquired assets and liabilities associated with the PDC Acquisition:

(in thousands)		
Fair value of net assets:		
Current assets	$	2,366
Proved oil and natural gas properties		159,314
Unproved oil and natural gas properties		29,687
Total assets acquired		191,367
Current liabilities		(123)
Asset retirement obligations assumed		(2,050)
Fair value of net assets acquired	$	189,194
Fair value of consideration paid for net assets:		
Cash consideration	$	189,194

Pro forma data. The following unaudited pro forma combined condensed financial data for the nine months ended September 30, 2012, were derived from the historical financial statements of the Company giving effect to the Three Rivers Acquisition, as if it had occurred on January 1, 2012. The results of operations since the closing of the Three Rivers Acquisition in July 2012 are included in the Company’s results of operations. The pro forma financial data does not include the results of operations for the PDC Acquisition, as the results of operations were deemed not to be material. The unaudited pro forma combined condensed financial data has been included for comparative purposes only and is not necessarily indicative of the results that might have occurred had the Three Rivers Acquisition taken place as of the date indicated and is not intended to be a projection of future results.

(in thousands, except per share amounts)	Nine Months Ended September 30, 2012 (unaudited)
Operating revenues	$ 1,408,295
Net income	$ 336,712
Earnings per common share:	
Basic	$ 3.27
Diluted	$ 3.24

Concho Resources Inc.

Condensed Notes to Consolidated Financial Statements

September 30, 2013

Unaudited

Note E. ***Asset retirement obligations***

The Company's asset retirement obligations represent the estimated present value of the estimated cash flows the Company will incur to plug, abandon and remediate its producing properties at the end of their productive lives, in accordance with applicable state laws. The Company does not provide for a market risk premium associated with asset retirement obligations because a reliable estimate cannot be determined. The Company has no assets that are legally restricted for purposes of settling asset retirement obligations.

The Company's asset retirement obligation transactions during the three and nine months ended September 30, 2013 and 2012 are summarized in the table below:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(in thousands)	**2013**	**2012**	**2013**	**2012**
Asset retirement obligations, beginning of period	$ 96,347	$ 68,089	$ 86,261	$ 59,685
Liabilities incurred from new wells	1,775	3,053	5,024	6,319
Liabilities assumed in acquisitions	-	26,986	282	29,113
Accretion expense for continuing operations	1,574	1,084	4,410	2,826
Accretion expense for discontinued operations	-	336	-	629
Disposition of wells	-	-	(303)	(66)
Liabilities settled upon plugging and abandoning wells	(897)	(272)	(2,542)	(514)
Revision of estimates	561	3,151	6,228	4,435
Asset retirement obligations, end of period	$ 99,360	$ 102,427	$ 99,360	$ 102,427

Note F. ***Incentive plans***

Defined contribution plan. The Company sponsors a 401(k) defined contribution plan for the benefit of substantially all employees. Currently, the Company matches 100 percent of employee contributions, not to exceed 10 percent of the employee's annual salary. The Company's contributions to the plan for the three months ended September 30, 2013 and 2012 were approximately \$1.3 million and \$1.1 million, respectively, and approximately \$3.7 million and \$3.0 million for the nine months ended September 30, 2013 and 2012, respectively.

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Stock incentive plan. The Company's 2006 Stock Incentive Plan, as amended and restated (the "Plan"), provides for granting stock options, restricted stock awards and performance awards to employees and individuals associated with the Company. The following table shows the number of existing awards and awards available under the Plan at September 30, 2013:

	Number of Common Shares
Approved and authorized awards	7,500,000
Restricted stock grants, net of forfeitures	(2,368,907)
Stock option grants, net of forfeitures	(3,463,720)
Performance unit grants (a)	(332,667)
Treasury shares	125,580
Awards available for future grant	1,460,286

(a) This amount represents the 110,889 performance units granted multiplied by the maximum potential payout of 300 percent. The actual payout of shares may be between zero percent and 300 percent of the performance units granted depending on the Company's performance at the end of the performance period.

