ANTERO RESOURCES Corp
Form 10-Q
November 06, 2013
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

x **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: 001-36120

ANTERO RESOURCES CORPORATION

(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	**80-0162034** (I.R.S. Employer Identification No.)
1625 17th Street **Denver, Colorado** (Address of principal executive offices)	**80202** (Zip Code)

(303) 357-7310

(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. x Yes o 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). x Yes o No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer, and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer o	Accelerated filer o
Non-accelerated filer x (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) o Yes x No

The registrant had 262,049,659 shares of common stock outstanding as of November 6, 2013.

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CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

The information in this report includes forward-looking statements within the meaning of Section 27A of the Securities Act and Section 21E of the Exchange Act. All statements, other than statements of historical fact included in this Quarterly Report on Form 10-Q, regarding our strategy, future operations, financial position, estimated revenues and losses, projected costs, prospects, plans and objectives of management are forward-looking statements. When used in this report, the words could, believe, anticipate, intend, estimate, expect, project, and simil expressions are intended to identify forward-looking statements, although not all forward-looking statements contain such identifying words. These forward-looking statements are based on our current expectations and assumptions about future events and are based on currently available information as to the outcome and timing of future events. When considering forward-looking statements, you should keep in mind the risk factors and other cautionary statements described under the heading Item 1A. Risk Factors included in this Quarterly Report on Form 10-Q. These forward-looking statements are based on management s current belief, based on currently available information, as to the outcome and timing of future events.

Forward-looking statements may include statements about our:

- business strategy;
- reserves;
- financial strategy, liquidity and capital required for our development program;
- realized natural gas, natural gas liquids (NGLs) and oil prices;
- timing and amount of future production of natural gas, NGLs and oil;
- hedging strategy and results;
- future drilling plans;
- competition and government regulations;

- pending legal or environmental matters;
- marketing of natural gas, NGLs and oil;
- leasehold or business acquisitions;
- costs of developing our properties and conducting our gathering and other midstream operations;
- general economic conditions;
- credit markets;
- uncertainty regarding our future operating results; and
- plans, objectives, expectations and intentions contained in this Form 10-Q that are not historical.

We caution you that these forward-looking statements are subject to all of the risks and uncertainties, most of which are difficult to predict and many of which are beyond our control, incident to the exploration for and development, production, gathering, and sale of natural gas, NGLs, and oil. These risks include, but are not limited to, commodity price volatility, inflation, lack of availability of drilling and production equipment and services, environmental risks, drilling and other operating risks, regulatory changes, the uncertainty inherent in estimating natural gas, NGLs, and oil reserves and in projecting future rates of production, cash flow and access to capital, the timing of development expenditures, and the other risks described under the heading Item 1A. Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2012 (the 2012 Form 10-K) on file with the Securities and Exchange Commission (File No. 333-164876-06), under the heading Risk Factors in our Final Prospectus dated October 9, 2013 (the IPO Prospectus) on file with the Securities and Exchange Commission (File No. 333-189284), and in Item 1A. Risk Factors of this Form 10-Q.

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Reserve engineering is a process of estimating underground accumulations of natural gas, NGLs, and oil 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 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 significantly from the quantities of natural gas, NGLs, and oil that are ultimately recovered.

Should one or more of the risks or uncertainties described in this report occur, or should underlying assumptions prove incorrect, our actual results and plans could differ materially from those expressed in any forward-looking statements.

All forward-looking statements, expressed or implied, included in this report are expressly qualified in their entirety by this cautionary statement. This cautionary statement should also be considered in connection with any subsequent written or oral forward-looking statements that we or persons acting on our behalf may issue.

Except as otherwise required by applicable law, we disclaim any duty to update any forward-looking statements, all of which are expressly qualified by the statements in this section, to reflect events or circumstances after the date of this Form 10-Q.

Introductory Note

On October 16, 2013, the members of Antero Resources LLC exchanged their membership interests in Antero Resources LLC for identical membership interests in Antero Resources Investment LLC (Antero Investment), a wholly owned subsidiary of Antero Resources LLC. Following the exchange of membership interests, pursuant to the merger agreement by and among Antero Resources LLC, Antero Investment and Antero Resources Corporation (ARC) whereby, (a) Antero Resources LLC merged with and into ARC, with ARC surviving the merger, (b) all of the membership interests of Antero Resources LLC held by Antero Investment converted into all 224,375,000 shares of outstanding common stock of ARC, and (c) the membership interest in Antero Investment held by Antero Resources LLC was cancelled. On the same date, ARC completed a public offering of its common stock and issued 37,674,659 additional shares of its common stock to the public for proceeds of approximately $1.58 billion, net of commissions and expenses of the offering.

The current and historical consolidated financial statements of Antero Resources LLC presented herein are identical with respect to the underlying financial information of ARC, which subsequent to September 30, 2013, became the reporting company with the Securities and Exchange Commission as a result of the aforementioned merger and initial public offering.

Prior to the merger, Antero Resources LLC and Antero Resources Corporation filed separate federal and state income tax returns. Antero Resources LLC was not subject to income taxes because it was a pass-through entity for federal and state tax purposes. Antero Resources Corporation has provided for income taxes, in its financial statements and its income tax provisions and liabilities did not change as a result of the merger of Antero Resources LLC and Antero Resources Corporation.

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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

ANTERO RESOURCES LLC

Condensed Consolidated Balance Sheets

December 31, 2012 and September 30, 2013

(Unaudited)

(In thousands)

		2012	2013
Assets			
Current assets:			
Cash and cash equivalents	$	18,989	11,584
Accounts receivable		21,296	33,023
Notes receivable current portion		4,555	3,111
Accrued revenue		46,669	86,122
Derivative instruments		160,579	204,857
Other		22,518	20,816
Total current assets		274,606	359,513
Property and equipment:			
Oil and natural gas properties, at cost (successful efforts method):			
Unproved properties		1,243,237	1,420,719
Proved properties		1,689,132	3,199,830
Gathering systems and facilities		168,930	455,818
Other property and equipment		9,517	12,741
		3,110,816	5,089,108
Less accumulated depletion, depreciation, and amortization		(173,343)	(331,993)
Property and equipment, net		2,937,473	4,757,115
Derivative instruments		371,436	503,666
Notes receivable long-term portion		2,667	
Other assets, net		32,611	51,914
Total assets	$	3,618,793	5,672,208
Liabilities and Equity			
Current liabilities:			

Accounts payable	$	181,478	311,092
Accrued liabilities and other		61,161	103,359
Derivative instruments			309
Revenue distributions payable		46,037	68,926
Current portion of long-term debt		25,000	25,000
Deferred income tax liability		62,620	78,199
Total current liabilities		376,296	586,885
Long-term liabilities:			
Long-term debt		1,444,058	2,970,455
Deferred income tax liability		91,692	202,708
Other long-term liabilities		33,010	34,333
Total liabilities		1,945,056	3,794,381
Equity:			
Members equity		1,460,947	1,460,947
Accumulated earnings		212,790	416,880
Total equity		1,673,737	1,877,827
Total liabilities and equity	$	3,618,793	5,672,208

See accompanying notes to condensed consolidated financial statements.

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ANTERO RESOURCES LLC

Condensed Consolidated Statements of Operations and Comprehensive Income (Loss)

Three Months ended September 30, 2012 and 2013

(Unaudited)

(In thousands, except per share amounts)

		2012		2013
Revenue:				
Natural gas sales	$	66,796		182,125
Natural gas liquids sales				31,956
Oil sales		285		8,473
Commodity derivative fair value gains (losses)		(159,004)		161,968
Loss on sale of assets		(115)		
Total revenue		(92,038)		384,522
Operating expenses:				
Lease operating		1,513		2,697
Gathering, compression, processing, and transportation		25,291		58,383
Production taxes		3,621		11,851
Exploration		3,156		5,372
Impairment of unproved properties		2,438		3,205
Depletion, depreciation, and amortization		26,858		65,697
Accretion of asset retirement obligations		25		266
General and administrative		11,938		14,443
Total operating expenses		74,840		161,914
Operating income (loss)		(166,878)		222,608
Interest expense		(22,453)		(37,444)
Income (loss) from continuing operations before income taxes and discontinued operations		(189,331)		185,164
Income tax (expense) benefit		75,444		(67,370)
Income (loss) from continuing operations		(113,887)		117,794
Discontinued operations:				
Income (loss) from results of operations and sale of discontinued operations		(13,791)		3,100
Net income (loss) and comprehensive income (loss) attributable to Antero equity owners	$	(127,678)		120,894
Pro forma information:				
Pro forma earnings (loss) per share - basic:				
Continuing operations	$	(0.44)	$	0.45
Discontinued operations	$	(0.05)	$	0.01
Net income (loss)	$	(0.49)	$	0.46

Pro forma earnings (loss) per share - diluted:				
Continuing operations	$	(0.44)	$	0.45
Discontinued operations	$	(0.05)	$	0.01
Net income (loss)	$	(0.49)	$	0.46
Pro forma weighted average number of shares outstanding:				
Basic		262,050		262,050
Diluted		262,050		262,050

See accompanying notes to condensed consolidated financial statements.

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ANTERO RESOURCES LLC

Condensed Consolidated Statements of Operations and Comprehensive Income (Loss)

Nine Months ended September 30, 2012 and 2013

(Unaudited)

(In thousands, except per share amounts)

		2012		2013
Revenue:				
Natural gas sales	$	156,618		476,403
Natural gas liquids sales				59,772
Oil sales		610		11,435
Commodity derivative fair value gains		52,210		285,510
Gain on sale of gathering system		291,190		
Total revenue		500,628		833,120
Operating expenses:				
Lease operating		4,072		5,222
Gathering, compression, processing, and transportation		56,945		148,023
Production taxes		10,734		30,578
Exploration		7,912		17,034
Impairment of unproved properties		4,019		9,564
Depletion, depreciation, and amortization		65,289		158,650
Accretion of asset retirement obligations		71		797
General and administrative		31,584		40,727
Total operating expenses		180,626		410,595
Operating income		320,002		422,525
Interest expense		(71,046)		(100,840)
Income from continuing operations before income taxes and discontinued operations		248,956		321,685
Income tax expense		(108,525)		(120,695)
Income from continuing operations		140,431		200,990
Discontinued operations:				
Income (loss) from results of operations and sale of discontinued operations		(418,465)		3,100
Net income (loss) and comprehensive income (loss) attributable to Antero equity owners	$	(278,034)		204,090
Pro forma information:				
Pro forma earnings (loss) per share - basic:				
Continuing operations	$	0.54	$	0.77
Discontinued operations	$	(1.60)	$	0.01
Net income (loss)	$	(1.06)	$	0.78

Pro forma earnings (loss) per share - diluted:				
Continuing operations	$	0.54	$	0.77
Discontinued operations	$	(1.60)	$	0.01
Net income (loss)	$	(1.06)	$	0.78
Pro forma weighted average number of shares outstanding:				
Basic		262,050		262,050
Diluted		262,050		262,050

See accompanying notes to condensed consolidated financial statements.

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ANTERO RESOURCES LLC

Condensed Consolidated Statements of Cash Flows

Nine Months ended September 30, 2012 and 2013

(Unaudited)

(In thousands)

		2012	2013
Cash flows from operating activities:			
Net income (loss)	$	(278,034)	204,090
Adjustment to reconcile net income to net cash provided by operating activities:			
Depletion, depreciation, amortization, and accretion		65,360	159,447
Impairment of unproved properties		4,019	9,564
Commodity derivative fair value gains		(52,210)	(285,510)
Cash receipts for settled derivatives		141,506	109,311
Gain on sale of assets		(291,190)	
Loss (gain) on sale of discontinued operations		427,232	(5,000)
Deferred income tax expense		87,695	120,695
Depletion, depreciation, amortization, accretion, and impairment of unproved properties discontinued operations		78,616	
Commodity derivative fair value gains - discontinued operations		(46,358)	
Cash receipts for settled derivatives - discontinued operations		79,736	
Deferred income tax expense discontinued operations		4,085	1,900
Other		(4,567)	3,911
Changes in current assets and liabilities:			
Accounts receivable		(16,811)	(11,727)
Accrued revenue		17,378	(39,453)
Other current assets		(3,112)	1,702
Accounts payable		(9,812)	(4,602)
Accrued liabilities		7,281	44,720
Revenue distributions payable		(414)	22,889
Other		15,000	
Net cash provided by operating activities		225,400	331,937
Cash flows from investing activities:			
Additions to proved properties		(4,451)	
Additions to unproved properties		(428,574)	(342,832)
Development costs		(619,344)	(1,267,086)
Additions to gathering systems and facilities		(58,748)	(240,119)
Additions to other property and equipment		(2,786)	(3,225)
Proceeds from asset sales		816,167	
Changes in other assets		2,556	(11,622)

Net cash used in investing activities		(295,180)	(1,864,884)
Cash flows from financing activities:			
Issuance of senior notes			231,750
Borrowings on bank credit facility, net		82,000	1,295,500
Payments of deferred financing costs			(8,334)
Other		992	6,626
Net cash provided by financing activities		82,992	1,525,542
Net increase (decrease) in cash and cash equivalents		13,212	(7,405)
Cash and cash equivalents, beginning of period		3,343	18,989
Cash and cash equivalents, end of period	$	16,555	11,584
Supplemental disclosure of cash flow information:			
Cash paid during the period for interest	$	(61,930)	(70,221)
Supplemental disclosure of noncash investing activities:			
Increase in accounts payable for additions to properties, gathering systems, and facilities	$	73,430	134,525

See accompanying notes to condensed consolidated financial statements.

