

PETROLEUM DEVELOPMENT CORP  
Form 10-Q  
May 10, 2010

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

FORM 10-Q

Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934  
For the quarterly period ended March 31, 2010

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

PETROLEUM DEVELOPMENT CORPORATION  
(Exact name of registrant as specified in its charter)

Nevada  
(State of incorporation)

95-2636730  
(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  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

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

Large accelerated filer   
Non-accelerated filer

Accelerated filer   
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: 19,256,749 shares of the Company's Common Stock (\$.01 par value) were outstanding as of April 30, 2010.

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PETROLEUM DEVELOPMENT CORPORATION

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NOTE REGARDING FORWARD-LOOKING STATEMENTS

This periodic report 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. 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, which include statements of estimated natural gas and oil production and reserves, drilling plans, future cash flows, anticipated liquidity, anticipated capital expenditures and our management's strategies, plans and objectives. However, these 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 risks and uncertainties incidental to the exploration for, and the acquisition, development, production and marketing of natural gas and oil, 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 production volumes, worldwide demand and commodity prices for natural gas and oil;
- the timing and extent of our success in discovering, acquiring, developing and producing natural gas and oil reserves;
  - our ability to acquire leases, drilling rigs, supplies and services at reasonable prices;
    - the availability and cost of capital to us;
  - risks incident to the drilling and operation of natural gas and oil wells;
    - future production and development costs;
- the availability of sufficient pipeline and other transportation facilities to carry our production and the impact of these facilities on price;
- the effect of existing and future laws, governmental regulations and the political and economic climate of the United States of America ("U.S.");
  - the effect of natural gas and oil derivatives activities;
  - conditions in the capital markets; and
  - losses possible from pending or future litigation.

Further, we urge you to carefully review and consider the cautionary statements made in this report, our annual report on Form 10-K for the year ended December 31, 2009, filed with the Securities and Exchange Commission ("SEC") on March 4, 2010 ("2009 Form 10-K"), and our other filings with the SEC and public disclosures. We caution you not to place undue reliance on 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.

REFERENCES

Unless the context otherwise requires, references to "PDC," "the Company," "we," "us," "our," "ours" or "ourselves" in this report refer to the registrant, Petroleum Development Corporation, together with its wholly owned subsidiaries, entities in which it has a controlling financial interest and its proportionate share of affiliated partnerships and PDC Mountaineer, LLC ("PDCM"), a joint venture with Lime Rock Partners.



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## PART I - FINANCIAL INFORMATION

## Item 1. Financial Statements

Petroleum Development Corporation  
Condensed Consolidated Balance Sheets  
(unaudited; in thousands, except share data)

	March 31, 2010	December 31, 2009*
Assets		
Current assets:		
Cash and cash equivalents	\$26,460	\$ 31,944
Restricted cash	2,491	2,490
Accounts receivable, net	52,467	56,491
Accounts receivable affiliates	9,983	7,956
Fair value of derivatives	48,157	42,223
Income tax receivable	27,816	27,728
Prepaid expenses and other current assets	4,734	8,538
Total current assets	172,108	177,370
Properties and equipment, net	963,894	1,008,193
Fair value of derivatives	47,475	20,228
Accounts receivable affiliates	16,453	15,473
Other assets	27,031	29,063
Total Assets	\$1,226,961	\$ 1,250,327
Liabilities and Equity		
Liabilities		
Current liabilities:		
Accounts payable	\$42,844	\$ 36,845
Accounts payable affiliates	13,830	13,015
Production tax liability	24,165	24,849
Fair value of derivatives	24,526	20,208
Funds held for distribution	27,679	28,256
Other accrued expenses	16,596	21,261
Total current liabilities	149,640	144,434
Long-term debt	259,729	280,657
Deferred income taxes	185,774	178,012
Asset retirement obligation	25,052	29,314
Fair value of derivatives	49,127	48,779
Accounts payable affiliates	14,262	5,996
Other liabilities	27,748	24,542
Total liabilities	711,332	711,734

## COMMITMENTS AND CONTINGENT LIABILITIES

## Equity

## Shareholders' equity:

Preferred shares, par value \$.01 per share; authorized 50,000,000 shares; issued: none	-	-
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Common shares, par value \$.01 per share; authorized 100,000,000 shares; issued: 19,261,799 shares in 2010 and 19,242,219 in 2009	193	192
Additional paid-in capital	65,094	64,406
Retained earnings	450,353	426,629
Treasury shares, at cost; 8,273 shares in 2010 and 2009	(312 )	(312 )
Total shareholders' equity	515,328	490,915
Noncontrolling interest	301	47,678
Total equity	515,629	538,593
Total Liabilities and Equity	\$1,226,961	\$ 1,250,327

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\*Derived from audited 2009 balance sheet.

