

TRI-CONTINENTAL CORP
Form N-CSRS
September 05, 2007

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM N-CSR

CERTIFIED SHAREHOLDER REPORT OF REGISTERED MANAGEMENT
INVESTMENT COMPANIES

Investment Company Act file number 811-0266

Tri-Continental Corporation
(Exact name of Registrant as specified in charter)

100 Park Avenue
New York, New York 10017
(Address of principal executive offices) (Zip code)

Lawrence P. Vogel
100 Park Avenue
New York, New York 10017
(Name and address of agent for service)

Registrant's telephone number, including area code: (212) 850-1864

Date of fiscal year end: 12/31
Date of reporting period: 6/30/07

ITEM 1. REPORTS TO STOCKHOLDER.



Tri-Continental Corporation invests to produce future growth of both capital and income, while providing reasonable current income.

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TY is Tri-Continental Corporation's symbol for its Common Stock on the New York Stock Exchange.

Tri-Continental Corporation

August 21, 2007

To the Stockholders:

We are pleased to present your mid-year Stockholder report for Tri-Continental Corporation. The report contains the Corporation's investment results, portfolio of investments, and financial statements as of June 30, 2007.

Tri-Continental outperformed its benchmark and peers for the six months ended June 30, 2007, delivering a total return of 8.1%, based on net asset value, and 17.6%, based on market price. During the same period, its benchmark, the S&P 500 Index, returned 7.0%, while its peers, as measured by the Lipper Closed-End Core Funds Average and the Lipper Large-Cap Core Funds Average, returned 7.6% and 6.9%, respectively. We are pleased to state that, as of June 30, 2007, Tri-Continental outperformed its benchmark and peers for the one- and three-year periods, based on net asset value and market price, and for the five-year period, based on market price.

Tri-Continental's Annual Meeting of Stockholders was held on May 30, 2007. At the meeting, three Directors were re-elected to Tri-Continental's Board of Directors, Deloitte & Touche LLP was selected as the independent auditors of the Corporation, and the proposal to implement a Distribution Policy was approved. Complete details of the vote can be found on page 28 of this report.

The first distribution under the newly approved Distribution Policy was paid to Common Stockholders on July 26. The distribution aggregated \$0.707 per share, consisting of \$0.248 of net investment income and \$0.459 of net realized short-term capital gains. As of the date of this letter, total distributions already paid to Stockholders in 2007 total \$0.967 per share. A distribution of \$0.755 per share has been declared and will be paid on September 20th to Common Stockholders of record September 11, 2007. This will bring 2007's cumulative distribution to \$1.722 per share.

Based on the first two quarterly distribution payments, distributions may aggregate nearly \$3.00 on an annual basis, which is significantly higher than in recent years. Accordingly, Stockholders who currently take all or a portion of their distributions in cash should assess their income needs, and may want to consider investing a portion of their distributions in additional shares of Tri-Continental. The various payment options available under the new Policy are outlined on page 5 of this report. Stockholders can change their payment elections at any time by contacting their financial advisors or by calling Stockholder Services at 800-TRI-1092.

Thank you for your continued support of Tri-Continental Corporation. We look forward to serving your investment needs for many more years to come.

By order of the Board of Directors,

William C. Morris
Chairman

Brian T. Zino
President

Tri-Continental Corporation

Investment Results Per Common Share

TOTAL RETURNS

For Periods Ended June 30, 2007

	Average Annual					
	Three Months*	Six Months*	One Year	Three Years	Five Years	Ten Years
Market Price	14.63%	17.63%	36.17%	17.45%	11.67%	6.96%
Net Asset Value	6.81	8.12	25.06	12.23	9.98	5.31
Lipper Closed-End Core Funds Average**	4.88	7.64	18.79	11.59	9.89	6.12
Lipper Large-Cap Core Funds Average**	6.42	6.94	19.59	10.62	9.33	6.09
S&P 500**	6.28	6.96	20.57	11.66	10.70	7.12

PRICE PER SHARE

	June 30, 2007	March 31, 2007	December 31, 2006
Market Price	\$26.02	\$22.70	\$22.38
Net Asset Value	27.46	25.71	25.66

DIVIDEND, CAPITAL GAIN AND YIELD INFORMATION

For the Six Months Ended June 30, 2007

Dividends Paid□	Capital Gains Paid	Capital Gain (Loss)		SEC 30-Day YieldØ
		Realized	Unrealized	
\$0.14	\$0.12	\$1.60	\$1.96	3.63%

Performance data quoted in this report represents past performance and does not guarantee or indicate future investment results. The rates of return will vary and the principal value of an investment will fluctuate. Shares, if sold, may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted. Total returns of the Corporation as of the most recent month end will be made available at www.seligman.com¹ by the seventh business day following that month end. J. & W. Seligman & Co. Incorporated, the investment manager of the Corporation, made certain payments to the Corporation in 2004. Absent such payments, the net asset value returns that include this period would have been lower. Returns reflect changes in market price or net asset value, as applicable, and assume reinvestment of distributions. Performance data quoted does not reflect the deduction of taxes that investors may pay on distributions or the sale of shares. An investment in Tri-Continental is not a deposit in a bank and is not insured or guaranteed by the Federal Deposit Insurance Corporation.

See footnotes on page 3.

Tri-Continental Corporation

Investment Results Per Common Share (continued)

* Returns for periods of less than one year are not annualized.

** The Lipper Closed-End Core Funds Average and the Lipper Large-Cap Core Funds Average (the [Lipper Averages]) and the Standard & Poor's 500 Composite Stock Price Index (the [S&P 500]) are unmanaged benchmarks that assume reinvestment of all distributions. The Lipper Averages exclude the effect of taxes and any costs associated with the purchase of shares, and the S&P 500 excludes the effect of fees, taxes, and sales charges. The Lipper Closed-End Core Funds Average measures the performance of closed-end funds. The Lipper Large-Cap Core Funds Average includes open-end funds that, by portfolio practice, invest at least 75% of their assets in companies with market capitalizations (on a three-year weighted basis) greater than 300% of the dollar-weighted median market capitalization of the middle 1,000 securities of the S&P SuperComposite 1500 Index (\$16.8 billion at June 30, 2007). The Lipper Large-Cap Core Funds Average is provided for comparative purposes so that the Corporation's performance can be measured against both closed-end and open-end funds with similar portfolio holdings as the Corporation. Lipper classifies the Corporation, based on its portfolio holdings, as a Closed-End Core Fund. The S&P 500 measures the performance of 500 of the largest US companies based on market capitalizations. Investors cannot invest directly in an index or an average.

[Preferred Stockholders were paid dividends totaling \$1.25 per share.

[Represents the per share amount of gross unrealized gain or loss of portfolio securities as of June 30, 2007.

Ø Current yield, representing the annualized yield for the 30-day period ended June 30, 2007, has been computed in accordance with SEC regulations and will vary.

1 The website reference is an inactive textual reference and information contained in or otherwise accessible through the website does not form a part of this report or the Corporation's prospectus or statement of additional information.

Tri-Continental Corporation

Highlights of the First Half

	June 30, 2007	December 31, 2006
Assets:		
Total assets	\$ 2,926,909,398	\$ 2,698,964,372
Amounts owed	75,928,137	4,118,004
Net Investment Assets		
Preferred Stock, at par value	37,637,000	37,637,000
Net Assets for Common Stock	\$ 2,813,344,261	\$ 2,657,209,368
Common shares outstanding	102,443,745	103,534,430
Net Assets Per Common Share	\$27.46	\$25.66
	Six Months Ended June 30,	
	2007	2006
Capital Gains:		
Net capital gains realized	\$ 164,160,146	\$ 139,425,899
Per Common share	\$1.60	\$1.32
Accumulated capital gains (losses), end of period	\$ 164,633,714	\$ (141,703,756)
Per Common share, end of period	\$1.61	\$(1.34)
Unrealized capital gains, end of period	\$ 201,281,954	\$ 125,759,668
Per Common share, end of period	\$1.96	\$1.19
Unrealized capital losses, end of period	\$ (100,327,407)	\$ (212,605,518)
Per Common share, end of period	\$(0.98)	\$(2.01)
 Capital Gains Paid per Common Share	 \$0.12	 □
Income:		
Total investment income earned	\$ 49,086,414	\$ 23,251,826
Expenses	9,284,581	8,956,611
Preferred Stock dividends	940,925	940,925
Income for Common Stock	\$ 38,860,908	\$ 13,354,290
Expenses to average net investment assets	0.68%*	0.73%*
Expenses to average net assets for Common Stock	0.69%*	0.74%*
 Dividends Paid per Common Share	 \$0.14	 \$0.14

* Annualized.

