

HOME PROPERTIES INC  
Form 10-Q  
August 01, 2014  
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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

**FORM 10-Q**

(Mark One)

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

For the quarterly period ended June 30, 2014

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: 1-13136

**HOME PROPERTIES, INC.**

(Exact name of registrant as specified in its charter)

MARYLAND  
(State or other jurisdiction of incorporation or organization)

16-1455126  
(I.R.S. Employer Identification No.)

850 Clinton Square, Rochester, New York  
(Address of principal executive offices)

14604  
(Zip Code)

(585) 546-4900

(Registrant's telephone number, including area code)

N/A

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(Former name, former address and former fiscal year, if changed since last report)

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 Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes  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 the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

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

Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Common Stock  
\$.01 par value

Outstanding at July 23, 2014  
57,343,907

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## HOME PROPERTIES, INC.

## CONSOLIDATED BALANCE SHEETS

JUNE 30, 2014 AND DECEMBER 31, 2013

(Dollars in thousands, except per share data)

(Unaudited)

<b>ASSETS</b>	June 30, <u>2014</u>	December 31, <u>2013</u>
Real estate:		
Land	\$ 812,204	\$ 786,868
Land held for sale	13,734	-
Construction in progress	136,957	187,976
Buildings, improvements and equipment	4,680,578	4,645,921
	5,643,473	5,620,765
Less: accumulated depreciation	(1,303,082)	(1,243,243)
Real estate, net	4,340,391	4,377,522
Cash and cash equivalents	9,382	9,853
Cash in escrows	26,451	23,738
Accounts receivable, net	12,973	14,937
Prepaid expenses	11,264	22,089
Deferred charges, net	10,281	11,945
Other assets	3,484	7,793
Total assets	\$ 4,414,226	\$4,467,877
<b>LIABILITIES AND EQUITY</b>		
Mortgage notes payable	\$ 1,675,731	\$1,814,217
Unsecured notes payable	450,000	450,000
Unsecured line of credit	282,500	193,000
Accounts payable	28,919	27,540
Accrued interest payable	7,757	8,392
Accrued expenses and other liabilities	33,817	33,936
Security deposits	18,930	18,479
Total liabilities	2,497,654	2,545,564
Commitments and contingencies		
Equity:		
Preferred stock, \$0.01 par value; 10,000,000 shares authorized; no shares issued or outstanding	-	-
Common stock, \$0.01 par value; 160,000,000 and 80,000,000 shares authorized with 57,330,625 and 56,961,646 shares issued and outstanding at June 30, 2014 and	573	570

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December 31, 2013, respectively

Excess stock, \$0.01 par value; 10,000,000 shares authorized; no shares issued or outstanding

Additional paid-in capital	2,024,657	2,007,300
Distributions in excess of accumulated earnings	(395,600)	(380,168)
Accumulated other comprehensive income	(1,270)	1,551
Total common stockholders' equity	1,628,360	1,629,253
Noncontrolling interest	288,212	293,060
Total equity	1,916,572	1,922,313
Total liabilities and equity	\$ 4,414,226	\$4,467,877

The accompanying notes are an integral part of these consolidated financial statements.

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HOME PROPERTIES, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

(Dollars in thousands, except per share data)

(Unaudited)

	Three months ended		Six months ended	
	June 30,		June 30,	
	2014	2013	2014	2013
Revenues:				
Rental income	\$155,022	\$149,313	\$307,375	\$296,607
Property other income	13,170	12,828	28,730	27,008
Other income	179	215	321	464
Total revenues	168,371	162,356	336,426	324,079
Expenses:				
Operating and maintenance	60,302	57,942	126,761	118,000
General and administrative	7,127	7,337	16,384	16,420
Interest	25,196	28,690	50,523	58,685
Depreciation and amortization	45,167	42,002	89,546	83,414
Other expenses	274	16	282	32
Impairment and other charges	3,842	-	3,842	-
Total expenses	141,908	135,987	287,338	276,551
Income from continuing operations	26,463	26,369	49,088	47,528
Discontinued operations:				
Income from discontinued operations	-	1,385	40	2,193
Gain on disposition of property	-	4,645	31,306	45,004
Discontinued operations	-	6,030	31,346	47,197
Net income	26,463	32,399	80,434	94,725
Net income attributable to noncontrolling interest	(3,994)	(5,363)	(12,174)	(15,809)
Net income attributable to common stockholders	\$ 22,469	\$ 27,036	\$ 68,260	\$ 78,916
Basic earnings per share:				
Income from continuing operations	\$ 0.39	\$ 0.42	\$ 0.73	\$ 0.76
Discontinued operations	-	0.10	0.46	0.76
Net income attributable to common stockholders	\$ 0.39	\$ 0.52	\$ 1.19	\$ 1.52
Diluted earnings per share:				
Income from continuing operations	\$ 0.39	\$ 0.42	\$ 0.72	\$ 0.75
Discontinued operations	-	0.09	0.46	0.75
Net income attributable to common stockholders	\$ 0.39	\$ 0.51	\$ 1.18	\$ 1.50

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Weighted average number of shares  
outstanding:

Basic	57,247,851	52,299,385	57,162,306	51,954,626
Diluted	57,795,142	52,921,955	57,660,163	52,581,451

The accompanying notes are an integral part of these consolidated financial statements.



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HOME PROPERTIES, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Dollars in thousands)

(Unaudited)

	Three months ended		Six months ended	
	2014	June 30, 2013	2014	June 30, 2013
Net income	\$ 26,463	\$ 32,399	\$ 80,434	\$ 94,725
Other comprehensive income (loss):				
Unrealized gain (loss) on interest rate swap agreements	(2,429)	2,778	(3,324)	2,989
Other comprehensive income (loss)	(2,429)	2,778	(3,324)	2,989
Comprehensive income	24,034	35,177	77,110	97,714
Net income attributable to noncontrolling interest	(3,994)	(5,363)	(12,174)	(15,809)
Other comprehensive (income) loss attributable to noncontrolling interest	367	(460)	503	(495)
Comprehensive income attributable to common stockholders	\$ 20,407	\$ 29,354	\$ 65,439	\$ 81,410

The accompanying notes are an integral part of these consolidated financial statements.

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## HOME PROPERTIES, INC.

## CONSOLIDATED STATEMENTS OF EQUITY

FOR THE SIX MONTHS ENDED JUNE 30, 2014 AND THE YEAR ENDED DECEMBER 31, 2013

(Dollars in thousands)

(Unaudited)

	<u>Common Stock</u>		<u>Additional</u>	<u>Distributions</u>	<u>Accumulated</u>	<u>Non-</u>	<u>Total</u>
	<u>Shares</u>	<u>Amount</u>	<u>Paid-In</u>	<u>in Excess of</u>	<u>Other</u>	<u>controlling</u>	
			<u>Capital</u>	<u>Earnings</u>	<u>Income (Loss)</u>	<u>Interest</u>	
Balance, January 1, 2013	51,508,142	\$ 515	\$ 1,709,919	\$(388,397)	\$ (1,069)	\$ 267,299	\$ 1,588,267
Net income	-	-	-	160,873	-	30,706	191,579
Unrealized gain (loss) on interest rate swap agreements	-	-	-	-	2,620	516	3,136
Issuance of common stock, net	902,934	9	47,477	-	-	-	47,486
Issuance of common stock through public offering, net	4,427,500	44	267,589	-	-	-	267,633
Stock-based compensation	3,137	-	9,055	-	-	-	9,055
Repurchase of common stock	(48,484)	-	(3,133)	-	-	-	(3,133)
Conversion of UPREIT Units for common stock	168,417	2	4,493	-	-	(4,495)	0
Adjustment of noncontrolling interest	-	-	(28,100)	-	-	28,100	0
Dividends and distributions declared	-	-	-	(152,644)	-	(29,066)	(181,710)

(7) failure by PDC or any Significant Subsidiary or group of PDC's Restricted Subsidiaries that, taken together (as of the latest audited consolidated financial statements for PDC and its Restricted Subsidiaries), would constitute a Significant Subsidiary to pay final judgments

aggregating in excess of \$25 million (net of any amounts that a reputable and creditworthy insurance company has acknowledged liability for in writing), which judgments are not paid, discharged or stayed for a period of 60 days;

- (8) except as permitted by the indenture, any Subsidiary Guarantee is held in a judicial proceeding to be unenforceable or invalid or ceases for any reason to be in full force and effect, or any Subsidiary Guarantor, or any Person acting on behalf of any Subsidiary Guarantor, denies or disaffirms its obligations under its Subsidiary Guarantee; or
- (9) certain events of bankruptcy, insolvency or reorganization with respect to PDC or a Significant Subsidiary or group of Restricted Subsidiaries that, taken together (as of the latest audited consolidated financial statements for PDC and its Restricted Subsidiaries), would constitute a Significant Subsidiary.

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The indenture will provide that in the case of an Event of Default arising from certain events of bankruptcy or insolvency with respect to PDC, any Restricted Subsidiary that is a Significant Subsidiary or any group of Restricted Subsidiaries that, taken together, would constitute a Significant Subsidiary, all then outstanding notes will become due and payable immediately without further action or notice. However, the effect of such provision may be limited by applicable law. If any other Event of Default occurs and is continuing, the trustee or the holders of at least 25% in aggregate principal amount of the then outstanding notes may declare all of the notes to be due and payable immediately by notice in writing to PDC and, in case of a notice by holders, also to the trustee specifying the respective Event of Default and that it is a notice of acceleration.

Subject to certain limitations, holders of a majority in aggregate principal amount of the then outstanding notes may direct the trustee in its exercise of any trust or power with respect to the notes. The trustee may withhold from holders of the notes notice of any continuing Default or Event of Default if it determines that withholding notice is in their interest, except a Default or Event of Default relating to the payment of principal, interest or premium, if any. Subject to the provisions of the indenture relating to the duties of the trustee in case an Event of Default occurs and is continuing, the trustee will be under no obligation to exercise any of the rights or powers under the indenture at the request or direction of any holders of notes unless such holders have offered to the trustee reasonable indemnity or security against any loss, liability or expense. Except to enforce the right to receive payment of principal, premium, if any, or interest, when due, no holder of a note may pursue any remedy with respect to the indenture or the notes unless:

- (a) such holder has previously given the trustee notice of a continuing Event of Default;
- (b) holders of at least 25% in aggregate principal amount of the then outstanding notes have made a written request to the trustee to pursue the remedy;
- (c) such holders have offered the trustee reasonable security or indemnity against any loss, liability or expense;
- (d) the trustee has not complied with such request within 60 days after the receipt of the request and the offer of security or indemnity; and
- (e) holders of a majority in aggregate principal amount of the then outstanding notes have not given the trustee a direction that is inconsistent with such request within such 60-day period.

The holders of a majority in aggregate principal amount of the then outstanding notes by notice to the trustee may, on behalf of the holders of all of the notes, rescind an acceleration or waive any existing Default or Event of Default and its consequences under the indenture except a continuing Default or Event of Default in the payment of interest or premium, if any, on, or the principal of, the notes.

Notwithstanding the foregoing, if an Event of Default specified in clause (6) above shall have occurred and be continuing, such Event of Default and any consequential acceleration (to the extent not in violation of any applicable law or in conflict with any judgment or decree of a court of competent jurisdiction) shall be automatically rescinded if (a) (i) the Indebtedness that is the subject of such Event of Default has been repaid or (ii) if the default relating to such Indebtedness is waived by the holders of such Indebtedness or cured and if such Indebtedness has been accelerated, then the holders thereof have rescinded their declaration of acceleration in respect of such Indebtedness and (b) any other existing Events of Default, except nonpayment of principal, premium, if any, or interest on the Notes that became due solely because of the acceleration of the Notes, have been cured or waived.

PDC is required to deliver to the trustee annually an Officers' Certificate regarding compliance with the indenture. Upon becoming aware of any Default or Event of Default, PDC is required within five Business Days to deliver to the trustee a statement specifying such Default or Event of Default.

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**No Personal Liability of Directors, Officers, Employees and Stockholders**

No director, officer, employee, incorporator, stockholder, member, manager or partner of PDC or any Subsidiary Guarantor, as such, will have any liability for any obligations of PDC or the Subsidiary Guarantors under the notes, the indenture, the Subsidiary Guarantees or for any claim based on, in respect of, or by reason of, such obligations or their creation. Each holder of notes by accepting a note waives and releases all such liability. The waiver and release are part of the consideration for issuance of the notes. The waiver may not be effective to waive liabilities under the federal securities laws.

**Legal Defeasance and Covenant Defeasance**

PDC may, at any time, at the option of its Board of Directors evidenced by a resolution set forth in an Officers Certificate, elect to have all of its obligations discharged with respect to the outstanding notes and all obligations of the Subsidiary Guarantors discharged with respect to their Subsidiary Guarantees ( Legal Defeasance ) except for:

- (1) the rights of holders of outstanding notes to receive payments in respect of the principal of, or interest or premium, if any, on such notes when such payments are due from the trust referred to below;
- (2) PDC s obligations with respect to the notes concerning issuing temporary notes, registration of notes, mutilated, destroyed, lost or stolen notes and the maintenance of an office or agency for payment and money for security payments held in trust;
- (3) the rights, powers, trusts, duties and immunities of the trustee, and PDC s and the Subsidiary Guarantors obligations in connection therewith; and
- (4) the Legal Defeasance and Covenant Defeasance provisions of the indenture.

In addition, PDC may, at its option and at any time, elect to have the obligations of PDC and the Subsidiary Guarantors released with respect to the provisions of the indenture described above under Repurchase at the option of holders and under Covenants (other than the covenant described under Covenants Merger, consolidation or sale of substantially all assets, except to the extent described below) and the limitation imposed by clause (4) under Covenants Merger, consolidation or sale of substantially all assets (such release and termination being referred to as Covenant Defeasance ), and thereafter any omission to comply with such obligations or provisions will not constitute a Default or Event of Default with respect to the notes. In the event Covenant Defeasance occurs in accordance with the indenture, the Events of Default described under clauses (3) through (7) under the caption Events of default and the Event of Default described under clause (9) under the caption Events of default (but only with respect to Subsidiaries of PDC), in each case, will no longer constitute an Event of Default with respect to the notes. In addition, upon the occurrence of Covenant Defeasance all obligations of the Subsidiary Guarantors with respect to their Subsidiary Guarantees will be discharged.

In order to exercise either Legal Defeasance or Covenant Defeasance:

- (1) PDC must irrevocably deposit with the trustee, in trust, for the benefit of the holders of the notes, cash in U.S. dollars, non-callable Government Securities, or a combination of cash in U.S. dollars and non-callable Government Securities, in amounts as will be sufficient, in the opinion of a nationally recognized investment bank, appraisal firm or firm of independent public accountants to pay the principal of, or interest and premium, if any, on the outstanding notes on the stated date for payment thereof or on the applicable redemption date, as the case may be, and PDC must specify whether the notes are being defeased to such stated date for payment or to a particular redemption date;

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- (2) in the case of Legal Defeasance, PDC must deliver to the trustee an opinion of counsel reasonably acceptable to the trustee confirming that (a) PDC has received from, or there has been published by, the Internal Revenue Service a ruling or (b) since the Issue Date, there has been a change in the applicable U.S. federal income tax law, in either case to the effect that, and based thereon such opinion of counsel will confirm that, the holders of the outstanding notes will not recognize income, gain or loss for U.S. federal income tax purposes as a result of such Legal Defeasance and will be subject to U.S. federal income tax on the same amounts, in the same manner and at the same times as would have been the case if such Legal Defeasance had not occurred;
- (3) in the case of Covenant Defeasance, PDC has delivered to the trustee an opinion of counsel reasonably acceptable to the trustee confirming that the holders of the outstanding notes will not recognize income, gain or loss for U.S. federal income tax purposes as a result of such Covenant Defeasance and will be subject to U.S. federal income tax on the same amounts, in the same manner and at the same times as would have been the case if such Covenant Defeasance had not occurred;
- (4) no Default or Event of Default has occurred and is continuing on the date of such deposit (other than a Default or Event of Default resulting from the borrowing of funds to be applied to such deposit or the grant of Liens securing such borrowing);
- (5) such Legal Defeasance or Covenant Defeasance and the related deposit will not result in a breach or violation of, or constitute a default under, any material agreement or instrument (other than the indenture) to which PDC or any of its Subsidiaries is a party or by which PDC or any of its Subsidiaries is bound;
- (6) PDC must deliver to the trustee an Officers Certificate stating that the deposit was not made by PDC with the intent of preferring the holders of notes over the other creditors of PDC with the intent of defeating, hindering, delaying or defrauding any creditors of PDC or others;
- (7) PDC must deliver to the trustee an Officers Certificate, stating that all conditions precedent set forth in clauses (1) through (6) of this paragraph have been complied with; and
- (8) PDC must deliver to the trustee an opinion of counsel, stating that all conditions precedent set forth in clauses (2), (3) and (5) of this paragraph have been complied with.