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ANTERO RESOURCES LLC

Notes to Condensed Consolidated Financial Statements

December 31, 2012 and September 30, 2013

(Unaudited)

(1) Business and Organization

Antero Resources LLC, a limited liability company, and its consolidated operating subsidiaries (collectively referred to as the Company, we, or our) are engaged in the exploration for and the production of natural gas, natural gas liquids (NGLs), and oil onshore in the United States in unconventional reservoirs, which can generally be characterized as fractured shales. Our properties are located in the Appalachian Basin in West Virginia, Ohio, and Pennsylvania. During 2012 we sold our Arkoma Basin and Piceance Basin properties. We have certain midstream gathering and pipeline operations. Our corporate headquarters are in Denver, Colorado.

Our consolidated financial statements as of September 30, 2013 include the accounts of Antero Resources LLC and its directly and indirectly owned subsidiaries prior to the merger, as described below. The subsidiaries included in the consolidated financial statements are Antero Resources Corporation (ARC) (formerly Antero Resources Appalachian Corporation) and its wholly owned subsidiaries prior to the merger, Antero Resources Bluestone LLC and Antero Resources Finance Corporation (Antero Finance) (collectively referred to as the Antero Entities). Antero Resources LLC, the stand alone parent entity, had insignificant independent assets and no operations. In September 2013, we formed Antero Resources Midstream LLC (Antero Midstream). We intend to tranfer our midstream business to Antero Midstream.

On October 16, 2013, in connection with a corporate reorganization that was completed immediately prior to the closing of ARC s initial public offering, the members of Antero Resources LLC exchanged their membership interests in Antero Resources LLC for identical membership interests in Antero Resources Investment LLC (Antero Investment), which was a wholly owned subsidiary of Antero Resources LLC. Following the exchange of membership interests, pursuant to the merger agreement by and among Antero Resources LLC, Antero Investment and ARC, (a) Antero Resources LLC merged with and into ARC, with ARC surviving the merger, (b) all of the membership interests of Antero Resources LLC held by Antero Investment converted into all 224,375,000 shares of outstanding common stock of ARC, and (c) the membership interest in Antero Investment held by Antero Resources LLC was cancelled. On the same date, ARC completed a public offering of its common stock and issued 37,674,659 additional shares of its common stock to the public for estimated proceeds of approximately $1.58 billion, net of commissions and expenses of the offering. As a result of this corporate reorganization, we expect to recognize non-cash stock compensation expense in the fourth quarter of 2013 of approximately $297.0 million. Approximately $217.0 million of additional stock compensation will be recognized over the remaining service period of the underlying equity compensation awards.

The current and historical consolidated financial statements of Antero Resources LLC presented herein are identical with respect to the underlying financial information of ARC, which subsequent to September 30, 2013, became the reporting company with the Securities and Exchange Commission as a result of the aforementioned merger and initial public offering. The accompanying Condensed Consolidated Statements of Operations and Comprehensive Income (Loss) contain pro forma earnings per share information based upon the 262,049,659 shares outstanding upon the public offering.

(2) Basis of Presentation and Significant Accounting Policies

(a) Basis of Presentation

These consolidated financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (the SEC) applicable to interim financial information and should be read in the context of the December 31, 2012 consolidated financial statements and notes thereto for a more complete understanding of the Company s operations, financial position, and accounting policies. The December 31, 2012 consolidated financial statements have been filed with the SEC in the Company s Annual Report on Form 10-K for the year ended December 31, 2012 and the IPO Prospectus.

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The accompanying unaudited consolidated financial statements of the Company have been prepared in accordance with accounting principles generally accepted in the United States (GAAP) for interim financial information, and, accordingly, do not include all of the information and footnotes required by GAAP for complete consolidated financial statements. In the opinion of management, the accompanying unaudited consolidated financial statements include all adjustments (consisting of normal and recurring accruals) considered necessary to present fairly the Company s financial position as of September 30, 2013, and the results of its operations for the three and nine months ended September 30, 2012 and 2013, and its cash flows for the nine months ended September 30, 2012 and 2013. We have no items of other comprehensive income or loss; therefore, our net income (loss) is identical to our comprehensive income (loss). All significant intercompany accounts and transactions have been eliminated. Operating results for the period ended September 30, 2013 are not necessarily indicative of the results that may be expected for the full year because of the impact of fluctuations in prices received for natural gas and oil, natural production declines, the uncertainty of exploration and development drilling results, and other factors.

The Company s exploration and production activities are accounted for under the successful efforts method.

As of the date these financial statements were filed with the Securities and Exchange Commission, the Company completed its evaluation of potential subsequent events for disclosure and no items requiring disclosure were identified, except the public stock offering and a refinancing of the senior notes described in Note 11. See Note 1 for a description of the merger and public stock offering completed on October 16, 2013.

(b) Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Changes in facts and circumstances or discovery of new information may result in revised estimates, and actual results could differ from those estimates.

The Company s financial statements are based on a number of significant judgments, assumptions, and estimates, including estimates of gas and oil reserve quantities, which are the basis for the calculation of depreciation, depletion, and amortization, present value of future reserves, and impairment of oil and gas properties. Reserve estimates are, by their nature, inherently imprecise.

(c) Risks and Uncertainties

Historically, the market for natural gas has experienced significant price fluctuations. Prices for natural gas, NGLs, and oil are volatile; price fluctuations can result from variations in weather, levels of production in a given region, availability of transportation capacity to other regions of the country, and various other factors. Increases or decreases in prices received could have a significant impact on the Company s future results of operations.

(d) Cash and Cash Equivalents

The Company considers all liquid investments purchased with an initial maturity of three months or less to be cash equivalents. The carrying value of cash and cash equivalents approximates fair value due to the short-term nature of these investments.