Tri-Continental Corporation

Distribution Policy

The proposal to implement a new Distribution Policy was approved by more than 90% of the shares voted at the Annual Meeting of Stockholders of Tri-Continental, held on May 30, 2007. Under the Distribution Policy, holders of Tri-Continental's Common Stock will receive quarterly distributions equal to a minimum of 2.75% of the net asset value of Tri-Continental's common stock on the last business day of the preceding calendar quarter (approximately 11% annually). The quarterly distributions will not be *in addition to*, but rather will *take the place of*, the capital gain payments and dividend distributions you may have grown accustomed to receiving in the past.

Sources of Distribution for Common Stock

The following table sets forth the estimated amounts of the July 26, 2007 distribution and the cumulative distributions paid to date in 2007 from the following sources, as applicable: net investment income, net realized short- and long-term capital gains, and return of capital. All amounts are expressed per common share.

	July 26, 2007 Distribution		Cumulative 2007 Distributions	
	Amount	% Breakdown	Amount	% Breakdown
Net Investment Income	\$ 0.248	35.08%	\$ 0.388	40.12%
Net Realized Short-Term Capital Gains	0.459	64.92	0.459	47.47
Net Realized Long-Term Capital Gains	None	□	0.120	12.41
Return of Capital	None	□	None	□
Total (per common share)	\$ 0.707	100.00%	\$ 0.967	100.00%

You should not necessarily draw any conclusions about the investment performance of Tri-Continental Corporation (the "Corporation") from the amount of these distributions or from the terms of the Corporation's Distribution Policy.

The amounts and sources of distributions reported are estimates only and are not being provided for tax reporting purposes. The actual amounts and sources of the amounts for tax reporting purposes, which may include return of capital, will depend upon the Corporation's investment experience during the remainder of the year and may be subject to changes based on tax regulations. The Corporation will send you a Form 1099-DIV in January 2008 for the calendar year 2007 that will tell you how to report these distributions for federal income tax purposes.

Distribution Payment Options for Common Stock

Prior to the implementation of the Distribution Policy, you were able to elect separate payment options for capital gain payments and dividend distributions. Under the new Distribution Policy, however, because one distribution will be made quarterly (which may consist of both capital gains and net investment income, as well as a return of capital), the payment options have changed.

The new payment options for receiving distributions are:

- 100% of distribution to be invested in additional shares of Tri-Continental
- 75% of distribution to be invested in additional shares, 25% of distribution to be paid in cash
- 50% of distribution to be invested in additional shares, 50% of distribution to be paid in cash
- 100% of distribution to be paid in cash

Tri-Continental Corporation

The first distribution under the new Distribution Policy was payable to Stockholders on July 26, 2007. As communicated to you in a letter sent in June, if we did not receive instruction from you by July 17, 2007, we used a default option (detailed in the table below) based on your prior election, and will continue to use this default option until you instruct us otherwise.

	Previous Election	Default Election
Capital Gains	Dividends	Distribution
Invested in shares	Invested in shares	100% invested in shares
Invested in shares	Cash payment	75% invested in shares
		25% paid in cash
75% invested in shares	Invested in shares	75% invested in shares
25% cash payment		25% paid in cash
75% invested in shares	Cash payment	50% invested in shares
25% cash payment		50% paid in cash
Cash payment	Cash payment	100% paid in cash

In 2006, Tri-Continental distributed \$0.28 per Common share. Under the new Distribution Policy, using Tri-Continental's net asset value of \$27.46 on June 29, 2007 as a guide and the 11% minimum annual distribution, distributions for the next four quarterly payments would aggregate approximately \$3.00 per Common share. If you currently take all or a portion of your distributions in cash, you may want to evaluate your income needs and consider investing a portion of your distributions in additional shares of Tri-Continental.

You can change your payment election for future quarterly distributions at any time by contacting your financial advisor or Stockholder Services at 800-TRI-1092.

Please keep in mind that, in order to meet the minimum quarterly distribution of 2.75%, distributions under the new Distribution Policy may at times include a return of capital. A return of capital is a distribution in excess of, and not a part of, the Corporation's net profits. It is a return of a portion of your investment and results in a decrease in the value of your account. You can avoid this result by reinvesting 100% of distributions in additional shares. You can mitigate the impact of a return of capital by reinvesting a portion of distributions in additional shares of Tri-Continental.

We believe the implementation of the Distribution Policy will be beneficial for Stockholders as well as for Tri-Continental. It will serve to provide Stockholders with regular, periodic cash distributions and may also reduce the trading discount for Tri-Continental's Common stock.

Frequently Asked Questions

What happens to my distributions if I hold my shares in a retirement account?

If you currently hold shares of Tri-Continental in a retirement account and have elected to have 100% of distributions invested on your behalf in additional shares of Tri-Continental, under the new distribution policy, this election will remain in place and **no action is required by you** unless you wish to make a change. If you are under the age of 59½, distributions from your retirement account will be reinvested.

Tri-Continental Corporation

Why is it important to know what my distribution is made up of? Isn't a distribution income earned on my investment?

The distribution you will be receiving quarterly may come from a few different sources, all of which are treated differently by the IRS. Part of the distribution may come from:

- **investment income** □ interest payments and dividends that are paid by securities in Tri-Continental's portfolio
- **capital gain** □ a profit that results when a security held in the portfolio is sold
- **return of capital** □ money that you invested in Tri-Continental is paid back to you

The final determination of the source of all distributions made in 2007 for federal tax purposes will be made after year-end, and you will receive notification (Form 1099-DIV) in January 2008.

Why would Tri-Continental make a return of capital distribution?

Under the new Distribution Policy, Tri-Continental will distribute 2.75% of its net asset value on a quarterly basis. If the portfolio has not generated enough in investment income and capital gains to meet the minimum 2.75% distribution, Tri-Continental will have to include a return of capital. A return of capital distribution does not necessarily reflect Tri-Continental's investment performance and should not be confused with □yield□ or □income.□

Tri-Continental Corporation

Diversification of Net Investment Assets

The diversification of portfolio holdings by industry on June 30, 2007 was as follows. Individual securities owned are listed on pages 11 through 17.

	Issues	Cost	Value	Percent of Net Investment Assets	
				June 30, 2007	December 31, 2006
Common Stocks and Warrants:					
Aerospace and Defense	2	\$ 48,398,879	\$ 62,579,444	2.2	3.6
Air Freight and Logistics	2	34,980,500	37,616,532	1.3	0.6
Airlines	1	6,778,496	6,609,375	0.2	□
Beverages	□	□	□	□	1.2
Biotechnology	4	101,208,276	88,745,549	3.1	2.9
Capital Markets	3	56,908,395	57,427,435	2.0	2.5
Chemicals	1	16,419,768	16,889,048	0.6	0.8
Commercial Banks	1	61,016,327	56,783,104	2.0	3.5
Commercial Services and Supplies	1	22,053,894	24,027,465	0.8	0.7
Communications Equipment	6	148,533,876	142,180,878	5.0	6.2
Computers and Peripherals	5	97,996,788	100,816,590	3.5	3.4
Consumer Finance	2	68,569,947	68,758,108	2.4	2.2
Containers and Packaging	1	40,289,290	39,336,374	1.4	0.9
Diversified Consumer Services	1	12,806,223	16,962,229	0.6	□
Diversified Financial Services	3	159,499,848	161,242,609	5.6	5.8
Diversified Telecommunication Services	1	23,638,026	25,253,950	0.9	1.6
Energy Equipment and Services	2	29,934,776	34,412,896	1.2	1.5
Food and Staples Retailing	4	88,137,741	101,405,201	3.6	4.1
Food Products	1	22,499,357	21,045,240	0.7	□
Health Care Equipment and Supplies	4	68,051,445	61,163,626	2.1	1.8
Health Care Providers and Services	1	21,538,004	21,326,285	0.7	3.6
Hotels, Restaurants and Leisure	2	72,597,312	64,852,136	2.3	□
Independent Power Producers and Energy Traders	□	□	□	□	0.6
Industrial Conglomerates	2	134,191,562	138,087,411	4.8	4.9
Insurance	2	68,072,775	78,286,500	2.7	2.6
Internet Software and Services	2	50,700,934	56,068,913	2.0	1.6
IT Services	1	19,215,335	22,259,380	0.8	1.0
Machinery	1	17,419,487	21,555,990	0.8	0.7
Media	3	67,285,728	74,235,188	2.6	1.9
Metals and Mining	3	52,074,943	58,823,571	2.1	1.3
Multiline Retail	□	□	□	□	0.7
Oil, Gas and Consumable Fuels	5	153,187,984	195,538,140	6.9	7.9
Personal Products	1	16,322,605	19,955,845	0.7	□
Pharmaceuticals	6	151,634,330	161,236,165	5.7	3.0