**Amendment, Supplement and Waiver**

Except as provided in the next two succeeding paragraphs, the indenture, the debt securities issued thereunder (including the notes) or any Guarantee thereof may be amended or supplemented with the consent of the holders of a majority in aggregate principal amount of the then-outstanding debt securities of each series affected by such amendment or supplemental indenture, with each such series voting as a separate class (including, without limitation, consents obtained in connection with a purchase of, or tender offer or exchange offer for, debt securities) and, subject to certain exceptions relating to waivers of past Defaults and rights of holders of notes to receive payment, any existing Default or Event of Default or compliance with any provision of the indenture or the debt securities issued thereunder (including the notes) or any Guarantee thereof may be waived with respect to each series of debt securities with the consent of the holders of a majority in aggregate principal amount of the then-outstanding debt securities of such series voting as a separate class (including, without limitation, consents obtained in connection with a purchase of, or tender offer or exchange offer for, debt securities).

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Without the consent of each holder of the outstanding debt securities affected, an amendment, supplement or waiver may not (with respect to any notes held by a non-consenting holder):

- (1) change the Stated Maturity of the principal of, or any installment of principal of or interest on, any debt security, or reduce the principal amount thereof or the rate of interest thereon or any premium payable upon the redemption thereof, or reduce the amount of the principal of an original issue discount security that would be due and payable upon a declaration of acceleration of the maturity thereof pursuant to the indenture, or change any place of payment where, or the coin or currency in which, any debt security or any premium or the interest thereon is payable, or impair the right to institute suit for the enforcement of any such payment on or after the Stated Maturity thereof (or, in the case of redemption, on or after the redemption date therefor);
- (2) reduce the percentage in principal amount of the then-outstanding debt securities of any series, the consent of whose holders is required for any such amendment, supplement or waiver;
- (3) modify any of the provisions set forth in (i) the provisions of the indenture related to the holder's unconditional right to receive principal, premium, if any, and interest on the debt securities or (ii) the provisions of the indenture related to the waiver of past Defaults under such indenture except to increase any such percentage or to provide that certain other provisions of such indenture cannot be modified or waived without the consent of the holder of each then-outstanding debt security affected thereby;
- (4) waive a redemption payment with respect to any debt security; provided, however, that any purchase or repurchase of debt securities shall not be deemed a redemption of the debt securities;
- (5) release any Subsidiary Guarantor from any of its obligations under its Subsidiary Guarantee or the indenture, except in accordance with the terms of such indenture (as supplemented by any supplemental indenture); or
- (6) make any change in the foregoing amendment and waiver provisions of the indenture.

Notwithstanding the foregoing, without the consent of any holder of debt securities, PDC, the Subsidiary Guarantors (if any) and the trustee may amend or supplement the indenture or the debt securities or the Guarantees thereof issued thereunder to:

- (1) cure any ambiguity or defect or to correct or supplement any provision therein that may be inconsistent with any other provision therein;
- (2) evidence the succession of another Person to PDC and the assumption by any such successor of the covenants of PDC therein and, to the extent applicable, to the debt securities;
- (3) provide for uncertificated notes in addition to or in place of certificated notes;
- (4) add a Subsidiary Guarantee and cause any Person to become a Subsidiary Guarantor, and/or to evidence the succession of another Person to a Subsidiary Guarantor and the assumption by any such successor of the Subsidiary Guarantee of such Subsidiary Guarantor therein;

(5) secure the debt securities of any series;



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- (6) add to the covenants of PDC such further covenants, restrictions, conditions or provisions as PDC shall consider to be appropriate for the benefit of the holders of all or any series of debt securities (and if such covenants, restrictions, conditions or provisions are to be for the benefit of less than all series of debt securities, stating that such covenants are expressly being included solely for the benefit of such series) or to surrender any right or power therein conferred upon PDC and to make the occurrence, or the occurrence and continuance, of a Default in any such additional covenants, restrictions, conditions or provisions an Event of Default permitting the enforcement of all or any of the several remedies provided in the indenture as set forth therein; provided, that in respect of any such additional covenant, restriction, condition or provision, such supplemental indenture may provide for a particular period of grace after Default (which period may be shorter or longer than that allowed in the case of other Defaults) or may provide for an immediate enforcement upon such an Event of Default or may limit the remedies available to the trustee upon such an Event of Default or may limit the right of the holders of a majority in aggregate principal amount of the debt securities of such series to waive such an Event of Default;
- (7) make any change to any provision of the indenture that would provide any additional rights or benefits to the holders of the debt securities issued thereunder or that does not adversely affect the rights or interests of any such holder;
- (8) provide for the issuance of additional debt securities in accordance with the provisions set forth in the indenture on the date of such indenture;
- (9) add any additional Defaults or Events of Default in respect of all or any series of debt securities;
- (10) change or eliminate any of the provisions of the indenture; provided that any such change or elimination shall become effective only when there is no debt security outstanding of any series created prior to the execution of such supplemental indenture that is entitled to the benefit of such provision;
- (11) establish the form or terms of debt securities of any series as permitted thereunder, including to reopen any series of any debt securities as permitted thereunder;
- (12) evidence and provide for the acceptance of appointment thereunder by a successor trustee with respect to the debt securities of one or more series and to add to or change any of the provisions of the indenture as shall be necessary to provide for or facilitate the administration of the trusts thereunder by more than one trustee, pursuant to the requirements of such indenture;
- (13) conform the text of the indenture (and/or any supplemental indenture) or any debt securities issued thereunder to any provision of a description of such debt securities appearing in a prospectus or prospectus supplement or an offering memorandum or offering circular pursuant to which such debt securities were offered to the extent that such provision was intended to be a verbatim recitation of a provision of such indenture (and/or any supplemental indenture) or any debt securities or Guarantees issued thereunder;
- (14) add a corporate co-issuer in accordance with the covenant set forth under the caption Covenants Merger, consolidation or sale of substantially all assets; or
- (15) modify, eliminate or add to the provisions of the indenture to such extent as shall be necessary to effect the qualification of such indenture under the Trust Indenture Act, or under any similar federal statute subsequently enacted, and to add to such indenture such other provisions as may be expressly required under the Trust Indenture Act.

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The consent of the holders is not necessary under the indenture to approve the particular form of any proposed amendment, supplement or waiver, but it is sufficient if such consent approves the substance thereof. After an amendment, supplement or waiver under the indenture requiring approval of the holders becomes effective, PDC shall mail to the holders of debt securities affected thereby a notice briefly describing such amendment, supplement or waiver. However, the failure to give such notice to all such holders, or any defect therein, will not impair or affect the validity of the applicable amendment, supplement or waiver.

## **Satisfaction and Discharge**

The indenture will be discharged and will cease to be of further effect as to all notes issued thereunder (except as to surviving rights of registration of transfer or exchange of the notes and as otherwise specified in the indenture), when:

- (1) either:
  - (a) all notes that have been authenticated, except lost, stolen or destroyed notes that have been replaced or paid and notes for whose payment money has been deposited in trust and thereafter repaid to PDC, have been delivered to the trustee for cancellation; or
  - (b) all notes that have not been delivered to the trustee for cancellation have become due and payable by reason of the mailing of a notice of redemption or otherwise or will become due and payable within one year and PDC or any Subsidiary Guarantor has irrevocably deposited or caused to be deposited with the trustee as trust funds in trust solely for the benefit of the holders, cash in U.S. dollars, non-callable Government Securities, or a combination of cash in U.S. dollars and non-callable Government Securities, in amounts as will be sufficient, without consideration of any reinvestment of interest, to pay and discharge the entire Indebtedness on the notes not delivered to the trustee for cancellation for principal, premium, if any, and accrued interest to the date of maturity or redemption;
- (2) no Default or Event of Default has occurred and is continuing on the date of the deposit (other than a Default or Event of Default resulting from the borrowing of funds to be applied to such deposit or the grant of Liens securing such borrowing);
- (3) such deposit will not result in a breach or violation of, or constitute a default under, any material agreement or instrument (other than the indenture) to which PDC or any Subsidiary Guarantor is a party or by which PDC or any Subsidiary Guarantor is bound;
- (4) PDC or any Subsidiary Guarantor has paid or caused to be paid all sums payable by it under the indenture; and
- (5) PDC has delivered irrevocable instructions to the trustee to apply the deposited money toward the payment of the notes at maturity or on the redemption date, as the case may be.

In addition, PDC must deliver to the trustee (a) an Officers Certificate, stating that all conditions precedent set forth in clauses (1) through (5) above have been satisfied and (b) an opinion of counsel, stating that all conditions precedent set forth in clauses (3) and (5) above have been satisfied.

## **Concerning the Trustee**

If the trustee is a creditor of PDC or any Subsidiary Guarantor, the indenture will limit the right of the trustee to obtain payment of claims in certain cases, or to realize on certain property received in respect of any such claim as security or otherwise. The trustee will be permitted to engage in other transactions; however, if it has any conflicting interest (as defined in the Trust Indenture Act) after a Default has occurred and is continuing, it must eliminate such conflict within 90 days, apply to the SEC for permission to continue as trustee (if the indenture has been qualified under the Trust Indenture Act) or resign.



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The holders of a majority in aggregate principal amount of the then outstanding notes will have the right to direct the time, method and place of conducting any proceeding for exercising any remedy available to the trustee, subject to certain exceptions. If an Event of Default occurs and is continuing, the trustee will be required, in the exercise of its powers, to use the degree of care of a prudent man in the conduct of his own affairs. Subject to such provisions, the trustee will be under no obligation to exercise any of its rights or powers under the indenture at the request of any holder of notes, unless such holder has offered to the trustee reasonable security or indemnity against any loss, liability or expense.

### **Governing law**

The indenture, the notes and the Subsidiary Guarantees will be governed by the laws of the State of New York.

### **Book-Entry, Delivery and Form**

The new notes, like the current notes, will be issued in one or more permanent global notes in registered form without interest coupons (the Global Notes ).

The Global Notes will be deposited upon issuance with the trustee as custodian for The Depository Trust Company ( DTC ), in New York, New York, and registered in the name of DTC s nominee, Cede & Co., in each case for credit to an account of a direct or indirect participant in DTC as described below. Beneficial interests in the Global Notes may be held through the Euroclear System ( Euroclear ) and Clearstream Banking ( Clearstream ) (as indirect participants in DTC).

Except as set forth below, the Global Notes may be transferred, in whole but not in part, only to another nominee of DTC or to a successor of DTC or its nominee. Beneficial interests in the Global Notes may not be exchanged for Certificated Notes except in the limited circumstances described below. See Exchange of Global Notes for Certificated Notes. Except in the limited circumstances described below, owners of beneficial interests in the Global Notes will not be entitled to receive physical delivery of Certificated Notes.

Transfers of beneficial interests in the Global Notes will be subject to the applicable rules and procedures of DTC and its direct or indirect participants (including, if applicable, those of Euroclear and Clearstream), which may change from time to time.

### **Depository Procedures**

The following description of the operations and procedures of DTC, Euroclear and Clearstream are provided solely as a matter of convenience. These operations and procedures are solely within the control of the respective settlement systems and are subject to changes by them. PDC takes no responsibility for these operations and procedures and urges investors to contact the system or their participants directly to discuss these matters.

DTC has advised PDC that DTC is a limited-purpose trust company created to hold securities for its participating organizations (collectively, the Participants ) and to facilitate the clearance and settlement of transactions in those securities between the Participants through electronic bookentry changes in accounts of its Participants. The Participants include securities brokers and dealers (including the initial purchasers), banks, trust companies, clearing corporations and certain other organizations. Access to DTC s system is also available to other entities such as banks, brokers, dealers and trust companies that clear through or maintain a custodial relationship with a Participant, either directly or indirectly (collectively, the Indirect Participants ). Persons who are not Participants may beneficially own securities held by or on behalf of DTC only through the Participants or the Indirect Participants. The ownership interests in, and transfers of ownership interests in, each security held by or on behalf of DTC are recorded on the records of the Participants and Indirect Participants.

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DTC has also advised PDC that, pursuant to procedures established by it:

- (1) upon deposit of the Global Notes, DTC will credit the accounts of the Participants designated by the initial purchasers with portions of the principal amount of the Global Notes; and
- (2) ownership of these interests in the Global Notes will be shown on, and the transfer of ownership of these interests will be effected only through, records maintained by DTC (with respect to the Participants) or by the Participants and the Indirect Participants (with respect to other owners of beneficial interests in the Global Notes).

Investors in the Global Notes who are Participants may hold their interests therein directly through DTC. Investors in the Global Notes who are not Participants may hold their interests therein indirectly through organizations (including Euroclear and Clearstream) which are Participants. Euroclear and Clearstream may hold interests in the Global Notes on behalf of their participants through customers' securities accounts in their respective names on the books of their respective depositories, which are Euroclear Bank S.A./N.V., as operator of Euroclear, and Citibank, N.A., as operator of Clearstream. All interests in a Global Note, including those held through Euroclear or Clearstream, may be subject to the procedures and requirements of DTC. Those interests held through Euroclear or Clearstream may also be subject to the procedures and requirements of such systems. The laws of some states require that certain Persons take physical delivery in definitive form of securities that they own. Consequently, the ability to transfer beneficial interests in a Global Note to such Persons will be limited to that extent. Because DTC can act only on behalf of the Participants, which in turn act on behalf of the Indirect Participants, the ability of a Person having beneficial interests in a Global Note to pledge such interests to Persons that do not participate in the DTC system, or otherwise take actions in respect of such interests, may be affected by the lack of a physical certificate evidencing such interests.

**Except as described below, owners of interests in the Global Notes will not have notes registered in their names, will not receive physical delivery of Certificated Notes and will not be considered the registered owners or holders thereof under the indenture for any purpose.**

Payments in respect of the principal of, and interest and premium, if any, on a Global Note registered in the name of DTC or its nominee will be payable to DTC in its capacity as the registered holder under the indenture. Under the terms of the indenture, PDC, the Subsidiary Guarantors and the trustee will treat the Persons in whose names the notes, including the Global Notes, are registered as the owners thereof for the purpose of receiving payments and for all other purposes. Consequently, neither PDC, the Subsidiary Guarantors, the trustee nor any agent of any of them has or will have any responsibility or liability for:

- (1) any aspect of DTC's records or any Participant's or Indirect Participant's records relating to or payments made on account of beneficial ownership interest in the Global Notes or for maintaining, supervising or reviewing any of DTC's records or any Participant's or Indirect Participant's records relating to the beneficial ownership interests in the Global Notes; or
- (2) any other matter relating to the actions and practices of DTC or any of its Participants or Indirect Participants.

DTC has advised PDC that its current practice, at the due date of any payment in respect of securities such as the notes (including principal and interest), is to credit the accounts of the relevant Participants with the payment on the payment date unless DTC has reason to believe that it will not receive payment on such payment date. Each relevant Participant is credited with an amount proportionate to its beneficial ownership of an interest in the principal amount of the relevant security as shown on the records of DTC. Payments by the Participants and the Indirect Participants to the beneficial owners of notes will be governed by standing instructions and customary practices and will be the responsibility of the Participants or the Indirect Participants and will not be the responsibility of DTC, the trustee or PDC. Neither PDC nor the trustee will be liable for any delay by DTC or any of its Participants in identifying the beneficial owners of the notes, and PDC and the trustee may conclusively rely on and will be protected in relying on instructions from DTC or its nominee for all purposes.

Subject to the transfer restrictions set forth under "Transfer restrictions," transfers between Participants in DTC will be effected in accordance with DTC's procedures, and will be settled in same-day funds, and transfers between participants in Euroclear and Clearstream will be effected in accordance with their respective rules and operating procedures.



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Subject to compliance with the transfer restrictions applicable to the notes described herein, cross-market transfers between the Participants in DTC, on the one hand, and Euroclear or Clearstream participants, on the other hand, will be effected through DTC in accordance with DTC's rules on behalf of Euroclear or Clearstream, as the case may be, by its depository; however, such cross-market transactions will require delivery of instructions to Euroclear or Clearstream, as the case may be, by the counterparty in such system in accordance with the rules and procedures and within the established deadlines (Brussels time) of such system. Euroclear or Clearstream, as the case may be, will, if the transaction meets its settlement requirements, deliver instructions to its depository to take action to effect final settlement on its behalf by delivering or receiving interests in the relevant Global Note in DTC, and making or receiving payment in accordance with normal procedures for same-day funds settlement applicable to DTC. Euroclear participants and Clearstream participants may not deliver instructions directly to the depositories for Euroclear or Clearstream.