See accompanying notes to condensed consolidated financial statements.

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

	Three Months Ended March 31,	
	2010	2009
<b>Revenues:</b>		
Natural gas and oil sales	\$60,368	\$39,742
Sales from natural gas marketing	24,311	22,389
Commodity price risk management gain, net	43,222	23,683
Well operations, pipeline income and other	2,845	2,838
<b>Total revenues</b>	<b>130,746</b>	<b>88,652</b>
<b>Costs and expenses:</b>		
Natural gas and oil production and well operations costs	15,676	16,361
Cost of natural gas marketing	23,854	21,878
Exploration expense and impairment of natural gas and oil properties	6,418	5,643
General and administrative expense	10,694	12,094
Depreciation, depletion and amortization	28,389	34,360
<b>Total costs and expenses</b>	<b>85,031</b>	<b>90,336</b>
Gain on sale of leaseholds	-	120
Income (loss) from operations	45,715	(1,564 )
Interest income	5	20
Interest expense	(7,800 )	(8,383 )
Income (loss) from continuing operations before income taxes	37,920	(9,927 )
Provision (benefit) for income taxes	14,251	(4,095 )
Income (loss) from continuing operations	23,669	(5,832 )
Income from discontinued operations, net of tax	-	113
Net income (loss)	23,669	(5,719 )
Less: net loss attributable to noncontrolling interest	(55 )	(16 )
<b>Net income (loss) attributable to shareholders</b>	<b>\$23,724</b>	<b>\$(5,703 )</b>
<b>Amounts attributable to shareholders:</b>		
Income (loss) from continuing operations	\$23,724	\$(5,816 )
Income from discontinued operations, net of tax	-	113
<b>Net income (loss) attributable to shareholders</b>	<b>\$23,724</b>	<b>\$(5,703 )</b>
<b>Earnings (loss) per share attributable to shareholders:</b>		
<b>Basic</b>		
Income (loss) from continuing operations	\$1.24	\$(0.39 )
Income from discontinued operations	-	0.01
<b>Net income (loss) attributable to shareholders</b>	<b>\$1.24</b>	<b>\$(0.38 )</b>
<b>Diluted</b>		

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Income (loss) from continuing operations	\$1.23	\$(0.39 )
Income from discontinued operations	-	0.01
Net income (loss) attributable to shareholders	\$1.23	\$(0.38 )

Weighted average common shares outstanding

Basic	19,191	14,793
Diluted	19,287	14,793

See accompanying notes to condensed consolidated financial statements.

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Petroleum Development Corporation  
Condensed Consolidated Statements of Cash Flows  
(unaudited, in thousands)

	Three Months Ended March 31,	
	2010	2009
Cash flows from operating activities:		
Net income (loss)	\$23,669	\$(5,719 )
Adjustments to net income (loss) to reconcile to cash provided by operating activities:		
Deferred income taxes	11,632	(6,688 )
Depreciation, depletion and amortization	28,389	34,360
Exploratory dry hole costs	2,902	832
Amortization and impairment of unproved properties	600	614
Unrealized (gain) loss on derivative transactions	(20,490 )	13,188
Other	2,627	3,154
Changes in assets and liabilities	2,016	(3,862 )
Net cash provided by operating activities	51,345	35,879
Cash flows from investing activities:		
Capital expenditures	(32,581 )	(73,697 )
Deconsolidation effect on cash and cash equivalents	(3,074 )	-
Other	16	120
Net cash used in investing activities	(35,639 )	(73,577 )
Cash flows from financing activities:		
Proceeds from credit facility	64,000	100,500
Repayment of credit facility	(85,000 )	(72,500 )
Payment of debt issuance costs	(23 )	(45 )
Excess tax benefits from stock-based compensation	74	-
Purchase of treasury stock	(241 )	(75 )
Net cash provided (used) by financing activities	(21,190 )	27,880
Net decrease in cash and cash equivalents	(5,484 )	(9,818 )
Cash and cash equivalents, beginning of period	31,944	50,950
Cash and cash equivalents, end of period	\$26,460	\$41,132
Supplemental cash flow information:		
Cash payments for:		
Interest, net of capitalized interest	\$7,067	\$15,215
Income taxes, net of refunds	(33 )	(2,364 )
Non-cash investing activities:		
Change in accounts payable related to purchases of properties and equipment	6,056	(24,323 )
Change in asset retirement obligation, with a corresponding increase to natural gas and oil properties, net of disposals	207	541

