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

T 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 x No o

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 x No o

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 o (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 o No x

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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PART I - FINANCIAL INFORMATION
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 Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Revenues				
Crude oil, natural gas and NGLs sales	$110,841	$96,928	$186,208	$171,037
Sales from natural gas marketing	1,879	2,523	4,050	5,756
Commodity price risk management gain (loss), net	(92,801)	(49,041)	(81,745)	17,621
Well operations, pipeline income and other	178	550	2,415	1,178
Total revenues	20,097	50,960	110,928	195,592
Costs, expenses and other				
Lease operating expenses	13,675	12,639	29,005	28,924
Production taxes	6,043	3,837	10,114	7,730
Transportation, gathering and processing expenses	4,465	1,308	8,506	2,646
Cost of natural gas marketing	2,125	2,836	4,703	6,094
Exploration expense	237	275	447	560
Impairment of properties and equipment	4,170	4,404	5,171	7,176
General and administrative expense	23,579	20,728	46,358	41,773
Depreciation, depletion and amortization	107,014	70,106	204,402	125,926
Provision for uncollectible notes receivable	—	—	44,738	—
Accretion of asset retirement obligations	1,811	1,588	3,623	3,148
(Gain) loss on sale of properties and equipment	260	(207)	176	(228)
Total cost, expenses and other	163,379	117,514	357,243	223,749
Loss from operations	(143,282)	(66,554)	(246,315)	(28,157)
Interest expense	(10,672)	(11,567)	(22,566)	(23,292)
Interest income	177	1,135	1,735	2,248
Loss before income taxes	(153,777)	(76,986)	(267,146)	(49,201)
Provision for income taxes	58,327	30,116	100,166	19,393
Net loss	$(95,450)	$(46,870)	$(166,980)	$(29,808)
Earnings per share:				
Basic	$(2.04)	$(1.17)	$(3.78)	$(0.78)
Diluted	$(2.04)	$(1.17)	$(3.78)	$(0.78)
Weighted-average common shares outstanding:				
Basic	46,742	40,035	44,175	38,202
Diluted	46,742	40,035	44,175	38,202

See accompanying Notes to Condensed Consolidated Financial Statements

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

	Six Months Ended June 30,	
	2016	2015
Cash flows from operating activities:		
Net loss	$(166,980)	$(29,808)
Adjustments to net loss to reconcile to net cash from operating activities:		
Net change in fair value of unsettled derivatives	201,825	76,869
Depreciation, depletion and amortization	204,402	125,926
Provision for uncollectible notes receivable	44,738	—
Impairment of properties and equipment	5,171	7,176
Accretion of asset retirement obligation	3,623	3,148
Stock-based compensation	11,126	9,465
(Gain) loss on sale of properties and equipment	176	(228)
Amortization of debt discount and issuance costs	3,077	3,521
Deferred income taxes	(102,319)	(22,630)
Non-cash interest income	(1,194)	(2,247)
Other	(93)	(402)
Changes in assets and liabilities	(5,754)	(24,333)
Net cash from operating activities	197,798	146,457
Cash flows from investing activities:		
Capital expenditures	(235,707)	(358,135)
Proceeds from sale of properties and equipment	4,903	243
Net cash from investing activities	(230,804)	(357,892)
Cash flows from financing activities:		
Proceeds from sale of equity, net of issuance cost	296,575	202,851
Proceeds from revolving credit facility	85,000	272,000
Repayment of revolving credit facility	(122,000)	(275,000)
Redemption of convertible notes	(115,000)	—
Other	(3,320)	(3,106)
Net cash from financing activities	141,255	196,745
Net change in cash and cash equivalents	108,249	(14,690)
Cash and cash equivalents, beginning of period	850	16,066
Cash and cash equivalents, end of period	$109,099	$1,376
Supplemental cash flow information:		
Cash payments for:		
Interest, net of capitalized interest	$22,462	$22,828
Income taxes	167	9,936
Non-cash investing and financing activities:		
Change in accounts payable related to purchases of properties and equipment	$(28,999)	$(41,490)
Change in asset retirement obligation, with a corresponding change to crude oil and natural gas properties, net of disposals	843	1,395
Purchase of properties and equipment under capital leases	1,074	950

See accompanying Notes to Condensed Consolidated Financial Statements

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NOTE 1 - NATURE OF OPERATIONS AND BASIS OF PRESENTATION

PDC Energy, Inc. (the "Company," "we," "us," or "our") is a domestic independent exploration and production company that produces, develops, acquires and explores for crude oil, natural gas and NGLs, with primary operations in the Wattenberg Field in Colorado and the Utica Shale in southeastern Ohio. Our operations in the Wattenberg Field are focused in the horizontal Niobrara and Codell plays and our Ohio operations are focused in the Utica Shale play. As of June 30, 2016, we owned an interest in approximately 3,000 gross wells. We are engaged in two business segments: Oil and Gas Exploration and Production and Gas Marketing.

The accompanying unaudited condensed consolidated financial statements include the accounts of PDC, our wholly-owned subsidiary Riley Natural Gas ("RNG") and our proportionate share of our four 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 statement 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 December 31, 2015 condensed consolidated balance sheet data was derived from audited statements, but does not include disclosures required by U.S. GAAP. 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 2015 Form 10-K. Our results of operations and cash flows for the three and six months ended June 30, 2016 are not necessarily indicative of the results to be expected for the full year or any other future period.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Recently Issued Accounting Standards

In May 2014, the Financial Accounting Standards Board ("FASB") and the International Accounting Standards Board issued their converged standard on revenue recognition that provides a single, comprehensive model that entities will apply to determine the measurement of revenue and timing of when it is recognized. The underlying principle is that an entity will recognize revenue to depict the transfer of goods or services to customers at an amount that the entity expects to be entitled to in exchange for those goods or services. The standard outlines a five-step approach to apply the underlying principle: (1) identify the contract with the customer, (2) identify the separate performance obligations in the contract, (3) determine the transaction price, (4) allocate the transaction price to separate performance obligations and (5) recognize revenue when (or as) each performance obligation is satisfied. In March 2016, the FASB issued an update to the standard intended to improve the operability and understandability of the implementation guidance on principal versus agent considerations when recognizing revenue. The revenue standard is effective for annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period. The revenue standard can be adopted under the full retrospective method or simplified transition method. Entities are permitted to adopt the revenue standard early, beginning with annual reporting periods after December 15, 2016. We are currently evaluating the impact these changes may have on our condensed consolidated financial statements.

In August 2014, the FASB issued a new standard related to the disclosure of uncertainties about an entity's ability to continue as a going concern. The new standard requires management to assess an entity's ability to continue as a going concern at the end of every reporting period and to provide related footnote disclosures in certain circumstances. The new standard will be effective for all entities in the first annual period ending after December 15, 2016, with early adoption permitted. We expect to adopt this standard in the fourth quarter of 2016. Adoption of this standard is not expected to have a significant impact on our condensed consolidated financial statements.

In February 2016, the FASB issued an accounting update aimed at increasing the transparency and comparability among organizations by recognizing lease assets and liabilities on the balance sheet and disclosing key information about related leasing arrangements. For leases with terms of more than 12 months, the accounting update requires lessees to recognize an asset for its right to use the underlying asset and a lease liability for the corresponding lease obligation. Both the lease asset and liability will initially be measured at the present value of the future minimum lease payments over the lease term. Subsequent measurement, including the presentation of expenses and cash flows, will depend upon the classification of the lease as either a finance or operating lease. The guidance is effective for fiscal years beginning after December 15, 2018, and interim periods within those years, with early adoption permitted, and is to be applied as of the beginning of the earliest period presented using a modified retrospective approach. We are currently evaluating the impact these changes may have on our condensed consolidated financial statements.

In March 2016, the FASB issued an accounting update on stock-based compensation intended to simplify several aspects of the accounting for employee share-based payment award transactions. Areas of simplification include income tax consequences, classification of the awards as either equity or liabilities and the classification on the statement of cash flows. The guidance is effective for fiscal years beginning after December 15, 2016, and interim periods within those years, with early adoption permitted. We expect to adopt this standard in the fourth quarter of 2016. Adoption of this standard is not expected to have a significant impact on our condensed consolidated financial statements.

NOTE 3 - FAIR VALUE OF 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. 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.