DTC has advised PDC that it will take any action permitted to be taken by a holder of notes only at the direction of one or more Participants to whose account DTC has credited the interests in the Global Notes and only in respect of such portion of the aggregate principal amount of the notes as to which such Participant or Participants has or have given such direction. However, if there is an Event of Default under the notes, DTC reserves the right to exchange the Global Notes for legended notes in certificated form, and to distribute such notes to its Participants.

Although DTC, Euroclear and Clearstream have agreed to the foregoing procedures to facilitate transfers of interests in the Rule 144A Global Notes and the Regulation S Global Notes among participants in DTC, Euroclear and Clearstream, they are under no obligation to perform or to continue to perform such procedures, and may discontinue such procedures at any time. Neither PDC nor the trustee nor any of their respective agents will have any responsibility for the performance by DTC, Euroclear or Clearstream or their respective participants or indirect participants of their respective obligations under the rules and procedures governing their operations.

### **EXCHANGE OF GLOBAL NOTES FOR CERTIFICATED NOTES**

A Global Note is exchangeable for Certificated Notes if:

- (1) DTC (a) notifies PDC that it is unwilling or unable to continue as depository for the Global Note or (b) has ceased to be a clearing agency registered under the Exchange Act, and in each case PDC fails to appoint a successor depository within 90 days;
- (2) PDC, at its option, notifies the trustee in writing that it elects to cause the issuance of Certificated Notes (DTC has advised PDC that, in such event, under its current practices, DTC would notify its Participants of PDC's request, but will only withdraw beneficial interests from a Global Note at the request of each Participant); or
- (3) a Default or Event of Default has occurred and is continuing and DTC notifies the trustee of its decision to exchange the Global Note for Certificated Notes.

In addition, beneficial interests in a Global Note may be exchanged for Certificated Notes upon prior written notice given to the trustee by or on behalf of DTC in accordance with the indenture. In all cases, Certificated Notes delivered in exchange for any Global Note or beneficial interests in Global Notes will be registered in the names, and issued in any approved denominations, requested by or on behalf of the depository (in accordance with its customary procedures) and will bear the applicable restrictive legend referred to in Transfer restrictions, unless that legend is not required by applicable law.

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### **Exchange of Certificated Notes for Global Notes**

Certificated Notes may not be exchanged for beneficial interests in any Global Note unless the transferor first delivers to the trustee a written certificate (in the form provided in the indenture) to the effect that such transfer will comply with the appropriate transfer restrictions applicable to such notes. See Transfer restrictions.

### **Same Day Settlement and Payment**

PDC will make payments in respect of the notes represented by the Global Notes (including principal, premium, if any, and interest) by wire transfer of immediately available funds to the accounts specified by DTC or its nominee. PDC will make all payments of principal, interest and premium, if any, with respect to Certificated Notes by wire transfer of immediately available funds to the accounts specified by the holders thereof or, if no such account is specified, by mailing a check to each such holder's registered address. The notes represented by the Global Notes are expected to trade in DTC's Same-Day Funds Settlement System, and any permitted secondary market trading activity in such notes will, therefore, be required by DTC to be settled in immediately available funds. PDC expects that secondary trading in any Certificated Notes will also be settled in immediately available funds.

Because of time zone differences, the securities account of a Euroclear or Clearstream participant purchasing an interest in a Global Note from a Participant in DTC will be credited, and any such crediting will be reported to the relevant Euroclear or Clearstream participant, during the securities settlement processing day (which must be a business day for Euroclear and Clearstream) immediately following the settlement date of DTC. DTC has advised PDC that cash received in Euroclear or Clearstream as a result of sales of interests in a Global Note by or through a Euroclear or Clearstream participant to a Participant in DTC will be received with value on the settlement date of DTC but will be available in the relevant Euroclear or Clearstream cash account only as of the business day for Euroclear or Clearstream following DTC's settlement date.



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### **Definitions**

*Acquired Debt* means, with respect to any specified Person:

- (1) Indebtedness of any other Person existing at the time such other Person is merged with or into or became a Subsidiary of such specified Person, regardless of whether such Indebtedness is incurred in connection with, or in contemplation of, such other Person merging with or into, or becoming a Restricted Subsidiary of, such specified Person, but excluding Indebtedness which is extinguished, retired or repaid in connection with such Person merging with or becoming a Subsidiary of such specified Person; and
- (2) Indebtedness secured by a Lien encumbering any asset acquired by such specified Person.

*Additional Assets* means:

- (1) any property or assets (other than Indebtedness and Capital Stock) to be used by PDC or a Restricted Subsidiary in a Related Business;
  - (2) the Capital Stock of a Person that becomes a Restricted Subsidiary as a result of the acquisition of such Capital Stock by PDC or another Restricted Subsidiary;
  - (3) Capital Stock constituting a minority interest in any Person that at such time is a Restricted Subsidiary; or
  - (4) Capital Stock of any Restricted Subsidiary; provided that all the Capital Stock of such Subsidiary held by PDC or any of its Restricted Subsidiaries shall entitle PDC or such Restricted Subsidiary to not less than a pro rata portion of all dividends or other distributions made by such Subsidiary upon any of such Capital Stock;
- provided, however, that, in the case of clauses (2), (3) and (4), such Subsidiary is primarily engaged in a Related Business.

*Adjusted Consolidated Net Tangible Assets* means, with respect to any specified Person or Persons (all of such specified Persons, whether one or more, being referred to in this definition as the Referent Person ), as of the date of determination (without duplication), the remainder of:

- (a) the sum of:
  - (i) discounted future net revenues from proved oil and gas reserves of such Person and its Restricted Subsidiaries calculated in accordance with SEC guidelines before any provincial, territorial, state, federal or foreign income taxes, as estimated by PDC in a reserve report prepared as of the end of PDC's most recently completed fiscal year for which audited financial statements are available and giving effect to applicable Oil and Natural Gas Hedging Contracts, (A) as increased by, as of the date of determination, the estimated discounted future net revenues from (1) estimated proved oil and gas reserves acquired since such year end, which reserves were not reflected in such year end reserve report, and (2) estimated oil and gas reserves attributable to upward revisions of estimates of proved oil and gas reserves (including previously estimated development costs incurred during the period and the accretion of discount since the prior period end) since such year end due to exploration, development, exploitation or other activities, and (B) as decreased by, as of the date of determination, the estimated discounted future net revenues from (1) estimated proved oil and gas reserves reflected in such reserve report produced or disposed of since such year end, and (2) estimated oil and gas reserves attributable to downward revisions of estimates of proved oil and gas reserves reflected in such reserve report since such year end due to changes in geological conditions or other factors that would, in accordance with standard industry practice, cause such revisions, in each case described in this

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clause (i) calculated in accordance with SEC guidelines and estimated by PDC's petroleum engineers or any independent petroleum engineers engaged by PDC for that purpose;

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- (ii) the capitalized costs that are attributable to oil and gas properties of the Referent Person and its Restricted Subsidiaries to which no proved oil and gas reserves are attributable, based on PDC's books and records as of a date no earlier than the date of PDC's latest available annual or quarterly financial statements;
- (iii) the Net Working Capital of the Referent Person on a date no earlier than the date of PDC's latest annual or quarterly financial statements; and
- (iv) the greater of (A) the net book value of other tangible assets of the Referent Person and its Restricted Subsidiaries, as of a date no earlier than the date of PDC's latest annual or quarterly financial statements, and (B) the appraised value, as estimated by independent appraisers, of other tangible assets of the Referent Person and its Restricted Subsidiaries, as of a date no earlier than the date of PDC's latest audited financial statements (provided that PDC shall not be required to obtain such appraisal solely for the purpose of determining this value); *minus*

(b) the sum of:

- (i) the net book value of any Capital Stock of a Restricted Subsidiary of the Referent Person that is not owned by the Referent Person or another Restricted Subsidiary of the Referent Person;
- (ii) to the extent not otherwise taken into account in determining Adjusted Consolidated Net Tangible Assets of the Referent Person, any net gas-balancing liabilities of the Referent Person and its Restricted Subsidiaries reflected in PDC's latest audited financial statements;
- (iii) to the extent included in (a)(i) above, the discounted future net revenues, calculated in accordance with SEC guidelines (utilizing the prices utilized in PDC's year-end reserve report), attributable to reserves that are required to be delivered by the Referent Person to third parties to fully satisfy the obligations of the Referent Person and its Restricted Subsidiaries with respect to Volumetric Production Payments (determined, if applicable, using the schedules specified with respect thereto); and
- (iv) the discounted future net revenues, calculated in accordance with SEC guidelines, attributable to reserves subject to Dollar-Denominated Production Payments that, based on the estimates of production and price assumptions included in determining the discounted future net revenues specified in (a)(i) above, would be necessary to fully satisfy the payment obligations of the Referent Person and its Subsidiaries with respect to Dollar-Denominated Production Payments (determined, if applicable, using the schedules specified with respect thereto).

If PDC changes its method of accounting from the successful efforts or a similar method to the full cost method of accounting, Adjusted Consolidated Net Tangible Assets of the Referent Person will continue to be calculated as if PDC were still using the successful efforts or a similar method of accounting.

*Affiliate* of any specified Person means any other Person directly or indirectly controlling or controlled by or under direct or indirect common control with such specified Person. For purposes of this definition, control, as used with respect to any Person, means the possession, directly or indirectly, of the power to direct or cause the direction of the management or policies of such Person, whether through the ownership of voting securities, by agreement or otherwise. For purposes of this definition, the terms controlling, controlled by and under common control with have correlative meanings.

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*Asset Sale* means:

- (1) the sale, lease, conveyance or other disposition of any assets or rights (including by way of a Production Payment or a sale and leaseback transaction); provided that the sale, lease, conveyance or other disposition of all or substantially all of the assets of PDC and its Restricted Subsidiaries taken as a whole will be governed by the provisions of the indenture described above under the caption *Repurchase at the option of holders* *Change of control* and/or the provisions described above under the caption *Covenants* *Merger, consolidation or sale of substantially all assets* and not by the provisions of the *Asset Sales* covenant; and
- (2) the issuance of Equity Interests in any of PDC's Restricted Subsidiaries (other than directors' qualifying shares) or the sale of Equity Interests held by PDC or its Restricted Subsidiaries in any of its Subsidiaries.

Notwithstanding the preceding, none of the following items will be deemed to be an Asset Sale:

- (1) any single transaction or series of related transactions that involves assets having a Fair Market Value of less than \$20 million;
- (2) a transfer of assets between or among PDC and its Restricted Subsidiaries;
- (3) an issuance of Equity Interests by a Restricted Subsidiary to PDC or to a Restricted Subsidiary;
- (4) the sale, lease or other disposition of equipment, inventory, products, services, accounts receivable or other assets in the ordinary course of business, including in connection with any compromise, settlement or collection of accounts receivable, and any sale or other disposition of damaged, worn-out or obsolete assets or assets that are no longer useful in the conduct of the business of PDC and its Restricted Subsidiaries;
- (5) the sale or other disposition of cash or Cash Equivalents;
- (6) a Restricted Payment that does not violate the covenant described above under the caption *Covenants* *Restricted payments*, including the issuance or sale of Equity Interests or the sale, lease or other disposition of products, services, equipment, inventory, accounts receivable or other assets pursuant to any such Restricted Payment;
- (7) the consummation of a Permitted Investment, including, without limitation, unwinding any Hedging Obligations, and including the issuance or sale of Equity Interests or the sale, lease or other disposition of products, services, equipment, inventory, accounts receivable or other assets pursuant to any such Permitted Investment;
- (8) a disposition of Hydrocarbons or mineral products inventory in the ordinary course of business;
- (9) the farm-out, lease or sublease of developed or undeveloped crude oil or natural gas properties owned or held by PDC or any Restricted Subsidiary in exchange for crude oil and natural gas properties owned or held by another Person;

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- (10) the creation or perfection of a Lien (but not, except as contemplated in clause (11) below, the sale or other disposition of the properties or assets subject to such Lien);
  
- (11) the creation or perfection of a Permitted Lien and the exercise by any Person in whose favor a Permitted Lien is granted of any of its rights in respect of that Permitted Lien;
  
- (12) the licensing or sublicensing of intellectual property, including, without limitation, licenses for seismic data, in the ordinary course of business and which do not materially interfere with the business of PDC and its Restricted Subsidiaries;

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- (13) surrender or waiver of contract rights or the settlement, release or surrender of contract, tort or other claims of any kind;
- (14) any Production Payments and Reserve Sales; provided that all such Production Payments and Reserve Sales (other than incentive compensation programs on terms that are reasonably customary in the oil and gas business for geologists, geophysicists and other providers of technical services to PDC or a Restricted Subsidiary) shall have been created, incurred, issued, assumed or Guaranteed in connection with the financing of, and within 90 days after the acquisition of, the oil and gas properties that are subject thereto;
- (15) the sale or other disposition (regardless of whether in the ordinary course of business) of oil and gas properties; provided that, at the time of such sale or other disposition, such properties do not have attributed to them any proved reserves; and
- (16) any trade or exchange by PDC or any Restricted Subsidiary of properties or assets used or useful in a Related Business for other properties or assets used or useful in a Related Business owned or held by another Person (including Capital Stock of a Person engaged in a Related Business that is or becomes a Restricted Subsidiary), including any cash or Cash Equivalents necessary in order to achieve and exchange of equivalent value, provided that the Fair Market Value of the properties or assets traded or exchanged by PDC or such Restricted Subsidiary (including any cash or Cash Equivalents to be delivered by PDC or such Restricted Subsidiary) is reasonably equivalent to the Fair Market Value of the properties or assets (together with any cash or Cash Equivalents) to be received by PDC or such Restricted Subsidiary, and provided, further, that any cash received in the transaction must be applied in accordance with the covenant described above under Repurchase at the option of holders Asset sales as if such transaction were an Asset Sale.

*Beneficial Owner* has the meaning assigned to such term in Rule 13d-3 and Rule 13d-5 under the Exchange Act, except that in calculating the beneficial ownership of any particular person (as that term is used in Section 13(d)(3) of the Exchange Act), such person will be deemed to have beneficial ownership of all securities that such person has the right to acquire by conversion or exercise of other securities, whether such right is currently exercisable or is exercisable only after the passage of time or upon the occurrence of a subsequent condition. The terms Beneficially Owns, Beneficially Owned and Beneficially Owning will have a corresponding meaning.

*Board of Directors* means:

- (1) with respect to a corporation, the board of directors of the corporation or any committee thereof duly authorized to act on behalf of such board;
- (2) with respect to a partnership, the board of directors of the general partner of the partnership;
- (3) with respect to a limited liability company, the managers or managing member or members of such limited liability company (as applicable) or any duly authorized committee of managers or managing members (as applicable) thereof; and
- (4) with respect to any other Person, the board of directors or duly authorized committee of such Person serving a similar function.

*Business Day* means any day other than a Legal Holiday.

*Capital Lease Obligation* means, at the time any determination is to be made, the amount of the liability in respect of a capital lease that would at that time be required to be capitalized on a balance sheet in accordance with GAAP, and the Stated Maturity thereof shall be the date of the last payment of rent or any other amount due under such lease prior to the first date upon which such lease may be prepaid by the lessee without payment of a penalty.

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*Capital Stock* means:

- (1) in the case of a corporation, corporate stock;
- (2) in the case of an association or business entity, any and all shares, interests, participations, rights or other equivalents (however designated) of corporate stock;
- (3) in the case of a partnership or limited liability company, partnership interests (whether general or limited) or membership interests; and
- (4) any other interest or participation that confers on a Person the right to receive a share of the profits and losses of, or distributions of assets of, the issuing Person, but excluding from all of the foregoing any debt securities convertible into Capital Stock, regardless of whether such debt securities include any right of participation with Capital Stock.

*Cash Equivalents* means:

- (1) United States dollars;
- (2) Government Securities having maturities of not more than one year from the date of acquisition;
- (3) marketable general obligations issued by any state of the United States of America or any political subdivision of any such state or any public instrumentality thereof maturing within one year from the date of acquisition thereof and, at the time of acquisition thereof, having a credit rating of *A* or better from either S&P or Moody's;
- (4) certificates of deposit, demand deposit accounts and eurodollar time deposits with maturities of one year or less from the date of acquisition, bankers' acceptances with maturities not exceeding one year and overnight bank deposits, in each case, with any domestic commercial bank having capital and surplus in excess of \$500.0 million and a Thomson Bank Watch Rating of *B* or better;
- (5) repurchase obligations with a term of not more than seven days for underlying securities of the types described in clauses (2), (3) and (4) above entered into with any financial institution meeting the qualifications specified in clause (4) above;
- (6) commercial paper having one of the two highest ratings obtainable from Moody's or S&P and, in each case, maturing within one year after the date of acquisition;
- (7) money market funds at least 95% of the assets of which constitute Cash Equivalents of the kinds described in clauses (1) through (6) of this definition; and
- (8) deposits in any currency available for withdrawal on demand with any commercial bank that is organized under the laws of any country in which PDC or any Restricted Subsidiary maintains its chief executive office or is engaged in the Related Business; provided that all such deposits are made in such accounts in the ordinary course of business.