See Note 2 for non-cash transactions related to deconsolidation of PDCM



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PETROLEUM DEVELOPMENT CORPORATION

Notes to Condensed Consolidated Financial Statements  
March 31, 2010

(unaudited)

1. NATURE OF OPERATIONS AND BASIS OF PRESENTATION

We are a domestic independent natural gas and oil company engaged in the exploration for and the acquisition, development, production and marketing of natural gas and oil. As of March 31, 2010, we owned an interest in and operated approximately 5,000 gross wells located primarily in the Rocky Mountain Region and Appalachian Basin. We are engaged in two primary business segments: (1) natural gas and oil sales and (2) natural gas marketing.

The accompanying unaudited condensed consolidated financial statements include the accounts of PDC, our wholly owned subsidiaries, WWWV, LLC, an entity in which we have a controlling financial interest, and our proportionate share of PDCM and our affiliated partnerships. All material intercompany accounts and transactions have been eliminated in consolidation. We account for our investment in PDCM and our interests in natural gas and oil limited partnerships under the proportionate consolidation method. Accordingly, our accompanying condensed consolidated financial statements include our pro rata share of assets, liabilities, revenues and expenses of 34 entities which we proportionately consolidate. Our proportionate share of all significant transactions between us and these entities has been eliminated. See Note 2, Recent Adopted Accounting Standards — Consolidation, for the impact new accounting changes had on the consolidation of PDCM, a variable interest entity, as of January 1, 2010.

In our opinion, the accompanying financial statements contain all adjustments (consisting of only normal recurring adjustments) necessary for a fair presentation of our financial statements for interim periods in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") and with the instructions to Form 10-Q and Article 10 of Regulation S-X of the SEC. Accordingly, pursuant to such rules and regulations, certain notes and other financial information included in audited financial statements have been condensed or omitted. The information presented in this quarterly report on Form 10-Q should be read in conjunction with our audited consolidated financial statements and notes thereto included in our 2009 Form 10-K. Our accounting policies are described in the Notes to Consolidated Financial Statements in our 2009 Form 10-K and updated, as necessary, in this Form 10-Q. The results of operations for the three months ended March 31, 2010, and the cash flows for the same period, are not necessarily indicative of the results to be expected for the full year or any other future period.

We have evaluated our activities subsequent to March 31, 2010, and have concluded that no material subsequent events have occurred that would require recognition in the financial statements or disclosure in the notes to the financial statements.

2. RECENT ACCOUNTING STANDARDS

Recently Adopted Accounting Standards

Consolidation – Variable Interest Entities

In June 2009, the Financial Accounting Standards Board ("FASB") issued changes regarding an entity's analysis to determine whether any of its variable interests constitute controlling financial interests in a variable interest entity. This analysis identifies the primary beneficiary of a variable interest entity as the enterprise that has both of the following characteristics:

- the power to direct the activities of a variable interest entity that most significantly impact the entity's economic performance; and
- the obligation to absorb losses of the entity that could potentially be significant to the variable interest entity or the right to receive benefits from the entity that could potentially be significant to the variable interest entity.

Additionally, the entity is required to assess whether it has an implicit financial responsibility to ensure that a variable interest entity operates as designed when determining whether it has the power to direct the activities of the variable interest entity that most significantly impact the entity's economic performance. The guidance also requires ongoing reassessments of whether an enterprise is the primary beneficiary of a variable interest entity. We adopted these changes effective January 1, 2010. Upon adoption, we deconsolidated PDCM as power over the activities that significantly impact this joint venture is equally shared with our investment partner. No cumulative effect adjustment to retained earnings was recognized upon adoption.