Restricted stock awards. All restricted shares are treated as issued and outstanding in the accompanying consolidated balance sheets. If an employee terminates employment prior to the restriction lapse date, the awarded shares are forfeited and cancelled and are no longer considered issued and outstanding. A summary of the Company's restricted stock award activity for the nine months ended September 30, 2013 is presented below:

	Number of Restricted Shares	Grant Date Fair Value

			Per Share
Restricted stock:			
Outstanding at December 31, 2012	1,072,527		
Shares granted	483,440	$	87.69
Shares cancelled / forfeited	(96,695)		
Lapse of restrictions	(220,710)		
Outstanding at September 30, 2013	1,238,562		

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The following table summarizes information about stock-based compensation for the Company's restricted stock awards activity under the Plan for the three and nine months ended September 30, 2013 and 2012:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(in thousands)	**2013**	**2012**	**2013**	**2012**
Grant date fair value for awards during the period: (a)				
Employee grants	$ 6,881	$ 1,180	$ 30,934	$ 27,306
Officer and director grants	-	290	12,445	18,521
Total	$ 6,881	$ 1,470	$ 43,379	$ 45,827
Stock-based compensation expense from restricted stock:				
Employee grants	$ 5,116	$ 3,854	$ 12,511	$ 9,617
Officer and director grants	3,778	4,077	9,701	11,653
Total	$ 8,894	$ 7,931	$ 22,212	$ 21,270
Income taxes and other information:				
Income tax benefit related to restricted stock	$ 3,399	$ 3,032	$ 8,491	$ 8,131
Deductions in current taxable income related to restricted stock	$ 2,302	$ 1,043	$ 15,847	$ 22,581

(a) The nine months ended September 30, 2013 includes the effects of $1 million due to modifications of certain stock-based awards.

Stock option awards. A summary of the Company's stock option award activity under the Plan for the nine months ended September 30, 2013 is presented below:

	Number of Options		Weighted Average Exercise Price
Stock options:			
Outstanding at December 31, 2012	429,879	$	20.28
Options exercised	(139,111)	$	16.57
Outstanding at September 30, 2013	290,768	$	22.05
Exercisable at end of period	290,768	$	22.05

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The following table summarizes information about the Company's exercisable stock options outstanding at September 30, 2013:

Range of Exercise Prices	Number Vested	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Intrinsic Value (in thousands)
Vested and exercisable options:				
$8.00	2,005	0.87 years	$ 8.00	$ 202
$12.00	23,788	2.07 years	$ 12.00	2,303
12.85	15,000	3.88 years	$ 12.85	1,439
$20.00 - $23.00	192,895	4.78 years	$ 21.40	16,862
$28.00 - $37.27	57,080	4.66 years	$ 31.34	4,422
	290,768	4.46 years	$ 22.05	$ 25,228

The following table summarizes information about stock-based compensation for stock options for the three and nine months ended September 30, 2013 and 2012:

(in thousands)	Three Months Ended September 30, 2013	Three Months Ended September 30, 2012	Nine Months Ended September 30, 2013	Nine Months Ended September 30, 2012
Stock-based compensation expense from stock options:				
Employee grants	$ -	$ 7	$ 2	$ 24
Officer and director grants	-	21	13	140
Total	$ -	$ 28	$ 15	$ 164

Income taxes and other information:

Income tax benefit related to stock options	$ -	$ 10	$ 5	$ 63
Deductions in current taxable income related to stock options exercised	$ 1,797	$ 23,332	$ 10,317	$ 39,420

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Performance unit awards. During the nine months ended September 30, 2013, the Company awarded performance units to its officers under the Plan. The number of shares of common stock that will ultimately be issued will be determined by a combination of (i) comparing the Company's total shareholder return relative to the total shareholder return of a predetermined group of peer companies at the end of the performance period and (ii) the Company's absolute total shareholder return at the end of the performance period. The performance period is 36 months. The grant date fair value was determined using the Monte Carlo simulation method and is being expensed ratably over the performance period.

The Company used the following assumptions to estimate the fair value of performance unit awards granted during the nine months ended September 30, 2013:

Risk-free interest rate	0.37%
Range of volatilities	31.5% - 45.1%

The following table summarizes the performance unit activity for the nine months ended September 30, 2013:

	Number of Units (a)	Grant Date Fair Value
Performance units:		
Outstanding at December 31, 2012	-	
Units granted	110,889	$ 111.40
Outstanding at September 30, 2013	110,889	

(a) Reflects the amount of performance units granted. The actual payout of shares will be between zero and 300 percent of the performance units granted depending on the Company's performance at the end of the performance period.

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The following table summarizes information about stock-based compensation expense for performance units for the three and nine months ended September 30, 2013:

(in thousands)	Three Months Ended September 30, 2013	Nine Months Ended September 30, 2013
Grant date fair value for awards during the period:		
Officer grants	$ -	$ 12,353
Stock-based compensation expense from performance units:		
Officer grants	$ 1,029	$ 3,051
Income taxes:		
Income tax benefit related to performance units	$ 394	$ 1,167

Future stock-based compensation expense. The following table reflects the future stock-based compensation expense to be recorded for all the stock-based compensation awards that were outstanding at September 30, 2013:

(in thousands)	Restricted Stock	Performance Units	Total
Remaining 2013	$ 9,359	$ 1,029	$ 10,388
2014	27,262	4,118	31,380
2015	14,588	4,154	18,742
2016	5,245	-	5,245
2017	548	-	548
Total	$ 57,002	$ 9,301	$ 66,303

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Note G. ***Disclosures about fair value of financial instruments***

The Company uses a valuation framework based upon inputs that market participants use in pricing an asset or liability, which are classified into two categories: observable inputs and unobservable inputs. Observable inputs represent market data obtained from independent sources, whereas unobservable inputs reflect a company's own market assumptions, which are used if observable inputs are not reasonably available without undue cost and effort. These two types of inputs are further prioritized into the following fair value input hierarchy:

Level 1**:** Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities. The Company considers active markets to be those in which transactions for the assets or liabilities occur in sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2**:** Quoted prices in markets that are not active, or inputs which are observable, either directly or indirectly, for substantially the full term of the asset or liability. This category includes those derivative instruments that the Company values using observable market data. Substantially all of these inputs are observable in the marketplace throughout the full term of the derivative instrument, can be derived from observable data, or supported by observable levels at which transactions are executed in the marketplace. Level 2 instruments primarily include non-exchange traded derivatives such as over-the-counter commodity price swaps, basis swaps, collars and floors, investments and interest rate swaps. The Company's valuation models are primarily industry-standard models that consider various inputs including: (i) quoted forward prices for commodities, (ii) time value and (iii) current market and contractual prices for the underlying instruments, as well as other relevant economic measures.

Level 3**:** Measured based on prices or valuation models that require inputs that are both significant to the fair value measurement and less observable from objective sources (*i.e.*, supported by little or no market activity). The Company's valuation models are primarily industry-standard models that consider various inputs including: (i) quoted forward prices for commodities, (ii) time value, (iii) volatility factors and (iv) current market and contractual prices for the underlying instruments, as well as other relevant economic measures.

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Financial Assets and Liabilities Measured at Fair Value

The following table presents the carrying amounts and fair values of the Company's financial instruments at September 30, 2013 and December 31, 2012:

(in thousands)	September 30, 2013 Carrying Value	September 30, 2013 Fair Value	December 31, 2012 Carrying Value	December 31, 2012 Fair Value
Assets:				
Derivative instruments	$ 872	$ 872	$ 38,711	$ 38,711
Liabilities:				
Derivative instruments	$ 95,413	$ 95,413	$ 13,633	$ 13,633
Credit facility	$ 207,600	$ 210,666	$ 304,000	$ 299,679
8.625% senior notes due 2017	$ -	$ -	$ 297,103	$ 323,471
7.0% senior notes due 2021	$ 600,000	$ 657,000	$ 600,000	$ 669,000
6.5% senior notes due 2022	$ 600,000	$ 643,500	$ 600,000	$ 660,000
5.5% senior notes due 2022	$ 600,000	$ 598,500	$ 600,000	$ 633,000
5.5% senior notes due 2023	$ 1,581,050	$ 1,530,625	$ 700,000	$ 733,250

Cash and cash equivalents, accounts receivable, other current assets, accounts payable, interest payable and other current liabilities. The carrying amounts approximate fair value due to the short maturity of these instruments.

Credit facility. The fair value of the Company's credit facility is estimated by discounting the principal and interest payments at the Company's credit-adjusted discount rate at the reporting date and is determined utilizing inputs that are Level 2 measurements in the fair value hierarchy.

Senior notes. The fair values of the Company's senior notes are based on quoted market prices. The debt securities are not actively traded and, therefore, are classified as Level 2 in the fair value hierarchy.