*Change of Control* means:

- (1) any person or group of related persons (as such terms are used in Section 13(d) of the Exchange Act) is or becomes a Beneficial Owner, directly or indirectly, of more than 50% of the total voting power of the Voting Stock of PDC (or its successor by merger, consolidation or purchase of all or substantially all of its properties or assets) (for the purposes of this clause, such person or group shall be deemed to Beneficially Own any Voting Stock of PDC held by an entity, if such person or group Beneficially Owns, directly or indirectly, more than 50% of the voting power of the Voting Stock of such entity);



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- (2) during any period of two consecutive years, individuals who at the beginning of such period constituted the Board of Directors of PDC (together with any new directors whose election to such board or whose nomination for election by the stockholders of PDC was approved by a vote of a majority of the directors then still in office who were either directors at the beginning of such period or whose election or nomination for election was previously so approved), cease for any reason to constitute a majority of such Board of Directors then in office;
- (3) the direct or indirect sale, lease, transfer, conveyance or other disposition (other than by way of merger or consolidation), in one or a series of related transactions, of all or substantially all of the properties or assets of PDC and its Restricted Subsidiaries taken as a whole to any person (as such term is used in Section 13(d) of the Exchange Act); or
- (4) the adoption or approval by the stockholders of PDC of a plan for the liquidation or dissolution of PDC.

*Consolidated Cash Flow* means, with respect to any specified Person for any period, the Consolidated Net Income of such Person for such period plus, without duplication:

- (1) an amount equal to any extraordinary loss plus any net loss realized by such Person or any of its Restricted Subsidiaries in connection with an Asset Sale (together with any related provision for taxes and any related non-recurring charges relating to any premium or penalty paid, write-off of deferred financing costs or other financial recapitalization charges in connection with redeeming or retiring any Indebtedness prior to its Stated Maturity), to the extent that such losses were deducted in computing such Consolidated Net Income; plus
- (2) provision for taxes based on income or profits of such Person and its Restricted Subsidiaries for such period, to the extent that such provision for taxes was deducted in computing such Consolidated Net Income; plus
- (3) the Fixed Charges of such Person and its Restricted Subsidiaries for such period, to the extent that such Fixed Charges were deducted in computing such Consolidated Net Income; plus
- (4) exploration and abandonment expense (if applicable) to the extent deducted in calculating Consolidated Net Income; plus
- (5) depreciation, depletion, amortization (including amortization of intangibles but excluding amortization of prepaid cash expenses that were paid in a prior period), impairment, other non-cash expenses and other non-cash items (excluding any such non-cash expense to the extent that it represents an accrual of or reserve for cash expenses in any future period or amortization of a prepaid cash expense that was paid in a prior period) of such Person and its Restricted Subsidiaries for such period to the extent that such depreciation, depletion, amortization, impairment and other non-cash expenses were deducted in computing such Consolidated Net Income; plus
- (6) any interest expense attributable to any Oil and Natural Gas Hedging Contract, to the extent that such interest expense was deducted in computing such Consolidated Net Income; plus
- (7) the accretion of interest charges on future plugging and abandonment obligations and future retirement benefits, to the extent such charges were deducted in computing such Consolidated Net Income; minus
- (8) non-cash items increasing such Consolidated Net Income for such period, other than items that were accrued in the ordinary course of business, and minus

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- (9) the sum of (a) the amount of deferred revenues that are amortized during such period and are attributable to reserves that are subject to Volumetric Production Payments and (b) amounts recorded in accordance with GAAP as repayments of principal and interest pursuant to Dollar-Denominated Production Payments;

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in each case, on a consolidated basis and determined in accordance with GAAP. Notwithstanding the preceding sentence, clauses (1) through (7) relating to amounts of a Restricted Subsidiary of the referent Person will be added to Consolidated Net Income to compute Consolidated Cash Flow of such Person only to the extent (and in the same proportion) that the Net Income of such Restricted Subsidiary was included in calculating the Consolidated Net Income of such Person and if a corresponding amount would be permitted at the date of determination to be dividended to the referent Person by such Restricted Subsidiary without prior governmental approval (that has not been obtained), pursuant to the terms of its charter and all agreements, instruments, judgments, decrees, orders, statutes, rules and governmental regulations applicable to that Restricted Subsidiary or the holders of its Capital Stock.

*Consolidated Net Income* means, with respect to any specified Person for any period, the aggregate of the Net Income of such Person and its Restricted Subsidiaries for such period, on a consolidated basis, determined in accordance with GAAP; provided that:

- (1) the Net Income (but not loss) of any Person that is not a Restricted Subsidiary or that is accounted for by the equity method of accounting will be included only to the extent of the amount of dividends or similar distributions paid in cash to the specified Person or a Restricted Subsidiary of the Person;
- (2) the Net Income of any Restricted Subsidiary will be excluded to the extent that the declaration or payment of dividends or similar distributions by that Restricted Subsidiary of that Net Income is not at the date of determination permitted without any prior governmental approval (that has not been obtained) or, directly or indirectly, by operation of the terms of its charter or any agreement, instrument, judgment, decree, order, statute, rule or governmental regulation applicable to that Restricted Subsidiary or its stockholders, members or partners;
- (3) the cumulative effect of a change in accounting principles will be excluded;
- (4) any gain (loss) realized upon the sale or other disposition of any property, plant or equipment of such Person or its consolidated Restricted Subsidiaries (including pursuant to any sale or leaseback transaction) that is not sold or otherwise disposed of in the ordinary course of business and any gain (loss) realized upon the sale or other disposition of any Capital Stock of any Person will be excluded;
- (5) any asset impairment writedowns on oil and gas properties under GAAP or SEC guidelines will be excluded;
- (6) any non-cash mark-to-market adjustments to assets or liabilities resulting in unrealized gains or losses in respect of Hedging Obligations (including those resulting from the application of SFAS 133) shall be excluded; and
- (7) to the extent deducted in the calculation of Net Income, any non-cash or other charges associated with any premium or penalty paid, write-off of deferred financing costs or other financial recapitalization charges in connection with redeeming or retiring any Indebtedness will be excluded.

*Consolidated Tangible Assets* means, with respect to any Person as of any date, the amount which, in accordance with GAAP, would be set forth under the caption *Total Assets* (or any like caption) on a consolidated balance sheet of such Person and its Restricted Subsidiaries, less all goodwill, patents, tradenames, trademarks, copyrights, franchises, experimental expenses, organization expenses and any other amounts classified as intangible assets in accordance with GAAP.

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*Credit Facilities* means, with respect to PDC or any of its Restricted Subsidiaries, one or more debt facilities (including, without limitation, the Senior Credit Agreement), commercial paper facilities or Debt Issuances providing for revolving credit loans, term loans, receivables financing (including through the sale of receivables to any lenders, other financiers or to special purpose entities formed to borrow from (or sell such receivables to) any lenders or other financiers against such receivables), letters of credit, bankers' acceptances, other borrowings or Debt Issuances, in each case, as amended, restated, modified, renewed, extended, refunded, replaced or refinanced (in each case, without limitation as to amount), in whole or in part, from time to time (including through one or more Debt Issuances).

*Currency Agreement* means in respect of a Person any foreign exchange contract, currency swap agreement or other similar agreement as to which such Person is a party or a beneficiary.

*Debt Issuances* means, with respect to PDC or any Restricted Subsidiary, one or more issuances after the Issue Date of Indebtedness evidenced by notes, debentures, bonds or other similar securities or instruments.

*Default* means any event which is, or after notice or passage of time or both would be, an Event of Default.

*Disqualified Stock* means any Capital Stock that, by its terms (or by the terms of any security into which it is convertible, or for which it is exchangeable, in each case at the option of the holder of the Capital Stock), or upon the happening of any event, matures or is mandatorily redeemable, pursuant to a sinking fund obligation or otherwise, or redeemable at the option of the holder of the Capital Stock, in whole or in part, on or prior to the date that is 91 days after the date on which the notes mature. Notwithstanding the preceding sentence, any Capital Stock that would constitute Disqualified Stock solely because the holders of the Capital Stock have the right to require PDC to repurchase or redeem such Capital Stock upon the occurrence of a Change of Control or an Asset Sale will not constitute Disqualified Stock if the terms of such Capital Stock provide that PDC may not repurchase or redeem any such Capital Stock pursuant to such provisions unless such repurchase or redemption complies with the covenant described above under the caption "Covenants Restricted payments." The amount of Disqualified Stock deemed to be outstanding at any time for purposes of the indenture will be the maximum amount that PDC and its Restricted Subsidiaries may become obligated to pay upon the maturity of, or pursuant to any mandatory redemption provisions of, such Disqualified Stock, exclusive of accrued dividends.

*Dollar-Denominated Production Payments* means production payment obligations recorded as liabilities in accordance with GAAP, together with all undertakings and obligations in connection therewith.

*Domestic Restricted Subsidiary* means any Restricted Subsidiary that (a) was formed under the laws of the United States or any state of the United States or the District of Columbia or (b) Guarantees or otherwise provides direct credit support for any Indebtedness of PDC or any Restricted Subsidiary (other than a Foreign Subsidiary).

*Equity Interests* means Capital Stock and all warrants, options or other rights to acquire Capital Stock (but excluding any debt security that is convertible into, or exchangeable for, Capital Stock).

*Equity Offering* means (1) an offering for cash by PDC of its Capital Stock (other than Disqualified Stock), or options, warrants or rights with respect to its Capital Stock or (2) a cash contribution to PDC's common equity capital from any Person.

*Exchange Act* means the Securities Exchange Act of 1934, as amended.

*Existing Indebtedness* means Indebtedness of PDC and its Subsidiaries (other than Indebtedness under the Senior Credit Agreement, the notes and the Subsidiary Guarantees) in existence on the Issue Date, until such amounts are repaid.

*Fair Market Value* means the value that would be paid by a willing buyer to an unaffiliated willing seller in a transaction not involving distress or necessity of either party. Fair Market Value of an asset or property in excess of \$25 million shall be determined by the Board of Directors of PDC acting in good faith, whose determination shall be conclusive and evidenced by a resolution of such Board of Directors, and any lesser Fair Market Value may be determined by an officer of PDC acting in good faith.

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*Farm-In Agreement* means an agreement whereby a Person agrees to pay all or a share of the drilling, completion or other expenses of an exploratory or development well (which agreement may be subject to a maximum payment obligation, after which expenses are shared in accordance with the working or participation interests therein or in accordance with the agreement of the parties) or perform the drilling, completion or other operation on such well in exchange for an ownership interest in an oil or gas property.

*Farm-Out Agreement* means a Farm-In Agreement, viewed from the standpoint of the party that transfers an ownership interest to another.

*Fixed Charge Coverage Ratio* means with respect to any specified Person for any four-quarter reference period, the ratio of the Consolidated Cash Flow of such Person for such period to the Fixed Charges of such Person for such period. In the event that the specified Person or any of its Restricted Subsidiaries incurs, assumes, Guarantees, repays, repurchases, redeems, defeases or otherwise discharges any Indebtedness (other than ordinary working capital borrowings) or issues, repurchases or redeems preferred stock subsequent to the commencement of the period for which the Fixed Charge Coverage Ratio is being calculated and on or prior to the date on which the event for which the calculation of the Fixed Charge Coverage Ratio is made (the Calculation Date), then the Fixed Charge Coverage Ratio will be calculated giving pro forma effect to such incurrence, assumption, Guarantee, repayment, repurchase, redemption, defeasance or other discharge of Indebtedness, or such issuance, repurchase or redemption of preferred stock, and the use of the proceeds therefrom, as if the same had occurred at the beginning of the applicable four-quarter reference period.

In addition, for purposes of calculating the Fixed Charge Coverage Ratio:

- (1) acquisitions that have been made by the specified Person or any of its Restricted Subsidiaries, including through mergers, consolidations or otherwise (including acquisitions of assets used or useful in a Related Business), or any Person or any of its Restricted Subsidiaries acquired by the specified Person or any of its Restricted Subsidiaries, and including in each case any related financing transactions and increases in ownership of Restricted Subsidiaries, during the four-quarter reference period or subsequent to such reference period and on or prior to the Calculation Date will be given pro forma effect as if they had occurred on the first day of the four-quarter reference period, and any Consolidated Cash Flow for such period will be calculated giving pro forma effect to any operating improvements or cost savings that have occurred or are reasonably expected to occur in the reasonable judgment of the principal accounting officer or Chief Financial Officer of PDC (regardless of whether those operating improvements or cost savings could then be reflected in pro forma financial statements prepared in accordance with Regulation S-X under the Securities Act or any other regulation or policy of the SEC related thereto);
- (2) the Consolidated Cash Flow attributable to discontinued operations, as determined in accordance with GAAP, and operations or businesses (and ownership interests therein) disposed of prior to the Calculation Date, will be excluded;
- (3) the Fixed Charges attributable to discontinued operations, as determined in accordance with GAAP, and operations or businesses (and ownership interests therein) disposed of prior to the Calculation Date, will be excluded, but only to the extent that the obligations giving rise to such Fixed Charges will not be obligations of the specified Person or any of its Restricted Subsidiaries following the Calculation Date;
- (4) any Person that is a Restricted Subsidiary on the Calculation Date will be deemed to have been a Restricted Subsidiary at all times during such four-quarter period;
- (5) any Person that is not a Restricted Subsidiary on the Calculation Date will be deemed not to have been a Restricted Subsidiary at any time during such four-quarter period; and
- (6) if any Indebtedness bears a floating rate of interest, the interest expense on such Indebtedness will be calculated as if the rate in effect on the Calculation Date had been the applicable rate for the entire period (taking into account any Hedging Obligation applicable to such Indebtedness, but if the remaining term of such Hedging Obligation is less than 12 months, then such Hedging Obligation shall only be taken into account for that portion of the period equal to the remaining term thereof).



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*Fixed Charges* means, with respect to any specified Person for any period, the sum, without duplication, of:

- (1) the consolidated interest expense of such Person and its Restricted Subsidiaries for such period, whether paid or accrued (excluding (i) any interest attributable to Production Payments and Reserve Sales, (ii) write-off of deferred financing costs and (iii) accretion of interest charges on future plugging and abandonment obligations, future retirement benefits and other obligations that do not constitute Indebtedness, but including, without limitation, amortization of debt issuance costs and original issue discount, noncash interest payments, the interest component of any deferred payment obligations other than that attributable to any Oil and Natural Gas Hedging Contract, the interest component of all payments associated with Capital Lease Obligations, commissions, discounts and other fees and charges incurred in respect of letter of credit or bankers acceptance financings), and net of the effect of all payments made or received pursuant to Interest Rate Agreements; *plus*
- (2) the consolidated interest expense of such Person and its Restricted Subsidiaries that was capitalized during such period; *plus*
- (3) any interest on Indebtedness of another Person that is Guaranteed by the specified Person or one or more of its Restricted Subsidiaries or secured by a Lien on assets of such specified Person or one or more of its Restricted Subsidiaries, regardless of whether such Guarantee or Lien is called upon; *plus*
- (4) all dividends, whether paid or accrued and regardless of whether in cash, on any series of preferred stock of such Person or any of its Restricted Subsidiaries, other than dividends on Equity Interests payable solely in Equity Interests of PDC (other than Disqualified Stock) or to PDC or a Restricted Subsidiary,

in each case, on a consolidated basis and determined in accordance with GAAP.

*Foreign Subsidiary* means any Restricted Subsidiary other than a Domestic Restricted Subsidiary.

*GAAP* means generally accepted accounting principles in the United States, which are in effect from time to time. All ratios and computations based on GAAP contained in the indenture will be computed in conformity with GAAP. At any time after the Issue Date, PDC may elect to apply International Financial Reporting Standards, or IFRS, accounting principles in lieu of GAAP and, upon any such election, references herein to GAAP shall thereafter be construed to mean IFRS (except as otherwise provided in the indenture); provided that any such election, once made, shall be irrevocable; provided, further, that any calculation or determination in the indenture that requires the application of GAAP for periods that include fiscal quarters ended prior to PDC's election to apply IFRS shall remain as previously calculated or determined in accordance with GAAP. PDC shall give notice of any such election made in accordance with this definition to the trustee and the holders of notes.

*Government Securities* means direct obligations of, or obligations Guaranteed by, the United States of America, and the payment for which the United States pledges its full faith and credit.