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## PETROLEUM DEVELOPMENT CORPORATION

Notes to Condensed Consolidated Financial Statements  
March 31, 2010

(unaudited)

The following table presents the impact deconsolidation had on our balance sheet as of January 1, 2010, which effectively represents the noncontrolling interest portion, or 32.6%, of PDCM's consolidated assets and liabilities. Further, the changes below are non-cash items with the exception of the change in cash and cash equivalents, which is reflected in investing activities in the statement of cash flows. (in thousands)

	Decreased/(Increased)		Decreased/(Increased)
Assets		Liabilities and Equity	
Current assets		Current liabilities	
Cash and cash equivalents	\$ 3,074	Accounts payable	\$ 813
Accounts receivable, net	1,335	Production tax liability	17
Accounts receivable affiliates	(2,399)	Fair value of derivatives	434
Prepaid expenses and other current assets	131	Total current liabilities	1,586
Total current assets	2,143	Fair value of derivatives	83
		Other liabilities	591
Properties and equipment, net of DD&A of \$15,731	51,765	Asset retirement obligation	4,815
Fair value of derivatives	70	Total liabilities	7,075
Other assets	419	Noncontrolling interest	47,322
Total Assets	\$ 54,397	Total Liabilities and Equity	\$ 54,397

## Fair Value Measurements and Disclosures

In January 2010, the FASB issued changes clarifying existing disclosure requirements related to fair value measurements. The update also added a new requirement to disclose fair value transfers in and out of Levels 1 and 2 and describe the reasons for the transfers. The adoption of these changes as of January 1, 2010, did not have a material impact on our financial statements.

## Recently Issued Accounting Standards

## Fair Value Measurements and Disclosures

In January 2010, the FASB issued changes related to fair value measurements requiring gross presentation of activities within the Level 3 roll forward, whereby entities must present separately information about purchases, sales, issuances and settlements. This change will be effective for our financial statements issued for annual reporting periods beginning after December 15, 2010. We do not expect the adoption of this change to have a material impact on our financial statements.

## 3. FAIR VALUE MEASUREMENTS

**Derivative Financial Instruments.** We measure the fair value of our derivative instruments based upon quoted market prices, where available. Our valuation determination includes: (1) identification of the inputs to the fair value methodology through the review of counterparty statements and other supporting documentation, (2) determination of

the validity of the source of the inputs, (3) corroboration of the original source of inputs through access to multiple quotes, if available, or other information and (4) monitoring changes in valuation methods and assumptions. The methods described above may produce a fair value calculation that may not be indicative of future fair values. Our valuation determination also gives consideration to nonperformance risk on our own liabilities as well as the credit standing of our counterparties. We primarily use financial institutions, who are also major lenders in our credit facility agreement, as counterparties to our derivative contracts. We have evaluated the credit risk of the counterparties holding our derivative assets using relevant credit market default rates, giving consideration to amounts outstanding for each counterparty and the duration of each outstanding derivative position. Based on our evaluation, as of March 31, 2010, the impact of nonperformance risk on the fair value of our derivative assets and liabilities was not significant. Validation of our contracts' fair value is performed internally and while we use common industry practices to develop our valuation techniques, changes in our pricing methodologies or the underlying assumptions could result in significantly different fair values. While we believe these valuation methods are appropriate and consistent with those used by other market participants, the use of different methodologies, or assumptions, to determine the fair value of certain financial instruments could result in a different estimate of fair value.

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## PETROLEUM DEVELOPMENT CORPORATION

Notes to Condensed Consolidated Financial Statements  
March 31, 2010

(unaudited)

The following table presents, by hierarchy level, our derivative financial instruments, including both current and non-current portions, measured at fair value.

