

PDC ENERGY, INC.
Form 10-Q
May 01, 2013
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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 March 31, 2013

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 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 Accelerated filer

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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: 30,341,302 shares of the Company's Common Stock (\$0.01 par value) were outstanding as of April 19, 2013.

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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 natural gas, natural gas liquids ("NGLs") and crude oil reserves; future production (including the components of such production), expenses, cash flows and liquidity; anticipated capital projects, expenditures and opportunities; future exploration and development activities; availability of additional midstream facilities and services, the timing of that availability and related benefits to us; availability of sufficient funding for our capital program and sources of that funding; our and PDC Mountaineer, LLC's ("PDCM") compliance with debt covenants, the borrowing base under our credit facility and the renewal of a letter of credit under that facility; the future effect of contracts, policies and procedures we believe to be customary; effectiveness of our derivative program in providing a degree of price stability; closing of, and expected proceeds from, our pending asset disposition; 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 natural gas, NGLs and crude 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 and worldwide demand, including economic conditions that might impact demand;
- volatility of commodity prices for natural gas, NGLs and crude oil;
- the 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 values of our natural gas and crude oil 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 to be greater than expected;
- timing and extent of our success in discovering, acquiring, developing and producing reserves;
- our ability to acquire leases, drilling rigs, supplies and services at reasonable prices;
- timing and receipt of necessary regulatory permits;
- risks incidental to the drilling and operation of natural gas and crude oil wells;
- our future cash flows, liquidity and financial condition;
- competition in the oil and gas industry;
- availability and cost of capital to us;
- reductions in the borrowing base under our revolving credit facility;
- availability of sufficient pipeline, gathering and other transportation facilities and related infrastructure to process and transport our production, particularly in the Wattenberg Field, and the impact of these facilities on the prices we

receive for our production;

- our success in marketing natural gas, NGLs and crude oil;
- effect of natural gas and crude oil 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;
- potential obstacles to completing our pending asset disposition or other transactions, in a timely manner or at all, and purchase price or other adjustments relating to those transactions that may be unfavorable to us;
- 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, 2012 ("2012 Form 10-K"), filed with the U.S. Securities and Exchange Commission ("SEC") on February 27, 2013, 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 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.

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REFERENCES

Unless the context otherwise requires, references in this report to "PDC Energy," "PDC," "the Company," "we," "us," "our," "ours" or "ourselves" 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 currently owned 50% each by PDC and Lime Rock Partners, LP, formed for the purpose of exploring and developing the Marcellus Shale formation in the Appalachian Basin. Unless the context otherwise requires, references in this report to "Appalachian Basin" includes PDC's proportionate share of our affiliated partnerships' and PDCM's assets, results of operations, cash flows and operating activities. 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)

	March 31, 2013	December 31, 2012 (1)
Assets		
Current assets:		
Cash and cash equivalents	\$2,494	\$2,457
Restricted cash	3,948	3,942
Accounts receivable, net	65,822	64,880
Accounts receivable affiliates	5,087	4,842
Fair value of derivatives	29,850	52,042
Deferred income taxes	37,573	36,151
Prepaid expenses and other current assets	7,885	7,635
Total current assets	152,659	171,949
Properties and equipment, net	1,375,473	1,616,706
Assets held for sale	216,802	—
Fair value of derivatives	5,181	6,883
Other assets	31,698	31,310
Total Assets	\$1,781,813	\$1,826,848
Liabilities and Shareholders' Equity		
Liabilities		
Current liabilities:		
Accounts payable	\$70,471	\$82,716
Accounts payable affiliates	3,394	5,296
Production tax liability	26,709	25,899
Fair value of derivatives	23,564	18,439
Funds held for distribution	32,406	34,228
Accrued interest payable	21,688	11,056
Other accrued expenses	16,521	25,715
Total current liabilities	194,753	203,349
Long-term debt	687,970	676,579
Deferred income taxes	128,699	148,427
Asset retirement obligation	34,296	61,563
Fair value of derivatives	13,046	10,137
Liabilities held for sale	28,346	—
Other liabilities	28,798	23,612
Total liabilities	1,115,908	1,123,667
Commitments and contingent liabilities		
Shareholders' equity		
Preferred shares - par value \$0.01 per share, 50,000,000 shares authorized, none issued	—	—
	303	303

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Common shares - par value \$0.01 per share, 100,000,000 authorized, 30,337,524 and 30,294,224 issued as of March 31, 2013 and December 31, 2012, respectively		
Additional paid-in capital	389,831	387,494
Retained earnings	276,150	315,568
Treasury shares - at cost, 8,788 and 5,059 as of March 31, 2013 and December 31, 2012, respectively	(379)