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Derivative instruments. The fair value of the Company's derivative instruments is estimated by management considering various factors, including closing exchange and over-the-counter quotations and the time value of the underlying commitments. Financial assets and liabilities are classified based on the lowest level of input that is significant to the fair value measurement. The Company's assessment of the significance of a particular input to the fair value measurement requires judgment and may affect the valuation of the fair value of assets and liabilities and their placement within the fair value hierarchy levels. The following table summarizes (i) the valuation of each of the Company's financial instruments by required fair value hierarchy levels and (ii) the gross fair value by the appropriate balance sheet classification, even when the derivative instruments are subject to netting arrangements and qualify for net presentation in the Company's consolidated balance sheets at September 30, 2013 and December 31, 2012. The Company nets the fair value of derivative instruments by counterparty in the Company's consolidated balance sheets.

	Fair Value Measurements Using					**Net**
(in thousands)	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**	**Total Fair Value at September 30, 2013**	**Gross Amounts Offset in the Consolidated Balance Sheet**	**Fair Value Presented in the Consolidated Balance Sheet**
Assets						
Current:(a)						
Commodity derivatives	$ -	$ 12,880	$ -	$ 12,880	$ (12,008)	$ 872
Noncurrent:(b)						
Commodity derivatives	-	4,600	-	4,600	(4,600)	-
Liabilities						
Current:(a)						
Commodity derivatives	-	(83,372)	-	(83,372)	12,008	(71,364)
Noncurrent:(b)						

Commodity derivatives	-	(28,649)	-	(28,649)	4,600	(24,049)
Net derivative instruments	$ -	$ (94,541)	$ -	$ (94,541)	$ -	$ (94,541)

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(in thousands)	Fair Value Measurements Using: Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value at December 31, 2012	Gross Amounts Offset in the Consolidated Balance Sheet	Net Fair Value Presented in the Consolidated Balance Sheet
Assets						
Current:(a)						
Commodity derivatives	$ -	$ 56,471	$ -	$ 56,471	$ (20,529)	$ 35,942
Noncurrent:(b)						
Commodity derivatives	-	12,108	-	12,108	(9,339)	2,769
Liabilities						
Current:(a)						
Commodity derivatives	-	(22,113)	-	(22,113)	20,529	(1,584)
Noncurrent:(b)						
Commodity derivatives	-	(21,388)	-	(21,388)	9,339	(12,049)
Net derivative instruments	$ -	$ 25,078	$ -	$ 25,078	$ -	$ 25,078

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Assets and Liabilities Measured at Fair Value on a Nonrecurring Basis

Certain assets and liabilities are reported at fair value on a nonrecurring basis in the Company's consolidated balance sheets. The following methods and assumptions were used to estimate the fair values:

Impairments of long-lived assets – The Company reviews its long-lived assets to be held and used, including proved oil and natural gas properties, whenever events or circumstances indicate that the carrying value of those assets may not be recoverable. An impairment loss is indicated if the sum of the expected undiscounted future net cash flows is less than the carrying amount of the assets. In this circumstance, the Company recognizes an impairment loss for the amount by which the carrying amount of the asset exceeds the estimated fair value of the asset. The Company reviews its oil and natural gas properties by depletion base or by individual well for those wells not constituting part of a depletion base. For each property determined to be impaired, an impairment loss equal to the difference between the carrying value of the properties and the estimated fair value (discounted future cash flows) of the properties would be recognized at that time. Estimating future cash flows involves the use of judgments, including estimation of the proved and unproved oil and natural gas reserve quantities, timing of development and production, expected future commodity prices, capital expenditures and production costs.

The Company periodically reviews its proved oil and natural gas properties for impairment. Impairment expense is caused primarily due to declines in commodity prices and well performance. The Company did not recognize impairment charges for the three months ended September 30, 2012 and 2013 or for the nine months ended September 30, 2012. The Company recognized impairment charges for the nine months ended September 30, 2013 as follows:

(in thousands)	**Carrying Amount**	**Estimated Fair Value (Level 3)**	**Impairment Expense**
Nine Months Ended September 30, 2013	$ 84,140	$ 18,765	$ 65,375

Note H. ***Derivative financial instruments***

The Company uses derivative financial instruments to manage its exposure to commodity price fluctuations. Commodity derivative instruments are used to (i) reduce the effect of the volatility of price changes on the oil and natural gas the Company produces and sells, (ii) support the Company's capital budget and expenditure plans and (iii) support the economics associated with acquisitions. The Company does not enter into derivative financial instruments for speculative or trading purposes. The Company may also enter into physical delivery contracts to effectively provide commodity price hedges. Because these contracts are not expected to be net cash settled, they are considered to be normal sales contracts and not derivatives. Therefore, these contracts are not recorded in the Company's consolidated financial statements.