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Road and Rail	1	14,824,366	14,155,157	0.5	0.9
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(continued on page 9)

Tri-Continental Corporation

Diversification of Net Investment Assets (continued)

	Issues	Cost	Value	Percent of Net Investment Assets	
				June 30, 2007	December 31, 2006
Common Stocks and Warrants: (continued)					
Semiconductors and					
Semiconductor Equipment	3	\$ 45,907,471	\$ 45,795,745	1.6	0.9
Software	5	117,628,417	122,240,604	4.3	2.3
Specialty Retail	3	92,776,076	89,847,941	3.2	3.6
Thrifts and Mortgage Finance	2	36,332,800	36,263,119	1.3	1.0
Tobacco	1	69,611,466	77,678,647	2.7	3.3
Wireless Telecommunication Services	1	11,895,839	11,989,650	0.4	1.1
Total Common Stocks and Warrants	90	2,320,939,286	2,433,452,040	85.3	86.2
Options Purchased	26	74,128,725	70,687,088	2.5	3.2
Tri-Continental Financial				(14)	(66)
Proceeds from long-term bank debt and other long-term obligations	37,250	85,300			
Repayment of long-term bank debt and other long-term obligations	(42,401)	(45,357)			
Distribution to non-controlling interests	(182)	(867)			
Net Cash Provided by (Used in) in Financing Activities	(8,324)	36,305			
Net Increase in Cash and Cash Equivalents	2,920	1,959			
Cash and Cash Equivalents at the Beginning of the Period	8,602	8,661			
Cash and Cash Equivalents at the End of the Period	\$ 11,522	\$ 10,620			
Supplemental Disclosures:					
Income taxes paid (refunded)	\$ (63)	\$ 536			
Interest paid	\$ 3,187	\$ 2,534			

The accompanying Notes are an integral part of these Condensed Consolidated Financial Statements

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PRIMEENERGY CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2013

(Unaudited)

(1) Basis of Presentation:

The accompanying condensed consolidated financial statements of PrimeEnergy Corporation (*PEC* or the *Company*) have not been audited by independent public accountants. Pursuant to applicable Securities and Exchange Commission (*SEC*) rules and regulations, the accompanying interim financial statements do not include all disclosures presented in annual financial statements and the reader should refer to the *Company*'s Form 10-K for the year ended December 31, 2012. In the opinion of management, the accompanying interim condensed consolidated financial statements contain all material adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of the *Company*'s condensed consolidated balance sheets as of September 30, 2013 and December 31, 2012, the condensed consolidated results of operations for the three and nine months ended September 30, 2013 and 2012, and the condensed consolidated results of cash flows and equity for the nine months ended September 30, 2013 and 2012. Certain amounts presented in prior period financial statements have been reclassified for consistency with current period presentation. The results for interim periods are not necessarily indicative of annual results. For purposes of disclosure in the condensed consolidated financial statements, subsequent events have been evaluated through the date the statements were issued.

Recently Issued Accounting Pronouncements

In December 2011, the Financial Accounting Standards Board (*FASB*) issued Accounting Standards Update (*ASU*) 2011-11, *Disclosures about Offsetting Assets and Liabilities*. This ASU requires enhanced disclosures including both gross and net information about financial and derivative instruments eligible for offset or subject to an enforceable master netting arrangement or similar agreement. This new guidance is effective for annual reporting periods beginning on or after January 1, 2013 and subsequent interim periods. In January 2013, the *FASB* issued ASU 2013-01, *Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities*. ASU 2013-01 clarifies the scope of ASU 2011-11 to apply to derivative instruments that are offset or subject to an enforceable master netting arrangement or similar agreement. This clarified guidance is effective for annual reporting periods beginning on or after January 1, 2013 and subsequent interim periods. The revised requirements of ASU 2011-11 and ASU 2013-01 impacted the disclosures associated with the *Company*'s derivative instruments (Note 11) and did not have a material impact on the *Company*'s condensed consolidated financial position, results of operations or cash flows.

In February 2013, the *FASB* issued ASU 2013-02, *Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income* (*AOCI*). ASU 2013-02 requires a rollforward of changes in *AOCI* by component and information about significant reclassifications from *AOCI* to net earnings to be presented in one location, either on the face of the financial statements or in the notes. This new guidance is effective for fiscal years beginning after December 15, 2012 and subsequent interim periods. The revised disclosure requirements of ASU 2013-02 are reflected in Note 11. The requirements of ASU 2013-02 did not have a material impact on the *Company*'s condensed consolidated financial position, results of operations or cash flows.

(2) Acquisitions and Dispositions:

Historically the Company has repurchased the interests of the partners and trust unit holders in the eighteen oil and gas limited partnerships (the Partnerships) and the two asset and business income trusts (the Trusts) managed by the Company as general partner and as managing trustee, respectively. The Company purchased such interests in amounts totaling \$14,000 and \$66,000 for the nine months ended September 30, 2013 and 2012, respectively.

(3) Restricted Cash and Cash Equivalents:

Restricted cash and cash equivalents include \$3.21 million and \$4.44 million at September 30, 2013 and December 31, 2012, respectively, of cash primarily pertaining to oil and gas revenue payments. There were corresponding accounts payable recorded at September 30, 2013 and December 31, 2012 for these liabilities. Both the restricted cash and the accounts payable are classified as current on the accompanying condensed consolidated balance sheets.

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Certain balance sheet amounts are comprised of the following:

<i>(Thousands of dollars)</i>	September 30, 2013	December 31, 2012
<u>Accounts Receivable:</u>		
Joint interest billing	\$ 3,777	\$ 2,189
Trade receivables	2,574	1,580
Oil and gas sales	11,472	9,362
Other	232	436
	18,055	13,567
Less: Allowance for doubtful accounts	(333)	(355)
Total	\$ 17,722	\$ 13,212
<u>Accounts Payable:</u>		
Trade	\$ 1,398	\$ 3,968
Royalty and other owners	9,393	9,652
Prepaid drilling deposits	693	306
Other	6,315	5,642
Total	\$ 17,799	\$ 19,568
<u>Accrued Liabilities:</u>		
Compensation and related expenses	\$ 5,230	\$ 2,517
Property costs	2,060	4,549
Other	841	552
Total	\$ 8,131	\$ 7,618

(5) Property and Equipment:

Property and equipment at September 30, 2013 and December 31, 2012 consisted of the following:

<i>(Thousands of dollars)</i>	September 30, 2013	December 31, 2012
Proved oil and gas properties, at cost	\$ 354,877	\$ 338,204
Less: Accumulated depletion and depreciation	(164,414)	(150,276)
Oil and Gas Properties, Net	\$ 190,463	\$ 187,928

Field and office equipment	\$	26,799	\$	23,974
Less: Accumulated depreciation		(15,807)		(15,052)
Field and Office Equipment, Net	\$	10,992	\$	8,922
Total Property and Equipment, Net	\$	201,455	\$	196,850

(6) Long-Term Bank Debt:***Bank Debt:***

Effective July 30, 2010, the Company entered into a Second Amended and Restated Credit Agreement between Compass Bank as agent and a syndicated group of lenders (Credit Agreement). The Credit Agreement has a revolving line of credit and letter of credit facility of up to \$250 million with a final maturity date of July 30, 2017. The credit facility is secured by substantially all of the Company's oil and gas properties. The credit facility is subject to a borrowing base determined by the lenders taking into consideration the estimated value of PEC's oil and gas properties in accordance with the lenders' customary practices for oil and gas loans. This process involves reviewing PEC's estimated proved reserves and their valuation. The borrowing base is redetermined semi-annually, and the available borrowing amount could be increased or decreased as a result of such redetermination. In addition, PEC and the lenders each have at their discretion the right to request the borrowing base be redetermined with a maximum of one such request each year. A revision to PEC's reserves may prompt such a request on the part of the lenders, which could possibly result in a reduction in the borrowing base and availability under the credit facility. At any time if the sum of the outstanding borrowings and letter of credit exposures exceed the applicable portion of the borrowing base, PEC would be required to repay the excess amount within a prescribed period.

At September 30, 2013, the credit facility borrowing base was \$145.0 million with no required monthly reduction amount. The borrowings made within the credit facility may be placed in a base rate loan or LIBO rate loan. The Company's borrowing rates in the credit facility provide for base rate loans at the prime rate (3.25% at September 30, 2013) plus applicable margin utilization rates that range from 1.75% to 2.00%, and LIBO rate loans at LIBO published rates plus applicable utilization rates (2.75% to 3.00% at September 30, 2013). At September 30, 2013, the Company had in place one base rate loan and one LIBO rate loan with effective rates of 5.00% and 2.95%, respectively.

