

PETROLEUM DEVELOPMENT CORP
Form 10-Q
August 04, 2011

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 June 30, 2011

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)
(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 T 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 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
Non-accelerated filer Smaller reporting company
(Do not check if a smaller reporting company)

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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: 23,590,922 shares of the Company's Common Stock (\$0.01 par value) were outstanding as of July 22, 2011.

PETROLEUM DEVELOPMENT CORPORATION
(dba PDC Energy)

TABLE OF CONTENTS

	Page
PART I - FINANCIAL INFORMATION	
Item 1. <u>Financial Statements</u>	<u>5</u>
<u>Condensed Consolidated Balance Sheets</u>	<u>5</u>
<u>Condensed Consolidated Statements of Operations</u>	<u>6</u>
<u>Condensed Consolidated Statements of Cash Flows</u>	<u>7</u>
<u>Notes to Condensed Consolidated Financial Statements</u>	<u>8</u>
<u>1. Nature of Operations and Basis of Presentation</u>	
<u>2. Recent Accounting Standards</u>	
<u>3. Fair Value Measurements and Disclosures</u>	
<u>4. Derivative Financial Instruments</u>	
<u>5. Properties and Equipment</u>	
<u>6. Income Taxes</u>	
<u>7. Long-Term Debt</u>	
<u>8. Asset Retirement Obligations</u>	
<u>9. Commitments and Contingencies</u>	
<u>10. Common Stock</u>	
<u>11. Earnings Per Share</u>	
<u>12. Divestitures and Discontinued Operations</u>	
<u>13. Transactions with Affiliates and Other Related Parties</u>	
<u>14. Business Segments</u>	
<u>15. Acquisition</u>	
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>25</u>
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	<u>39</u>
Item 4. <u>Controls and Procedures</u>	<u>42</u>
PART II – OTHER INFORMATION	
Item 1. <u>Legal Proceedings</u>	<u>43</u>
Item 1A. <u>Risk Factors</u>	<u>43</u>
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>43</u>
Item 3. <u>Defaults Upon Senior Securities</u>	<u>43</u>
Item 4. <u>[Removed and Reserved]</u>	<u>43</u>
Item 5. <u>Other Information</u>	<u>43</u>
Item 6. <u>Exhibits</u>	<u>44</u>
<u>SIGNATURES</u>	<u>45</u>

SPECIAL 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" within the meaning of the safe harbor provisions of the United States 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 include: estimated natural gas, natural gas liquids ("NGL") and crude oil production and reserves; drilling plans; future cash flows and anticipated liquidity; anticipated capital expenditures, including our ability to fund our 2011 capital plan; our expected production growth from continuing operations in 2011 and our increased 2011 capital expenditure budget; our plan to release our drilling rig in the Piceance Basin in 2011 and resume drilling in mid-2012; our compliance with our debt covenants and the indenture restrictions governing our senior notes; sufficient liquidity to meet our partnership repurchase obligations; that the acquisition of partnerships will provide us with growth in production and proved reserves; the adequacy of our casualty insurance coverage as managing general partner of numerous partnerships; the impact of decreased commodity prices on future borrowing base redeterminations; the effectiveness of our derivative policies in achieving our risk management objectives; funding sources for our acquisitions; the acceleration of our capital spending program due to a rise in crude oil prices; our ability to benefit from crude oil and natural gas price differential; our ability to successfully acquire the 2003/2002-D Partnerships; and our management's 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;
- volatility of commodity prices for natural gas and crude oil;
- changes in estimates of proved reserves;
- inaccuracy of reserve estimates and expected production rates;
- declines in the values of our natural gas and crude oil properties resulting in impairments;
- the future cash flow, liquidity and financial position of the Company;
- the 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;
- reductions in the borrowing base under our credit facility;
- risks incidental to the drilling and operation of natural gas and crude oil wells;
- the availability of sufficient pipeline and other transportation facilities to carry our production and the impact of these facilities on price;
- changes in environmental laws, the regulation and enforcement of those laws and the costs to comply with those laws;
- the impact of environmental events, governmental responses to the events and our ability to insure adequately against such events;
- the timing and receipt of necessary regulatory permits;
- competition in the oil and gas industry;
- the success of the Company in marketing oil and gas;
- the effect of natural gas and crude oil derivatives activities;

- the availability and cost of capital to us;
- the cost of pending or future litigation;
- our ability to retain or attract senior management and key technical employees; and
- the success of strategic plans, expectations and objectives for future operations of the Company.

Further, we urge you to carefully review and consider the cautionary statements and disclosures, specifically those under the heading "Risk Factors," made in this report, our annual report on Form 10-K for the year ended December 31, 2010, filed with the United States Securities and Exchange Commission ("SEC") on February 24, 2011, as amended April 21, 2011, and May 18, 2011 ("2010 Form 10-K"), and our other filings with the SEC for further information on risks and uncertainties that could affect the Company's business, financial condition and results of operations, 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.

REFERENCES

Unless the context otherwise requires, references to "PDC," "PDC Energy," "the Company," "we," "us," "our," "ours" or "ourselves" in this report refer to the registrant, Petroleum Development Corporation, and its consolidated entities. See Note 1, Nature of Operations and Basis of Presentation, to our condensed consolidated financial statements included in this report for a description of our consolidated entities.

References to "the three months ended 2011" and "the six months ended 2011" refer to the three and six months ended June 30, 2011, respectively. References to "the three months ended 2010" and "the six months ended 2010" refer to the three and six months ended June 30, 2010, respectively.

References to "quarter-over-quarter" refer to the three months ended 2011 compared to the three months ended 2010. References to "year-over-year" refer to the six months ended 2011 compared to the six months ended 2010.

PART I - FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS
PETROLEUM DEVELOPMENT CORPORATION

(dba PDC Energy)

Condensed Consolidated Balance Sheets

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

	June 30, 2011	December 31, 2010 (1)
Assets		
Current assets:		
Cash and cash equivalents	\$6,771	\$54,372
Accounts receivable, net	57,221	53,978
Accounts receivable affiliates	9,257	11,448
Fair value of derivatives	38,797	42,953
Prepaid expenses and other current assets	15,855	14,072
Total current assets	127,901	176,823
Properties and equipment, net	1,244,413	1,120,038
Assets held for sale	—	5,191
Fair value of derivatives	34,546	44,464
Accounts receivable affiliates	4,819	8,478
Other assets	32,006	34,041
Total Assets	\$1,443,685	\$1,389,035
Liabilities and Equity		
Liabilities		
Current liabilities:		
Accounts payable	\$103,620	\$47,271
Accounts payable affiliates	8,084	9,605
Production tax liability	18,490	16,226
Fair value of derivatives	30,349	29,998
Funds held for distribution	30,755	29,755
Accrued interest payable	10,396	10,051
Other accrued expenses	21,408	17,723
Total current liabilities	223,102	160,629
Long-term debt	314,124	295,695
Deferred income taxes	179,711	187,999
Asset retirement obligations	28,414	27,797
Fair value of derivatives	32,230	36,644
Accounts payable affiliates	7,353	12,111
Other liabilities	21,360	25,919
Total liabilities	806,294	746,794

Commitments and contingent liabilities

Equity

Shareholders' equity: