

PETROLEUM DEVELOPMENT CORP
Form 10-Q
November 08, 2010
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 September 30, 2010

or

Transition Report Pursuant to Section 13 of 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)
(Doing Business as PDC Energy)
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 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

Accelerated filer

Non-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: 19,272,750 shares of the Company's Common Stock (\$.01 par value) were outstanding as of October 29, 2010.

EXPLANATORY NOTE

Effective July 15, 2010, Petroleum Development Corporation began conducting business as PDC Energy. A new logo and corporate identity accompanied this change. Our common stock continues to trade on the NASDAQ Global Select Market under the ticker symbol PETD. We continue to maintain our website address, www.petd.com, which reflects the new PDC Energy name and brand identity. This change reflects the transitioning in our business model, from a company that was predominately a sponsor of limited partnerships to a natural gas and oil company that explores for and acquires, develops, produces and markets natural gas and oil resources. We believe that the name PDC Energy more fully portrays the range of business activities in which we engage.

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PETROLEUM DEVELOPMENT CORPORATION
(dba PDC Energy)

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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;
- changes in estimates of proved reserves;
- declines in the values of our natural gas and oil properties resulting in impairments;
- 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, including the availability of funding for the consideration payable by us to consummate the prospective mergers of the four 2004 partnerships;
- the timing and closing, if consummated, of the mergers of the four 2004 partnerships;
- reductions in the borrowing base under our credit facility;
- 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.");
- changes in environmental laws and the regulations and enforcement related to those laws;
- the identification of and severity of environmental events and governmental responses to the events;
- the effect of natural gas and oil derivative 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, as amended August 31, 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 made. Other than as required under the securities laws, 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 Energy," "the Company," "we," "us," "our," "ours" or "ourselves" in this report refer to the registrant, Petroleum Development Corporation ("PDC"), together with its wholly owned subsidiaries, an entity 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.

References to "the three months ended 2010" and "the nine months ended 2010" refer to the three or nine months ended September 30, 2010, as applicable. References to "the three months ended 2009" and "the nine months ended 2009" refer to the three or nine months ended September 30, 2009, as applicable.

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

PETROLEUM DEVELOPMENT CORPORATION

(dba PDC Energy)

Condensed Consolidated Balance Sheets

(unaudited; in thousands, except share data)

	September 30, 2010	December 31, 2009*
Assets		
Current assets:		
Cash and cash equivalents	\$ 13,299	\$ 31,944
Restricted cash	2,478	2,490
Accounts receivable, net	49,013	56,491
Accounts receivable affiliates	11,753	7,956
Fair value of derivatives	52,605	42,223
Income tax receivable	—	27,728
Prepaid expenses and other current assets	1,878	8,538
Total current assets	131,026	177,370
Properties and equipment, net	1,029,011	979,373
Assets held for sale	—	28,820
Fair value of derivatives	54,949	20,228
Accounts receivable affiliates	12,067	15,473
Other assets	23,511	29,063
Total Assets	\$ 1,250,564	\$ 1,250,327
Liabilities and Equity		
Liabilities		
Current liabilities:		
Accounts payable	\$ 42,104	\$ 36,845
Accounts payable affiliates	12,788	13,015
Production tax liability	15,099	24,849
Fair value of derivatives	22,558	20,208
Funds held for distribution	27,654	28,256
Other accrued expenses	20,880	21,261
Total current liabilities	141,083	144,434
Long-term debt	302,374	280,657
Deferred income taxes	182,188	178,012
Asset retirement obligation	26,339	29,314
Fair value of derivatives	36,969	48,779
Accounts payable affiliates	17,531	5,996
Other liabilities	23,234	24,542
Total liabilities	729,718	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: 19,274,031 shares for 2010 and 19,242,219 for 2009

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Additional paid-in capital	69,692	64,406
Retained earnings	450,983	426,629
Treasury shares, at cost; 8,273 shares for 2010 and for 2009	(312) (312
Total shareholders' equity	520,556	490,915
Noncontrolling interest	290	47,678
Total equity	520,846	538,593
Total Liabilities and Equity	\$ 1,250,564	\$ 1,250,327

*Derived from audited 2009 balance sheet.

See accompanying notes to condensed consolidated financial statements.

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PETROLEUM DEVELOPMENT CORPORATION
(dba PDC Energy)
Condensed Consolidated Statements of Operations
(unaudited; in thousands, except per share data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Revenues:				
Natural gas and oil sales	\$48,070	\$42,871	\$156,133	\$121,440
Sales from natural gas marketing	18,337	11,062	53,613	43,200
Commodity price risk management gain (loss), net	19,029	(13,813)	74,508	(13,414)
Well operations, pipeline income and other	2,173	2,264	6,941	7,698
Total revenues	87,609	42,384	291,195	158,924
Costs, expenses and other:				
Natural gas and oil production and well operations costs	16,685	14,705	48,217	44,242
Cost of natural gas marketing	18,300	10,179	52,830	41,420
Exploration expense	3,737	6,586	13,985	15,363
General and administrative expense	10,426	9,627	30,975	36,505
Depreciation, depletion and amortization	28,219	31,935	82,992	99,080
Gain on sale of leaseholds	(57)	—	(153)	(120)
Total costs, expenses and other	77,310	73,032	228,846	236,490
Operating income (loss)	10,299	(30,648)	62,349	(77,566)
Interest income	21	208	60	240
Interest expense	(8,174)	(9,221)	(23,646)	(27,024)
Income (loss) from continuing operations before income taxes	2,146	(39,661)	38,763	(104,350)
Provision (benefit) for income taxes	(1,020)	(14,707)	12,746	(39,795)
Income (loss) from continuing operations	3,166	(24,954)	26,017	(64,555)
Income (loss) from discontinued operations, net of tax	188	179	(1,729)	966
Net income (loss)	3,354	(24,775)	24,288	(63,589)
Less: net loss attributable to noncontrolling interest	(5)	(299)	(66)	(331)
Net income (loss) attributable to shareholders	\$3,359	\$(24,476)	\$24,354	\$(63,258)
Amounts attributable to shareholders:				
Income (loss) from continuing operations	\$3,171	\$(24,655)	\$26,083	\$(64,224)
Income (loss) from discontinued operations	188	179	(1,729)	966
Net income (loss) attributable to shareholders	\$3,359	\$(24,476)	\$24,354	\$(63,258)
Earnings (loss) per share attributable to shareholders:				
Basic				
Income (loss) from continuing operations	\$0.16	\$(1.45)	\$1.36	\$(4.13)
Income (loss) from discontinued operations	0.01	0.01	(0.09)	0.06
Net income (loss) attributable to shareholders	\$0.17	\$(1.44)	\$1.27	\$(4.07)
Diluted				
Income (loss) from continuing operations	\$0.16	\$(1.45)	\$1.35	\$(4.13)
Income (loss) from discontinued operations	0.01	0.01	(0.09)	0.06
Net income (loss) attributable to shareholders	\$0.17	\$(1.44)	\$1.26	\$(4.07)

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Weighted average common shares outstanding:
Basic

19,250

16,962

19,218