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At September 30, 2013, the Company had a total of \$107.0 million of borrowings outstanding under its revolving credit facility at a weighted-average interest rate of 3.48% and \$38.0 million available for future borrowings. The combined weighted average interest rate paid on outstanding bank borrowings subject to base rate and LIBO interest was 3.53% for the nine months ended September 30, 2013, as compared to 3.80% for the nine months ended September 30, 2012.

On July 31, 2013, the Company entered into a \$10.0 million Loan and Security Agreement with JP Morgan Chase Bank (Equipment Loan). The Equipment Loan is secured by substantially all of the Company's field service equipment, carries an interest rate of 3.95% per annum, requires monthly payments (principal and interest) of \$184,000, and has a final maturity date of July 31, 2018. As of September 30, 2013, the Company had a total of \$9.8 million outstanding on the Equipment Loan.

The Company has entered into interest rate hedge agreements to help manage interest rate exposure. These contracts include interest rate swaps. Interest rate swap transactions generally involve the exchange of fixed and floating rate interest payment obligations without the exchange of the underlying principal amounts. In July 2012, the Company entered into interest swap agreements for a period of two years, which commence in January 2014, related to \$75 million of the Company's bank debt resulting in a fixed rate of 0.563% plus the Company's current applicable margin.

(7) Other Long-Term Obligations and Commitments:***Operating Leases:***

The Company has several non-cancelable operating leases, primarily for rental of office space, that have a term of more than one year. The future minimum lease payments for the rest of fiscal 2013 and thereafter for the operating leases are as follows:

<i>(Thousands of dollars)</i>	Operating Leases
2013	\$ 166
2014	689
2015	588
2016	482
2017	40
Total minimum payments	\$ 1,965

Rent expense for office space for the nine months ended September 30, 2013 and 2012 was \$548,000 and \$581,000, respectively.

Asset Retirement Obligation:

A reconciliation of the liability for plugging and abandonment costs for the nine months ended September 30, 2013 is as follows:

(Thousands of dollars)

Asset retirement obligation	December 31, 2012	\$ 9,012
Liabilities incurred		165
Liabilities settled		(811)
Accretion expense		283
Revisions in estimated liabilities		1,791
Asset retirement obligation	September 30, 2013	\$ 10,440

The Company's liability is determined using significant assumptions, including current estimates of plugging and abandonment costs, annual inflation of these costs, the productive life of wells and a risk-adjusted interest rate. Changes in any of these assumptions can result in significant revisions to the estimated asset retirement obligation. Revisions to the asset retirement obligation are recorded with an offsetting change to producing properties, resulting in prospective changes to depreciation, depletion and amortization expense and accretion of discount. Because of the subjectivity of assumptions and the relatively long life of most of the Company's wells, the costs to ultimately retire the wells may vary significantly from previous estimates.

(8) Contingent Liabilities:

The Company, as managing general partner of the affiliated Partnerships, is responsible for all Partnership activities, including the drilling of development wells and the production and sale of oil and gas from productive wells. The Company also provides the administration, accounting and tax preparation work for the Partnerships, and is liable for all debts and liabilities of the affiliated Partnerships, to the extent that the assets of a given limited Partnership are not sufficient to satisfy its obligations. As of September 30, 2013, the affiliated Partnerships have established cash reserves in excess of their debts and liabilities and the Company believes these reserves will be sufficient to satisfy Partnership obligations.

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The Company is subject to environmental laws and regulations. Management believes that future expenses, before recoveries from third parties, if any, will not have a material effect on the Company's financial condition. This opinion is based on expenses incurred to date for remediation and compliance with laws and regulations, which have not been material to the Company's results of operations.

From time to time, the Company is party to certain legal actions arising in the ordinary course of business. While the outcome of these events cannot be predicted with certainty, management does not expect these matters to have a materially adverse effect on the financial position or results of operations of the Company.

(9) Stock Options and Other Compensation:

In May 1989, non-statutory stock options were granted by the Company to four key executive officers for the purchase of shares of common stock. At September 30, 2013 and 2012, remaining options held by two key executive officers on 767,500 shares were outstanding and exercisable at prices ranging from \$1.00 to \$1.25. According to their terms, the options have no expiration date.

(10) Related Party Transactions:

The Company, as managing general partner or managing trustee, makes an annual offer to repurchase the interests of the partners and trust unit holders in certain of the Partnerships or Trusts. The Company purchased such interests in amounts totaling \$14,000 and \$66,000 for the nine months ended September 30, 2013 and 2012, respectively.

Treasury stock purchases in any reported period may include shares from a related party, which may include members of the Company's Board of Directors.

Receivables from related parties consist of reimbursable general and administrative costs, lease operating expenses and reimbursement for property development and related costs. These receivables are due from joint venture partners, which may include members of the Company's Board of Directors.

Payables owed to related parties primarily represent receipts collected by the Company as agent for the joint venture partners, which may include members of the Company's Board of Directors, for oil and gas sales net of expenses.

(11) Financial Instruments:

Fair Value Measurements:

Authoritative guidance on fair value measurements defines fair value, establishes a framework for measuring fair value and stipulates the related disclosure requirements. The Company follows a three-level hierarchy, prioritizing and defining the types of inputs used to measure fair value. The fair values of the Company's interest rate swaps, natural gas and crude oil price collars and swaps are designated as Level 3. The following fair value hierarchy table presents information about the Company's assets and liabilities measured at fair value on a recurring basis as of September 30, 2013 and December 31, 2012:

	Quoted Prices	Significant	
	Active Markets	Other	Significant
	For Identical	Observable	Unobservable
	Balance as of		September 30,

September 30, 2013

<i>(Thousands of dollars)</i>	Assets (Level			2013
	1)	Inputs (Level 2)	Inputs (Level 3)	
Assets				
Commodity derivative contracts	\$	\$	\$ 1,251	\$ 1,251
Interest rate derivative contracts			135	135
Total assets	\$	\$	\$ 1,386	\$ 1,386
Liabilities				
Commodity derivative contracts	\$	\$	\$ (2,747)	\$ (2,747)
Interest rate derivative contracts			(222)	(222)
Total liabilities	\$	\$	\$ (2,969)	\$ (2,969)

December 31, 2012	Quoted Prices Significant			Balance as of December 31, 2012
	Active Markets For Identical Assets (Level 1)	Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
<i>(Thousands of dollars)</i>				
Assets				
Commodity derivative contracts	\$	\$	\$ 1,347	\$ 1,347
Total assets	\$	\$	\$ 1,347	\$ 1,347
Liabilities				
Commodity derivative contracts	\$	\$	\$ (1,371)	\$ (1,371)
Interest rate derivative contracts			(54)	(54)
Total liabilities	\$	\$	\$ (1,425)	\$ (1,425)

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The derivative contracts were measured based on quotes from the Company's counterparties. Such quotes have been derived using valuation models that consider various inputs including current market and contractual prices for the underlying instruments, quoted forward prices for natural gas and crude oil, volatility factors and interest rates, such as a LIBOR curve for a similar length of time as the derivative contract term as applicable. These estimates are verified using comparable NYMEX futures contracts or are compared to multiple quotes obtained from counterparties for reasonableness.

The significant unobservable inputs for Level 3 derivative contracts include basis differentials and volatility factors. An increase (decrease) in these unobservable inputs would result in an increase (decrease) in fair value, respectively. The Company does not have access to the specific assumptions used in its counterparties' valuation models. Consequently, additional disclosures regarding significant Level 3 unobservable inputs were not provided.

The following table sets forth a reconciliation of changes in the fair value of financial assets and liabilities classified as Level 3 in the fair value hierarchy for the nine months ended September 30, 2013.

(Thousands of dollars)

Net liabilities	December 31, 2012	\$ (78)
Total realized and unrealized gains / losses:		
Included in earnings (a)		(2,599)
Included in other comprehensive gain		(33)
Purchases, sales, issuances and settlements		1,127
Net liabilities	September 30, 2013	\$ (1,583)

- (a) Derivative instruments are reported in revenues as realized gain/loss and on a separately reported line item captioned unrealized gain/loss on derivative instruments, and interest rate swap instruments are reported as a reduction to interest expense.