The Company does not designate its derivative instruments to qualify for hedge accounting. Accordingly, the Company reflects changes in the fair value of its derivative instruments in its statements of operations as they occur.

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The following table summarizes the gains (losses) reported in earnings related to the commodity derivative instruments for the three and nine months ended September 30, 2013 and 2012:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(in thousands)	**2013**	**2012**	**2013**	**2012**
Gain (loss) on derivatives not designated as hedges:				
Oil derivatives	$ (169,049)	$ (135,401)	$ (172,698)	$ 109,386
Natural gas derivatives	439	(14)	15,395	156
Total gain (loss) on derivatives not designated as hedges	$ (168,610)	$ (135,415)	$ (157,303)	$ 109,542

The following table represents the Company's cash receipts from (payments on) derivatives not designated as hedges for the three and nine months ended September 30, 2013 and 2012:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(in thousands)	**2013**	**2012**	**2013**	**2012**
Cash receipts from (payments on) derivatives not designated as hedges:				
Oil derivatives	$ (49,864)	$ 15,859	$ (42,528)	$ (8,374)
Natural gas derivatives	4,589	280	4,844	889
Total cash receipts from (payments on) derivatives not designated as hedges	$ (45,275)	$ 16,139	$ (37,684)	$ (7,485)

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Commodity derivative contracts at September 30, 2013. The following table sets forth the Company's outstanding derivative contracts at September 30, 2013. When aggregating multiple contracts, the weighted average contract price is disclosed. All of the Company's derivative contracts at September 30, 2013 are expected to settle by June 30, 2017.

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total
Oil Swaps: (a)					
2013:					
Volume (Bbl)				4,614,000	4,614,000
Price per Bbl				$ 95.87	$ 95.87
2014:					
Volume (Bbl)	4,277,000	3,848,000	3,560,000	3,355,000	15,040,000
Price per Bbl	$ 93.31	$ 92.18	$ 90.61	$ 90.54	$ 91.76
2015:					
Volume (Bbl)	3,154,000	2,984,000	2,858,000	2,721,000	11,717,000
Price per Bbl	$ 87.24	$ 86.36	$ 86.66	$ 86.58	$ 86.72
2016:					
Volume (Bbl)	108,000	108,000	108,000	105,000	429,000
Price per Bbl	$ 88.32	$ 88.32	$ 88.32	$ 88.28	$ 88.31
2017:					
Volume (Bbl)	84,000	84,000	-	-	168,000
Price per Bbl	$ 87.00	$ 87.00	$ -	$ -	$ 87.00
Oil Basis Swaps: (b)					
2013:					

Volume (Bbl)				3,404,000	3,404,000
Price per Bbl				$ (1.12)	$ (1.12)
2014:					
Volume (Bbl)	2,790,000	2,821,000	1,932,000	1,932,000	9,475,000
Price per Bbl	$ (0.46)	$ (0.46)	$ (0.45)	$ (0.45)	$ (0.46)
Natural Gas Swaps: (c)					
2013:					
Volume (MMBtu)				6,992,000	6,992,000
Price per MMBtu				$ 4.25	$ 4.25
Natural Gas Collars: (d)					
2014:					
Volume (MMBtu)	5,400,000	5,460,000	5,520,000	5,520,000	21,900,000
Ceiling price per MMBtu	$ 4.40	$ 4.40	$ 4.40	$ 4.40	$ 4.40
Floor price per MMBtu	$ 3.85	$ 3.85	$ 3.85	$ 3.85	$ 3.85
Natural Gas Basis Swaps: (e)					
2013:					
Volume (MMBtu)				6,440,000	6,440,000
Price per MMBtu				$ (0.15)	$ (0.15)

(a) The index prices for the oil price swaps are based on the NYMEX – West Texas Intermediate (“WTI”) monthly average futures price.
(b) The basis differential price is between Midland – WTI and Cushing – WTI.
(c) The index prices for the natural gas price swaps are based on the NYMEX – Henry Hub last trading day futures price.
(d) The index prices for the natural gas collars are based on the El Paso Permian delivery point.
(e) The basis differential price is between the El Paso Permian delivery point and NYMEX – Henry Hub delivery point.

