

PDC ENERGY, INC.
Form 10-Q
August 09, 2016
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

THE QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2016

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 001-37419
PDC ENERGY, INC.
(Exact name of registrant as specified in its charter)

Delaware 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 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 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 Smaller reporting company
(Do not check if a 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: 47,154,493 shares of the Company's Common Stock (\$0.01 par value) were outstanding as of July 18, 2016.

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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: the closing of pending transactions and the effects of such transactions, including the fact that the transactions contemplated by the Noble exchange agreements are subject to continuing diligence between the parties and accordingly, may not occur within the expected timeframe or at all; estimated future production (including the components of such production), sales, expenses, cash flows, liquidity and balance sheet attributes; estimated crude oil, natural gas and natural gas liquids ("NGLs") reserves; the impact of prolonged depressed commodity prices, including potentially reduced production and associated cash flow; anticipated capital projects, expenditures and opportunities, including our expectation that 2016 cash flows from operations will approximate cash flows from investing activities; expected capital budget allocations; our operational flexibility and ability to revise our development plan, either upward or downward; availability of sufficient funding and liquidity for our capital program and sources of that funding; expected positive net settlements on derivatives in the second half of 2016; that we expect quarter-over-quarter production growth; future exploration, drilling and development activities, including non-operated activity, the number of drilling rigs we expect to run and lateral lengths of wells; expected 2016 production and cash flow ranges and timing of turn-in-lines; our evaluation method of our customers' and derivative counterparties' credit risk; effectiveness of our derivative program in providing a degree of price stability; potential for future impairments; expected sustained relief of gathering system pressure; compliance with debt and senior notes covenants; impact of litigation on our results of operations and financial position; that we do not expect to pay dividends in the foreseeable future; our belief that certain proposed initiatives in Colorado may not qualify to be included on the ballot in 2016; 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. Forward-looking statements are always subject to risks and uncertainties, and become subject to greater levels of risk and uncertainty as they address matters further into the future. Throughout this report or accompanying materials, we may use the terms "projection" or similar terms or expressions, or indicate that we have "modeled" certain future scenarios. We typically use these terms to indicate our current thoughts on possible outcomes relating to our business or the industry in periods beyond the current fiscal year. Because such statements relate to events or conditions further in the future, they are subject to increased levels of uncertainty.

Important factors that could cause actual results to differ materially from the forward-looking statements include, but are not limited to:

- changes in worldwide production volumes and demand, including economic conditions that might impact demand;
- volatility of commodity prices for crude oil, natural gas and NGLs and the risk of an extended period of depressed prices;
- reductions in the borrowing base under our revolving credit facility;
- 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;

declines in the value of our crude oil, natural gas and NGLs properties resulting in further impairments;
changes in estimates of proved reserves;
inaccuracy of reserve estimates and expected production rates;
potential for production decline rates from our wells being greater than expected;
timing and extent of our success in discovering, acquiring, developing and producing reserves;
availability of sufficient pipeline, gathering and other transportation facilities and related infrastructure to process and transport our production and the impact of these facilities and regional capacity on the prices we receive for our production;
timing and receipt of necessary regulatory permits;
risks incidental to the drilling and operation of crude oil and natural gas wells;
future cash flows, liquidity and financial condition;
competition within the oil and gas industry;
availability and cost of capital;
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;
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, 2015 (the "2015 Form 10-K"), filed with the U.S. Securities and Exchange Commission ("SEC") on February 22, 2016, and our other filings with the SEC

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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 the 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. 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)

	June 30, 2016	December 31, 2015
Assets		
Current assets:		
Cash and cash equivalents	\$ 109,099	\$ 850
Accounts receivable, net	107,350	104,274
Fair value of derivatives	98,839	221,659
Prepaid expenses and other current assets	3,847	5,266
Total current assets	319,135	332,049
Properties and equipment, net	1,930,595	1,940,552
Fair value of derivatives	12,745	44,387
Other assets	9,195	53,555
Total Assets	\$ 2,271,670	\$ 2,370,543
Liabilities and Shareholders' Equity		
Liabilities		
Current liabilities:		
Accounts payable	\$ 64,234	\$ 92,613
Production tax liability	19,261	26,524
Fair value of derivatives	22,824	1,595
Funds held for distribution	49,965	29,894
Current portion of long-term debt	—	112,940
Accrued interest payable	8,557	9,057
Other accrued expenses	22,358	28,709
Total current liabilities	187,199	301,332
Long-term debt	492,997	529,437
Deferred income taxes	41,133	143,452
Asset retirement obligation	81,583	84,032
Fair value of derivatives	26,830	695
Other liabilities	17,363	24,398
Total liabilities	847,105	1,083,346
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, 150,000,000 authorized, 47,162,446 and 40,174,776 issued as of June 30, 2016 and December 31, 2015, respectively	472	402
Additional paid-in capital	1,211,876	907,382
Retained earnings	213,442	380,422
Treasury shares - at cost, 23,822 and 20,220 as of June 30, 2016 and December 31, 2015, respectively	(1,225)	(1,009)

Total shareholders' equity	1,424,565	1,287,197
Total Liabilities and Shareholders' Equity	\$2,271,670	\$2,370,543

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	Six
Months	Months
Ended	Ended
June 30,	June 30,