PDC ENERGY, INC.
Form 10-Q
October 31, 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 September 30, 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 x	Accelerated filer o

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes £ No T

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: 35,653,050 shares of the Company's Common Stock ($0.01 par value) were outstanding as of October 18, 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 crude oil, natural gas and natural gas liquids (“NGLs”) reserves; future production (including the components of such production), sales, expenses, cash flows and liquidity; that our evaluation method is appropriate and consistent with those used by other market participants; anticipated capital projects, expenditures and opportunities; future exploration, drilling and development activities; our drilling programs; expected timing of additional rigs in the Wattenberg Field; availability of additional midstream facilities and services, timing of that availability and related benefits to us; impact of recent flooding in the Wattenberg Field; availability of sufficient funding for the remainder of our 2013 and 2014 capital program and sources of that funding, including our partnership repurchase obligation; expected use of the net proceeds from our August 2013 equity offering; expected use of proceeds from the potential sale of the upper Devonian assets; the impact of high line pressures and the expected impact of the O'Connor (formerly known as LaSalle) gas plant; our compliance with debt covenants; PDCM's compliance with its debt covenants and transactions to maintain compliance and/or reduce its indebtedness; potential future transactions; the borrowing base under our credit facility; our expected funding source for payments under our 3.25% Convertible Senior Notes due 2016; impact of litigation on our results of operations and financial position; effectiveness of our derivative program in providing a degree of price stability; 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. 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, crude oil, natural gas and NGLs, 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 crude oil, natural gas and NGLs;
- 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 value of our crude oil and natural gas 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 secure leases, drilling rigs, supplies and services at reasonable prices;
- timing of the connection of our Utica Basin wells to gathering, processing, fractionation and transportation infrastructure;

- timing and receipt of necessary regulatory permits;
- risks incidental to the drilling and operation of crude oil and natural gas wells;
- our 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;
- availability of sufficient pipeline, gathering and other transportation facilities and related infrastructure to process and transport our production, particularly in the Wattenberg Field and Utica Shale, and the impact of these facilities on the prices we receive for our production;
- 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;
- purchase price or other adjustments relating to asset acquisitions or dispositions 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

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Form 10-K"), filed with the U.S. Securities and Exchange Commission ("SEC") on February 27, 2013, and in our Current Report on Form 8-K filed on June 28, 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.

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 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" refers to our operations in the Utica Shale in Ohio and Marcellus Shale in West Virginia and Pennsylvania, including 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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PART I - FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS

PDC ENERGY, INC.
Condensed Consolidated Balance Sheets
(unaudited; in thousands, except share and per share data)

	September 30, 2013	December 31, 2012
Assets		
Current assets:		
Cash and cash equivalents	$298,488	$2,457
Restricted cash	3,950	3,942
Accounts receivable, net	56,181	64,880
Accounts receivable affiliates	4,784	4,842
Fair value of derivatives	9,660	52,042
Deferred income taxes	22,238	36,151
Prepaid expenses and other current assets	9,073	7,635
Total current assets	404,374	171,949
Properties and equipment, net	1,539,701	1,616,706
Assets held for sale	29,034	—
Fair value of derivatives	5,922	6,883
Other assets	31,932	31,310
Total Assets	$2,010,963	$1,826,848
Liabilities and Shareholders' Equity		
Liabilities		
Current liabilities:		
Accounts payable	$93,520	$82,716
Accounts payable affiliates	44	5,296
Production tax liability	23,867	25,899
Fair value of derivatives	14,623	18,439
Funds held for distribution	29,753	34,228
Current portion of long-term debt	—104,050	—
Accrued interest payable	19,874	11,056
Other accrued expenses	25,720	25,715
Total current liabilities	311,451	203,349
Long-term debt	549,750	676,579
Deferred income taxes	112,800	148,427
Asset retirement obligation	35,654	61,563
Fair value of derivatives	6,573	10,137
Liabilities held for sale	22,788	—
Other liabilities	20,849	23,612
Total liabilities	1,059,865	1,123,667
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, 100,000,000 authorized, 35,657,872 and 30,294,224 issued as of September 30, 2013 and December 31, 2012, respectively	357	303
Additional paid-in capital	670,990	387,494
Retained earnings	280,068	315,568
Treasury shares - at cost, 7,114 and 5,059 as of September 30, 2013 and December 31, 2012, respectively	(317)	(184)
Total shareholders' equity	951,098	703,181
Total Liabilities and Shareholders' Equity	$2,010,963	$1,826,848