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Note I. ***Debt***

The Company's debt consisted of the following at September 30, 2013 and December 31, 2012:

(in thousands)		**September 30, 2013**		**December 31, 2012**
Credit facility	$	207,600	$	304,000
8.625% unsecured senior notes due 2017		-		300,000
7.0% unsecured senior notes due 2021		600,000		600,000
6.5% unsecured senior notes due 2022		600,000		600,000
5.5% unsecured senior notes due 2022		600,000		600,000
5.5% unsecured senior notes due 2023		1,550,000		700,000
Unamortized original issue premium (discount), net		31,050		(2,897)
Less: current portion		-		-
Total long-term debt	$	3,588,650	$	3,101,103

Credit facility. The Company's credit facility, as amended (the "Credit Facility"), has a maturity date of April 25, 2016. The Company's borrowing base is $3.0 billion until the next scheduled borrowing base redetermination in April 2014, and commitments from the Company's bank group total $2.5 billion. Between scheduled borrowing base redeterminations, the Company and the lenders (requiring a 66 2/3 percent vote) may each request one special redetermination.

Advances on the Credit Facility bear interest, at the Company's option, based on (i) the prime rate of JPMorgan Chase Bank ("JPM Prime Rate") (3.25 percent at September 30, 2013) or (ii) a Eurodollar rate (substantially equal to the LIBOR). At September 30, 2013, the interest rates of Eurodollar rate advances and JPM Prime Rate advances varied, with interest margins ranging from 150 to 250 basis points and 50 to 150 basis points per annum, respectively, depending on the debt balance outstanding on the Credit Facility. At September 30, 2013, the Company paid commitment fees on the unused portion of the available commitments ranging from 37.5 to 50 basis points per annum.

The Credit Facility also includes a same-day advance facility under which the Company may borrow funds from the administrative agent. Same-day advances cannot exceed $25 million, and the maturity dates cannot exceed fourteen days. The interest rate on the same-day advance facility is the JPM Prime Rate plus the applicable interest margin.

The Company's obligations under the Credit Facility are secured by a first lien on substantially all of its oil and natural gas properties. In addition, all of the Company's subsidiaries are guarantors and have had their equity pledged to secure borrowings under the Credit Facility.

The Credit Facility contains various restrictive covenants and compliance requirements which include:

- maintenance of certain financial ratios, including (i) maintenance of a quarterly ratio of total debt to last twelve months of consolidated earnings before interest expense, income taxes, depletion, depreciation, and amortization, exploration expense and other noncash income and expenses to be no greater than 4.0 to 1.0, and (ii) maintenance of a ratio of current assets to current liabilities, excluding noncash assets and liabilities related

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to financial derivatives and asset retirement obligations and including the unfunded amounts under the Credit Facility, to be not less than 1.0 to 1.0;

- limits on the incurrence of additional indebtedness and certain types of liens;
- restrictions as to mergers, combinations and dispositions of assets; and
- limitations on the payment of cash dividends.

Senior notes. Interest on the Company's senior notes is paid in arrears semi-annually. The senior notes are fully and unconditionally guaranteed on a senior unsecured basis by all subsidiaries of the Company, subject to customary release provisions as described in Note P.

On June 3, 2013, the Company received tenders and consents from the holders of approximately $225.6 million in aggregate principal amount, or approximately 75.2 percent, of its outstanding 8.625% senior notes due 2017 (the "8.625% Notes") in connection with a cash tender offer for any and all of the 8.625% Notes at a price of 106.922 percent of the unpaid principal amount.

On June 21, 2013, the Company redeemed the remaining outstanding 8.625% Notes not purchased in the tender offer at a redemption price of 106.516 percent of the unpaid principal amount plus accrued and unpaid interest through June 20, 2013.

The Company recorded a loss on extinguishment of debt related to the tender offer and redemption of its 8.625% Notes of approximately $28.6 million for the nine months ended September 30, 2013. This amount includes approximately $20.4 million associated with the premium paid for the tender offer and redemption of the notes, approximately $5.5 million of unamortized deferred loan costs and approximately $2.7 million of unamortized discount.

On June 4, 2013, the Company completed the issuance of an additional $850 million in principal amount of its 5.5% senior notes due 2023 (the "Offering") at 103.75 percent of par (resulting in a 4.884% yield) for net proceeds of approximately $867.8 million. The Company used a portion of the net proceeds from the Offering to fund the tender offer and redemption of the 8.625% Notes and to pay down amounts outstanding on the Credit Facility.

At September 30, 2013, the Company was in compliance with the covenants under its debt instruments.

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Future benefit to interest expense from original issue premium at September 30, 2013 was as follows:

(in thousands)		
Remaining 2013	$	629
2014		2,602
2015		2,747
2016		2,900
2017		3,062
2018		