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(e) ***Derivative Financial Instruments***

In order to manage its exposure to oil and gas price volatility, the Company enters into derivative transactions from time to time, which may include commodity swap agreements, collar agreements, and other similar agreements relating to oil and natural gas expected to be produced. From time to time, the Company may also enter into derivative contracts to mitigate the effects of interest rate fluctuations. To the extent legal right of offset with a counterparty exists, the Company reports derivative assets and liabilities on a net basis. The Company has exposure to credit risk to the extent the counterparty is unable to satisfy its settlement obligation. The fair value of the Company s commodity derivative contracts of approximately $708 million at September 30, 2013 includes the following asset values by bank counterparty: Credit Suisse $174 million; BNP Paribas $156 million; Wells Fargo $116 million; JP Morgan $113 million; Barclays $112 million; CitiBank - $23 million; Deutsche Bank $11 million; Toronto Dominion Bank $2 million; and Union Bank $1 million. The credit ratings of certain of these banks have been downgraded because of the sovereign debt crisis in Europe. The estimated fair value of our commodity derivative assets has been risk adjusted using a discount rate based upon the respective published credit default swap rates (if available, or if not available, a discount rate based on the applicable Reuters bond rating) at September, 2013 for each of the European and North American banks. We believe that all of these institutions currently are acceptable credit risks.

The Company records derivative instruments on the consolidated balance sheets as either an asset or liability measured at fair value and records changes in the fair value of derivatives in current earnings as they occur. Changes in the fair value of commodity derivatives are classified as revenues.

(f) ***Fair Value Measurements***

Authoritative accounting guidance defines fair value, establishes a framework for measuring fair value, and requires disclosures about fair value measurements. This guidance also relates to all nonfinancial assets and liabilities that are not recognized or disclosed on a recurring basis (e.g., those measured at fair value in a business combination, the initial recognition of asset retirement obligations, and impairments of proved oil and gas properties, and other long-lived assets). The fair value is the price that the Company estimates would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. A fair value hierarchy is used to prioritize input to valuation techniques used to estimate fair value. An asset or liability subject to the fair value requirements is categorized within the hierarchy 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 in its entirety requires judgment and considers factors specific to the asset or liability. The highest priority (Level 1) is given to unadjusted quoted market prices in active markets for identical assets or liabilities, and the lowest priority (Level 3) is given to unobservable inputs. Level 2 inputs are data, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly. Instruments that are valued using Level 2 inputs include nonexchange traded derivatives, such as over-the-counter commodity price swaps, basis swaps, and interest rate swaps. Valuation models used to measure fair value of these instruments consider various Level 2 inputs including (i) quoted forward prices for commodities, (ii) time value, (iii) quoted forward interest rates, (iv) current market prices and contractual prices for the underlying instruments, (v) risk of nonperformance by the Company and the counterparty, and (vi) other relevant economic measures. To the extent a legal right of offset with a counterparty exists, the derivative assets and liabilities are reported on a net basis.

(g) ***Income Taxes***

Prior to the merger described in Note 1, Antero Resources LLC and its subsidiaries filed separate federal and state income tax returns. Antero Resources LLC was a partnership for income tax purposes and therefore is not subject to federal or state income taxes. The tax on the income of Antero Resources LLC was borne by the individual members through the allocation of taxable income.

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Antero Resources Corporation and its subsidiaries recognize deferred tax assets and liabilities for temporary differences resulting from net operating loss carryforwards for income tax purposes and the differences between the financial statement and tax basis of assets and liabilities. The effect of changes in the tax laws or tax rates is recognized in income in the period such changes are enacted. Deferred tax assets are reduced by a valuation allowance, when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized.

Unrecognized tax benefits represent potential future tax obligations for uncertain tax positions taken on previously filed tax returns that may not ultimately be sustained. The Company recognizes interest expense related to unrecognized tax benefits in interest expense and fines and penalties as income tax expense. The tax years 2009 through 2012 remain open to examination by the U.S. Internal Revenue Service. The Company files tax returns with various state taxing authorities which remain open to examination for tax years 2008 through 2012.

(h) Impairment of Unproved Properties

Unproved properties are assessed for impairment on a property-by-property basis, and any impairment in value is charged to expense. Impairment is assessed based on remaining lease terms, drilling results, reservoir performance, commodity price outlooks, and future plans to develop acreage.

Impairment of unproved properties during the three months ended September 30, 2012 and 2013 was $2 million and $3 million, respectively. Impairment of unproved properties during the nine months ended September 30, 2012 and 2013 was $5 million and $10 million, respectively.

(i) Industry Segment and Geographic Information

We have evaluated how the Company is organized and managed and have identified one operating segment the exploration and production of oil, natural gas, and natural gas liquids. We consider our gathering, processing, and marketing functions as ancillary to our oil and gas producing activities. All of our assets are located in the United States and all of our revenues are attributable to United States customers.

(j) Guarantees

In November 2009 and January 2010, an indirect wholly owned finance subsidiary of Antero Resources LLC, Antero Finance, issued $375 million and $150 million, respectively, of 9.375% senior notes due December 1, 2017. In August 2011, Antero Finance issued $400 million of 7.25% senior notes due August 1, 2019. In November 2012 and February 2013, Antero Finance issued $300 million and $225 million, respectively, of 6.00% senior notes due December 1, 2020. For purposes of this footnote, we collectively refer to the 2017 senior notes, the 2019 senior notes and the 2020 senior notes as the senior notes.

Antero Resources LLC, as the parent company (for purposes of this footnote only, the Parent Company), has no independent assets or operations. Antero Finance is a 100% indirectly owned finance subsidiary of Parent Company. The senior notes are each guaranteed on a senior unsecured basis by Parent Company and all of Parent Company s wholly owned subsidiaries (other than Antero Finance) and certain of its future restricted subsidiaries. The guarantees are full and unconditional and joint and several. The guarantor subsidiaries may be released from those guarantees upon the occurrence of certain events, including (i) the designation of that subsidiary guarantor as an unrestricted subsidiary; (ii) the release or discharge of any guarantee or indebtedness that resulted in the creation of the guarantee of the senior notes by such subsidiary guarantor; or (iii) the sale or other disposition, including the sale of substantially all of the assets, of that subsidiary guarantor. There are no significant restrictions on Antero Finance s ability to obtain funds from the Parent Company or the subsidiary guarantors by dividend or loan, except those imposed by applicable law. However, the indentures governing the senior notes and the Credit Facility agreement contain significant restrictions on the ability of Antero Finance or the subsidiary guarantors to make distributions to the Parent Company. Finally, the Parent Company s wholly owned subsidiaries do not have restricted assets that exceed 25% of net assets as of the most recent fiscal year end that may not be transferred to the Parent Company in the form of loans, advances or cash dividends by the subsidiaries without the consent of a third party.