*Guarantee* means a guarantee other than by endorsement of negotiable instruments for collection in the ordinary course of business, direct or indirect, in any manner including, without limitation, by way of a pledge of assets or through letters of credit or reimbursement agreements in respect thereof, of all or any part of any Indebtedness (whether arising by virtue of partnership arrangements, or by agreements to keep-well, to purchase assets, goods, securities or services or to take or pay or to maintain financial statement conditions or otherwise), or entered into for purposes of assuring in any other manner the obligee of such Indebtedness of the payment thereof or to protect such obligee against loss in respect thereof (in whole or in part). *Guarantee* used as a verb has a correlative meaning.

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*Hedging Obligations* of any Person means the obligations of such Person pursuant to any Interest Rate and Currency Hedges, Oil and Natural Gas Hedging Contracts and other agreements or arrangements designed to protect such Person against fluctuations in currency exchange rates or commodity prices, in each case entered into for non-speculative purposes.

*Hydrocarbons* means oil, gas, casinghead gas, drip gasoline, natural gasoline, condensate, distillate, liquid hydrocarbons, gaseous hydrocarbons, natural gas liquids, and all constituents, elements or compounds thereof and products refined or processed therefrom.

*Indebtedness* means, with respect to any specified Person, without duplication, any indebtedness of such Person, regardless of whether contingent:

- (1) in respect of borrowed money;
- (2) evidenced by bonds, notes, credit agreements, debentures or similar instruments or letters of credit (or reimbursement agreements in respect thereof);
- (3) in respect of bankers' acceptances;
- (4) representing Capital Lease Obligations;
- (5) in respect of any Guarantee by such Person of production or payment with respect to a Production Payment (but not any other contractual obligation in respect of such Production Payment);
- (6) representing the balance deferred and unpaid of the purchase price of any property or services due more than six months after such property is acquired or such services are completed, except any such balance that constitutes an accrued expense or a trade payable;  
or
- (7) representing any Interest Rate and Currency Hedges,

if and to the extent any of the preceding items (other than letters of credit and Interest Rate and Currency Hedges) would appear as a liability upon a balance sheet of the specified Person prepared in accordance with GAAP. In addition, the term *Indebtedness* includes (a) all *Indebtedness* of any other Person, of the types described above in clauses (1) through (7), secured by a Lien on any asset of the specified Person (regardless of whether such *Indebtedness* is assumed by the specified Person); provided that the amount of such *Indebtedness* will be the lesser of (i) the Fair Market Value of such asset at such date of determination and (ii) the amount of such *Indebtedness* of such other Person, and (b) to the extent not otherwise included, the Guarantee by the specified Person of any *Indebtedness* of any other Person, of the types described above in clauses (1) through (7) above. Furthermore, the amount of any *Indebtedness* outstanding as of any date will be the accreted value thereof, in the case of any *Indebtedness* issued with original issue discount; and the principal amount thereof, together with any interest thereon that is more than 30 days past due, in the case of any other *Indebtedness*.

Notwithstanding the foregoing, the following shall not constitute *Indebtedness*:

- (i) accrued expenses and trade accounts payable arising in the ordinary course of business;
- (ii)



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except as provided in clause (5) of the first paragraph of this definition, any obligation in respect of any Production Payment and Reserve Sales;

- (iii) any obligation in respect of any Farm-In Agreement;
  
- (iv) any indebtedness which has been defeased in accordance with GAAP or defeased pursuant to the deposit of cash or Government Securities (in an amount sufficient to satisfy all such indebtedness obligations at maturity or redemption, as applicable, and all payments of interest and premium, if any) in a trust or account created or pledged for the sole benefit of the holders of such indebtedness, and subject to no other Liens, and the other applicable terms of the instrument governing such indebtedness;

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- (v) oil or natural gas balancing liabilities incurred in the ordinary course of business and consistent with past practice;
- (vi) any obligation in respect of any Oil and Natural Gas Hedging Contract;
- (vii) any unrealized losses or charges in respect of Hedging Obligations (including those resulting from the application of the Financial Standards Accounting Board's Accounting Standards Codification (ASC) 815);
- (viii) any obligations in respect of (a) bid, performance, completion, surety, appeal and similar bonds, (b) obligations in respect of bankers' acceptances, (c) insurance obligations or bonds and other similar bonds and obligations and (d) any Guarantees or letters of credit functioning as or supporting any of the foregoing bonds or obligations; provided, however, that such bonds or obligations mentioned in subclause (a), (b), (c) or (d) of this clause (viii), are incurred in the ordinary course of the business of PDC and its Restricted Subsidiaries and do not relate to obligations for borrowed money;
- (ix) any Disqualified Stock of PDC or preferred stock of a Restricted Subsidiary;
- (x) any obligation arising from any agreement providing for indemnities, guarantees, purchase price adjustments, holdbacks, contingency payment obligations based on the performance of the acquired or disposed assets or similar obligations (other than Guarantees of Indebtedness) incurred by any Person in connection with the acquisition or disposition of assets; and
- (xi) all contracts and other obligations, agreements instruments or arrangements described in clauses (20), (21), (22) and (23) of the definition of Permitted Liens.

*Interest Rate Agreement* means with respect to any Person any interest rate protection agreement, interest rate future agreement, interest rate option agreement, interest rate swap agreement, interest rate cap agreement, interest rate collar agreement, interest rate hedge agreement or other similar agreement or arrangement as to which such Person is party or a beneficiary.

*Interest Rate and Currency Hedges* of any Person means the obligations of such Person pursuant to any Interest Rate Agreement or Currency Agreement.

*Investment Grade Rating* means a rating equal to or higher than:

(1) Baa3 (or the equivalent) by Moody's; or

(2) BBB- (or the equivalent) by S&P,

or, if either such entity ceases to rate the notes for reasons outside of the control of PDC, the equivalent investment grade credit rating from any other Rating Agency.

*Investment Grade Rating Event* means the first day on which (a) the notes have an Investment Grade Rating from at least two Rating Agencies, (b) no Default with respect to the notes has occurred and is then continuing under the indenture and (c) PDC has delivered to the trustee an Officers' Certificate certifying as to the satisfaction of the conditions set forth in clauses (a) and (b) of this definition.

*Investments* means, with respect to any Person, all direct or indirect investments by such Person in other Persons (including Affiliates) in the forms of loans (including Guarantees or other obligations, advances or capital contributions (excluding endorsements of negotiable instruments and documents in the ordinary course of business, and commission, travel and similar advances to officers, employees and consultants made in the ordinary course of



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business), purchases or other acquisitions for consideration of Indebtedness, Equity Interests or other securities, together with all items that are or would be classified as investments on a balance sheet of such Person prepared in accordance with GAAP. If PDC or any Restricted Subsidiary sells or otherwise disposes of any Equity Interests of any direct or indirect Restricted Subsidiary such that, after giving effect to any such sale or disposition, such Person is no longer a Restricted Subsidiary, PDC will be deemed to have made an Investment on the date of any such sale or disposition equal to the Fair Market Value of PDC's Investments in such Restricted Subsidiary that were not sold or disposed of in an amount determined as provided in the final paragraph of the covenant described above under the caption Covenants Restricted payments. The acquisition by PDC or any Subsidiary of PDC of a Person that holds an Investment in a third Person will be deemed to be an Investment by PDC or such Subsidiary in such third Person in an amount equal to the Fair Market Value of the Investments held by the acquired Person in such third Person in an amount determined as provided in the final paragraph of the covenant described above under the caption Covenants Restricted payments. Except as otherwise provided in the indenture, the amount of an Investment will be determined at the time the Investment is made and without giving effect to subsequent changes in value.

*Issue Date* means the first date on which notes are issued under the indenture.

*Legal Holiday* means a Saturday, a Sunday or a day on which banking institutions in the City of New York or at a place of payment are authorized by law, regulation or executive order to remain closed.

*Lien* means, with respect to any asset, any mortgage, lien, pledge, charge, security interest or encumbrance of any kind in respect of such asset, regardless of whether filed, recorded or otherwise perfected under applicable law, including any conditional sale or other title retention agreement, any lease in the nature thereof, any option or other agreement to sell or give a security interest in and any filing of or agreement to give any financing statement under the Uniform Commercial Code (or equivalent statutes) of any jurisdiction other than a precautionary financing statement respecting a lease not intended as a security agreement.

*Liquid Securities* means securities that are publicly traded on the New York Stock Exchange, NYSE MKT, the Nasdaq Stock Market or any other regulated stock exchange in the United States, Canada, Europe or Australia (or any of their successors) and as to which PDC is not subject to any restrictions on sale or transfer (including any volume restrictions under Rule 144 under the Securities Act or any other restrictions imposed by the Securities Act) or as to which a registration statement under the Securities Act covering the resale thereof is in effect for as long as the securities are held; provided that securities meeting such requirements shall be treated as Liquid Securities from the date of receipt thereof until and only until the earlier of (a) the date on which such securities are sold or exchanged for cash or Cash Equivalents and (b) 180 days following the date of receipt of such securities. If such securities are not sold or exchanged for cash or Cash Equivalents within 180 days of receipt thereof, for purposes of determining whether the transaction pursuant to which PDC or a Restricted Subsidiary received the securities was in compliance with the provisions of the Indenture described under Asset Sales, such securities shall be deemed not to have been Liquid Securities at any time.

*Material Subsidiary* means any Domestic Restricted Subsidiary (a) that has Consolidated Tangible Assets that exceed 5.0% of the Consolidated Tangible Assets of PDC and its Restricted Subsidiaries as of the end of the most recent fiscal quarter of PDC for which financial statements are required to be delivered under the indenture, (b) whose Consolidated Cash Flow exceeds 5.0% of the Consolidated Cash Flow of PDC and its Restricted Subsidiaries for the period of four consecutive fiscal quarters of PDC most recent ended for which financial statements are required to be delivered under the indenture or (c) together with all other Domestic Restricted Subsidiaries that would not otherwise be deemed to be Material Subsidiaries, would represent, in the aggregate ( *Material in the Aggregate* ), (x) 10.0% or more of the Consolidated Tangible Assets of PDC and its Restricted Subsidiaries as of the end of the most recent fiscal quarter of PDC for which financial statements are required to be delivered under the indenture or (y) 10.0% or more of the Consolidated Cash Flow of PDC and its Restricted Subsidiaries for the period of four consecutive fiscal quarters of PDC most recently ended for which financial statements are required to be delivered under the indenture.

*Moody's* means Moody's Investors Service, Inc. or any successor to the rating agency business thereof.

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*Net Income* means, with respect to any specified Person, the net income (loss) of such Person, determined in accordance with GAAP and before any reduction in respect of non-cash preferred stock dividends, excluding, however:

- (1) any gain or loss, together with any related provision for taxes on such gain or loss, realized in connection with: (a) any Asset Sale (including, without limitation, any cash received pursuant to any sale and leaseback transaction) or (b) the disposition of any securities by such Person or the extinguishment of any Indebtedness of such Person; and
- (2) any extraordinary or non-recurring gain or loss, together with any related provision for taxes on such extraordinary or non-recurring gain or loss.

*Net Proceeds* means the aggregate cash proceeds received by PDC or any of its Restricted Subsidiaries in respect of any Asset Sale (including, without limitation, any cash received upon the sale or other disposition of any non-cash consideration received in any Asset Sale), net of:

- (1) all legal, accounting, investment banking, title and recording tax expenses, commissions and other fees and expense incurred, and all federal, state, provincial, foreign and local taxes required to be paid or accrued as a liability under GAAP (after taking into account any available tax credits or deductions and any tax sharing agreements), as a consequence of such Asset Sale;
- (2) all payments made on any Indebtedness which is secured by any assets subject to such Asset Sale, in accordance with the terms of such Indebtedness, or which must by its terms, or in order to obtain a necessary consent to such Asset Sale, or by applicable law be repaid out of the proceeds from such Asset Sale;
- (3) all distributions and other payments required to be made to holders of minority interests in Subsidiaries or joint ventures as a result of such Asset Sale; and
- (4) the deduction of appropriate amounts to be provided by the seller as a reserve, in accordance with GAAP, or held in escrow, in either case for adjustment in respect of the sale price or for any liabilities associated with the assets disposed of in such Asset Sale and retained by PDC or any Restricted Subsidiary after such Asset Sale.

*Net Working Capital* means (a) all current assets of PDC and its Restricted Subsidiaries except current assets from Oil and Natural Gas Hedging Contracts, less (b) all current liabilities of PDC and its Restricted Subsidiaries, except (i) current liabilities included in Indebtedness, (ii) current liabilities associated with asset retirement obligations relating to oil and gas properties and (iii) any current liabilities from Oil and Natural Gas Hedging Contracts, in each case as set forth in the consolidated financial statements of PDC prepared in accordance with GAAP (excluding any adjustments made pursuant to the Financial Standards Accounting Board's Accounting Standards Codification (ASC) 815).

*Non-Recourse Debt* means Indebtedness:

- (1) as to which neither PDC nor any Restricted Subsidiary (a) provides any Guarantee or credit support of any kind (including any undertaking, Guarantee, indemnity, agreement or instrument that would constitute Indebtedness) or (b) is directly or indirectly liable (as a guarantor or otherwise), in each case other than Liens on and pledges of the Equity Interests of any Unrestricted Subsidiary or any joint venture owned by PDC or any Restricted Subsidiary to the extent securing otherwise Non-Recourse Debt of such Unrestricted Subsidiary or joint venture; and
- (2) no default with respect to which (including any rights that the holders thereof may have to take enforcement action against an Unrestricted Subsidiary) would permit (upon notice, lapse of time or both) any holder of any other Indebtedness of PDC or any

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Restricted Subsidiary to declare a default under such other Indebtedness or cause the payment thereof to be accelerated or payable prior to its Stated Maturity.

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*Obligations* means any principal, interest, penalties, fees, indemnifications, reimbursements, damages and other liabilities payable under the documentation governing any Indebtedness.

*Officer* means, in the case of PDC, the Chairman of the Board, the Chief Executive Officer, the President, the Chief Financial Officer, any Vice President, the Treasurer or the Secretary of PDC and, in the case of any Subsidiary Guarantor, the Chairman of the Board, the Chief Executive Officer, the President, the Chief Financial Officer, any Vice President, the Treasurer or the Secretary of such Subsidiary Guarantor.

*Officers Certificate* means, in the case of PDC, a certificate signed by two Officers or by an Officer and either an Assistant Treasurer or an Assistant Secretary of PDC and, in the case of any Subsidiary Guarantor, a certificate signed by two Officers or by an Officer and either an Assistant Treasurer or an Assistant Secretary of such Subsidiary Guarantor.

*Oil and Natural Gas Hedging Contract* means any Hydrocarbon hedging agreements and other agreements or arrangements entered into in the ordinary course of business in the oil and gas industry for the purpose of protecting against fluctuations in Hydrocarbon prices.

*Permitted Acquisition Indebtedness* means Indebtedness or Disqualified Stock of PDC or any of PDC's Restricted Subsidiaries to the extent such Indebtedness or Disqualified Stock was Indebtedness or Disqualified Stock of:

- (1) a Subsidiary prior to the date on which such Subsidiary became a Restricted Subsidiary; or
- (2) a Person that was merged or consolidated into PDC or a Restricted Subsidiary; provided that on the date such Subsidiary became a Restricted Subsidiary or the date such Person was merged or consolidated into PDC or a Restricted Subsidiary, as applicable, after giving pro forma effect thereto,
  - (a) the Restricted Subsidiary or PDC, as applicable, would be permitted to incur at least \$1.00 of additional Indebtedness pursuant to the Fixed Charge Coverage Ratio test described under Covenants Incurrence of indebtedness and issuance of preferred stock, or
  - (b) the Fixed Charge Coverage Ratio for PDC would be greater than the Fixed Charge Coverage Ratio for PDC immediately prior to such transaction.

*Permitted Business Investments* means Investments and expenditures made in the ordinary course of, and of a nature that is or shall have become customary in, a Related Business as means of actively exploiting, exploring for, acquiring, developing, processing, gathering, marketing or transporting oil, natural gas, other Hydrocarbons and minerals (including with respect to plugging and abandonment) through agreements, transactions, interests or arrangements that permit one to share risks or costs of such activities or comply with regulatory requirements regarding local ownership, including without limitation, (a) ownership interests in oil, natural gas, other Hydrocarbons and minerals properties, liquefied natural gas facilities, processing facilities, gathering systems, pipelines, storage facilities or related systems or ancillary real property interests; (b) Investments in the form of or pursuant to operating agreements, working interests, royalty interests, mineral leases, processing agreements, Farm-In Agreements, Farm-Out Agreements, contracts for the sale, transportation or exchange of oil, natural gas, other Hydrocarbons and minerals, production sharing agreements, participation agreements, development agreements, area of mutual interest agreements, unitization agreements, pooling agreements, joint bidding agreements, service contracts, joint venture agreements, partnership agreements (whether general or limited), subscription agreements, stock purchase agreements, stockholder agreements and other similar agreements (including for limited liability companies) with third parties; and (c) direct or indirect ownership interests in drilling rigs and related equipment, including, without limitation, transportation equipment.