Derivative Financial Instruments

We measure the fair value of our derivative instruments based upon 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 collars 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:

	June 30, 2016			December 31, 2015		
	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	$74,823	$ 36,761	$111,584	$174,657	$ 91,288	$265,945
Basis protection derivative contracts	—	—	—	101	—	101
Total assets	74,823	36,761	111,584	174,758	91,288	266,046
Liabilities:						
Commodity-based derivative contracts	38,518	9,476	47,994	738	—	738
Basis protection derivative contracts	1,660	—	1,660	1,552	—	1,552
Total liabilities	40,178	9,476	49,654	2,290	—	2,290
Net asset	$34,645	$ 27,285	$61,930	$172,468	$ 91,288	$263,756

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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 June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
	(in thousands)			
Fair value, net asset beginning of period	$73,105	$74,817	$91,288	$62,356
Changes in fair value included in statement of operations line item:				
Commodity price risk management gain (loss), net	(26,422)	(10,749)	(20,257)	4,440
Sales from natural gas marketing	—	(1)	(20)	—
Settlements included in statement of operations line items:				
Commodity price risk management gain (loss), net	(19,398)	(5,809)	(43,656)	(8,534)
Sales from natural gas marketing	—	(3)	(70)	(7)
Fair value, net asset end of period	$27,285	$58,255	$27,285	$58,255
Net change in fair value of unsettled derivatives included in statement of operations line item:				
Commodity price risk management gain (loss), net	$(18,210)	$(10,056)	$(13,105)	$3,629

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. There has been no change in the methodology we apply to measure the fair value of our Level 3 derivative contracts during the periods covered by this report.

Non-Derivative Financial Assets and Liabilities

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

We utilize fair value on a nonrecurring basis to review our crude oil and natural gas properties for possible impairment when events and circumstances indicate a possible decline in the recoverability of the carrying value of such properties. The fair value of the properties is determined based upon estimated future discounted cash flow, a Level 3 input, using estimated production and prices at which we reasonably expect the crude oil and natural gas will be sold.

The liability associated with our non-qualified deferred compensation plan for non-employee directors may be settled in cash or shares of our common stock. The carrying value of this obligation is based on the quoted market price of our common stock, which is a Level 1 input. The liability related to this plan, which was included in other liabilities on the condensed consolidated balance sheets, was immaterial as of June 30, 2016 and December 31, 2015.

The portion of our long-term debt related to our revolving credit facility 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 June 30, 2016, we estimate the fair value of the portion of our long-term debt related to our 7.75% senior notes due 2022 to be $521.3 million, or 104.3% of par value. We determined these valuations based upon measurements of trading activity and broker and/or dealer quotes, respectively, which are published market prices, and therefore are Level 2 inputs.

The carrying value of our capital lease obligations approximates fair value due to the variable nature of the imputed interest rates and the duration of the related vehicle lease.

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 June 30, 2016, taking into account the estimated likelihood of nonperformance.

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

The following table presents the counterparties that expose us to credit risk as of June 30, 2016 with regard to our derivative assets:

Counterparty Name	Fair Value of Derivative Assets (in thousands)
Canadian Imperial Bank of Commerce (1)	$ 33,559
JP Morgan Chase Bank, N.A (1)	29,011
Bank of Nova Scotia (1)	22,676
Wells Fargo Bank, N.A. (1)	13,351
NATIXIS (1)	10,418
Other lenders in our revolving credit facility	2,329
Various (2)	240
Total	$ 111,584

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

Notes Receivable. The following table presents information regarding a note receivable outstanding as of June 30, 2016:

	Amount (in thousands)		
Note receivable:			
Principal outstanding, December 31, 2015	$	43,069	
Paid-in-kind interest	969		
Principal outstanding, June 30, 2016	44,038		
Allowance for uncollectible notes receivable	(44,038		)
Note receivable, net	$	—	

In October 2014, we sold our entire 50% ownership interest in PDCM to an unrelated third-party. As part of the consideration, we received a promissory note (the “Note”) for a principal sum of $39.0 million, bearing interest at varying rates beginning at 8%, and increasing annually. Pursuant to the Note agreement, interest is payable quarterly, in arrears, commencing in December 2014 and continuing on the last business day of each fiscal quarter thereafter. At the option of the issuer of the Note, an unrelated third-party, interest can be paid-in-kind (the “PIK Interest”) and any such PIK Interest will be added to the outstanding principal amount of the Note. As of June 30, 2016, the issuer of the Note had elected the PIK Interest option. The principal and any unpaid interest is due and payable in full in September 2020 and can be prepaid in whole or in part at any time without premium or penalty. If an event of default occurs under the Note agreement, the Note must be repaid prior to maturity. The Note is secured by a pledge of stock in certain subsidiaries of the unrelated third-party, debt securities and other assets.