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(3) Sale of Piceance and Arkoma Properties Discontinued Operations

On December 21, 2012, the Company completed the sale of its Piceance Basin assets. The $316 million of net proceeds from the sale represented the purchase price of $325 million, adjusted for expenses of the sale and estimated income, expenses, and capital costs related to the Piceance Basin properties from the October 1, 2012 effective date of the sale through December 21, 2012. The agreement to sell the properties is subject to post-closing adjustments for up to a one year period. The Company believes that post-closing adjustments, if any, will not have a material effect on the financial statements. The Company recognized a loss of $364 million on the sale of the Piceance Basin assets in the fourth quarter of 2012. The purchaser also assumed all of the Company s Rocky Mountain firm transportation obligations, which totaled approximately $100 million. In connection with the sale of the Piceance Basin assets, the Company also liquidated its hedge positions related to the Piceance Basin and realized additional proceeds of approximately $100 million.

On June 29, 2012, the Company completed its sale of its Arkoma Basin assets and associated the commodity hedges. Proceeds from the sale of $427 million represent the purchase price of $445 million adjusted for expenses of the sale and estimated income, expenses, and capital costs from the effective date of the sale through the closing date of June 29, 2012. The agreement to sell the properties is subject to post-closing adjustments for up to a two year period. The Company believes that post-closing adjustments, if any, will not have a material effect on the financial statements. The Company recognized a loss of $427 million on the sale of the Arkoma Basin assets in the second quarter of 2012.

During the three and nine months ended September 30, 2013, the Company recorded pre-tax income of $5 million, or $3,100 net of taxes, related to operations that were discontinued in 2012 for sales tax refunds received and reductions in estimated expenses related to discontinued operations. Results of operations for the three months and nine months ended September 30, 2012 for the Piceance Basin and Arkoma Basin assets are shown as discontinued operations on the accompanying Consolidated Statement of Operations and Comprehensive Income (Loss) and are comprised of the following (in thousands):

		Three months Ended September 30, 2012	Nine months ended September 30, 2012
Sales of oil, natural gas, and natural gas liquids	$	22,690	105,096
Commodity derivative fair value gains (losses)		(18,880)	46,358
Total revenues		3,810	151,454
Lease operating expenses		2,430	16,395
Gathering, compression, and transportation		7,685	38,210
Production taxes		1,776	4,874
Exploration expenses		95	507
Impairment of unproved properties		(31)	962
Depletion, depreciation, and amortization		14,197	77,344
Accretion of asset retirement obligations		91	310
Loss on sale of discontinued operations			427,232
Total expenses		26,243	565,834
Loss from discontinued operations before income taxes		(22,433)	(414,380)
Income tax (expense) benefit		8,642	(4,085)
Net loss from discontinued operations attributable to Antero equity owners	$	(13,791)	(418,465)

(4) Long-term Debt

Long-term debt consists of the following at December 31, 2012 and September 30, 2013 (in thousands):

		December 31, 2012	September 30, 2013
Bank credit facility (a)	$	217,000	1,512,500
9.375% senior notes due 2017 (b)		525,000	525,000
7.25% senior notes due 2019 (c)		400,000	400,000
6.00% senior notes due 2020 (d)		300,000	525,000
9.00% senior note (d)		25,000	25,000
Net premium		2,058	7,955
		1,469,058	2,995,455
Less amounts due within one year		25,000	25,000
Total	$	1,444,058	2,970,455

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(a) Bank Credit Facility

The Company has a senior secured revolving bank credit facility (the Credit Facility) with a consortium of bank lenders. The maximum amount of the Credit Facility is $2.5 billion. Borrowings under the Credit Facility are subject to borrowing base limitations based on the collateral value of the Company s proved properties and commodity hedge positions and are subject to regular semiannual redeterminations. At September 30, 2013, the borrowing base is $2.0 billion and lender commitments were $1.75 billion. Lender commitments can be increased to the full amount of the borrowing base upon approval of the lenders. The next redetermination of the borrowing base is scheduled to occur in April 2014. The maturity date of the Credit Facility is May 12, 2016. Subsequent to September 30, 2013, lender commitments under the Credit Facility were reduced to $1.5 billion.

The Credit Facility is secured by mortgages on substantially all of the Company s properties and guarantees from the Company s operating subsidiaries. The Credit Facility contains certain covenants, including restrictions on indebtedness and dividends, and requirements with respect to working capital and interest coverage ratios. Interest is payable at a variable rate based on LIBOR or the prime rate based on the Company s election at the time of borrowing. The Company was in compliance with all of the financial covenants under the Credit Facility as of December 31, 2012 and September 30, 2013.

As of September 30, 2013, the Company had an outstanding balance under the Credit Facility of $1.5 billion, with a weighted average interest rate of 2.3%, and outstanding letters of credit of approximately $32 million. As of December 31, 2012, the Company had an outstanding balance under the Credit Facility of $217 million, with a weighted average interest rate of 1.91%, and outstanding letters of credit of approximately $43 million. Commitment fees on the unused portion of the Credit Facility are due quarterly at rates ranging from 0.375% to 0.50% of the unused facility based on utilization.

(b) 9.375% Senior Notes Due 2017

On November 17, 2009 Antero Finance issued $375 million of 9.375% senior notes due December 1, 2017 at a discount of $2.6 million. In January 2010, the Company issued an additional $150 million of the same series of 9.375% senior notes at a premium of $6.0 million. The notes are unsecured and effectively subordinated to the Company s Credit Facility to the extent of the value of the collateral securing the Credit Facility. The notes are guaranteed on a full and unconditional basis and joint and severally by the Company, all of its wholly owned subsidiaries (other than Antero Finance), and certain of its future restricted subsidiaries. Interest on the notes is payable on June 1 and December 1 of each year. Antero Finance may redeem all or part of the notes at any time on or after December 1, 2013 at redemption prices ranging from 104.688% on or after December 1, 2013 to 100% on or after December 1, 2015. At any time prior to December 1, 2013, Antero Finance may also redeem the notes, in whole or in part, at a price equal to 100% of the principal amount of the notes plus a make-whole premium. If the Company undergoes a change of control, Antero Finance may be required to offer to purchase notes from the holders.

The 9.375% senior notes due 2017 will be redeemed with the proceeds of the issuance of the 5.375% notes issued subsequent to September 30, 2013. See Note 11.