See accompanying Notes to Condensed Consolidated Financial Statements
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PDC ENERGY, INC.
Condensed Consolidated Statements of Operations
(unaudited; in thousands, except per share data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Revenues:				
Crude oil, natural gas and NGLs sales	$82,136	$52,291	$239,112	$170,588
Sales from natural gas marketing	16,946	11,178	48,695	31,172
Commodity price risk management gain (loss), net	(23,638)	(31,943)	(21,269)	18,287
Well operations, pipeline income and other	1,672	1,194	3,709	3,419
Total revenues	77,116	32,720	270,247	223,466
Costs, expenses and other:				
Production costs	19,057	15,797	51,091	41,106
Cost of natural gas marketing	17,127	11,260	48,928	30,841
Exploration expense	2,030	1,773	5,156	6,019
Impairment of crude oil and natural gas properties	4,472	388	52,433	1,332
General and administrative expense	16,080	13,710	46,978	42,796
Depreciation, depletion, and amortization	30,870	22,121	86,619	73,872
Accretion of asset retirement obligations	1,186	1,101	3,506	2,560
Gain on sale of properties and equipment	(712)	(1,508)	(759)	(3,908)
Total cost, expenses and other	90,110	64,642	293,952	194,618
Income (loss) from operations	(12,994)	(31,922)	(23,705)	28,848
Interest expense	(12,509)	(11,360)	(38,955)	(31,857)
Interest income	130	3	133	5
Loss from continuing operations before income taxes	(25,373)	(43,279)	(62,527)	(3,004)
Provision for income taxes	10,155	15,268	22,856	935
Loss from continuing operations	(15,218)	(28,011)	(39,671)	(2,069)
Income (loss) from discontinued operations, net of tax	(782)	(4,632)	4,171	(2,468)
Net loss	$(16,000)	$(32,643)	$(35,500)	$(4,537)
Earnings per share:				
Basic				
Loss from continuing operations	$(0.46)	$(0.93)	$(1.26)	$(0.08)
Income (loss) from discontinued operations	(0.02)	(0.15)	0.13	(0.09)
Net loss	$(0.48)	$(1.08)	$(1.13)	$(0.17)
Diluted				
Loss from continuing operations	$(0.46)	$(0.93)	$(1.26)	$(0.08)
Income (loss) from discontinued operations	(0.02)	(0.15)	0.13	(0.09)
Net loss	$(0.48)	$(1.08)	$(1.13)	$(0.17)
Weighted-average common shares outstanding:				
Basic	33,413	30,214	31,350	26,819
Diluted	33,413	30,214	31,350	26,819

See accompanying Notes to Condensed Consolidated Financial Statements

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PDC ENERGY, INC.
Condensed Consolidated Statements of Cash Flows
(unaudited; in thousands)

	Nine Months Ended September 30,	
	2013	2012
Cash flows from operating activities:		
Net loss	$(35,500)	$(4,537)
Adjustments to net loss to reconcile to net cash from operating activities:		
Unrealized loss on derivatives, net	32,057	20,917
Depreciation, depletion and amortization	88,877	106,745
Impairment of crude oil and natural gas properties	52,436	1,418
Exploratory dry hole costs	—	1,043
Accretion of asset retirement obligation	3,667	2,839
Stock-based compensation	9,991	6,126
(Gain) loss on sale of properties and equipment	1,571	(23,828)
Amortization of debt discount and issuance costs	5,093	5,082
Deferred income taxes	(21,714)	(7,090)
Other	(1,017)	4,674
Changes in assets and liabilities	(15,918)	13,786
Net cash from operating activities	119,543	127,175
Cash flows from investing activities:		
Capital expenditures	(256,096)	(271,769)
Acquisition of oil and gas properties	—	(309,285)
Proceeds from acquisition adjustments	7,579	11,969
Proceeds from sale of properties and equipment	178,987	192,040
Increase in restricted cash	—	(17,497)
Net cash from investing activities	(69,530)	(394,542)
Cash flows from financing activities:		
Proceeds from revolving credit facility	252,500	591,250
Repayment of revolving credit facility	(278,000)	(492,250)
Proceeds from sale of common stock, net of issuance costs	275,847	164,496
Other	(4,329)	(1,460)
Net cash from financing activities	246,018	262,036
Net change in cash and cash equivalents	296,031	(5,331)
Cash and cash equivalents, beginning of period	2,457	8,238
Cash and cash equivalents, end of period	$298,488	$2,907
Supplemental cash flow information:		
Cash payments for:		
Interest, net of capitalized interest	$26,408	$30,868
Income taxes	525	1,830
Non-cash investing activities:		
Change in accounts payable related to purchases of properties and equipment	$24,308	$(9,514)
Change in asset retirement obligation, with a corresponding change to crude oil and natural gas properties, net of disposals	337	11,871