Derivative Instruments:

The Company is exposed to commodity price and interest rate risk, and management considers periodically the Company's exposure to cash flow variability resulting from the commodity price changes and interest rate fluctuations. Futures, swaps and options are used to manage the Company's exposure to commodity price risk inherent in the Company's oil and gas production operations. The Company does not apply hedge accounting to any of its commodity based derivatives. Both realized and unrealized gains and losses associated with derivative instruments are recognized in earnings.

Interest rate swap derivatives are treated as cash-flow hedges and are used to fix or float interest rates on existing debt. The value of these interest rate swaps at September 30, 2013 and December 31, 2012 is located in accumulated other comprehensive income (loss), net of tax. Settlement of the swaps, currently scheduled to begin in January 2014, will be recorded within interest expense.

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The following table sets forth the effect of derivative instruments on the condensed consolidated balance sheets at September 30, 2013 and December 31, 2012:

<i>(Thousands of dollars)</i>	Balance Sheet Location	Fair Value	
		September 30,	December 31,
		2013	2012
Asset Derivatives:			
<i>Derivatives designated as cash-flow hedging instruments:</i>			
Interest rate swap contracts	Other assets	\$ 135	\$
<i>Derivatives not designated as cash-flow hedging instruments:</i>			
Crude oil commodity contracts	Other current assets		189
Natural gas commodity contracts	Other current assets	523	1,040
Crude oil commodity contracts	Other assets	703	118
Natural gas commodity contracts	Other assets	25	
Total		\$ 1,386	\$ 1,347
Liability Derivatives:			
<i>Derivatives designated as cash-flow hedging instruments:</i>			
Interest rate swap contracts	Derivative liability short-term	\$ (158)	\$
Interest rate swap contracts	Derivative liability long-term	(64)	(54)
<i>Derivatives not designated as cash-flow hedging instruments:</i>			
Crude oil commodity contracts	Derivative liability short-term	(2,598)	(994)
Natural gas commodity contracts	Derivative liability short-term	(4)	
Crude oil commodity contracts	Derivative liability long-term	(145)	(377)
Total		\$ (2,969)	\$ (1,425)
Total derivative instruments		\$ (1,583)	\$ (78)

The following table sets forth the offsetting of asset and liability derivatives in the condensed consolidated balance sheets at September 30, 2013 and December 31, 2012:

<i>(Thousands of dollars)</i>	September 30,	December 31,
	2013	2012
Asset Derivatives:		
Gross amount of recognized assets	\$ 2,342	\$ 4,209
Gross amounts offset in the balance sheet	(956)	(2,862)
Net amount	\$ 1,386	\$ 1,347

Liability Derivatives:		
Gross amount of recognized liabilities	\$ (3,925)	\$ (4,287)
Gross amounts offset in the balance sheet	956	2,862
Net amount	\$ (2,969)	\$ (1,425)
Total derivative instruments	\$ (1,583)	\$ (78)

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The following table sets forth the effect of derivative instruments on the condensed consolidated statements of operations for the nine months ended September 30, 2013 and 2012:

<i>(Thousands of dollars)</i>	Location of gain/loss recognized in income	Amount of gain/loss recognized in income	
		2013	2012
<i>Derivatives not designated as cash-flow hedge instruments</i>			
Natural gas commodity contracts	Unrealized loss on derivative instruments, net	\$ (495)	\$
Crude oil commodity contracts	Unrealized gain (loss) on derivative instruments, net	(977)	2,449
Natural gas commodity contracts	Realized gain on derivative instruments, net	571	
Crude oil commodity contracts (a)	Realized gain (loss) on derivative instruments, net	(1,698)	379
		\$ (2,599)	\$ 2,828

- (a) During the nine months ended September 30, 2012, the Company unwound and monetized crude oil swaps with original settlement dates from January 2012 through December 2013 for net proceeds of \$1,030,000. The \$1,030,000 gain associated with these early settlement transactions is included in realized gain on derivative instruments for the nine months ended September 30, 2012.

(12) Earnings Per Share:

Basic earnings per share are computed by dividing earnings available to common stockholders by the weighted average number of common shares outstanding during the period. Diluted earnings per share reflect per share amounts that would have resulted if dilutive potential common stock had been converted to common stock in gain periods. The following reconciles amounts reported in the financial statements:

	Nine Months Ended September 30,					
	2013			2012		
	Net Income (In 000 s)	Weighted Average Number of Shares Outstanding	Per Share Amount	Net Income (In 000 s)	Weighted Average Number of Shares Outstanding	Per Share Amount
Basic	\$ 10,584	2,448,743	\$ 4.32	\$ 10,088	2,645,924	\$ 3.81
Effect of dilutive securities:						
Options		743,966			734,680	

Diluted	\$ 10,584	3,192,709	\$ 3.32	\$ 10,088	3,380,604	\$ 2.98
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	Three Months Ended September 30,					
	2013			2012		
	Net	Weighted	Per Share	Net	Weighted	Per Share
	Income	Average	Amount	Income	Average	Amount
	(In 000 s)	Number of		(In 000 s)	Number of	
		Shares			Shares	
		Outstanding			Outstanding	
Basic	\$ 2,232	2,415,303	\$ 0.92	\$ 1,342	2,608,319	\$ 0.51
Effect of dilutive securities:						
Options		749,664			737,162	
Diluted	\$ 2,232	3,164,967	\$ 0.71	\$ 1,342	3,345,481	\$ 0.40

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Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This Report may contain statements relating to the future results of the Company that are considered forward-looking statements as defined in the Private Securities Litigation Reform Act of 1995 (the PSLRA). In addition, certain statements may be contained in the Company's future filings with the SEC, in press releases, and in oral and written statements made by or with the approval of the Company that are not statements of historical fact and constitute forward-looking statements within the meaning of the PSLRA. Such forward-looking statements, in addition to historical information, which involve risk and uncertainties, are based on the beliefs, assumptions and expectations of management of the Company. Words such as expects, believes, should, plans, anticipates, will, potential, intend, may, outlook, predict, project, would, estimates, assumes, likely and variations of such similar intended to identify such forward-looking statements. These statements are not guarantees of future performance and involve risks and uncertainties and are based on a number of assumptions that could ultimately prove inaccurate and, therefore, there can be no assurance that they will prove to be accurate. Actual results and outcomes may vary materially from what is expressed or forecast in such statements due to various risks and uncertainties. These risks and uncertainties include, among other things, the possibility of drilling cost overruns and technical difficulties, volatility of oil and gas prices, competition, risks inherent in the Company's oil and gas operations, the inexact nature of interpretation of seismic and other geological and geophysical data, imprecision of reserve estimates, and the Company's ability to replace and expand oil and gas reserves. Accordingly, stockholders and potential investors are cautioned that certain events or circumstances could cause actual results to differ materially from those projected. The forward looking statements are made as of the date of this report and other than as required by the federal securities laws, the Company assumes no obligation to update the forward-looking statement or to update the reasons why actual results could differ from those projected in the forward-looking statements.

The following discussion is intended to assist you in understanding our results of operations and our present financial condition. Our Condensed Consolidated Financial Statements and the accompanying Notes to the Condensed Consolidated Financial Statements included elsewhere in this Report contains additional information that should be referred to when reviewing this material.

OVERVIEW

We are an independent oil and natural gas company engaged in acquiring, developing and producing oil and natural gas. We presently own producing and non-producing properties located primarily in Texas, Oklahoma, West Virginia, the Gulf of Mexico, New Mexico, Colorado and Louisiana. In addition, we own a substantial amount of well servicing equipment. All of our oil and gas properties and interests are located in the United States. Assets in our principal focus areas include mature properties with long-lived reserves and significant development opportunities as well as newer properties with development and exploration potential. We believe our balanced portfolio of assets and our ongoing hedging program position us well for both the current commodity price environment and future potential upside as we develop our attractive resource opportunities. Our primary sources of liquidity are cash generated from our operations and our credit facility.

We attempt to assume the position of operator in all acquisitions of producing properties and will continue to evaluate prospects for leasehold acquisitions and for exploration and development operations in areas in which we own interests. We continue to actively pursue the acquisition of producing properties. In order to diversify and broaden our asset base, we will consider acquiring the assets or stock in other entities and companies in the oil and gas business. Our main objective in making any such acquisitions will be to acquire income producing assets so as to build stockholder value through consistent growth in our oil and gas reserve base on a cost-efficient basis.

Our cash flows depend on many factors, including the price of oil and gas, the success of our acquisition and drilling activities and the operational performance of our producing properties. We use derivative instruments to manage our commodity price risk. This practice may prevent us from receiving the full advantage of any increases in oil and gas prices above the maximum fixed amount specified in the derivative agreements and subjects us to the credit risk of the counterparties to such agreements. Since all of our derivative contracts are accounted for under mark-to-market accounting, we expect continued volatility in gains and losses on mark-to-market derivative contracts in our consolidated income statement as changes occur in the NYMEX price indices.