(c) 7.25% Senior Notes Due 2019

On August 1, 2011, Antero Finance issued $400 million of 7.25% senior notes due August 1, 2019 at par. The notes are unsecured and effectively subordinated to the Company s Credit Facility to the extent of the value of the collateral securing the Credit Facility. The notes rank pari passu to the existing 9.375% senior notes. The notes are guaranteed on a senior unsecured basis by the Company, all of its wholly owned subsidiaries (other than Antero Finance), and certain of its future restricted subsidiaries. Interest on the notes is payable on August 1 and February 1 of each year. Antero Finance may redeem all or part of the notes at any time on or after August 1, 2014 at redemption prices ranging from 105.438% on or after August 1, 2014 to 100% on or after August 1, 2017. In addition, on or before August 1, 2014, Antero Finance may redeem up to 35% of the aggregate principal amount of the notes with the net cash proceeds of certain equity offerings, if certain conditions are met, at a redemption price of 107.25% of the principal amount of the notes, plus accrued interest. At any time prior to August 1, 2014, Antero Finance may redeem the notes, in whole or in part, at a price equal to 100% of the principal amount of the notes plus a make-whole premium and accrued interest. If the Company undergoes a change of control, the note holders will have the right to require Antero Finance to repurchase all or a portion of the notes at a price equal to 101% of the principal amount of the notes, plus accrued interest.

The Company will redeem 35% of the 7.25% senior notes due 2019 from the proceeds of the initial public offering. See Note 11.

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(d) 6.00% Senior Notes Due 2020

On November 19, 2012, Antero Finance issued $300 million of 6.00% senior notes due December 1, 2020 at par. In a subsequent transaction, on February 4, 2013 Antero Finance issued an additional $225 million of the 6.00% notes at 103% of par. The notes are unsecured and effectively subordinated to the Company s Credit Facility to the extent of the value of the collateral securing the Credit Facility. The notes rank pari passu to the existing 9.375% and 7.25% senior notes. The notes are guaranteed on a senior unsecured basis by the Company, all of its wholly owned subsidiaries (other than Antero Finance), and certain of its future restricted subsidiaries. Interest on the notes is payable on June 1 and December 1 of each year. Antero Finance may redeem all or part of the notes at any time on or after December 1, 2015 at redemption prices ranging from 104.50% on or after December 1, 2015 to 100% on or after December 1, 2018. In addition, on or before December 1, 2015, Antero Finance may redeem up to 35% of the aggregate principal amount of the notes with the net cash proceeds of certain equity offerings, if certain conditions are met, at a redemption price of 106.00% of the principal amount of the notes, plus accrued interest. At any time prior to December 1, 2015, Antero Finance may redeem the notes, in whole or in part, at a price equal to 100% of the principal amount of the notes plus a make-whole premium and accrued interest. If a change of control (as defined in the bond indenture) occurs at any time prior to January 1, 2014, Antero Finance may, at its option, redeem all, but not less than all, of the notes at a redemption price equal to 110% of the principal amount of the notes, plus accrued interest. If the Company undergoes a change of control, the note holders will have the right to require Antero Finance to repurchase all or a portion of the notes at a price equal to 101% of the principal amount of the notes, plus accrued interest.

(e) 9.00% Senior Note

The Company assumed a $25 million unsecured note payable in a business acquisition consummated on December 1, 2010. The note bears interest at 9% and is due December 1, 2013.

(f) Treasury Management Facility

The Company has a stand-alone revolving note with a lender under the Credit Facility which provides for up to $25 million of cash management obligations in order to facilitate the Company s daily treasury management. Borrowings under the revolving note are secured by the collateral for the revolving credit facility. Borrowings under the facility bear interest at the lender s prime rate plus 1.0%. The note matures on June 1, 2014. At December 31, 2012 and September 30, 2013, there were no outstanding borrowings under this facility.

(5) Ownership Structure

At December 31, 2012 and September 30, 2013, the outstanding units in Antero Resources LLC are summarized as follows:

	Units Authorized and issued

Class I units	107,281,058
Class A and B units	40,007,463
Class A and B profits units	19,726,873
	167,015,394

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None of the three classes of outstanding units are entitled to current cash distributions or are convertible into indebtedness. The Company has no obligation to repurchase these units at the election of the unitholders.

In the event of a distribution from Antero Resources LLC, amounts available for distribution are distributed according to a formula set forth in the Company s limited liability company agreement that takes into account the relative priority of the various classes of units outstanding. In the event of a distribution due to the disposition of an individual Antero Entity, a portion of the proceeds is allocated to the employees of the Company based on a requisite return financial threshold. In general, distributions are made first to holders of the Class I units until they have received their investment amount and an 8% special allocation and then, as a group, to the holders of all classes of units together. The Class I units participate on a pro rata basis with the other classes of units in funds available for distributions in excess of the Class I unit investment and special allocation amounts.

At December 31, 2012 and September 30, 2013, the Class I units had an aggregate liquidation priority, including the special allocation of 8% per annum, of $2.191 billion and $2.325 billion, respectively.

(6) Financial Instruments

The carrying values of trade receivables, trade payables, and the Credit Facility at December 31, 2012 and September 30, 2013 approximated market value. The carrying value of the Credit Facility at December 31, 2012 and September 30, 2013 approximated fair value because the variable interest rates are reflective of current market conditions. Based on Level 2 market data, the fair value of the Company s senior notes was approximately $1.3 billion and $1.5 billion at December 31, 2012 and September 30, 2013, respectively.

(7) Asset Retirement Obligations

The following is a reconciliation of the Company s asset retirement obligations, included in other long-term liabilities on the condensed consolidated balance sheets, for the nine months ended September 30, 2013 (in thousands):

Asset retirement obligations beginning of period	$	10,552
Obligations incurred		69
Accretion expense		797
Asset retirement obligations end of period	$	11,418

(8) Derivative Instruments and Risk Management Activities

(a) Commodity Derivatives

The Company periodically enters into natural gas and oil derivative contracts with counterparties to hedge the price risk associated with a portion of its production. These derivatives are not held for trading purposes. To the extent that changes occur in the market prices of natural gas and oil, the Company is exposed to market risk on these open contracts. This market risk exposure is generally offset by the change in market prices of natural gas and oil recognized upon the ultimate sale of the natural gas and oil produced.

For the nine months ended September 30, 2012 and 2013, the Company was party to oil and natural gas fixed price swaps. When actual commodity prices exceed the fixed price provided by the swap contracts, the Company pays the excess to the counterparty, and when actual commodity prices are below the contractually provided fixed price, the Company receives the difference from the counterparty. The Company s natural gas and oil swaps have not been designated as hedges for accounting purposes; therefore, all gains and losses were recognized in income currently.

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The Company has no collateral from any counterparties. All but one of the Company s commodity derivative positions are with institutions that are lenders under our Credit Facility and are secured by the collateral pledged on the Credit Facility and cross default provisions between the Credit Facility and the derivative instruments. At September 30, 2013, there were no past due receivables from or payables to any of our counterparties.

As of September 30, 2013, the Company s positions in fixed price natural gas and oil swaps from October 1, 2013 through December 31, 2019 are summarized in the following table:

	MMbtu/day	Bbls/day	Price
Three Months ending December 31, 2013:			
CGTAP-TCO	260,000		$ 4.56
Dominion South	190,844		4.89
NYMEX-WTI		4,300	103.97
2013 Total	450,844	4,300	
Year ending December 31, 2014:			
CGLA	10,000		$ 3.87
CGTAP-TCO	210,000		5.11
Dominion South	160,000		5.15
NYMEX	120,000		4.00
NYMEX-WTI		3,000	96.53
2014 Total	500,000	3,000	
Year ending December 31, 2015:			
CGLA	40,000		$ 4.00
CGTAP-TCO	130,000		4.93
Dominion South	230,000		5.60
NYMEX	80,000		4.10
2015 Total	480,000		
Year ending December 31, 2016:			
CGLA	170,000		$ 4.09
CGTAP-TCO	80,000		4.67
Dominion South	272,500		5.35
NYMEX	60,000		4.25
2016 Total	582,500		
Year ending December 31, 2017:			
CGLA	420,000		$ 4.27
NYMEX	220,000		4.44
CCG	70,000		4.57
CGTAP-TCO	20,000		4.02
2017 Total	730,000		
Year ending December 31, 2018:			
NYMEX	530,000		$ 4.73
Year ending December 31, 2019:			
NYMEX	87,500		$ 4.75

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(b) Summary

The following is a summary of the fair values of our derivative instruments, which are not designated as hedges for accounting purposes and where such values are recorded in the consolidated balance sheets as of December 31, 2012 and September 30, 2013 (in thousands):

	December 31, 2012			September 30, 2013		
	Balance sheet location		Fair value	Balance sheet location		Fair value
Asset derivatives not designated as hedges for accounting purposes:						
Commodity contracts	Current assets	$	160,579	Current assets	$	204,857
Commodity contracts	Long-term assets		371,436	Long-term assets		503,666
Total asset derivatives			532,015			708,523
Liability derivatives not designated as hedges for accounting purposes:						
Commodity contracts	Current liabilities			Current liabilities		309
Net asset fair value of derivatives		$	532,015		$	708,214

The following is a summary of realized and unrealized gains (losses) on derivative instruments and where such values are recorded in the consolidated statements of operations for the three months ended and nine months ended September 30, 2012 and 2013 (in thousands):

	Statement of operations location		Three months ended September 30,		Nine months ended September 30,	
			2012	2013	2012	2013
Commodity derivative fair value gains (losses)	Revenue	$	(159,004)	161,968	52,210	285,510
Commodity derivative fair value gains (losses)	Discontinued operations		(18,880)		46,358	
Total gains (losses) on commodity contracts		$	(177,884)	161,968	98,568	285,510

The following table summarizes the valuation of investments and financial instruments by the fair value hierarchy described in note 1 at September 30, 2013 (in thousands):

	Fair value measurements using			
Description	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Net derivatives asset:				

Fixed price commodity swaps	$	708,214	708,214

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The following tables present the gross amounts of recognized derivative assets and liabilities, the amounts offset under netting arrangements with counterparties, and the resulting net amounts presented in the condensed consolidated balance sheets for the periods presented, all at fair value (in thousands):

	December 31, 2012			September 30, 2013		
	Gross amounts of recognized assets	Gross amounts offset on balance sheet	Net amounts of assets on balance sheet	Gross amounts of recognized assets	Gross amounts offset on balance sheet	Net amounts of assets (liabilities) on balance sheet
Commodity derivative assets	$ 597,359	(65,344)	532,015	715,960	(7,437)	708,523
Commodity derivative liabilities					(309)	(309)

(9) Sale of Appalachian Gathering Assets

On March 26, 2012, the Company closed the sale of a portion of its Marcellus Shale gathering system assets along with exclusive rights to gather the Company s gas for a 20-year period within an area of dedication (AOD) to a joint venture owned by Crestwood Midstream Partners and Crestwood Holdings Partners LLC (together Crestwood) for $375 million (subject to customary purchase price adjustments). The sale included approximately 25 miles of low pressure pipeline systems and gathering rights on 104,000 net acres held by the Company within a 250,000 acre AOD and had an effective date of January 1, 2012. Other third-party producers will also have access to the Crestwood system. During the first seven years of the contract, the Company is committed to deliver minimum volumes into the gathering systems, with certain carryback and carryforward adjustments for overages or deficiencies. The Company can earn up to an additional $40 million of sale proceeds over a period of three years from the date of the sale if it meets certain volume thresholds. Crestwood is obligated to incur all future capital costs to build out the gathering systems and compression facilities within the AOD to connect the Company s wells as it executes its drilling program and has assumed the various risks and rewards of the system build-out and operations. Because the Company has not retained the substantial risks and rewards of ownership associated with the gathering rights and systems transferred to Crestwood, a gain of approximately $291 million on the sale of the gathering system and rights was recognized during the first quarter of 2012.

(10) Contingencies

The Company is party to various legal proceedings and claims in the ordinary course of its business. The Company believes certain of these matters will be covered by insurance and that the outcome of other matters will not have a material adverse effect on its consolidated financial position, results of operations, or liquidity.

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(11) Subsequent Events

Initial Public Offering

On October 16, 2013, we completed our initial public offering of 41,083,750 shares of our common stock, including the exercise in full by the underwriters of their options to purchase an additional 3,409,091 shares of common stock from the selling stockholder and an additional 1,949,659 shares of common stock from us. Net proceeds received by us from the sale of 37,674,659 shares of common stock were approximately $1.58 billion, after deducting underwriting discounts. The proceeds from the offering were immediately used to paydown our Credit Facility, and ultimately will be used to redeem a portion of our outstanding senior notes and fund our development and production efforts. Antero Resources Corporation s stock is traded on the New York Stock Exchange under the symbol AR .

