

PDC ENERGY, INC.
Form 10-Q
November 05, 2015
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2015

or

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

For the transition period from _____ to _____

Commission File Number 001-37419
PDC ENERGY, INC.
(Exact name of registrant as specified in its charter)

Delaware 95-2636730
(State of incorporation) (I.R.S. Employer Identification No.)
1775 Sherman Street, Suite 3000
Denver, Colorado 80203
(Address of principal executive offices) (Zip code)

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: 40,107,524 shares of the Company's Common Stock (\$0.01 par value) were outstanding as of October 16, 2015.

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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: estimated future production (including the components of such production), sales, expenses, cash flows and liquidity; estimated crude oil, natural gas and natural gas liquids ("NGLs") reserves, including 2015 year-end reserves; expected 2015 capital forecast allocations, including revised capital and production forecasts and that we expect to meet or exceed the high end of our range; anticipated increased 2015 capital projects and expenditures; expected year-end exit rates; the impact of prolonged depressed commodity prices; the Utica Shale impairment and other potential future impairments; availability of sufficient funding for our 2015 capital program and sources of that funding; future exploration, drilling and development activities, including our expected rig count in both the Utica Shale and Wattenberg Field; expectation of cash flows in 2015 and 2016; potential additional revisions to our 2015 capital and production forecast; anticipated reductions in our 2015 cost structure; the expiration of certain leases and our current development plan in the Utica Shale; our evaluation method of our customers' and derivative counterparties' credit risk, including certain of our gas marketing customers; our expected positive net settlements on our derivative positions and effect on cash flow in 2015; effectiveness of our derivative program in providing a degree of price stability; the impact of high line pressures and the timing, availability, cost and effect of additional midstream facilities and services going forward; expected differentials; compliance with debt covenants; expected funding sources for anticipated net settlement of our 3.25% convertible senior notes due 2016; the impact of litigation on our results of operations and financial position; that we do not expect to pay dividends in the foreseeable future; 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. Forward-looking statements are always subject to risks and uncertainties, and become subject to greater levels of risk and uncertainty as they address matters further into the future. Throughout this report or accompanying quarterly materials, we may use the terms "outlook," "projection" or similar terms or expressions, or indicate that we have "modeled" certain future scenarios. We typically use these terms to indicate our current thoughts on possible outcomes relating to our business or the industry in periods beyond the current fiscal year. In addition to being subject to additional levels of uncertainty generally, forward-looking statements regarding such prospective matters do not necessarily reflect the outcomes we view as the most likely to occur, but instead are shown to illustrate aspects of our business in the context of a variety of scenarios we believe to be plausible.

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 and the risk of an extended period of depressed prices;
- 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;
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, 2014 (the

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"2014 Form 10-K"), filed with the U.S. Securities and Exchange Commission ("SEC") on February 19, 2015, 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, 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 PDC Mountaineer, LLC ("PDCM"), a joint venture owned, until October 2014, 50% each by PDC and Lime Rock Partners, LP. See Note 1, Nature of Operations and Basis of Presentation, to our condensed consolidated financial statements included elsewhere in this report for a description of our consolidated subsidiaries.

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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, 2015	December 31, 2014
Assets		
Current assets:		
Cash and cash equivalents	\$3,690	\$16,066
Accounts receivable, net	106,776	131,204
Fair value of derivatives	208,144	187,495
Prepaid expenses and other current assets	7,683	5,954
Total current assets	326,293	340,719
Properties and equipment, net	1,873,327	1,800,186
Assets held for sale	2,874	2,874
Fair value of derivatives	73,049	112,819
Other assets	68,767	83,990
Total Assets	\$2,344,310	\$2,340,588
Liabilities and Shareholders' Equity		
Liabilities		
Current liabilities:		
Accounts payable	\$65,337	\$130,321
Production tax liability	26,159	21,314
Fair value of derivatives	2,245	570
Funds held for distribution	32,780	27,186
Current portion of long-term debt	112,063	—
Accrued interest payable	19,881	9,109
Deferred income taxes	52,188	59,174
Other accrued expenses	25,146	62,717
Total current liabilities	335,799	310,391
Long-term debt	550,000	664,923
Deferred income taxes	87,907	125,693
Asset retirement obligation	71,616	71,992
Fair value of derivatives	723	197
Other liabilities	18,529	30,033
Total liabilities	1,064,574	1,203,229
Commitments and contingent liabilities		
Shareholders' equity		
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, 40,121,608 and 35,927,985 issued as of September 30, 2015 and December 31, 2014, respectively	401	359
Additional paid-in capital	903,038	689,209

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Retained earnings	377,400	448,702
Treasury shares - at cost, 22,418 and 21,643 as of September 30, 2015 and December 31, 2014, respectively	(1,103) (911
Total shareholders' equity	1,279,736	1,137,359
Total Liabilities and Shareholders' Equity	\$2,344,310	\$2,340,588

See accompanying Notes to Condensed Consolidated Financial Statements

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