On a quarterly basis, we examine the Note for evidence of impairment, evaluating factors such as the creditworthiness of the issuer of the Note and the value of the underlying assets that secure the Note. We performed our quarterly evaluation and cash flow analysis as of March 31, 2016 and, based upon the unaudited year-end financial statements and reserve report of the issuer of the Note received by us in late March 2016 and existing market conditions, determined that collection of the Note and PIK Interest was not reasonably assured. As a result, we recognized a provision and recorded an allowance for uncollectible notes receivable for the $44.0 million outstanding balance as of March 31, 2016, which was included in the condensed consolidated balance sheet line item other assets.

Under the effective interest method, we recognized $1.2 million of interest income related to the Note for the three months ended March 31, 2016, of which $1.0 million was PIK Interest, and we recognized $1.1 million and $2.2 million of interest income related to the Note for the three and six months ended June 30, 2015, respectively, of which $0.8 million and $1.6 million, respectively, was PIK Interest.

Additionally, we recorded a $0.7 million provision and allowance for uncollectible notes receivable to impair a promissory note related to a previous divestiture as collection of the promissory note is not reasonably assured based on the analysis we performed as of March 31, 2016.

As of June 30, 2016, there has been no change to our assessment of the collectibility of the notes or related interest since March 31, 2016.
Commencing in the second quarter of 2016, we have ceased recognizing interest income on the notes and are accounting for the notes under the cash basis method.

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; and

- 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 June 30, 2016, we had derivative instruments, which were comprised of collars, fixed-price swaps, basis protection swaps and physical sales and purchases, in place for a portion of our anticipated production through 2018 for a total of 71,560 BBtu of natural gas and 9,214 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 not elected 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. 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.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - Continued

The following table presents the balance sheet location and fair value amounts of our derivative instruments on the condensed consolidated balance sheets:

Derivative instruments:		Balance sheet line item	Fair Value June 30, 2016	December 31, 2015
			(in thousands)	
Derivative assets:	Current			
	Commodity contracts			
	Related to crude oil and natural gas sales	Fair value of derivatives	$98,526	$221,161
	Related to natural gas marketing	Fair value of derivatives	313	441
	Basis protection contracts			
	Related to crude oil and natural gas sales	Fair value of derivatives	—	57
			98,839	221,659
	Non-current			
	Commodity contracts			
	Related to crude oil and natural gas sales	Fair value of derivatives	12,673	44,292
	Related to natural gas marketing	Fair value of derivatives	72	51
	Basis protection contracts			
	Related to crude oil and natural gas sales	Fair value of derivatives	—	44
			12,745	44,387
Total derivative assets			$111,584	$266,046
Derivative liabilities:	Current			
	Commodity contracts			
	Related to crude oil and natural gas sales	Fair value of derivatives	$21,179	$—
	Related to natural gas marketing	Fair value of derivatives	251	417
	Basis protection contracts			
	Related to crude oil and natural gas sales	Fair value of derivatives	1,394	1,178
			22,824	1,595
	Non-current			
	Commodity contracts			
	Related to crude oil and natural gas sales	Fair value of derivatives	26,509	275
	Related to natural gas marketing	Fair value of derivatives	54	46
	Basis protection contracts			
	Related to crude oil and natural gas sales	Fair value of derivatives	267	374
			26,830	695
Total derivative liabilities			$49,654	$2,290

The following table presents the impact of our derivative instruments on our condensed consolidated statements of operations:

Condensed consolidated statement of operations line item	Three Months Ended June 30, 2016	2015	Six Months Ended June 30, 2016	2015
	(in thousands)			
Commodity price risk management gain (loss), net				

Net settlements	$53,301	$44,049	$120,132	$94,461
Net change in fair value of unsettled derivatives	(146,102)	(93,090)	(201,877)	(76,840)
Total commodity price risk management gain (loss), net	$(92,801)	$(49,041)	$(81,745)	$17,621
Sales from natural gas marketing				
Net settlements	$53	$165	$298	$396
Net change in fair value of unsettled derivatives	(299)	(124)	(519)	(293)
Total sales from natural gas marketing	$(246)	$41	$(221)	$103
Cost of natural gas marketing				
Net settlements	$(49)	$(157)	$(277)	$(375)
Net change in fair value of unsettled derivatives	346	115	571	264
Total cost of natural gas marketing	$297	$(42)	$294	$(111)

All of our financial derivative agreements contain master netting provisions that provide for the net settlement of all contracts through a single payment in the event of early termination. Our fixed-price physical purchase and sale agreements that qualify as derivative contracts are not subject to master netting provisions and are not significant. We have elected not to offset the fair value positions recorded on our condensed consolidated balance sheets.