	March 31, 2010			December 31, 2009		
	Quoted Prices in Active Markets (Level 1)	Significant Unobservable Inputs (Level 3)	Total	Quoted Prices in Active Markets (Level 1)	Significant Unobservable Inputs (Level 3)	Total
			(in thousands)			
<b>Assets:</b>						
Commodity based derivatives	\$69,436	\$ 26,131	\$95,567	\$25,598	\$ 36,796	\$62,394
Basis protection derivative contracts	-	65	65	-	57	57
<b>Total assets</b>	<b>69,436</b>	<b>26,196</b>	<b>95,632</b>	<b>25,598</b>	<b>36,853</b>	<b>62,451</b>
<b>Liabilities:</b>						
Commodity based derivatives	(141 )	(10,789 )	(10,930 )	(3,140 )	(9,932 )	(13,072 )
Basis protection derivative contracts	-	(62,723 )	(62,723 )	-	(55,915 )	(55,915 )
<b>Total liabilities</b>	<b>(141 )</b>	<b>(73,512 )</b>	<b>(73,653 )</b>	<b>(3,140 )</b>	<b>(65,847 )</b>	<b>(68,987 )</b>
<b>Net asset (liability)</b>	<b>\$69,295</b>	<b>\$ (47,316 )</b>	<b>\$21,979</b>	<b>\$22,458</b>	<b>\$ (28,994 )</b>	<b>\$(6,536 )</b>

The following table presents the changes in our Level 3 derivative financial instruments measured on a recurring basis.

	(in thousands)
Fair value, net liability, as of December 31, 2009	\$ (28,994 )
Changes in fair value included in statement of operations line item:	
Commodity price risk management, net	12,431
Sales from natural gas marketing	383
Cost of natural gas marketing	(3,293 )
Changes in fair value included in balance sheet line item (1):	
Accounts receivable affiliates	(2,320 )
Accounts payable affiliates	(4,538 )
Settlements included in statement of operations line item:	
Commodity price risk management, net	(20,980 )
Cost of natural gas marketing	(5 )
Fair value, net liability, as of March 31, 2010	\$ (47,316 )

Changes in unrealized gains (losses) relating to assets  
(liabilities) still held as of March 31, 2010, included in  
statement of operations line item:

Commodity price risk management gain, net	\$ 8,477
Sales from natural gas marketing	353
Cost of natural gas marketing	(3,604 )
	\$ 5,226

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(1) Represents the change in fair value related to derivative instruments entered into by us and designated to our affiliated partnerships.

See Note 4, Derivative Financial Instruments, for additional disclosure related to our derivative financial instruments.

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## PETROLEUM DEVELOPMENT CORPORATION

Notes to Condensed Consolidated Financial Statements  
March 31, 2010

(unaudited)

Non-Derivative Assets and Liabilities. The carrying values of the financial instruments comprising current assets and current liabilities approximate fair value due to the short-term maturities of these instruments.

The portion of our long-term debt related to our credit facility approximates fair value due to the variable nature of its related interest rate. We have not elected to account for the portion of our long-term debt related to our senior notes under the fair value option; however, we estimate the fair value of this portion of our long-term debt to be \$215.2 million or 106% of par value as of March 31, 2010. We determined this valuation based upon measurements of trading activity.

We assess our natural gas and oil properties for possible impairment, upon a triggering event, by comparing net capitalized costs to estimated undiscounted future net cash flows on a field-by-field basis using estimated production based upon prices at which we reasonably estimate the commodity to be sold. The estimates of future prices may differ from current market prices of natural gas and oil. Certain events, including but not limited to, downward revisions in estimates to our reserve quantities, expectations of falling commodity prices or rising operating costs, could result in a triggering event and, therefore, a possible impairment of our natural gas and oil properties. If net capitalized costs exceed undiscounted future net cash flows, the measurement of impairment is based on estimated fair value utilizing a future discounted cash flows analysis and is measured by the amount by which the net capitalized costs exceed their fair value.

We estimate the fair value of our plugging and abandonment obligations based on a discounted cash flows analysis. If the fair value of the estimated asset retirement obligation changes, an adjustment is recorded to both the asset retirement obligation and the asset retirement cost. Changes in estimated asset retirement obligations can result from revisions of estimated inflation rates, escalating retirement costs and changes in the estimated timing of settling asset retirement obligation. See Note 8, Asset Retirement Obligation, for changes in the fair value of our asset retirement obligations.

## 4. DERIVATIVE FINANCIAL INSTRUMENTS

As of March 31, 2010, we had derivative instruments in place for a portion of our anticipated production through 2013 for a total of 50,573,396 MMBtu of natural gas and 1,741,935 Bbls of oil. These derivative instruments were comprised of commodity collars and swaps, basis protection swaps and physical sales and purchases.