See accompanying Notes to Condensed Consolidated Financial Statements

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PDC ENERGY, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2013
(Unaudited)

NOTE 1 - NATURE OF OPERATIONS AND BASIS OF PRESENTATION

PDC Energy, Inc. ("PDC," "PDC Energy," "we," "us" or "the Company") is a domestic independent crude oil, natural gas and NGL company engaged in the exploration for and the acquisition, development, production and marketing of crude oil, natural gas and NGLs. PDC is focused operationally on the liquid-rich Wattenberg Field in the DJ Basin and, in the Appalachian Basin, on the liquid-rich Utica Shale and the dry-gas Marcellus Shale formations. As of September 30, 2013, we owned an interest in approximately 6,250 gross wells. We are engaged in two business segments: (1) Oil and Gas Exploration and Production and (2) Gas Marketing.

The accompanying unaudited condensed consolidated financial statements include the accounts of PDC, our wholly owned subsidiaries, and our proportionate share of PDC Mountaineer, LLC ("PDCM") and our 21 affiliated partnerships. Pursuant to the proportionate consolidation method, our accompanying condensed consolidated financial statements include our pro rata share of assets, liabilities, revenues and expenses of the entities which we proportionately consolidate. All material intercompany accounts and transactions have been eliminated in consolidation.

In our opinion, the accompanying condensed consolidated 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 2012 Form 10-K. Our results of operations and cash flows for the three and nine months ended September 30, 2013 are not necessarily indicative of the results to be expected for the full year or any other future period.

Certain reclassifications have been made to prior period financial statements to conform to the current year presentation. These reclassifications had no impact on previously reported cash flows, net income, earnings per share or shareholders' equity.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Recently Adopted Accounting Standard

On January 1, 2013, we adopted changes issued by the Financial Accounting Standards Board ("FASB") regarding the disclosure of offsetting assets and liabilities. These changes require an entity to disclose both gross and net information about both instruments and transactions eligible for offset in the statement of financial position and instruments and transactions subject to an enforceable master netting arrangement or similar agreement. The enhanced disclosures enable users of an entity’s financial statements to understand and evaluate the effect or potential effect of master netting arrangements on the entity’s financial position, including the effect or potential effect of rights of setoff associated with certain financial instruments and derivative instruments. Adoption of these changes had no impact on the condensed consolidated financial statements, except for additional disclosures.

Recently Issued Accounting Standard

Income Taxes. On July 18, 2013, the FASB issued an update to accounting for income taxes. The update provides clarification on the presentation of an unrecognized tax benefit when a net operating loss carryforward, a similar tax loss or a tax credit carryforward exists. The update is effective for public entities for fiscal years, and interim periods within those years, beginning after December 15, 2013. Early adoption is permitted. We are currently evaluating the impact of adopting this update on our financial statements, but do not believe it will have a material impact.

NOTE 3 - FAIR VALUE OF FINANCIAL INSTRUMENTS

Derivative Financial Instruments

Determination of fair value. Our fair value measurements are estimated pursuant to a fair value hierarchy that requires us to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date, giving the highest priority to quoted prices in active markets (Level 1) and the lowest priority to unobservable data (Level 3). In some cases, the inputs used to measure fair value might fall in different levels of the fair value hierarchy. In these cases, the lowest level input that is significant to a fair value measurement in its entirety determines the applicable level in the fair value hierarchy. Assessing the significance of a particular input to the fair value measurement in its entirety requires judgment, considering factors specific to the asset or liability, and may affect the valuation of the assets and liabilities and their placement within the fair value hierarchy levels. The three levels of inputs that may be used to measure fair value are defined as:

Level 1 – Quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level 2 – Inputs other than quoted prices included within Level 1 that are either directly or indirectly observable for the asset or liability, including quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in inactive markets, inputs other than quoted prices that are observable for the asset or liability and inputs that are derived from observable market data by correlation or other means.

Level 3 – Unobservable inputs for the asset or liability, including situations where there is little, if any, market activity.