RECENT ACTIVITIES

During 2013, we have invested approximately \$14 million completing wells drilled in 2012 and continuing our drilling programs in our West Texas and Mid-Continent regions. Thru October 31, 2013, we have participated in the drilling of 18 gross (10.25 net) wells. Twelve of these wells are currently producing, 3 are currently being completed and 3 wells are currently drilling. We intend to drill a total of approximately 25 gross (14 net) wells this year, primarily in the West Texas and Mid-Continent areas at a net cost of approximately \$20 million.

Table of Contents**RESULTS OF OPERATIONS*****2013 and 2012 Compared***

We reported net income attributable to PrimeEnergy for the three and nine months ended September 30, 2013 of \$2.23 million, or \$0.92 per share and \$10.58 million, or \$4.32 per share, respectively as compared to \$1.34 million, or \$0.51 per share and \$10.09 million, or \$3.81 per share for the three and nine months ended September 30, 2012, respectively. Net income increased by \$0.89 million or 66% and \$0.50 million or 5% for the three and nine months ended September 30, 2013 as compared to the same periods during 2012 primarily due to increases in oil and gas sales and field service income and decreased depreciation and depletion expense partially offset by increases in realized and unrealized losses on derivative instruments and increases in lease operating and field service expenses. Oil and gas sales increased by \$4.14 million and \$5.76 million for the three and nine months ended September 30, 2013, respectively as compared to the same periods in 2012 largely due to an increased production volumes and increases in commodity prices during the three and nine months ended September 30, 2013 as compared to production volumes and commodity prices during the three and nine months ended September 30, 2012. Field service income increased by \$1.88 million and \$3.00 million for the three and nine months ended September 30, 2013, respectively as compared to the same periods in 2012 with the addition of new service equipment during 2013. Depreciation and depletion decreased by \$0.71 million and \$3.52 million for the three and nine months ended September 30, 2013, respectively as compared to the same periods in 2012 largely due to decreased depletion rates associated with our offshore properties as several of our offshore properties were plugged and abandoned during 2012. Net realized and unrealized losses on derivative instruments increased by \$2.46 million and \$5.43 million for the three and nine months ended September 30, 2013, respectively as compared to the same periods in 2012 largely due to an increase in future crude oil commodity prices during the 2013 periods as compared to crude fixed price oil commodity contracts held at December 31, 2012 and 2011. Primarily due to recent drilling success in West Texas and resulting increase in activities with new wells coming on line, lease operating expenses increased by \$1.98 million and \$3.49 million for the three and nine months ended September 30, 2013, respectively as compared to the same periods in 2012. Field service expenses increased by \$1.25 million and \$2.20 million for the three and nine months ended September 30, 2013, respectively as compared to the same periods in 2012 corresponding to the increase in field service income and new service equipment added in 2013.

The significant components of net income are discussed below.

Oil and gas sales increased \$4.14 million, or 19% from \$21.81 million for the three months ended September 30, 2012 to \$25.95 million for the three months ended September 30, 2013 and increased \$5.76 million, or 9% from \$65.68 million for the nine months ended September 30, 2012 to \$71.44 million for the nine months ended September 30, 2013. Crude oil and natural gas sales vary due to changes in volumes of production sold and realized commodity prices. Our realized prices at the well head increased an average of \$16.69 per barrel, or 19% and \$2.82 per barrel, or 3% on crude oil during the three and nine months ended September 30, 2013, respectively from the same periods in 2012 while our average well head price for natural gas increased \$0.30 per mcf, or 6% and \$0.45 per mcf, or 10% during the three and nine months ended September 30, 2013, respectively from the same periods in 2012.

Our crude oil production increased by 3,000 barrels, or 2% from 185,000 barrels for the third quarter 2012 to 188,000 barrels for the third quarter 2013 and increased by 19,000 barrels, or 4% from 541,000 barrels for the nine months ended September 30, 2012 to 560,000 barrels for the nine months ended September 30, 2013. Our natural gas production increased by 51,000 mcf, or 4% from 1,191,000 mcf for the third quarter 2012 to 1,242,000 mcf for the third quarter 2013 and increased by 174,000 mcf, or 5% from 3,493,000 mcf for the nine months ended September 30, 2012 to 3,667,000 mcf for the nine months ended September 30, 2013. The net increase in crude oil and natural gas production volumes are a result of our continued drilling success in our West Texas and Mid-Continent regions as we

place new wells into production, partially offset by the natural decline of existing properties.

The following table summarizes the primary components of production volumes and average sales prices realized for the three and nine months ended September 30, 2013 and 2012 (excluding realized gains and losses from derivatives).

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2013	2012	Increase / (Decrease)	2013	2012	Increase / (Decrease)
Barrels of Oil Produced	188,000	185,000	3,000	560,000	541,000	19,000
Average Price Received	\$ 104.95	\$ 88.26	\$ 16.69	\$ 94.66	\$ 91.84	\$ 2.82
Oil Revenue (In 000 s)	\$ 19,807	\$ 16,288	\$ 3,519	\$ 53,031	\$ 49,717	\$ 3,314
Mcf of Gas Produced	1,242,000	1,191,000	51,000	3,667,000	3,493,000	174,000
Average Price Received	\$ 4.94	\$ 4.64	\$ 0.30	\$ 5.02	\$ 4.57	\$ 0.45
Gas Revenue (In 000 s)	\$ 6,141	\$ 5,525	\$ 616	\$ 18,411	\$ 15,961	\$ 2,450
Total Oil & Gas Revenue (In 000 s)	\$ 25,948	\$ 21,813	\$ 4,135	\$ 71,442	\$ 65,678	\$ 5,764

Realized net gains (losses) on derivative instruments include net gains of \$0.24 million and net losses of \$1.44 million on the settlements of natural gas and crude oil derivatives, respectively for the third quarter 2013 and net gains of \$0.04 million on the settlements of crude oil derivatives for the third quarter 2012. Realized net gains on derivative instruments include net gains of \$0.57 million and net losses of \$1.70 million on the settlements of natural gas and crude oil derivatives, respectively for the nine months

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ended September 30, 2013 and net gains of \$0.38 million on the settlements of crude oil derivatives for the nine months ended September 30, 2012. In the nine months ended September 30, 2012, we unwound and monetized crude oil swaps with original settlement dates from January 2012 through December 2013 for net proceeds of \$1.03 million. The gains associated with these early settlement transactions are included in realized gain on derivative instruments for the nine months ended September 30, 2012.

Oil and gas prices received including the impact of derivatives but excluding the early settlement transactions were:

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2013	2012	Increase (Decrease)	2013	2012	Increase (Decrease)
Oil Price	\$ 97.32	\$ 88.46	\$ 8.86	\$ 91.63	\$ 90.63	\$ 1.00
Gas Price	\$ 5.13	\$ 4.64	\$ 0.49	\$ 5.18	\$ 4.57	\$ 0.61

We do not apply hedge accounting to any of our commodity based derivatives, thus changes in the fair market value of commodity contracts held at the end of a reported period, referred to as mark-to-market adjustments, are recognized as unrealized gains and losses in the accompanying consolidated statements of operations. As oil and natural gas prices remain volatile, mark-to-market accounting treatment creates volatility in our revenues. During the three and nine months ended September 30, 2013, we recognized net unrealized losses of \$0.06 million and \$0.49 million, respectively associated with natural gas fixed swap contracts and net unrealized losses of \$3.81 million and \$0.98 million, respectively associated with crude oil fixed swaps and collars due to market fluctuations in natural gas and crude oil futures market prices between December 31, 2012 and September 30, 2013. During the three months ended September 30, 2012, we recognized unrealized losses of \$2.65 million and a net unrealized gain of \$2.45 million for the nine months ended September 30, 2012 associated with crude oil fixed swaps and collars due to market fluctuations in crude oil futures market prices between December 31, 2011 and September 30, 2012.

Field service income increased \$1.88 million, or 38% from \$4.89 million for the third quarter 2012 to \$6.77 million for the third quarter 2013 and \$3.00 million, or 20% from \$15.34 million for the nine months ended September 30, 2012 to \$18.35 million for the nine months ended September 30, 2013. This underlying increase is a result of adding service equipment and the market allowing us to charge slightly higher rates to customers. Workover rig services represent the bulk of our field service operations, and those rates have all increased between the periods in our most active districts.