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*Permitted Investments* means:

- (1) any Investment in PDC or in a Restricted Subsidiary;
- (2) any Investment in Cash Equivalents;
- (3) any Investment by PDC or any Restricted Subsidiary in a Person, if as a result of such Investment:
  - (a) such Person becomes a Restricted Subsidiary; or
  - (b) such Person is merged or consolidated with or into, or transfers or conveys substantially all of its properties or assets to, or is liquidated into, PDC or a Restricted Subsidiary;
- (4) any Investment made as a result of the receipt of non-cash consideration from an Asset Sale that was made pursuant to and in compliance with the covenant described above under the caption Repurchase at the option of holders Asset sales;
- (5) any Investments received in compromise or resolution of (a) obligations of trade creditors or customers that were incurred in the ordinary course of business of PDC or any of its Restricted Subsidiaries, including pursuant to any plan of reorganization or similar arrangement upon the bankruptcy or insolvency of any trade creditor or customer; or (b) litigation, arbitration or other disputes with Persons who are not Affiliates;
- (6) Investments represented by Hedging Obligations;
- (7) advances to or reimbursements of employees for moving, entertainment and travel expenses, drawing accounts and similar expenditures in the ordinary course of business, in each case to the extent they constitute Investments;
- (8) loans or advances to employees in the ordinary course of business or consistent with past practice, in each case to the extent they constitute Investments;
- (9) advances and prepayments for asset purchases in the ordinary course of business in a Related Business of PDC or any of its Restricted Subsidiaries;
- (10) receivables owing to PDC or any Restricted Subsidiary created or acquired in the ordinary course of business and payable or dischargeable in accordance with customary trade terms; provided, however, that such trade terms may include such concessionary trade terms as PDC or any such Restricted Subsidiary deems reasonable under the circumstances;
- (11) surety and performance bonds and workers compensation, utility, lease, tax, performance and similar deposits and prepaid expenses in the ordinary course of business;



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- (12) guarantees by PDC or any of its Restricted Subsidiaries of operating leases (other than Capital Lease Obligations) or of other obligations that do not constitute Indebtedness, in each case entered into by PDC or any such Restricted Subsidiary in the ordinary course of business;
  
- (13) Investments of a Restricted Subsidiary acquired after the Issue Date or of any entity merged into PDC or merged into or consolidated with a Restricted Subsidiary in accordance with the covenant described under Covenants Merger, consolidation or sale of substantially all assets or the covenant described in the third paragraph under Subsidiary guarantees of the notes (as applicable) to the extent that such Investments were not made in contemplation of or in connection with such acquisition, merger or consolidation and were in existence on the date of such acquisition, merger or consolidation;
  
- (14) Permitted Business Investments;

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- (15) Investments received as a result of a foreclosure by PDC or any of its Restricted Subsidiaries with respect to any secured Investment in default;
  - (16) Investments in any units of any oil and gas royalty trust;
  - (17) Investments existing on the Issue Date, and any extension, modification or renewal of any such Investments existing on the Issue Date, but only to the extent not involving additional advances, contributions or other Investments of cash or other assets or other increases of such Investments (other than as a result of the accrual or accretion of interest or original issue discount or the issuance of pay-in-kind securities, in each case, pursuant to the terms of such Investments as in effect on the Issue Date);
  - (18) repurchases of or other Investments in the notes; and
  - (19) other Investments in any Person having an aggregate Fair Market Value (measured on the date each such Investment was made and without giving effect to subsequent changes in value), when taken together with all other Investments made pursuant to this clause (19) that are at the time outstanding not to exceed the greater of (a) 1.5% of Adjusted Consolidated Net Tangible Assets of PDC and (b) \$25 million.
- Permitted Liens* means, with respect to any Person:

- (1) Liens securing Indebtedness incurred under Credit Facilities pursuant to subparagraph (1) of the second paragraph of the covenant described under the caption *Covenants Incurrence of indebtedness and issuance of preferred stock*; provided that the aggregate amount of such indebtedness does not exceed the aggregate amount that would be allowed under such subparagraph (1);
- (2) Liens to secure Indebtedness (including Capital Lease Obligations) permitted by clause (4) of the second paragraph of the covenant entitled *Covenants Incurrence of indebtedness and issuance of preferred stock* covering only the assets acquired with or financed by such Indebtedness;
- (3) pledges or deposits by such Person under workers' compensation laws, unemployment insurance laws or similar legislation, or good faith deposits in connection with bids, tenders, contracts (other than for the payment of Indebtedness) or leases to which such Person is a party, or deposits to secure public or statutory obligations of such Person or deposits or cash or United States government bonds to secure surety or appeal bonds to which such Person is a party, or deposits as security for contested taxes or import or customs duties or for the payment of rent, in each case incurred in the ordinary course of business;
- (4) landlords, carriers, warehousemen, mechanics, materialmen, repairmen or similar Liens arising by contract or statute in the ordinary course of business and with respect to amounts which are not yet delinquent or are being contested in good faith by appropriate proceedings;
- (5) Liens for taxes, assessments or other governmental charges or which are being contested in good faith by appropriate proceedings provided appropriate reserves required pursuant to GAAP have been made in respect thereof;
- (6) Liens in favor of the issuers of surety or performance bonds or letters of credit or bankers' acceptances issued pursuant to the request of and for the account of such Person in the ordinary course of its business; provided, however, that such letters of credit do not constitute Indebtedness;

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- (7) encumbrances, easements or reservations of, or rights of others for, licenses, rights of way, sewers, electric lines, telegraph and telephone lines and other similar purposes, or zoning or other restrictions as to the use of real properties or Liens incidental to the conduct of the business of such Person or to the ownership of its properties which do not in the aggregate materially adversely affect the value of said properties or materially impair their use in the operation of the business of such Person;

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- (8) leases and subleases of real property which do not materially interfere with the ordinary conduct of the business of PDC and its Restricted Subsidiaries, taken as a whole;
- (9) any attachment or judgment Liens not giving rise to an Event of Default;
- (10) Liens for the purpose of securing the payment of all or a part of the purchase price of, or Capital Lease Obligations with respect to, or the repair, improvement or construction cost of, assets or property acquired or repaired, improved or constructed in the ordinary course of business; provided that:
  - (a) the aggregate principal amount of Indebtedness secured by such Liens is otherwise permitted to be incurred under the indenture and does not exceed the cost of the assets or property so acquired or repaired, improved or constructed plus fees and expenses in connection therewith; and
  - (b) such Liens are created within 180 days of repair, improvement or construction or acquisition of such assets or property and do not encumber any other assets or property of PDC or any Restricted Subsidiary other than such assets or property and assets affixed or appurtenant thereto (including improvements);
- (11) Liens arising solely by virtue of any statutory or common law provisions relating to banker's Liens, rights of set-off or similar rights and remedies as to deposit accounts or other funds maintained or deposited with a depository institution; provided that:
  - (a) such deposit account is not a dedicated cash collateral account and is not subject to restrictions against access by PDC in excess of those set forth by regulations promulgated by the Federal Reserve Board; and
  - (b) such deposit account is not intended by PDC or any Restricted Subsidiary to provide collateral to the depository institution;
- (12) Liens arising from Uniform Commercial Code financing statement filings regarding operating leases entered into by PDC and its Restricted Subsidiaries in the ordinary course of business;
- (13) Liens existing on the Issue Date;
- (14) Liens on property at the time PDC or a Restricted Subsidiary acquired the property, including any acquisition by means of a merger or consolidation with or into PDC or a Restricted Subsidiary; provided, however, that such Liens are not created, incurred or assumed in connection with, or in contemplation of, such acquisition; provided further, however, that such Liens may not extend to any other property owned by PDC or any Restricted Subsidiary other than those of the Person merged or consolidated with PDC or such Restricted Subsidiary;
- (15) Liens on property or Capital Stock of a Person at the time such Person becomes a Restricted Subsidiary; provided, however, that such Liens are not created, incurred or assumed in connection with, or in contemplation of, such other Person becoming a Restricted Subsidiary; provided further, however, that such Liens may not extend to any other property owned by PDC or any Restricted Subsidiary;

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- (16) Liens securing Indebtedness or other obligations of a Restricted Subsidiary owing to PDC or a Subsidiary Guarantor;
  
- (17) Liens securing the notes, the Subsidiary Guarantees and other obligations arising under the indenture;

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- (18) Liens securing Permitted Refinancing Indebtedness of PDC or a Restricted Subsidiary incurred to refinance Indebtedness of PDC or a Restricted Subsidiary that was previously so secured; provided that any such Lien is limited to all or part of the same property or assets (plus improvements, accessions, proceeds or dividends or distributions in respect thereof) that secured (or, under the written arrangements under which the original Lien arose, could secure) the Indebtedness being refinanced or is in respect of property or assets that is the security for a Permitted Lien hereunder;
- (19) Liens in respect of Production Payments and Reserve Sales;
- (20) Liens on pipelines and pipeline facilities that arise by operation of law;
- (21) Liens arising under joint venture agreements, partnership agreements, oil and gas leases or subleases, assignments, purchase and sale agreements, division orders, contracts for the sale, purchasing, processing, transportation or exchange of oil or natural gas, unitization and pooling declarations and agreements, development agreements, area of mutual interest agreements, licenses, sublicenses, net profits interests, participation agreements, Farm-Out Agreements, Farm-In Agreements, carried working interest, joint operating, unitization, royalty, sales and similar agreements relating to the exploration or development of, or production from, oil and gas properties entered into in the ordinary course of business in a Related Business;
- (22) Liens reserved in oil and gas mineral leases for bonus, royalty or rental payments and for compliance with the terms of such leases;
- (23) Liens on, or related to, properties or assets to secure all or part of the costs incurred in the ordinary course of a Related Business for exploration, drilling, development, production, processing, transportation, marketing, storage, abandonment or operation;
- (24) Liens arising under the indenture in favor of the trustee for its own benefit and similar Liens in favor of other trustees, agents and representatives arising under instruments governing Indebtedness permitted to be incurred under the indenture; provided that such Liens are solely for the benefit of the trustees, agents or representatives in their capacities as such and not for the benefit of the holders of the Indebtedness;
- (25) Liens securing obligations of PDC and its Restricted Subsidiaries under non-speculative Hedging Obligations;
- (26) Liens on and pledges of the Equity Interests of any Unrestricted Subsidiary or any joint venture owned by PDC or any Restricted Subsidiary to the extent securing Non-Recourse Debt of such Unrestricted Subsidiary or joint venture;
- (27) Liens securing Indebtedness of any Foreign Subsidiary which Indebtedness is permitted by the indenture; and
- (28) Liens incurred in the ordinary course of business of PDC or any Restricted Subsidiary with respect to obligations that, at any one time outstanding, do not exceed the greater of (a) \$25 million and (b) 1.5% of Adjusted Consolidated Net Tangible Assets of PDC.
- Permitted Refinancing Indebtedness* means any Indebtedness of PDC or any of its Restricted Subsidiaries, any Disqualified Stock of PDC or any preferred stock of any Restricted Subsidiary (a) issued in exchange for, or the net proceeds of which are used to extend, renew, refund, refinance, replace, defease, discharge or otherwise retire for value, in whole or in part, or (b) constituting an amendment, modification or supplement to or a deferral or renewal of ((a) and (b) above, collectively, a Refinancing ), any other Indebtedness of PDC or any of its Restricted Subsidiaries (other than intercompany Indebtedness), any Disqualified Stock of PDC or any preferred stock of a Restricted Subsidiary in a principal amount or, in the case of Disqualified Stock of PDC or preferred stock of a Restricted Subsidiary, liquidation preference, not to exceed (after deduction of reasonable and customary fees and expenses incurred in connection with the Refinancing) the lesser of:



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- (1) the principal amount or, in the case of Disqualified Stock or preferred stock, liquidation preference, of the Indebtedness, Disqualified Stock or preferred stock so Refinanced (plus, in the case of Indebtedness, the amount of premium, if any paid in connection therewith), and
- (2) if the Indebtedness being Refinanced was issued with any original issue discount, the accreted value of such Indebtedness (as determined in accordance with GAAP) at the time of such Refinancing.

Notwithstanding the preceding, no Indebtedness, Disqualified Stock or preferred stock will be deemed to be Permitted Refinancing Indebtedness, unless:

- (1) such Indebtedness, Disqualified Stock or preferred stock has a final maturity date or redemption date, as applicable, no earlier than the final maturity date or redemption date, as applicable, of, and has a Weighted Average Life to Maturity equal to or greater than the Weighted Average Life to Maturity of, the Indebtedness, Disqualified Stock or preferred stock being Refinanced;
- (2) if the Indebtedness, Disqualified Stock or preferred stock being Refinanced is contractually subordinated or otherwise junior in right of payment to the notes, such Indebtedness, Disqualified Stock or preferred stock has a final maturity date or redemption date, as applicable, no earlier than the final maturity date or redemption date, as applicable, of, and is contractually subordinated or otherwise junior in right of payment to, the notes, on terms at least as favorable to the holders of notes as those contained in the documentation governing the Indebtedness, Disqualified Stock or preferred stock being Refinanced at the time of the Refinancing; and
- (3) such Indebtedness or Disqualified Stock is incurred or issued by PDC or such Indebtedness, Disqualified Stock or preferred stock is incurred or issued by the Restricted Subsidiary who is the obligor on the Indebtedness being Refinanced or the issuer of the Disqualified Stock or preferred stock being Refinanced; provided that a Restricted Subsidiary that is also a Subsidiary Guarantor may guarantee Permitted Refinancing Indebtedness incurred by PDC, regardless of whether such Restricted Subsidiary was an obligor or guarantor of the Indebtedness being Refinanced.

*Person* means any individual, corporation, partnership, joint venture, association, joint-stock company, trust, unincorporated organization, limited liability company, government or any agency or political subdivision thereof or any other entity.

*Production Payments* means Dollar-Denominated Production Payments and Volumetric Production Payments, collectively.

*Production Payments and Reserve Sales* means the grant or transfer by PDC or a Subsidiary of PDC to any Person of a royalty, overriding royalty, net profits interest, Production Payment, partnership or other interest in oil and gas properties, reserves or the right to receive all or a portion of the production or the proceeds from the sale of production attributable to such properties, including any such grants or transfers pursuant to incentive compensation programs on terms that are reasonably customary in the oil and gas business for geologists, geophysicists and other providers of technical services to PDC or a Subsidiary of PDC.

*Rating Agency* means any of S&P or Moody's, or if (and only if) S&P or Moody's shall not make a rating on the notes publicly available, a nationally recognized statistical rating agency or agencies, as the case may be, selected by PDC, which shall be substituted for S&P or Moody's, as the case may be.

*Registration Rights Agreement* means that certain registration rights agreement dated as of the Issue Date by and among PDC, the Subsidiary Guarantors and the initial purchasers set forth therein.



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*Related Business* means any business which is the same as or related, ancillary or complementary to any of the businesses of PDC and its Restricted Subsidiaries on the Issue Date, which includes (1) the acquisition, exploration, exploitation, development, production, operation and disposition of interests in oil, gas and other Hydrocarbon properties, and the utilization of PDC's and its Restricted Subsidiaries' properties, (2) the gathering, marketing, treating, processing, storage, refining, selling and transporting of any production from such interests or properties and products produced in association therewith, (3) any power generation and electrical transmission business, (4) oil field sales and services and related activities, (5) development, purchase and sale of real estate and interests therein, and (6) any business or activity relating to, arising from, or necessary, appropriate or incidental to the activities described in the foregoing clauses (1) through (5) of this definition.

*Reporting Failure* means the failure of PDC to file with the SEC and make available or otherwise deliver to the trustee and each holder of notes, within the time periods specified in Covenants Reports (after giving effect to any grace period specified under Rule 12b-25 under the Exchange Act), the periodic reports, information, documents or other reports that PDC may be required to file with the SEC pursuant to such provision.

*Restricted Investment* means any Investment other than a Permitted Investment.

*Restricted Subsidiary* means any Subsidiary of PDC other than an Unrestricted Subsidiary.

*S&P* means Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc.

*SEC* means the Securities and Exchange Commission.

*Securities Act* means the Securities Act of 1933, as amended.

*Senior Credit Agreement* means the Second Amended and Restated Credit Agreement dated as of November 5, 2010 as amended at various times prior to the Issue Date, among (i) PDC, as borrower, (ii) Riley Natural Gas Company, as a guarantor, (iii) JPMorgan Chase Bank, N.A., as administrative agent and lender, and (iv) the lenders party thereto from time to time, and any related notes, Guarantees, collateral documents, instruments and agreements executed in connection therewith, and in each case as amended, restated, modified, supplemented, increased, renewed, refunded, replaced (including replacement after the termination of such credit facility), supplemented, restructured or refinanced in whole or in part from time to time in one or more agreements or instruments, including by the Third Amended and Restated Credit Agreement dated as of May 21, 2013, which is included as an exhibit to the registration statement of which this prospectus is a part.

*Senior Debt* means:

- (1) all Indebtedness of PDC or any of its Restricted Subsidiaries outstanding under Credit Facilities and all Hedging Obligations with respect thereto;
- (2) the notes and any other Indebtedness of PDC or any of its Restricted Subsidiaries permitted to be incurred under the terms of the indenture, unless the instrument under which such Indebtedness is incurred expressly provides that it is subordinated in right of payment to the notes or any Subsidiary Guarantee; and
- (3) all Obligations with respect to the items listed in the preceding clauses (1) and (2).

Notwithstanding anything to the contrary in the preceding sentence, Senior Debt will not include:

- (a) any intercompany Indebtedness of PDC or any of its Subsidiaries to PDC or any of its Affiliates;
- (b) any Indebtedness that is incurred in violation of the indenture; or

(c) any trade payables or taxes owed or owing by PDC or any Restricted Subsidiary.

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*Significant Subsidiary* means any Restricted Subsidiary that would be a significant subsidiary of PDC within the meaning of Rule 1-02 under Regulation S-X under the Securities Act.

*Sponsored Limited Partnerships* means any drilling partnership in existence as of December 31, 2007 in which PDC is the managing general partner but which is not majority-owned by PDC, directly or indirectly.

*Stated Maturity* means, with respect to any installment of interest or principal on any series of Indebtedness, the date on which the payment of interest or principal was scheduled to be paid in the documentation governing such Indebtedness as of its issue date, and will not include any contingent obligations to repay, redeem or repurchase any such interest or principal prior to the date originally scheduled for the payment thereof.

*Subordinated Debt* means Indebtedness of PDC or a Subsidiary Guarantor that is contractually subordinated in right of payment (by its terms or the terms of any document or instrument relating thereto), to the notes or the Subsidiary Guarantee of such Subsidiary Guarantor, as applicable.

*Subsidiary* means, with respect to any specified Person:

- (1) any corporation, association or other business entity (other than a partnership) of which more than 50% of the total voting power of its Voting Stock is at the time owned or controlled, directly or indirectly, by that Person or one or more of the other Subsidiaries of that Person (or a combination thereof); and
- (2) any partnership (a) the sole general partner or the managing general partner of which is such Person or a Subsidiary of such Person or (b) the only general partners of which are that Person or one or more Subsidiaries of that Person (or any combination thereof).

Notwithstanding the foregoing, none of the Sponsored Limited Partnerships or PDC Mountaineer, LLC shall be Subsidiaries.

*Subsidiary Guarantee* means any Guarantee of the notes by any Subsidiary Guarantor in accordance with the provisions of the indenture described under the caption Covenants Subsidiary guarantees.

*Subsidiary Guarantor* means each Restricted Subsidiary that has become obligated under a Subsidiary Guarantee, in accordance with the terms of the guarantee provisions of the indenture, but only for so long as such Subsidiary remains so obligated pursuant to the terms of the indenture.

*Unrestricted Subsidiary* means any Subsidiary of PDC (including any newly acquired or newly formed Subsidiary or a Person becoming a Subsidiary through merger or consolidation or Investment therein) that is designated by the Board of Directors of PDC as an Unrestricted Subsidiary pursuant to a resolution of such Board of Directors, but only to the extent that such Subsidiary:

- (1) has no Indebtedness other than Non-Recourse Debt;
- (2) is a Person with respect to which neither PDC nor any of its Restricted Subsidiaries has any direct or indirect obligation (a) to subscribe for additional Equity Interests or (b) to maintain or preserve such Person's financial condition or to cause such Person to achieve any specified levels of operating results; and
- (3) has not guaranteed or otherwise directly or indirectly provided credit support for any Indebtedness of PDC or any of its Restricted Subsidiaries, except to the extent such Guarantee or credit support would be released upon such designation.

Any Subsidiary of an Unrestricted Subsidiary shall also be an Unrestricted Subsidiary.

*Volumetric Production Payments* means production payment obligations recorded as deferred revenue in accordance with GAAP, together with all related undertakings and obligations.



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*Voting Stock* of any specified Person as of any date means the Capital Stock of such Person that is at the time entitled (without regard to the occurrence of any contingency and after giving effect to any voting agreement or stockholders' agreement that effectively transfers voting power) to vote in the election of the Board of Directors of such Person.

*Weighted Average Life to Maturity* means, when applied to any Indebtedness at any date, the number of years obtained by dividing:

- (1) the sum of the products obtained by multiplying (a) the amount of each then remaining installment, sinking fund, serial maturity or other required payments of principal, including payment at final maturity, in respect of the Indebtedness, by (b) the number of years (calculated to the nearest one-twelfth) that will elapse between such date and the making of such payment; by
  
- (2) the then outstanding principal amount of such Indebtedness.

**Table of Contents****MATERIAL U.S. FEDERAL INCOME TAX CONSIDERATIONS**

The following is a summary of certain U.S. federal income tax considerations that may be relevant to the exchange of current notes for new notes and to the ownership and disposition of new notes, but does not purport to be a complete analysis of all the potential tax considerations relating thereto. This summary is based upon the U.S. Internal Revenue Code of 1986, as amended (the "Code"), Treasury Regulations, administrative rulings, and judicial decisions all as in effect or in existence as of the date of this prospectus, all of which are subject to change, possibly on a retroactive basis, or to different interpretations. This summary applies only to holders who purchased current notes at a price equal to the issue price of the current notes (i.e., the first price at which a substantial amount of the current notes were sold other than to bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters, placement agents, or wholesalers), participate in the exchange described herein, and held the current notes and will hold the new notes as "capital assets" within the meaning of Section 1221 of the Code (generally, property held for investment). This discussion does not address tax considerations applicable to holders that may be subject to special tax rules, including: persons subject to the alternative minimum tax; certain former citizens or long-term residents of the United States; financial institutions; tax-exempt entities (including retirement plans, individual retirement accounts, and tax-deferred accounts); insurance companies; dealers in securities or currencies; traders in securities; persons holding notes as part of a conversion, constructive sale, wash sale or other integrated transaction or a hedge, straddle or synthetic security; regulated investment companies and their shareholders; real estate investment trusts; pass-through entities, including partnerships and entities and arrangements classified as partnerships for U.S. federal tax purposes, and beneficial owners of pass-through entities; and U.S. Holders (as defined below) that have a "functional currency" other than the U.S. dollar. Moreover, this summary does not address U.S. federal estate, gift, or generation-skipping tax consequences, if any, or any state, local, or foreign tax consequences, if any, to holders of the notes. We have not sought any ruling from the Internal Revenue Service (the "IRS") with respect to the statements made and the conclusions reached in the following summary, and there can be no assurance that the IRS will agree with these statements and conclusions.

This summary assumes that the current notes are properly treated for tax purposes as not being issued with original issue discount ("OID") for U.S. federal income tax purposes.

**HOLDERS WHO EXCHANGE CURRENT NOTES FOR NEW NOTES SHOULD CONSULT THEIR OWN TAX ADVISORS WITH RESPECT TO THE APPLICATION OF THE U.S. FEDERAL INCOME TAX LAWS TO THEIR PARTICULAR SITUATIONS, AS WELL AS OF ANY TAX CONSEQUENCES ARISING UNDER THE LAWS OF ANY STATE, LOCAL, OR FOREIGN TAXING JURISDICTION OR UNDER ANY APPLICABLE TAX TREATY.**

**Payments Upon Early Redemptions and Other Circumstances**

In certain circumstances, we may be required to make payments in excess of stated interest and the adjusted issue price of the notes (see "Description of the New Notes—Optional Redemption" and "Description of the New Notes—Repurchase at the Option of Holders—Change of Control"). The possibility of such potential payments may cause the notes to be "contingent payment debt instruments" for U.S. federal income tax purposes. We do not intend to treat such potential payments as causing the notes to be considered contingent payment debt instruments, and our determination is binding on holders unless the holder discloses a contrary position in the manner required by applicable Treasury regulations. Our determination is not, however, binding on the IRS, and if the IRS were to challenge this determination a holder might be required to accrue gain on the notes at a higher yield and to treat as ordinary income (rather than as capital gain) any gain realized on a taxable disposition of notes before the resolution of the contingencies. The remainder of this discussion assumes that the notes will not be treated as contingent payment debt instruments for U.S. federal income tax purposes.

**Exchange of Current Notes for New Notes**

The exchange of current notes for new notes should not constitute a material modification of the terms of the current notes and therefore should not constitute a taxable exchange for U.S. federal income tax purposes. Accordingly, a holder should not recognize gain or loss upon receipt of a new note in exchange for an old note in the exchange. The holding period in a new note should include the holder's holding period in the old note exchanged for the new note, and a holder's basis in a new note immediately after the exchange should be the adjusted tax basis in the old note exchanged for the new note immediately before the exchange.

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### **U.S. Holders**

The following discussion applies to you if you are a U.S. Holder (as defined below).

#### ***Definition of U.S. Holder***

You are a U.S. Holder for purposes of this discussion if you are a beneficial owner of notes and you are, for U.S. federal income tax purposes:

an individual who is a citizen or resident of the United States;

a corporation, or other entity taxable as a corporation for U.S. federal income tax purposes, that was created or organized in or under the laws of the United States, any state thereof, or the District of Columbia;

an estate the income of which is subject to U.S. federal income taxation, regardless of its source; or

a trust (i) if a court within the United States is able to exercise primary supervision over the administration of the trust and one or more United States persons have the authority to control all substantial decisions of the trust or (ii) that has a valid election in effect under applicable Treasury Regulations to be treated as a United States person.

If an entity treated as a partnership for U.S. federal income tax purposes (a Partnership) holds our notes, the tax treatment of a partner or member thereof will generally depend upon the status of the partner or member and the activities of the Partnership. If you are a partner or member of a Partnership that holds our notes, you should consult your tax advisor regarding the U.S. federal income tax consequences of the exchange of current notes for new notes and the ownership and disposition of new notes.

#### ***Payment of Interest***

Interest paid on new notes generally will be taxable to a U.S. Holder as ordinary interest income at the time such amounts are accrued or received in accordance with the U.S. Holder's method of accounting for U.S. federal income tax purposes.

#### ***Sale, Exchange, or Redemption of New Notes***

A U.S. Holder generally will recognize capital gain or loss upon the sale, exchange, redemption, or other taxable disposition of a new note equal to the difference between the amount of cash proceeds and the fair market value of any property received on the sale, exchange, redemption, or other disposition (except to the extent this amount is attributable to accrued and unpaid interest, which is taxable as ordinary income to the extent not already included in the U.S. Holder's income in the manner described under U.S. Holders' Payment of Interest) and the U.S. Holder's adjusted tax basis in the new note. The gain or loss generally will be capital gain or loss. This capital gain or loss will be long-term capital gain or loss if the holding period for the new note is longer than one year, and will be short-term capital gain or loss otherwise.

Under current law, long-term capital gains of non-corporate U.S. Holders are taxed at reduced rates. Short-term capital gains are taxed at ordinary income rates. The deductibility of capital losses is subject to limitations.

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### ***Information Reporting and Backup Withholding Tax***

In general, information reporting is required with respect to a U.S. Holder as to certain payments of principal and interest on notes and on the proceeds from the taxable disposition of notes, unless the U.S. Holder is a corporation or other exempt person. In addition, backup withholding at a rate of 28% (which rate currently is scheduled to increase to 31% for tax years beginning on or after January 1, 2013) may apply:

to any payments made of principal or interest on notes, and

to payments of the proceeds of a sale or other taxable disposition of notes, if a U.S. Holder is not exempt and fails to provide a correct taxpayer identification number certified under penalties of perjury, as well as certain information or otherwise fails to comply with applicable requirements of the backup withholding rules.

Backup withholding is not an additional tax and may be refunded or credited against a U.S. Holder's U.S. federal income tax liability, provided that the correct information or an appropriate claim form is timely filed with the IRS.

### ***Medicare Tax on Unearned Income***

For taxable years beginning after December 31, 2012, a surtax of 3.8% (the unearned income Medicare contribution tax) is imposed on the net investment income of certain U.S. Holders to the extent that net investment income exceeds a certain threshold. Net investment income generally includes dividends and net gain from the disposition of property (other than property held in a non-passive trade or business). Net investment income is reduced by deductions that are properly allocable to such income.

### ***Non-U.S. Holders***

The following discussion applies to you if you are a Non-U.S. Holder (as defined below).

#### ***Definition of Non-U.S. Holder***

You are a Non-U.S. Holder for purposes of this discussion if you are a beneficial owner of a note and you are an individual, corporation, estate or trust that is not a U.S. Holder.

#### ***Payment of Interest***

Subject to the discussion below under Foreign Accounts, payments to a Non-U.S. Holder of interest on the notes will not be subject to U.S. federal withholding tax if such Non-U.S. Holder qualifies for the portfolio interest exemption of the Code. A Non-U.S. Holder qualifies for the portfolio interest exemption if:

- (1) the Non-U.S. Holder does not, directly or indirectly, actually or constructively, own 10% or more of the total combined voting power of all classes of our stock entitled to vote within the meaning of section 871(h)(3) of the Code and the Treasury Regulations thereunder;
- (2) the Non-U.S. Holder is not a controlled foreign corporation for U.S. federal income tax purposes that is related, directly or indirectly, actually or constructively, to us through sufficient stock ownership (as provided in the Code);
- (3) the Non-U.S. Holder is not a bank receiving interest on the notes in connection with the extension of credit made pursuant to a loan agreement entered into in the ordinary course of its trade or business;



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- (4) interest on the notes is not effectively connected with the conduct of a U.S. trade or business of the Non-U.S. Holder; and,
- (5) the Non-U.S. Holder provides a signed written statement, on an IRS Form W-8BEN (or other applicable form) that can reliably be associated with the Non-U.S. Holder, certifying under penalties of perjury that the Non-U.S. Holder is not a U.S. person within the meaning of the Code and providing the Non-U.S. Holder's name and address to:

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(A) us or our paying agent; or

(B) a securities clearing organization, bank or other financial institution that holds customers' securities in the ordinary course of its trade or business and holds our notes on behalf of the Non-U.S. Holder and that certifies to us or our paying agent under penalties of perjury that it, or the bank or financial institution between it and the Non-U.S. Holder, has received from the Non-U.S. Holder such signed, written statement and provides us or our paying agent with a copy of such statement.

The applicable Treasury Regulations provide alternative methods for satisfying the certification requirements described above. Special rules apply to foreign partnerships, estates, and trusts, and in certain circumstances, certifications as to the foreign status of partners, trust owners, or beneficiaries may have to be provided to us or our paying agent. In addition, special rules apply to qualified intermediaries that enter into withholding agreements with the IRS, and such intermediaries generally are not required to forward any certification forms received from a Non-U.S. Holder.

Interest income of a Non-U.S. Holder that is not effectively connected with the conduct of a U.S. trade or business and that does not qualify for the portfolio interest exemption described above will generally be subject to a withholding tax at a 30% rate, unless the Non-U.S. Holder provides us or our paying agent with a properly executed IRS Form W-8BEN (or successor form) claiming an exemption from, or reduction in the rate of, withholding under an applicable income tax treaty.

Interest income of a Non-U.S. Holder that is effectively connected with a U.S. trade or business conducted by the Non-U.S. Holder (and, if an applicable tax treaty so requires, is attributable to a permanent establishment of the Non-U.S. Holder in the United States) (effectively connected interest income) will generally be taxed in the same manner as interest received by a U.S. Holder. See discussion above under "U.S. Holders' Payment of Interest." Effectively connected interest income received by a corporate Non-U.S. Holder may also, under certain circumstances, be subject to an additional branch profits tax at a 30% rate (or, a reduced rate under an applicable income tax treaty). Effectively connected interest income is generally not subject to withholding tax if the Non-U.S. Holder provides a properly executed IRS Form W-8ECI (or successor form) to us or our agent.

***Sale, Exchange, or Redemption of New Notes***

A Non-U.S. Holder will generally not be subject to U.S. federal income tax or withholding tax on any gain realized on the sale, exchange, redemption, or other taxable disposition of a new note unless:

- (1) the Non-U.S. Holder is an individual who has been present in the United States for a period or periods aggregating 183 days or more during the taxable year of the disposition, and certain other requirements are met;
- (2) the gain is effectively connected with the conduct of a U.S. trade or business (and if an applicable treaty so requires, is attributable to a permanent establishment in the United States); or,
- (3) such gain represents accrued but unpaid stated interest not previously included in income, in which case the rules regarding the payment of interest would apply.