We measure the fair value of our derivative instruments based on a pricing model that utilizes market-based inputs, including, but not limited to, the contractual price of the underlying position, current market prices, crude oil and natural gas forward curves, discount rates such as the LIBOR curve for a similar duration of each outstanding position, volatility factors and nonperformance risk. Nonperformance risk considers the effect of our credit standing on the fair value of derivative liabilities and the effect of our counterparties' credit standings on the fair value of derivative assets. Both inputs to the model are based on published credit default swap rates and the duration of each outstanding derivative position.

We validate our fair value measurement through the review of counterparty statements and other supporting documentation, the determination that the source of the inputs is valid, the corroboration of the original source of inputs through access to multiple quotes, if available, or other information and monitoring changes in valuation methods and assumptions. While we use common industry practices to develop our valuation techniques and believe our valuation method is appropriate and consistent with those used by other market participants, changes in our pricing methodologies or the underlying assumptions could result in significantly different fair values.

Our fixed-price swaps, basis swaps and physical purchases are included in Level 2 and our crude oil and natural gas collars, natural gas calls and physical sales are included in Level 3. The following table presents, for each applicable level within the fair value hierarchy, our derivative assets and liabilities, including both current and non-current portions, measured at fair value on a recurring basis:

	September 30, 2013			December 31, 2012		
	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
	(in thousands)					
Assets:						
Commodity-based derivative contracts	$12,328	$3,060	$15,388	$42,788	$15,734	$58,522
Basis protection derivative contracts	182	12	194	387	16	403
Total assets	12,510	3,072	15,582	43,175	15,750	58,925
Liabilities:						
Commodity-based derivative contracts	17,293	2,340	19,633	9,839	2,081	11,920
Basis protection derivative contracts	1,563	—	1,563	16,656	—	16,656
Total liabilities	18,856	2,340	21,196	26,495	2,081	28,576
Net asset (liability)	$(6,346)	$732	$(5,614)	$16,680	$13,669	$30,349

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PDC ENERGY, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - Continued

The following table presents a reconciliation of our Level 3 assets measured at fair value:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
	(in thousands)			
Fair value, net asset, beginning of period	$3,904	$28,600	$13,669	$22,107
Changes in fair value included in statement of operations line item:				
Commodity price risk management gain (loss), net	(3,111)	(9,055)	(3,008)	6,098
Sales from natural gas marketing	11	(4)	16	35
Changes in fair value included in balance sheet line item:				
Accounts payable affiliates (1)	—	(93)	—	(240)
Settlements included in statement of operations line items:				
Commodity price risk management gain (loss), net	(66)	(3,900)	(5,545)	(12,357)
Sales from natural gas marketing	(6)	(10)	(34)	(105)
Income (loss) from discontinued operations, net of tax	—	—	(4,366)	—
Fair value, net asset end of period	$732	$15,538	$732	$15,538
Changes in unrealized gains (losses) relating to assets (liabilities) still held as of period-end, included in statement of operations line item:				
Commodity price risk management gain (loss), net	$(3,333)	$(8,169)	$(5,362)	$2,577
Sales from natural gas marketing	(5)	(13)	4	(1)
Total	$(3,338)	$(8,182)	$(5,358)	$2,576

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

The significant unobservable input used in the fair value measurement of our derivative contracts is the implied volatility curve, which is provided by a third-party vendor. A significant increase or decrease in the implied volatility, in isolation, would have a directionally similar effect resulting in a significantly higher or lower fair value measurement of our Level 3 derivative contracts.

Non-Derivative Financial Assets and Liabilities

The carrying values of the financial instruments included in current assets and current liabilities approximate fair value due to the short-term maturities of these instruments.

The portion of our debt related to our revolving credit facility, as well as our proportionate share of PDCM's credit facility and second lien term loan, approximates fair value due to the variable nature of related interest rates. We have not elected to account for the portion of our debt related to our senior notes under the fair value option; however, as of

September 30, 2013, we estimate the fair value of our 3.25% convertible senior notes due 2016 to be $176.4 million, or 153.4% of par value, and our 7.75% senior notes due 2022 to be $528.8 million, or 105.7% of par value. We determined these valuations based upon measurements of trading activity and broker and/or dealer quotes which are published market prices, and therefore are Level 2 inputs.