Lease operating expense increased \$1.98 million, or 21% from \$9.35 million for the third quarter 2012 to \$11.33 million for the third quarter 2013 and \$3.49 million, or 12% from \$28.82 million for the nine months ended September 30, 2012 to \$32.31 million for the nine months ended September 30, 2013. This underlying increase is primarily due to higher pumper / labor costs and chemical expenses associated with new wells coming on line from the recent drilling success in West Texas and increased expensed workovers across all districts, partially offset by decreased operating expenses on the offshore properties during the first nine months of 2013 as compared to the same periods of 2012.

Field service expense increased \$1.25 million, or 29% from \$4.27 million for the third quarter 2012 to \$5.52 million for the third quarter 2013 and \$2.20 million, or 17% from \$13.02 million for the nine months ended September 30, 2012 to \$15.22 million for the nine months ended September 30, 2013. Field service expenses primarily consist of salaries and vehicle operating expenses which have increased during the three and nine months ended September 30, 2013 over the same periods of 2012 as a direct result of increased services and utilization of the equipment.

Depreciation, depletion, amortization and accretion on discounted liabilities decreased \$0.71 million, or 12% from \$5.88 million for the third quarter 2012 to \$5.18 million for the third quarter 2013 and \$3.52 million, or 18% from \$19.85 million for the nine months ended September 30, 2012 to \$16.33 million for the nine months ended September 30, 2013. This decrease is primarily due to decreased depletion rates recognized during the three and nine months ended September 30, 2013 associated with offshore properties as our offshore properties were plugged and abandoned during 2012, partially offset by increased depletion expenses related to new wells coming on line from the recent drilling success in West Texas.

General and administrative expense increased \$0.04 million, or 1% from \$3.82 million for the three months ended September 30, 2012 to \$3.86 million for the three months ended September 30, 2013 and \$0.74 million, or 6% from \$11.51 million for the nine months ended September 30, 2012 to \$12.25 million for the nine months ended September 30, 2013. This increase in 2013 is largely due to increased personnel costs in 2013. The largest component of these personnel costs was salaries and employee related taxes and insurance.

Gain on sale and exchange of assets of \$2.52 million and \$0.72 million for the nine months ended September 30, 2013 and September 30, 2012, respectively consists of sales of non-essential oil and gas interests and field service equipment.

Interest expense increased \$0.05 million, or 6% from \$0.95 million for the third quarter 2012 to \$1.00 million for the third quarter 2013 and \$0.62 million, or 25% from \$2.53 million for the nine months ended September 30, 2012 to \$3.16 million for the nine months ended September 30, 2013. This increase relates to an increase in average debt outstanding during the three and nine months ended September 30, 2013 as compared to the same periods of 2012 slightly offset by a decrease in weighted average interest rates during the 2013 periods.

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A provision for income taxes of \$1.28 million, or an effective tax rate of 35% was recorded for the third quarter 2013 versus a provision of \$0.46 million, or an effective tax rate of 26% for the third quarter 2012 and a provision of \$5.94 million, or an effective tax rate of 36% was recorded for the nine months ended September 30, 2013 versus a provision of \$4.67 million, or an effective tax rate of 32% for the nine months ended September 30, 2012. Our provision for income taxes varies from the federal statutory tax rate of 34% primarily due to state taxes and percentage depletion deductions. We are entitled to percentage depletion on certain of our wells, which is calculated without reference to the basis of the property. To the extent that such depletion exceeds a property's basis it creates a permanent difference, which lowers our effective rate.

LIQUIDITY AND CAPITAL RESOURCES

Our primary capital resources are cash provided by our operating activities and our credit facility.

Net cash provided by our operating activities for the nine months ended September 30, 2013 was \$30.71 million compared to \$33.39 million for the nine months ended September 30, 2012. Excluding the effects of significant unforeseen expenses or other income, our cash flow from operations fluctuates primarily because of variations in oil and gas production and prices or changes in working capital accounts. Our oil and gas production will vary based on actual well performance but may be curtailed due to factors beyond our control.

Our realized oil and gas prices vary due to world political events, supply and demand of products, product storage levels, and weather patterns. We sell the vast majority of our production at spot market prices. Accordingly, product price volatility will affect our cash flow from operations. To mitigate price volatility we sometimes lock in prices for some portion of our production through the use of derivatives.

If our exploratory drilling results in significant new discoveries, we will have to expend additional capital in order to finance the completion, development, and potential additional opportunities generated by our success. We believe that, because of the additional reserves resulting from the successful wells and our record of reserve growth in recent years, we will be able to access sufficient additional capital through bank financing.

We have in place both a stock repurchase program and a limited partnership interest repurchase program under which we expect to continue spending during 2013. For the nine month period ended September 30, 2013, we have spent \$2.99 million under these programs.

We currently maintain a revolving credit facility totaling \$250 million, with a final maturity date of July 30, 2017 and a current borrowing base of \$145 million and \$38.00 million in availability at September 30, 2013. The bank reviews the borrowing base semi-annually and, at their discretion, may decrease or propose an increase to the borrowing base relative to a redetermined estimate of proved oil and gas reserves. Our oil and gas properties are pledged as collateral for the line of credit and we are subject to certain financial and operational covenants defined in the agreement. We are currently in compliance with these covenants. If we do not comply with these covenants on a continuing basis, the lenders have the right to refuse to advance additional funds under the facility and/or declare all principal and interest immediately due and payable.

On July 31, 2013, we executed an equipment financing facility totaling \$10.0 million with an effective annual interest rate of 3.95% and requiring 60 monthly payments of \$184,000. Our field service equipment is pledged as collateral for this facility. In August 2013, we used the \$10.0 million in proceeds from this equipment facility to pay down on our revolving credit facility.

It is our goal to increase our oil and gas reserves and production through the acquisition and development of oil and gas properties. Our activities include development and exploratory drilling. Our strategy is to develop a balanced portfolio of drilling prospects that includes lower risk wells with a high probability of success and higher risk wells with greater economic potential. We continue our drilling programs in our West Texas and Mid-Continent regions. During 2013, we intend to drill a total of approximately 25 gross (14 net) wells, primarily in the West Texas and Mid-Continent areas at a net cost of approximately \$20 million. We also continue to explore and consider opportunities to further expand our oilfield servicing revenues through additional investment in field service equipment. However, the majority of our capital spending is discretionary, and the ultimate level of expenditures will be dependent on our assessment of the oil and gas business environment, the number and quality of oil and gas prospects available, the market for oilfield services, and oil and gas business opportunities in general.

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company is a smaller reporting company and no response is required pursuant to this Item.

Item 4. CONTROLS AND PROCEDURES

As of the end of the current reported period covered by this report, the Company carried out an evaluation, under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures pursuant to Rules 13a-15 and 15d-15 of the Securities Exchange Act of 1934 (the Exchange Act). Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures are effective with respect to the recording, processing, summarizing and reporting, within the time periods specified in the Commission's rules and forms, of information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act.

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There were no changes in the Company's internal control over financial reporting that occurred during the first nine months of 2013 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II OTHER INFORMATION**Item 1. LEGAL PROCEEDINGS**

None.

Item 1A. RISK FACTORS

The Company is a smaller reporting company and no response is required pursuant to this Item.

Item 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

There were no sales of equity securities by the Company during the period covered by this report.

During the nine months ended September 30, 2013, the Company purchased the following shares of common stock as treasury shares.

2013 Month	Number of Shares	Average Price Paid per share	Maximum Number of Shares that May Yet Be Purchased Under The Program at Month - End (1)
January	2,712	\$ 25.06	461,392
February	6,710	\$ 26.78	454,682
March	47,219	\$ 29.17	407,463
April	15,177	\$ 30.38	392,286
May	16,416	\$ 31.26	375,870
June	4,069	\$ 33.21	371,801
July	2,551	\$ 41.69	369,250
August	1,371	\$ 46.73	367,879
September	1,457	\$ 50.23	366,422
Total/Average	97,682	\$ 30.49	

- (1) In December 1993, we announced that the Board of Directors authorized a stock repurchase program whereby we may purchase outstanding shares of the common stock from time-to-time, in open market transactions or negotiated sales. On October 31, 2012, the Board of Directors of the Company approved an additional 500,000 shares of the Company's stock to be included in the stock repurchase program. A total of 3,500,000 shares have been authorized to date under this program. Through September 30, 2013, a total of 3,133,578 shares have been repurchased under this program for \$47,747,516 at an average price of \$15.24 per share. Additional purchases of shares may occur as market conditions warrant. We expect future purchases will be funded with internally generated cash flow or from working capital.

Item 3. DEFAULTS UPON SENIOR SECURITIES

None

Item 4. RESERVED

Item 5. OTHER INFORMATION

None

Table of Contents**Item 6. EXHIBITS**

The following exhibits are filed as a part of this report:

Exhibit No.

