

PDC ENERGY, INC.  
Form 10-Q  
November 06, 2014  
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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2014

or

£ 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 000-07246  
PDC ENERGY, INC.  
(Exact name of registrant as specified in its charter)

Nevada  
(State of incorporation)  
1775 Sherman Street, Suite 3000  
Denver, Colorado 80203  
(Address of principal executive offices) (Zip code)

95-2636730  
(I.R.S. Employer Identification No.)

Registrant's telephone number, including area code: (303) 860-5800

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes T 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 definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer  x

Accelerated filer  o

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Non-accelerated filer

(Do not check if a smaller reporting company)

Smaller reporting company

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: 35,876,283 shares of the Company's Common Stock (\$0.01 par value) were outstanding as of October 17, 2014.

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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 ("Securities Act") and Section 21E of the Securities Exchange Act of 1934 ("Exchange Act") regarding our business, financial condition, results of operations and prospects. All statements other than statements of historical facts included in and incorporated by reference into this report are "forward-looking statements" within the meaning of the safe harbor provisions of the United States ("U.S.") Private Securities Litigation Reform Act of 1995. Words such as expects, anticipates, intends, plans, believes, seeks, estimates and similar expressions or variations of such words are intended to identify forward-looking statements herein. These statements relate to, among other things: use of expected proceeds from the PDC Mountaineer, LLC ("PDCM") divestiture; future crude oil, natural gas and natural gas liquids ("NGLs") production (including the components of such production); future expenses, cash flows and liquidity; our evaluation method of our customers' and derivative counterparties' credit risk is appropriate; anticipated capital projects, expenditures and opportunities; future exploration, drilling and development activities; our drilling programs; impact of the Colorado task force on oil and gas regulation and potential future ballot initiatives and legislation; availability of sufficient funding for our capital program and sources of that funding; expected 2014 capital budget allocations; acquisitions of additional acreage and other future transactions; the impact of high line pressures and the timing, availability and effect of additional mid-stream facilities going forward; the expected NYMEX differential at our two primary sales hubs; compliance with debt covenants; expected funding sources for conversion of our 3.25% convertible senior notes due 2016 and expected impact on our financial position; impact of litigation on our results of operations and financial position; effectiveness of our derivative program in providing a degree of price stability; that we do not expect to pay dividends in the foreseeable future; electronic, cyber or physical security breaches; our expected receipt of a full acceptance notice from the Internal Revenue Service ("IRS") with respect to 2013 taxes and decrease in liability for uncertain tax positions; and our future strategies, plans and objectives.

The above statements are not the exclusive means of identifying forward-looking statements herein. Although forward-looking statements contained in this report reflect our good faith judgment, such statements can only be based on facts and factors currently known to us. Consequently, forward-looking statements are inherently subject to risks and uncertainties, including known and unknown risks and uncertainties incidental to the exploration for, and the acquisition, development, production and marketing of, crude oil, natural gas and NGLs, and actual outcomes may differ materially from the results and outcomes discussed in the forward-looking statements.

Important factors that could cause actual results to differ materially from the forward-looking statements include, but are not limited to:

- changes in worldwide production volumes and demand, including economic conditions that might impact demand;
- volatility of commodity prices for crude oil, natural gas and NGLs;
- impact of governmental policies and/or regulations, including changes in environmental and other laws, the interpretation and enforcement related to those laws and regulations, liabilities arising thereunder and the costs to comply with those laws and regulations;
- potential declines in the value of our crude oil, natural gas and NGLs properties resulting in impairments;
- changes in estimates of proved reserves;
- inaccuracy of reserve estimates and expected production rates;
- potential for production decline rates from our wells being greater than expected;
- timing and extent of our success in discovering, acquiring, developing and producing reserves;
- our ability to secure leases, drilling rigs, supplies and services at reasonable prices;
- availability of sufficient pipeline, gathering and other transportation facilities and related infrastructure to process and transport our production, and the impact of these facilities and regional capacity on the prices we receive for our

production;  
timing and receipt of necessary regulatory permits;  
risks incidental to the drilling and operation of crude oil and natural gas wells;  
our future cash flows, liquidity and financial condition;  
competition within the oil and gas industry;  
availability and cost of capital;  
reductions in the borrowing base under our revolving credit facility;  
our success in marketing crude oil, natural gas and NGLs;  
effect of crude oil and natural gas derivatives activities;  
impact of environmental events, governmental and other third-party responses to such events, and our ability to insure adequately against such events;  
cost of pending or future litigation;  
effect that acquisitions we may pursue have on our capital expenditures;  
our ability to retain or attract senior management and key technical employees; and  
success of strategic plans, expectations and objectives for our future operations.

Further, we urge you to carefully review and consider the cautionary statements and disclosures, specifically those under the heading "Risk Factors," made in this Quarterly Report on Form 10-Q, our Annual Report on Form 10-K for the year ended December 31, 2013 ("2013 Form 10-K"), filed with the U.S. Securities and Exchange Commission ("SEC") on February 21, 2014, and our other filings with the SEC for further information on risks and uncertainties that could affect our business, financial condition, results of operations and prospects, which are incorporated by this reference as though fully set forth herein. We caution you not to place undue reliance on the forward-looking statements,

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which speak only as of the date of this report. We undertake no obligation to update any forward-looking statements in order to reflect any event or circumstance occurring after the date of this report or currently unknown facts or conditions or the occurrence of unanticipated events. All forward-looking statements are qualified in their entirety by this cautionary statement.