The following table reflects the impact of netting agreements on gross derivative assets and liabilities:

As of June 30, 2016	Derivative instruments, recorded in condensed consolidated balance sheet, gross	Effect of master netting agreements	Derivative instruments, net
	(in thousands)		
Asset derivatives:			
Derivative instruments, at fair value	$111,584	$ (30,404)	$ 81,180
Liability derivatives:			
Derivative instruments, at fair value	$49,654	$ (30,404)	$ 19,250

As of December 31, 2015	Derivative instruments, recorded in condensed consolidated balance sheet, gross	Effect of master netting agreements	Derivative instruments, net
	(in thousands)		
Asset derivatives:			
Derivative instruments, at fair value	$266,046	$ (1,921)	$ 264,125
Liability derivatives:			
Derivative instruments, at fair value	$2,290	$ (1,921)	$ 369

NOTE 5 - PROPERTIES AND EQUIPMENT

The following table presents the components of properties and equipment, net of accumulated depreciation, depletion and amortization ("DD&A"):

	June 30, 2016	December 31, 2015

	(in thousands)	
Properties and equipment, net:		
Crude oil and natural gas properties		
Proved	$3,067,916	$2,881,189
Unproved	61,202	60,498
Total crude oil and natural gas properties	3,129,118	2,941,687
Equipment and other	31,566	30,098
Land and buildings	9,040	12,667
Construction in progress	117,190	113,115
Properties and equipment, at cost	3,286,914	3,097,567
Accumulated DD&A	(1,356,319)	(1,157,015)
Properties and equipment, net	$1,930,595	$1,940,552

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - Continued

The following table presents impairment charges recorded for crude oil and natural gas properties:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
	(in thousands)			
Impairment of proved and unproved properties	$1,084	$1,631	$2,053	$1,919
Amortization of individually insignificant unproved properties	54	2,773	86	5,257
Impairment of crude oil and natural gas properties	1,138	4,404	2,139	7,176
Land and buildings	3,032	—	3,032	—
Impairment of properties and equipment	$4,170	$4,404	$5,171	$7,176

NOTE 6 - INCOME TAXES

We evaluate and update our estimated annual effective income tax rate on a quarterly basis based on current and forecasted operating results and tax laws. Consequently, based upon the mix and timing of our actual earnings compared to annual projections, our effective tax rate may vary quarterly and may make quarterly comparisons not meaningful. A tax expense or benefit unrelated to the current year income or loss is recognized in its entirety as a discrete item of tax in the period identified. The quarterly income tax provision is generally comprised of tax expense on income or benefit on loss at the most recent estimated annual effective tax rate, adjusted for the effect of discrete items.

The effective tax rate for the three and six months ended June 30, 2016 was a 37.9% and 37.5% benefit on loss compared to a 39.1% and 39.4% benefit on loss for the three and six months ended June 30, 2015. The effective tax rate for the three and six months ended June 30, 2016 is based upon a full year forecasted tax benefit on loss and is greater than the statutory federal tax rate, primarily due to state taxes and percentage depletion, partially offset by nondeductible officers’ compensation and nondeductible lobbying expenses. The effective tax rate for the three and six months ended June 30, 2015 differs from the statutory rate primarily due to state taxes and nondeductible officers' compensation, partially offset by percentage depletion and domestic production deduction. There were no significant discrete items recorded during the three and six months ended June 30, 2016 or June 30, 2015.

As of June 30, 2016, there is no liability for unrecognized tax benefits. As of the date of this report, we are current with our income tax filings in all applicable state jurisdictions and are not currently under any state income tax examinations. We continue to voluntarily participate in the Internal Revenue Service's ("IRS") Compliance Assurance Program for the 2015 and 2016 tax years. With respect to the 2014 tax year, we have agreed to a post filing adjustment with the IRS which resulted in an immaterial tax payment for the 2014 tax year. The IRS has fully accepted the 2014 federal return, as adjusted.

NOTE 7 - LONG-TERM DEBT

Long-term debt consisted of the following as of:

	June 30, 2016	December 31, 2015
	(in thousands)	
Senior notes:		

3.25% Convertible senior notes due 2016:		
Principal amount	$—	$115,000
Unamortized discount	—	(1,852)
Unamortized debt issuance costs	—	(208)
3.25% Convertible senior notes due 2016, net of discount and unamortized debt issuance costs	—	112,940
7.75% Senior notes due 2022:		
Principal amount	500,000	500,000
Unamortized debt issuance costs	(7,003)	(7,563)
7.75% Senior notes due 2022, net of unamortized debt issuance costs	492,997	492,437
Total senior notes	492,997	605,377
Revolving credit facility	—	37,000
Total debt, net of discount and unamortized debt issuance costs	492,997	642,377
Less current portion of long-term debt	—	112,940
Long-term debt	$492,997	$529,437

Senior Notes

3.25% Convertible Senior Notes Due 2016. In November 2010, we issued $115 million aggregate principal amount of 3.25% convertible senior notes due 2016 (the "Convertible Notes") in a private placement to qualified institutional buyers. The maturity for the payment of principal was May 15, 2016. At December 31, 2015, our indebtedness included the Convertible Notes. Upon settlement in May 2016, we paid the aggregate principal amount of the Convertible Notes, plus cash for fractional shares, totaling approximately $115.0 million, utilizing proceeds from our March 2016 equity offering. Additionally, we issued 792,406 shares of common stock for the $47.9 million excess conversion value. See Note 11, Common Stock, for more information.

7.75% Senior Notes Due 2022. In October 2012, we issued $500 million aggregate principal amount of 7.75% senior notes due October 15, 2022 (the “2022 Senior Notes”) in a private placement to qualified institutional buyers. The 2022 Senior Notes accrue interest from the date of issuance and interest is payable semi-annually in arrears on April 15 and October 15. The indenture governing the 2022 Senior Notes contains customary restrictive incurrence covenants. Capitalized debt issuance costs are being amortized as interest expense over the life of the 2022 Senior Notes using the effective interest method.

As of June 30, 2016, we were in compliance with all covenants related to the 2022 Senior Notes and expect to remain in compliance throughout the next 12-month period.

Credit Facility

Revolving Credit Facility. We are party to a Third Amended and Restated Credit Agreement with JPMorgan Chase Bank, N.A. as administrative agent, and other lenders party thereto (sometimes referred to as the "revolving credit facility"). The revolving credit facility matures in May 2020 and is available for working capital requirements, capital expenditures, acquisitions, general corporate purposes and to support letters of credit. The revolving credit facility provides for a maximum of $1 billion in allowable borrowing capacity, subject to the borrowing base. In May 2016, we completed the semi-annual redetermination of our revolving credit facility by the lenders, which resulted in the reaffirmation of our borrowing base at $700 million; however, we have elected to maintain the aggregate commitment at $450 million. The borrowing base is based on, among other things, the loan value assigned to the proved reserves attributable to our crude oil and natural gas interests, excluding proved reserves attributable to our affiliated partnerships. The borrowing base is subject to a semi-annual size redetermination based upon quantification of our reserves at June 30 and December 31, and is also subject to a redetermination upon the occurrence of certain events. The revolving credit facility is secured by a pledge of mortgages of certain producing crude oil and natural gas properties. Our affiliated partnerships are not guarantors of our obligations under the revolving credit facility.

We had no outstanding balance on our revolving credit facility as of June 30, 2016, compared to $37.0 million outstanding as of December 31, 2015. The weighted-average interest rate on the outstanding balance on our revolving credit facility, exclusive of fees on the unused commitment and the letter of credit noted below, was 2.6% per annum as of December 31, 2015.

As of June 30, 2016, RNG had an irrevocable standby letter of credit of approximately $11.7 million in favor of a third-party transportation service provider to secure firm transportation of the natural gas produced by third-party producers for whom we market production in the Appalachian Basin. The letter of credit currently expires in September 2016 and is automatically extended annually in accordance with the letter of credit's terms and conditions. The letter of credit reduces the amount of available funds under our revolving credit facility by an amount equal to the letter of credit. As of June 30, 2016, the available funds under our revolving credit facility, including the reduction for the $11.7 million letter of credit, was $438.3 million. In addition to our currently elected commitment of $450 million, we have an additional $250 million of borrowing base availability under the revolving credit facility, subject to certain terms and conditions of the agreement.

The revolving credit facility contains covenants customary for agreements of this type, with the most restrictive being certain financial tests on a quarterly basis. The financial tests, as defined per the revolving credit facility, include requirements to: (a) maintain a minimum current ratio of 1.00 to 1.00 and (b) not exceed a maximum leverage ratio of 4.25 to 1.00. As of June 30, 2016, we were in compliance with all the revolving credit facility covenants and expect to remain in compliance throughout the next 12-month period.

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NOTE 8 - CAPITAL LEASES

We periodically enter into non-cancelable lease agreements for vehicles utilized by our operations and field personnel. These leases are being accounted for as capital leases, as the present value of minimum monthly lease payments, including the residual value guarantee, exceeds 90% of the fair value of the leased vehicles at inception of the lease.

The following table presents leased vehicles under capital leases as of June 30, 2016:

	Amount (in thousands)
Vehicles	$ 2,674
Accumulated depreciation	(464)
	$ 2,210

Future minimum lease payments by year and in the aggregate, under non-cancelable capital leases with terms of one year or more, consist of the following:

For the Twelve Months Ending June 30,	Amount (in thousands)
2017	$ 820
2018	1,075
2019	734
	2,629
Less executory cost	(105)
Less amount representing interest	(305)
Present value of minimum lease payments	$ 2,219
Short-term capital lease obligations	$ 606
Long-term capital lease obligations	1,613
	$ 2,219

Short-term capital lease obligations are included in other accrued expenses on the condensed consolidated balance sheets. Long-term capital lease obligations are included in other liabilities on the condensed consolidated balance sheets.

NOTE 9 - ASSET RETIREMENT OBLIGATIONS

The following table presents the changes in carrying amounts of the asset retirement obligations associated with our working interests in crude oil and natural gas properties:

	Amount (in thousands)
Balance at beginning of period, January 1, 2016	$ 89,492

Obligations incurred with development activities	843
Accretion expense	3,623
Obligations discharged with disposal of properties and asset retirements	(5,475)
Balance end of period, June 30, 2016	88,483
Less current portion	(6,900)
Long-term portion	$ 81,583

Our estimated asset retirement obligation liability is based on historical experience in plugging and abandoning wells, estimated economic lives and estimated plugging and abandonment cost considering federal and state regulatory requirements in effect. The liability is discounted using the credit-adjusted risk-free rate estimated at the time the liability is incurred or revised. In 2016, the credit-adjusted risk-free rates used to discount our plugging and abandonment liabilities ranged from 7.6% to 8.0%. In periods subsequent to initial measurement of the liability, we must recognize period-to-period changes in the liability resulting from the passage of time, revisions to either the amount of the original estimate of undiscounted cash flows or changes in inflation factors and changes to our credit-adjusted risk-free rate as market conditions warrant. Short-term asset retirement obligations are included in other accrued expenses on the condensed consolidated balance sheets.

NOTE 10 - COMMITMENTS AND CONTINGENCIES

Firm Transportation, Processing and Sales Agreements. We enter into contracts that provide firm transportation, sales and processing agreements on pipeline systems through which we transport or sell crude oil and natural gas. Satisfaction of the volume requirements includes volumes produced by us, purchased from third parties and produced by our affiliated partnerships and other third-party working interest owners. We record in our financial statements only our share of costs based upon our working interest in the wells. These contracts require us to pay these transportation and processing charges whether or not the required volumes are delivered. As natural gas prices continue to remain depressed, certain third-party producers under our Gas Marketing segment have begun and continue to experience financial distress, which has led to certain contractual defaults and litigation; however, to date, we have had no material counterparty default losses. As of June 30, 2016, we have recorded an allowance for doubtful accounts of approximately $0.9 million. We have initiated several legal actions for breach of contract, collection, and related claims against certain third-party producers that are delinquent in their payment obligations, which have to date resulted in one default judgment. There have been no collections received to date and and some of the third-party producers have shut-in their wells.

A group of independent West Virginia natural gas producers has filed, but not served on RNG, a complaint in Marshall County, West Virginia, naming Dominion Transmission, Inc. (“Dominion”), certain entities affiliated with Dominion, and RNG as defendants, alleging various contractual, fiduciary and related claims against the defendants, all of which are associated with firm transportation contracts entered into by plaintiffs and relating to pipelines owned and operated by Dominion and its affiliates. RNG is aware of this lawsuit filing but has not received formal service of process which commences the litigation against RNG. Furthermore, at this time, RNG is unable to estimate any potential damages associated with the claims, but believes the complaint is without merit and intends to vigorously pursue its defenses.

The following table presents gross volume information related to our long-term firm transportation, sales and processing agreements for pipeline capacity:

	For the Twelve Months Ending June 30,						
Area	2017	2018	2019	2020	2021 and Through Expiration	Total	Expiration Date
Natural gas (MMcf)							
Gas Marketing segment	7,117	7,117	7,117	7,136	15,138	43,625	August 31, 2022
Utica Shale	2,738	2,738	2,738	2,745	8,444	19,403	July 22, 2023
Total	9,855	9,855	9,855	9,881	23,582	63,028	
Crude oil (MBbls)							
Wattenberg Field	2,413	2,413	2,413	2,421	—	9,660	June 30, 2020
Dollar commitment (in thousands)	$17,573	$16,536	$16,324	$16,369	$ 9,052	$75,854	

Litigation. The Company is involved in various legal proceedings that it considers normal to its business. The Company reviews the status of these proceedings on an ongoing basis and, from time to time, may settle or otherwise resolve these matters on terms and conditions that management believes are in the best interests of the Company. There is no assurance that settlements can be reached on acceptable terms or that adverse judgments, if any, in the remaining litigation will not exceed the amounts reserved. Although the results cannot be known with certainty, we currently believe that the ultimate results of such proceedings will not have a material adverse effect on our financial position, results of operations or liquidity.

Environmental. Due to the nature of the natural gas and oil industry, we are exposed to environmental risks. We have various policies and procedures to minimize and mitigate the risks from environmental contamination. We conduct periodic reviews and simulated drills to identify changes in our environmental risk profile. Liabilities are recorded when environmental damages resulting from past events that require remediation are probable to require remediation and the costs can be reasonably estimated. As of June 30, 2016 and December 31, 2015, we had accrued environmental liabilities in the amount of $4.0 million and $4.1 million, respectively, included in other accrued expenses on the condensed consolidated balance sheets. We are not aware of any environmental claims existing as of June 30, 2016 which have not been provided for or would otherwise have a material impact on our financial statements; however, there can be no assurance that current regulatory requirements will not change or that unknown past non-compliance with environmental laws will not be discovered on our properties.

In August 2015, we received a Clean Air Act Section 114 Information Request (the "Information Request") from the U.S. Environmental Protection Agency ("EPA"). The Information Request sought, among other things, information related to the design, operation, and maintenance of our production facilities in the Denver-Julesburg Basin of Colorado. The Information Request focused on historical operation and design information for 46 of our production facilities and asks that we conduct sampling and analyses at the identified 46 facilities. We responded to

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the Information Request in January 2016. We continue to meet with the EPA and provide additional information, but cannot predict the outcome of this matter at this time.

In addition, in December 2015, we received a Compliance Advisory pursuant to C.R.S. § 25-7-115(2) from the Colorado Department of Public Health and Environment's Air Quality Control Commission's Air Pollution Control Division alleging that we failed to design, operate, and maintain certain condensate collection, storage, processing and handling operations to minimize leakage of volatile organic compounds to the maximum extent possible at 65 facilities consistent with applicable standards under Colorado law. We are in the process of responding to the advisory, and working with the agency on specific response processes, but cannot predict the outcome of this matter at this time.

Employment Agreements with Executive Officers. Each of our senior executive officers may be entitled to a severance payment and certain other benefits upon the termination of the officer's employment pursuant to the officer's employment agreement and/or the Company's executive severance compensation plan. The nature and amount of such benefits would vary based upon, among other things, whether the termination followed a change of control of the Company.

NOTE 11 - COMMON STOCK

Sale of Equity Securities

In March 2016, we completed a public offering of 5,922,500 shares of our common stock, par value $0.01 per share, at a price to us of $50.11 per share. Net proceeds of the offering were $296.6 million, after deducting offering expenses and underwriting discounts, of which $59,225 is included in common shares-par value and $296.5 million is included in additional paid-in capital ("APIC") on the June 30, 2016 condensed consolidated balance sheet. The shares were issued pursuant to an effective shelf registration statement on Form S-3 filed with the SEC in March 2015. Upon maturity of our Convertible Notes in May 2016, we paid the aggregate principal amount, plus cash for fractional shar