- 3.1 Restated Certificate of Incorporation of PrimeEnergy Corporation (effective July 1, 2009) (Incorporated by reference to Exhibit 3.1 to PrimeEnergy Corporation Form 10-Q for the quarter ended June 30, 2009)
- 3.2 Bylaws of PrimeEnergy Corporation (Incorporated by reference to Exhibit 3.2 to PrimeEnergy Corporation Form 10-Q for the quarter ended June 30, 2010)
- 10.4 Amended and Restated Agreement of Limited Partnership, FWOE Partners L.P., dated as of August 22, 2005 (Incorporated by reference to Exhibit 10.3 to PrimeEnergy Corporation Form 8-K for events of August 22, 2005)
- 10.4.1 Contribution Agreement between F-W Oil Exploration L.L.C. and FWOE Partners L.P. dated as of August 22, 2005 (Incorporated by reference to exhibit 10.4 to PrimeEnergy Corporation Form 8-K for events of August 22, 2005)
- 10.18 Composite copy of Non-Statutory Option Agreements (Incorporated by reference to Exhibit 10.18 to PrimeEnergy Corporation Form 10-K for the year ended December 31, 2004)
- 10.22.5.9 Second Amended and Restated Credit Agreement dated July 30, 2010, by and among PrimeEnergy Corporation, the Guarantors Party Hereto (PrimeEnergy Management Corporation, Prime Operating Company, Eastern Oil Well Service Company, Southwest Oilfield Construction Company, and EOWS Midland Company), Compass Bank (successor in interest to Guaranty Bank, FSB) As Administrative Agent and Letter of Credit Issuer, BBVA Compass, As Sole Lead Arranger and Sole Bookrunner and The Lenders Signatory Hereto (BNP Paribas, JPMorgan Chase Bank, N.A. and Amegy Bank National Association) (Incorporated by reference to Exhibit 10.22.5.9 to PrimeEnergy Corporation Form 10-Q for the quarter ended June 30, 2010)
- 10.22.5.9.1 First Amendment To Second Amended and Restated Credit Agreement Among PrimeEnergy Corporation, The Guarantors Party Hereto (PrimeEnergy Management Corporation, Prime Operating Company, Eastern Oil Well Service Company, Southwest Oilfield Construction Company, E O W S Midland Company), Compass Bank (successor in interest to Guaranty Bank, FSB), As Administrative Agent, Letter of Credit Issuer and Collateral Agent and The Lenders Signatory Hereto (Compass Bank, BNP Paribas, JPMorgan Chase Bank, N.A., Amegy Bank National Association) effective September 30, 2010 (Incorporated by reference to Exhibit 10.22.5.9.1 to PrimeEnergy Corporation Form 10-Q for the quarter ended September 30, 2010).
- 10.22.5.9.2 Second Amendment To Second Amended and Restated Credit Agreement Among PrimeEnergy Corporation, The Guarantors Party Hereto (PrimeEnergy Management Corporation, Prime Operating Company, Eastern Oil Well Service Company, Southwest Oilfield Construction Company, E O W S Midland Company), Compass Bank (successor in interest to Guaranty Bank, FSB), As Administrative Agent, Letter of Credit Issuer and Collateral Agent and The Lenders Signatory Hereto (Compass Bank, BNP Paribas, JPMorgan Chase Bank, N.A., Amegy Bank National Association) effective June 22, 2011 (Incorporated by reference to Exhibit 10.22.5.9.2 to PrimeEnergy Corporation Form 10-Q for the quarter ended June 30, 2011).
- 10.22.5.9.3

Third Amendment To Second Amended and Restated Credit Agreement Among PrimeEnergy Corporation, The Guarantors Party Hereto (PrimeEnergy Management Corporation, Prime Operating Company, Eastern Oil Well Service Company, Southwest Oilfield Construction Company, E O W S Midland Company), Compass Bank (successor in interest to Guaranty Bank, FSB), As Administrative Agent, Letter of Credit Issuer and Collateral Agent and The Lenders Signatory Hereto (Compass Bank, BNP Paribas, JPMorgan Chase Bank, N.A., Amegy Bank National Association) effective December 8, 2011 (Incorporated by reference to Exhibit 10.22.5.9.3 to PrimeEnergy Corporation Form 10-K for the year ended December 31, 2011).

10.22.5.9.4 Fourth Amendment To Second Amended and Restated Credit Agreement Among PrimeEnergy Corporation, The Guarantors Party Hereto (PrimeEnergy Management Corporation, Prime Operating Company, Eastern Oil Well Service Company, Southwest Oilfield Construction Company, E O W S Midland Company), Compass Bank (successor in interest to Guaranty Bank, FSB), As Administrative Agent, Letter of Credit Issuer and Collateral Agent and The Lenders Signatory Hereto (Compass Bank, BNP Paribas, JPMorgan Chase Bank, N.A., Amegy Bank National Association) effective June 25, 2012 (Incorporated by reference to Exhibit 10.22.5.9.4 to PrimeEnergy Corporation Form 10-Q for the quarter ended June 30, 2012).

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10.22.5.9.5	Fifth Amendment To Second Amended and Restated Credit Agreement Among PrimeEnergy Corporation, The Guarantors Party Hereto (PrimeEnergy Management Corporation, Prime Operating Company, Eastern Oil Well Service Company, Southwest Oilfield Construction Company, E O W S Midland Company, Prime Offshore L.L.C.), Compass Bank (successor in interest to Guaranty Bank, FSB), As Administrative Agent, Letter of Credit Issuer and Collateral Agent and The Lenders Signatory Hereto (Compass Bank, Wells Fargo Bank National Association, JPMorgan Chase Bank, N.A., Amegy Bank National Association, KeyBank National Association) effective November 26, 2012 (Incorporated by reference to Exhibit 10.22.5.9.5 to PrimeEnergy Corporation Form 10-K for the year ended December 31, 2012).
10.22.5.9.6	Sixth Amendment To Second Amended and Restated Credit Agreement Among PrimeEnergy Corporation, The Guarantors Party Hereto (PrimeEnergy Management Corporation, Prime Operating Company, Eastern Oil Well Service Company, Southwest Oilfield Construction Company, E O W S Midland Company, Prime Offshore L.L.C.), Compass Bank (successor in interest to Guaranty Bank, FSB), As Administrative Agent, Letter of Credit Issuer and Collateral Agent and The Lenders Signatory Hereto (Compass Bank, Wells Fargo Bank National Association, JPMorgan Chase Bank, N.A., Amegy Bank National Association, KeyBank National Association) effective June 28, 2013 (Incorporated by reference to Exhibit 10.22.5.9.6 to PrimeEnergy Corporation Form 10-Q for the quarter ended June 30, 2013).
10.23.1	Loan and Security Agreement dated July 31, 2013, by and between JP Morgan Chase Bank, N.A. and Eastern Oil Well Service Company, EOWS Midland Company and Southwest Oilfield Construction Company (filed herewith).
10.23.2	Business Purpose Promissory Note dated July 31, 2013, made by Eastern Oil Well Service Company, EOWS Midland Company and Southwest Oilfield Construction Company to JP Morgan Chase Bank N.A. (filed herewith).
10.23.3	Guaranty dated July 31, 2013, made by PrimeEnergy Corporation in favor of JP Morgan Chase Bank, N.A. (filed herewith).
31.1	Certification of Chief Executive Officer pursuant to Rule 13(a)-14(a)/15d-14(a) of the Securities Exchange Act of 1934, as amended (filed herewith).
31.2	Certification of Chief Financial Officer pursuant to Rule 13(a)-14(a)/15d-14(a) of the Securities Exchange Act of 1934, as amended (filed herewith).
32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (filed herewith).
32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (filed herewith).
101.INS	XBRL (eXtensible Business Reporting Language) Instance Document (filed herewith)
101.SCH	XBRL Taxonomy Extension Schema Document (filed herewith)
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document (filed herewith)
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document (filed herewith)
101.LAB	XBRL Taxonomy Extension Label Linkbase Document (filed herewith)
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document (filed herewith)

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SIGNATURES

Pursuant to the requirements of the Securities and Exchange Act of 1934, Registrant has duly caused this Report to be signed on its behalf by the undersigned thereunto duly authorized.

	PrimeEnergy Corporation (Registrant)
November 5, 2013 (Date)	/s/ Charles E. Drimal, Jr. Charles E. Drimal, Jr. President Principal Executive Officer
November 5, 2013 (Date)	/s/ Beverly A. Cummings Beverly A. Cummings Executive Vice President Principal Financial Officer