The following table summarizes the location and fair value amounts of our derivative instruments in the accompanying balance sheets.

	Balance sheet line item	Fair Value	
		March 31, 2010	December 31, 2009
Derivatives instruments not designated as hedges (1)			
		(in thousands)	
Derivative Assets:	Current		
	Commodity contracts		
	Related to natural gas and oil sales	Fair value of derivatives	
		\$ 42,653	\$ 39,107

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	Related to natural gas marketing	Fair value of derivatives	5,452	3,077
	Basis protection contracts			
	Related to natural gas marketing	Fair value of derivatives	52	39
			48,157	42,223
	Non Current			
	Commodity contracts			
	Related to natural gas and oil sales	Fair value of derivatives	46,986	19,680
	Related to natural gas marketing	Fair value of derivatives	476	530
	Basis protection contracts			
	Related to natural gas marketing	Fair value of derivatives	13	18
			47,475	20,228
Total Derivative Assets (2)			\$ 95,632	\$ 62,451

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## PETROLEUM DEVELOPMENT CORPORATION

Notes to Condensed Consolidated Financial Statements  
March 31, 2010

(unaudited)

Derivatives instruments not designated as hedges (1)	Balance sheet line item	Fair Value		
		March 31, 2010	December 31, 2009	
		(in thousands)		
Derivative Liabilities:	Current			
	Commodity contracts			
	Related to natural gas and oil sales	Fair value of derivatives	\$ (1,498 )	\$ (2,451 )
	Related to natural gas marketing	Fair value of derivatives	(4,758 )	(2,626 )
	Basis protection contracts			
	Related to natural gas and oil sales	Fair value of derivatives	(18,270 )	(15,127 )
	Related to natural gas marketing	Fair value of derivatives	-	(4 )
			(24,526 )	(20,208 )
	Non Current			
	Commodity contracts			
	Related to natural gas and oil sales	Fair value of derivatives	(4,243 )	(7,572 )
	Related to natural gas marketing	Fair value of derivatives	(431 )	(423 )
	Basis protection contracts			
	Related to natural gas and oil sales	Fair value of derivatives	(44,453 )	(40,784 )
			(49,127 )	(48,779 )
Total Derivative Liabilities (3)			\$ (73,653 )	\$ (68,987 )

(1) As of March 31, 2010, and December 31, 2009, none of our derivative instruments were designated as hedges.

(2) Includes derivative positions that have been designated to our affiliated partnerships; accordingly, our accompanying balance sheets include a corresponding payable to our affiliated partnerships of \$22.9 million and \$13.4 million as of March 31, 2010, and December 31, 2009, respectively, representing their proportionate share of the derivative assets.

(3) Includes derivative positions that have been designated to our affiliated partnerships; accordingly, our accompanying balance sheets include a corresponding receivable from our affiliated partnerships of \$22.9 million and \$21 million as of March 31, 2010, and December 31, 2009, respectively, representing their proportionate share of the derivative liabilities.

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The following table summarizes the impact of our derivative instruments on our accompanying statements of operations for the three months ended March 31, 2010 and 2009.

Statement of operations line item	Three Months Ended March 31,					
	Reclassification of Realized Gains (Losses) Included in Prior Periods Unrealized	2010 Realized and Unrealized Gains (Losses) For the Current Period	Total	Reclassification of Realized Gains (Losses) Included in Prior Periods Unrealized	2009 Realized and Unrealized Gains (Losses) For the Current Period	Total
			(in thousands)			
Commodity price risk management gain, net						
Realized gains	\$21,067	\$1,857	\$22,924	\$30,193	\$6,433	\$36,626
Unrealized gains (losses)	(21,067 )	41,365	20,298	(30,193 )	17,250	(12,943 )
Total commodity price risk management gain, net (1)	\$-	\$43,222	\$43,222	\$-	\$23,683	\$23,683
Sales from natural gas marketing						
Realized gains	\$752	\$233	\$985	\$2,109	\$259	\$2,368
Unrealized gains	(752 )	4,264	3,512	(2,109 )	2,934	825
Total sales from natural gas marketing(2)	\$-	\$4,497	\$4,497	\$-	\$3,193	\$3,193
Cost of natural gas marketing						