Issuance of 5.375% Senior Notes

On November 5, 2013, Antero Finance issued $1 billion of 5.375% senior notes at par due November 1, 2021. Proceeds from the notes will be used to (i) finance the redemption of our 9.375% notes due 2017 and the repayment of the 9.0% senior note due December 1, 2013, (ii) repay the outstanding borrowings under the Credit Facility and (iii) fund our drilling and development program. The notes are unsecured and effectively subordinated to the Company s Credit Facility to the extent of the value of the collateral securing the Credit Facility. The notes rank pari passu to the existing 7.25% and 6.00% senior notes. The notes are guaranteed on a senior unsecured basis by ARC and all of its wholly owned subsidiaries (other than Antero Finance), and certain of its future restricted subsidiaries. Interest on the notes is payable on May 1 and November 1 of each year. Antero Finance may redeem all or part of the notes at any time on or after November 1, 2016 at redemption prices ranging from 104.031% on or after November 1, 2016 to 100% on or after November 1, 2019. In addition, on or before November 1, 2016, Antero Finance may redeem up to 35% of the aggregate principal amount of the notes with the net cash proceeds of certain equity offerings, if certain conditions are met, at a redemption price of 105.375% of the principal amount of the notes, plus accrued interest. At any time prior to November 1, 2016, Antero Finance may redeem the notes, in whole or in part, at a price equal to 100% of the principal amount of the notes plus a make-whole premium and accrued interest. If a change of control (as defined in the bond indenture) occurs at any time prior to May 1, 2015, Antero Finance may, at its option, redeem all, but not less than all, of the notes at a redemption price equal to 110% of the principal amount of the notes, plus accrued interest. If ARC undergoes a change of control and there is a subsequent decline in ratings, the note holders will have the right to require Antero Finance to repurchase all or a portion of the notes at a price equal to 101% of the principal amount of the notes, plus accrued interest.

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Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations.

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our consolidated financial statements and related notes included elsewhere in this report. The following discussion contains forward-looking statements that reflect our future plans, estimates, beliefs and expected performance. We caution that assumptions, expectations, projections, intentions, or beliefs about future events may, and often do, vary from actual results and the differences can be material. Some of the key factors that could cause actual results to vary from our expectations include changes in natural gas, NGL and oil prices, the timing of planned capital expenditures, availability of acquisitions, uncertainties in estimating proved reserves and forecasting production results, operational factors affecting the commencement or maintenance of producing wells, the condition of the capital markets generally, as well as our ability to access them, and uncertainties regarding environmental regulations or litigation and other legal or regulatory developments affecting our business, all of which are difficult to predict. In light of these risks, uncertainties and assumptions, the forward-looking events discussed may not occur. See Cautionary Statement Regarding Forward-Looking Statements. Also, see the risk factors and other cautionary statements described under the heading Item 1A. Risk Factors included elsewhere in this report. We do not undertake any obligation to publicly update any forward-looking statements except as otherwise required by applicable law.

In this section, references to Antero, Antero Resources, we, us, our, and operating entities refer to the subsidiaries that conduct our operations, unless otherwise indicated or the context otherwise requires. For more information on our organizational structure, see note 1 to the consolidated financial statements included in elsewhere in this report..

Our Company

We are an independent oil and natural gas company engaged in the exploitation, development and acquisition of natural gas, NGLs and oil properties located in the Appalachian Basin in West Virginia, Ohio and Pennsylvania. We are focused on creating shareholder value through the development of our large portfolio of repeatable, low cost, liquids-rich drilling opportunities in two of the premier North American shale plays. As of September 30, 2013, we hold approximately 330,000 net acres in the southwestern core of the Marcellus Shale and approximately 103,000 net acres in the core of the Utica Shale. In addition, we estimate that approximately 170,000 net acres of our Marcellus Shale leasehold are prospective for the slightly shallower Upper Devonian Shale. Finally, we own the deep rights on 116,000 net acres of our Marcellus Shale acreage in West Virginia that we believe is prospective for the dry gas Utica Shale. As of June 30, 2013 (the date of our most recent audited reserves), our estimated proved, probable and possible reserves were 6.3 Tcfe, 14.0 Tcfe and 7.4 Tcfe, respectively, and our proved reserves were 23% proved developed and 91% natural gas, assuming ethane rejection. As of June 30, 2013, our drilling inventory consisted of 4,576 identified potential horizontal well locations, approximately 64% of which are liquids-rich drilling opportunities. Our corporate headquarters are in Denver, Colorado.

The statement of operations data for all periods presented in this Management s Discussion and Analysis of Financial Condition and Results of Operations has been recast to present the results of operations from our Arkoma Basin and Piceance operations in discontinued operations.

We operate in one industry segment, which is the exploration, development and production of natural gas, NGLs, and oil, and all of our operations are conducted in the United States. Our gathering assets are dedicated to supporting the natural gas volumes we produce.

Recent Events and Highlights

Public Offering

On October 16, 2013, we completed our initial public offering of 41,083,750 shares of our common stock, including the exercise in full by the underwriters of their options to purchase an additional 3,409,091 shares of common stock from the selling stockholder and an additional 1,949,659 shares of common stock from us. Net proceeds received by us from the sale of 37,674,659 shares of common stock were approximately $1.58 billion, after deducting underwriting discounts. The proceeds from the offering were immediately used to paydown our Credit Facility, and ultimately will be used to redeem a portion of our outstanding senior notes and fund our development and production efforts. Antero Resources Corporation s stock is traded on the New York Stock Exchange under the symbol AR .

In connection with a corporate reorganization that was completed immediately prior to the closing of Antero Resources Corporation s initial public offering, Antero Resources LLC merged with and into Antero Resources Corporation pursuant to a merger agreement by and among Antero Resources LLC, Antero Investment LLC and Antero Resources Corporation whereby, (a) Antero Resources LLC merged with and into Antero Resources Corporation, with Antero Resources Corporation surviving the merger, (b) all of the membership interests of Antero Resources LLC held by Antero Investment LLC converted into 224,375,000 shares of outstanding common stock of Antero Resources Corporation, and (c) the membership interest in Antero Investment LLC held by Antero Resources LLC was cancelled.

The Debt Offering

On November 5, 2013, Antero Finance closed its private placement of $1.0 billion aggregate principal amount of its 5.375% Senior Notes due 2021 to eligible purchasers. The notes are Antero Finance's senior unsecured obligations and rank equally in right of payment with all of its other senior indebtedness and are senior to any future subordinated indebtedness. The notes are initially fully and unconditionally guaranteed on a senior unsecured basis by ARC and all of its subsidiaries (other than Antero Finance). The guarantees rank equally in right of payment with all of the other senior indebtedness of the guarantors. The notes and guarantees are effectively subordinated to any secured indebtedness, including borrowings and guarantees under our credit facility, to the extent of the value of the collateral securing such indebtedness. In addition, the notes are structurally subordinated to the liabilities (including trade payables) of any non-guarantor subsidiaries. The net proceeds from the Notes Offering were approximately $987.1 million, after deducting the initial purchasers' discounts and estimated expenses. We will use $549.6 million of the net proceeds of the Notes Offering to finance the redemption of our outstanding 9.375% senior notes due 2017. We will use the remaining net proceeds to (i) repay in full our 9.0% senior note due 2013, (ii) repay the outstanding borrowings under our Credit Facility and (iii) fund our drilling and development program. We will also use a portion of the net proceeds from our initial public offering to redeem 35% of our outstanding 7.25% senior notes due 2019.

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Financial Results and Production