Concentration of Risk

Derivative Counterparties. Our derivative arrangements expose us to credit risk of nonperformance by our counterparties. We primarily use financial institutions who are also lenders under our revolving credit facility as counterparties to our derivative contracts. To date, we have had no counterparty default losses relating to our derivative arrangements. We have evaluated the credit risk of our derivative assets from our counterparties 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, we have determined that the potential impact of nonperformance of our counterparties on the fair value of our derivative instruments was not significant at September 30, 2013, taking into account the estimated likelihood of nonperformance.

The following table presents the counterparties that expose us to credit risk as of September 30, 2013 with regard to our derivative assets:

Counterparty Name	Fair Value of Derivative Assets As of September 30, 2013 (in thousands)
JPMorgan Chase Bank, N.A. (1)	$4,163
Wells Fargo Bank, N.A. (1)	3,830
Natixis (1)	1,637
Bank of Montreal (1)	1,885
BNP Paribas (1)	1,285
Other lenders in our revolving credit facility	2,624
Various (2)	158
Total	$15,582

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(1)Major lender in our revolving credit facility. See Note 7, Long-Term Debt.
(2)Represents a total of 20 counterparties.

NOTE 4 - DERIVATIVE FINANCIAL INSTRUMENTS

Our results of operations and operating cash flows are affected by changes in market prices for crude oil, natural gas and NGLs. To manage a portion of our exposure to price volatility from producing crude oil and natural gas, we utilize the following economic hedging strategies for each of our business segments.

- For crude oil and natural gas sales, we enter into derivative contracts to protect against price declines in future periods. While we structure these derivatives to reduce our exposure to changes in price associated with the derivative commodity, they also limit the benefit we might otherwise have received from price increases in the physical market.

- For natural gas marketing, we enter into fixed-price physical purchase and sale agreements that qualify as derivative contracts. In order to offset the fixed-price physical derivatives in our natural gas marketing, we enter into financial derivative instruments that have the effect of locking in the prices we will receive or pay for the same volumes and period, offsetting the physical derivative.

We believe our derivative instruments continue to be effective in achieving the risk management objectives for which they were intended. As of September 30, 2013, we had derivative instruments, which were comprised of commodity floors, collars and swaps, basis protection swaps and physical sales and purchases, in place for a portion of our anticipated production through 2017 for a total of 51,305 BBtu of natural gas and 7,735 MBbls of crude oil. The majority of our derivative contracts are entered into at no cost to us as we hedge our anticipated production at the then-prevailing commodity market prices.

We have elected not to designate any of our derivative instruments as hedges and therefore do not qualify for use of hedge accounting. Accordingly, changes in the fair value of our derivative instruments are recorded in the statements of operations, with the exception of changes in fair value related to those derivatives we designated to our affiliated partnerships. Changes in the fair value of derivative instruments related to our Oil and Gas Exploration and

Production segment are recorded in commodity price risk management, net. Changes in the fair value of derivative instruments related to our Gas Marketing segment are recorded in sales from and cost of natural gas marketing. Changes in the fair value of the derivative instruments designated to our affiliated partnerships are recorded on the condensed consolidated balance sheets in accounts payable affiliates and accounts receivable affiliates. As positions designated to our affiliated partnerships settle, the realized gains and losses are netted for distribution. Net realized gains are paid to the partnerships and net realized losses are deducted from the partnerships’ cash distributions from production. The affiliated partnerships bear their designated share of counterparty risk. As of September 30, 2013, our affiliated partnerships had no outstanding derivative instruments.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - Continued

The following table presents the location and fair value amounts of our derivative instruments on the condensed consolidated balance sheets as of September 30, 2013 and December 31, 2012:

Derivatives instruments:		Balance sheet line item	Fair Value September 30, 2013 (in thousands)	December 31, 2012
Derivative assets:	Current			
	Commodity contracts			
	Related to crude oil and natural gas sales	Fair value of derivatives	$9,067	$47,016
	Related to affiliated partnerships (1)	Fair value of derivatives	—	4,707
	Related to natural gas marketing	Fair value of derivatives	444	302
	Basis protection contracts			
	Related to crude oil and natural gas sales	Fair value of derivatives	133	—
	Related to natural gas marketing	Fair value of derivatives	16	17
			9,660	52,042
	Non Current			
	Commodity contracts			
	Related to crude oil and natural gas sales	Fair value of derivatives	5,792	6,671
	Related to natural gas marketing	Fair value of derivatives	85	203
	Basis protection contracts			
	Related to crude oil and natural gas sales	Fair value of derivatives	44	—
	Related to natural gas marketing	Fair value of derivatives		