REFERENCES

Unless the context otherwise requires, references in this report to "PDC Energy," "PDC," "the Company," "we," "us," "our" or "ours" refer to the registrant, PDC Energy, Inc. and all subsidiaries consolidated for the purposes of its financial statements, including our proportionate share of the financial position, results of operations, cash flows and operating activities of our affiliated partnerships and PDCM, a joint venture owned, until October 14, 2014, 50% each by PDC and Lime Rock Partners, LP. See Note 1, Nature of Operations and Basis of Presentation, elsewhere in this report for a description of our consolidated subsidiaries and Note 15, Subsequent Event, to the condensed consolidated financial statements for a discussion of the sale of our interest in PDCM.

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ITEM 1. FINANCIAL STATEMENTS

## PDC ENERGY, INC.

## Condensed Consolidated Balance Sheets

(unaudited; in thousands, except share and per share data)

	September 30, 2014	December 31, 2013
Assets		
Current assets:		
Cash and cash equivalents	\$18,242	\$192,642
Restricted cash	46	2,211
Accounts receivable, net	102,071	88,111
Accounts receivable affiliates	3,611	6,614
Fair value of derivatives	9,147	1,521
Deferred income taxes	13,388	22,374
Assets held for sale - current	5,375	7,661
Prepaid expenses and other current assets	5,329	4,679
Total current assets	157,209	325,813
Properties and equipment, net	1,783,797	1,484,638
Assets held for sale - non-current	176,694	178,484
Fair value of derivatives	18,039	4,503
Other assets	42,770	31,765
Total Assets	\$2,178,509	\$2,025,203
Liabilities and Shareholders' Equity		
Liabilities		
Current liabilities:		
Accounts payable	\$106,728	\$101,688
Accounts payable affiliates	—	41
Production tax liability	23,872	22,232
Fair value of derivatives	2,356	14,689
Funds held for distribution	37,413	31,040
Accrued interest payable	19,717	9,033
Liabilities held for sale - current	3,070	12,069
Other accrued expenses	53,222	22,628
Total current liabilities	246,378	213,420
Long-term debt	675,913	604,990
Deferred income taxes	124,762	118,767
Asset retirement obligation	39,564	37,638
Fair value of derivatives	2,241	2,842
Liabilities held for sale - non-current	61,543	55,915
Other liabilities	26,085	24,037
Total liabilities	1,176,486	1,057,609
Commitments and contingent liabilities		
Shareholders' equity	—	—

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Preferred shares - par value \$0.01 per share, 50,000,000 shares authorized, none issued		
Common shares - par value \$0.01 per share, 150,000,000 authorized, 35,894,186 and 35,675,656 issued as of September 30, 2014 and December 31, 2013, respectively	359	357
Additional paid-in capital	686,045	674,211
Retained earnings	316,950	293,267
Treasury shares - at cost, 23,171 and 5,508 as of September 30, 2014 and December 31, 2013, respectively	(1,331	) (241
Total shareholders' equity	1,002,023	967,594
Total Liabilities and Shareholders' Equity	\$2,178,509	\$2,025,203

See accompanying Notes to Condensed Consolidated Financial Statements

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## PDC ENERGY, INC.

Condensed Consolidated Statements of Operations  
(unaudited; in thousands, except per share data)

	Three Months Ended September		Nine Months Ended September	
	30,		30,	
	2014	2013	2014	2013
Revenues				
Crude oil, natural gas and NGLs sales	\$120,526	\$77,340	\$371,556	\$226,985
Sales from natural gas marketing	13,297	16,946	62,649	48,695
Commodity price risk management gain (loss), net	90,213	(24,138	) 12,661	(22,075
Well operations, pipeline income and other	520	1,667	1,650	3,681
Total revenues	224,556	71,815	448,516	257,286
Costs, expenses and other				
Production costs	22,754	17,036	64,611	45,691
Cost of natural gas marketing	13,347	17,127	62,645	48,928
Exploration expense	190	1,841	773	4,647
Impairment of crude oil and natural gas properties	1,863	4,236	3,621	51,794
General and administrative expense	34,625	15,052	96,549	43,938
Depreciation, depletion and amortization	49,640	26,957	142,165	77,876
Accretion of asset retirement obligations	861	1,181	2,542	3,491
(Gain) loss on sale of properties and equipment	21	(100	) 577	(131
Total cost, expenses and other	123,301	83,330	373,483	276,234
Income (loss) from operations	101,255	(11,515	) 75,033	(18,948
Interest expense	(11,821	) (11,957	) (36,199	) (37,883
Interest income	39	130	309	133
Income (loss) from continuing operations before income taxes	89,473	(23,342	) 39,143	(56,698
Provision for income taxes	(35,396	) 9,435	(15,852	) 20,789
Income (loss) from continuing operations	54,077	(13,907	) 23,291	(35,909
Income (loss) from discontinued operations, net of tax	(80	) (2,093	) 392	409
Net income (loss)	\$53,997	\$(16,000	) \$23,683	\$(35,500
Earnings per share:				
Basic				
Income (loss) from continuing operations	\$1.51	\$(0.42	) \$0.65	\$(1.14
Income (loss) from discontinued operations, net of tax	—	(0.06	) 0.01	0.01
Net income (loss)	\$1.51	\$(0.48	) \$0.66	\$(1.13
Diluted				
Income (loss) from continuing operations	\$1.47	\$(0.42	) \$0.63	\$(1.14
Income (loss) from discontinued operations, net of tax	—	(0.06	) 0.01	0.01
Net income (loss)	\$1.47	\$(0.48	) \$0.64	\$(1.13
Weighted-average common shares outstanding:				
Basic	35,834	33,413	35,763	31,350

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Diluted	36,828	33,413	36,831	31,350
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See accompanying Notes to Condensed Consolidated Financial Statements