If the first exception applies, the Non-U.S. Holder generally will be subject to U.S. federal income tax at a rate of 30% (or at a reduced rate under an applicable income tax treaty) on the amount by which such Non-U.S. Holder's capital gains allocable to U.S. sources exceeds capital losses allocable to U.S. sources during the taxable year of the disposition.

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Gain of a Non-U.S. Holder that is effectively connected with a U.S. trade or business conducted by the Non-U.S. Holder (and, if an applicable tax treaty so requires, is attributable to a permanent establishment of the Non-U.S. Holder in the United States) (effectively connected gain) will generally be taxed in the same manner as gain recognized by a U.S. Holder (and such income or gain will, subject to the discussion below under Foreign Accounts, be exempt from U.S. federal withholding tax if you provide a properly executed IRS Form W-8ECI or other appropriate certification. Effectively connected income and gain recognized by a corporate Non-U.S. Holder may also, under certain circumstances, be subject to an additional branch profits tax at a 30% rate (or, a reduced rate under an applicable income tax treaty).

**Information Reporting and Backup Withholding Tax**

Payments of interest on new notes, and amounts withheld from such payments, if any, generally will be required to be reported to the IRS and the Non-U.S. Holder. Copies of the information returns reporting such interest and withholding may also be made available to the tax authorities in the country in which the Non-U.S. Holder resides under the provisions of an applicable income tax treaty.

U.S. backup withholding generally will not apply to payments to a Non-U.S. Holder of interest and principal on new notes if the certification described in Non-U.S. Holders Payment of Interest is duly provided or if the Non-U.S. Holder otherwise establishes an exemption, provided that we do not have actual knowledge or reason to know that such person is a United States person (as defined in the Code) or that the exemption conditions are not satisfied.

Information reporting requirements and backup withholding tax generally will not apply to any payment to a Non-U.S. Holder of the proceeds of the sale of a new note effected outside the United States by a foreign office of a broker (as defined in applicable Treasury Regulations). However, if the broker:

- (1) is a United States person;
- (2) derives 50% or more of its gross income from all sources for certain periods from the conduct of a United States trade or business;
- (3) is a controlled foreign corporation as to the United States; or,
- (4) is a foreign partnership that, any time during its taxable year, has more than 50% of its income or capital interests owned in the aggregate by United States persons, or is engaged in the conduct of a U.S. trade or business;

then payment of the proceeds will be subject to information reporting requirements unless the broker has documentary evidence in its records that the payee is a Non-U.S. Holder and certain other conditions are met, or the Non-U.S. Holder otherwise establishes an exemption.

Payment to a Non-U.S. Holder of the proceeds of a disposition of a new note to or through the U.S. office of a foreign or U.S. broker is subject to information reporting and backup withholding requirements, unless the Non-U.S. Holder provides the certification described in Non-United States Holders Payment of Interest or otherwise establishes an exemption and the broker does not have actual knowledge or reason to know that the Non-U.S. Holder is a United States person or that the exemption conditions are not satisfied.

Any amounts withheld from a payment to a Non-U.S. Holder under the backup withholding rules generally will be allowed as a credit against U.S. federal income tax liability, if any, and may be refunded, provided that the required information is timely furnished to the IRS.

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**Foreign Accounts**

The Foreign Account Tax Compliance Act ( FATCA ), enacted in 2010, generally imposes a 30% withholding tax on interest on, or the gross proceeds from the sale or other disposition of, notes paid to a foreign financial institution or to a foreign non-financial entity, unless (i) the foreign financial institution undertakes certain diligence and reporting obligations, (ii) the foreign non-financial entity either certifies that it does not have any substantial U.S. owners or furnishes identifying information regarding each substantial U.S. owner or (iii) the foreign financial institution or non-financial foreign entity otherwise establishes an exemption from these rules. If the payee is a foreign financial institution that does not establish an exemption, it must enter into an agreement with the U.S. Department of the Treasury requiring, among other things, that it undertake to identify accounts held by certain U.S. persons or U.S.-owned foreign entities, annually report certain information about such accounts, and withhold 30% on payments to account holders whose actions prevent it from complying with these reporting and other requirements. Under certain circumstances, an account holder may be eligible for refunds or credits of such taxes. Under final U.S. Treasury regulations, issued in 2013, the withholding obligations described above do not apply to debt securities outstanding on January 1, 2014 and should, therefore, not apply to payments of interest on, or the gross proceeds from the sale or other disposition of, a new note. Prospective holders should consult their own tax advisors with respect to the potential tax consequences of FATCA.

**PLAN OF DISTRIBUTION**

If you want to participate in the exchange offer, you must represent, among other things, that you:

are not an affiliate of ours, as defined in Rule 405 of the Securities Act (or if you are such an affiliate, you must comply with the registration and prospectus delivery requirements of the Securities Act to the extent applicable);

are not engaged in and do not intend to engage in, and have no arrangement or understanding with any person to participate in, a distribution of new notes to be issued in the exchange offer;

acquired the new notes issued in the exchange offer in the ordinary course of your business;

are not a broker-dealer that acquired the current notes from us or in market-making transactions or other trading activities; and

are not acting on behalf of any person who could not truthfully and completely make the foregoing representations.

If you fail to satisfy any of these conditions, you cannot rely on the position of the SEC set forth in the no-action letters referred to above under The Exchange Offer Terms of the Exchange Offer and you must comply with the applicable registration and prospectus delivery requirements of the Securities Act in connection with a resale of the new notes.

Each broker-dealer that receives new notes for its own account pursuant to the exchange offer where such current notes were acquired as a result of market-making activities or other trading activities must acknowledge that it will deliver a prospectus in connection with any resale of such new notes. This prospectus, as it may be amended or supplemented from time to time, may be used by a broker-dealer in connection with resales of new notes received in exchange for current notes where such current notes were acquired as a result of market-making activities or other trading activities.

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The SEC considers broker-dealers that acquired current notes directly from us, but not as a result of market-making activities or other trading activities, to be making a distribution of the new notes if they participate in the exchange offer. Consequently, these broker-dealers must comply with the registration and prospectus delivery requirements of the Securities Act in connection with a resale of the new notes.

We will not receive any proceeds from any sale of new notes by broker-dealers. New notes received by broker-dealers for their own account pursuant to the exchange offer may be sold from time to time in one or more transactions in the over-the-counter market, in negotiated transactions, through the writing of options on the new notes or a combination of such methods of resale, at market prices prevailing at the time of resale, at prices related to such prevailing market prices or negotiated prices. Any such resale may be made directly to purchasers or to or through brokers or dealers who may receive compensation in the form of commissions or concessions from any such broker-dealer or the purchasers of any such new notes. Any broker-dealer that resells new notes that were received by it for its own account pursuant to the exchange offer and any broker or dealer that participates in a distribution of such new notes may be deemed to be an underwriter within the meaning of the Securities Act, and any profit on any such resale of new notes and any commission or concessions received by any such persons may be deemed to be underwriting compensation under the Securities Act. The letter of transmittal states that, by acknowledging that it will deliver and by delivering a prospectus, a broker-dealer will not be deemed to admit that it is an underwriter within the meaning of the Securities Act.

Until the earlier of 180 days from the completion date of this exchange offer or such time as such broker-dealers no longer hold any current notes, we will promptly send additional copies of this prospectus and any amendment or supplement to this prospectus to any broker-dealer that requests such documents in the letter of transmittal. Any such requests should be directed to General Counsel, PDC Energy, Inc., 1775 Sherman Street, Suite 3000 Denver, Colorado 80203; telephone: 303-860-5800.

We have agreed in the registration rights agreement to pay all expenses incident to the exchange offer other than commissions or concessions of any brokers or dealers and will indemnify the holders of the securities (including any broker-dealers) against certain liabilities, including liabilities under the Securities Act.

## **LEGAL MATTERS**

The validity of the new notes and the related guarantees have been passed upon for us by Davis Graham & Stubbs LLP.

## **EXPERTS**

The financial statements incorporated in this Prospectus by reference to PDC Energy, Inc.'s Current Report on Form 8-K dated June 28, 2013 and the financial statement schedules and management's assessment of the effectiveness of internal control over financial reporting (which is included in Management's Report on Internal Control over Financial Reporting) incorporated in this Prospectus by reference to the Annual Report on Form 10-K of PDC Energy, Inc. for the year ended December 31, 2012 have been so incorporated in reliance on the reports (which contain reference to the effects of discontinued operations described in Notes 14 and 19) of PricewaterhouseCoopers LLP, an independent registered public accounting firm, given on the authority of said firm as experts in auditing and accounting.

The statement of revenues and direct operating expenses of the oil and gas properties purchased by PDC Energy, Inc., for the year ended December 31, 2011, has been incorporated by reference herein in reliance upon the report of KPMG LLP, independent auditors, incorporated by reference herein, and upon the authority of said firm as experts in accounting and auditing. The report of KPMG LLP dated May 11, 2012 contains an explanatory paragraph that states the statement of revenues and direct operating expenses was prepared for the purpose of complying with the rules and regulations of the Securities and Exchange Commission and is not intended to be a complete presentation of the revenues and expenses of the properties.

Estimates of our oil and natural gas reserves and related information as of December 31, 2012, 2011 and 2010 incorporated by reference in this prospectus have been derived from engineering reports prepared by Ryder Scott. The estimates have been so incorporated in reliance upon the reports of Ryder Scott given upon its authority as an expert in petroleum engineering.

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**WHERE YOU CAN FIND MORE INFORMATION**

We file annual, quarterly and current reports and proxy statements and other information with the SEC. You may read and copy any document we file with the SEC at the SEC's public reference room at 100 F Street, N.E., Room 1580, Washington, D.C. 20549. You may call the SEC at 1-800-SEC-0330 for more information regarding the public reference room. Our filings with the SEC are also available to the public through the SEC's website *www.sec.gov*.

We also make available on our website, free of charge, our SEC filings, as soon as reasonably practicable after they are electronically filed with or furnished to the SEC. Our website address is *www.pdce.com*. The information contained on our website is not incorporated by reference in this document.

**INCORPORATION BY REFERENCE**

The following reports, including the exhibits thereto, are incorporated by reference in, and are an integral part of, this prospectus, and references to this prospectus include the documents (or portions of documents) incorporated by reference in this prospectus:

our Annual Report on Form 10-K for the year ended December 31, 2012;

our Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2013; and

our Current Reports on Form 8-K filed on May 14, 2012 (filed under Items 8.01 and 9.01), February 5, 2013, May 28, 2013, June 3, 2013, June 11, 2013, June 24, 2013 and June 28, 2013 (two filings).

Any future filings we make with the SEC under Sections 13(a), 13(c), 14 or 15(d) of the Exchange Act (other than information furnished under Item 2.02 or Item 7.01 of any Current Report on Form 8-K) prior to the completion of this offering are also incorporated by reference in this prospectus.

Any statement contained herein, or in any documents incorporated or deemed to be incorporated by reference herein, shall be deemed to be modified or superseded for the purpose of this prospectus to the extent that a subsequent statement contained herein or in any subsequently filed document which is incorporated by reference herein modifies or supersedes such statement. Any such statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this prospectus.

You may obtain copies of any of the foregoing documents without charge upon written or oral request directed to General Counsel, PDC Energy, Inc., 1775 Sherman Street, Suite 3000, Denver, CO 80203; telephone: 303-860-5800.

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**ANNEX A**

**LETTER OF TRANSMITTAL**

**To Tender**

**\$500,000,000 7.750% Senior Notes due 2022**

**That Have Been Registered Under the Securities Act of 1933**

**For Any and All Outstanding Unregistered**

**7.750% Senior Notes due 2022**

**of**

**PDC Energy, Inc.**

Pursuant to the Prospectus dated July 11, 2013

**THE EXCHANGE OFFER WILL EXPIRE AT 11:59 P.M., NEW YORK CITY TIME, ON AUGUST 9, 2013 UNLESS THE EXCHANGE OFFER IS EXTENDED (THE EXPIRATION DATE ). TENDERS MAY BE WITHDRAWN AT ANY TIME PRIOR TO THE EXPIRATION DATE.**

*The Exchange Agent for the Exchange Offer is:*

U.S. Bank National Association

60 Livingston Avenue

EP-MN-WS2N

St. Paul, MN 55107

Attn: Specialized Finance

Fax: 651-495-8158

**For Information, Call: 800-934-6802**

*Delivery of this Letter of Transmittal to an address other than as set forth above or transmission of instructions to a facsimile number other than the one listed above will not constitute a valid delivery. The instructions set forth in this Letter of Transmittal should be read carefully before this Letter of Transmittal is completed.*

**HOLDERS WHO WISH TO BE ELIGIBLE TO RECEIVE NEW NOTES FOR THEIR CURRENT NOTES PURSUANT TO THE EXCHANGE OFFER MUST VALIDLY TENDER (AND NOT WITHDRAW) THEIR CURRENT NOTES TO THE EXCHANGE AGENT PRIOR TO THE EXPIRATION DATE.**

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By execution hereof, the undersigned acknowledges receipt of the prospectus dated July 11, 2013 (the Prospectus ) of PDC Energy, Inc., a Nevada corporation (the Company ) which, together with this Letter of Transmittal (the Letter of Transmittal ), constitutes the Company s offer to exchange (the Exchange Offer ) up to \$500,000,000 aggregate principal amount of its 7.750% Senior Notes due 2022 (the New Notes ), which have been registered under the Securities Act of 1933, as amended (the Securities Act ), pursuant to a registration statement of which the Prospectus constitutes a part, for a like principal amount of its outstanding unregistered 7.750% Senior Notes due 2022 (the Current Notes ), upon the terms and subject to the conditions set forth in the Prospectus. Capitalized terms used but not defined herein have the meanings given to them in the Prospectus.

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This Letter of Transmittal is to be used by Holders if certificates representing Current Notes are to be physically delivered to the Exchange Agent herewith by Holders. **Delivery of documents to DTC does not constitute delivery to the Exchange Agent.**

If delivery of the Current Notes is to be made by book-entry transfer to the account maintained by the Exchange Agent at DTC, this Letter of Transmittal need not be manually executed; provided, however, that tenders of Current Notes must be effected in accordance with the procedures mandated by The Depository Trust Company's ( DTC ) Automated Tender Offer Program ( ATOP ). If tenders of Current Notes are to be made in accordance with ATOP procedures, a tendering Holder will become bound by the terms and conditions hereof in accordance with the procedures established under ATOP (including by execution hereof, an agreement by the tendering Holder that the Company may rely on the tendering Holder's indication of its status as a broker-dealer as set forth below).

The term "Holder" with respect to the Exchange Offer means: (i) any person in whose name Current Notes are registered on the books of the Company or the trustee or any other person who has obtained a properly completed bond power from the registered Holder or (ii) any participant in DTC whose Current Notes are held of record by DTC who desires to deliver such Current Notes by book-entry transfer at DTC.

The undersigned has completed, executed and delivered this Letter of Transmittal to indicate the action the undersigned desires to take with respect to the Exchange Offer. Holders who wish to tender their Current Notes must complete this letter in its entirety.

The instructions included with this Letter of Transmittal must be followed. Questions and requests for assistance or for additional copies of the Prospectus and this Letter of Transmittal may be directed to the Exchange Agent at the address set forth on the cover page of this Letter of Transmittal. See Instruction 8. Requests sent to the Company will not be effective.

List below the Current Notes to which this Letter of Transmittal relates. If the space provided below is inadequate, list the certificate numbers and principal amounts on a separately executed schedule and affix the schedule to this Letter of Transmittal. Tenders of Current Notes will be accepted only in authorized denominations.

**DESCRIPTION OF CURRENT NOTES**

	<b>Certificate</b>	<b>Aggregate</b>	
	<b>Number(s)*</b>	<b>Aggregate</b>	<b>Principal Amount</b>
<b>Name(s) and Address(es) of Holder(s)</b>	<b>(attach signed list</b>	<b>Principal Amount</b>	<b>Tendered</b>
<b>(Please fill in if blank)</b>	<b>if necessary)</b>	<b>of Old Note(s)</b>	<b>(if less than all)**</b>

**TOTAL PRINCIPAL AMOUNT OF CURRENT NOTES TENDERED**

\* Need not be completed by Holders tendering by book-entry transfer.

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\*\* Need not be completed by Holders who wish to tender with respect to all Current Notes listed. Current Notes tendered hereby must be in denominations of \$2,000 and \$1,000 integral multiples of \$2,000 thereof.

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.. **CHECK HERE IF CURRENT NOTES ARE BEING DELIVERED BY DTC BOOK-ENTRY TRANSFER MADE TO THE ACCOUNT MAINTAINED BY THE EXCHANGE AGENT WITH DTC AND COMPLETE THE FOLLOWING:**

Name of Tendering Institution: \_\_\_\_\_

DTC Book-Entry Account Number: \_\_\_\_\_

Transaction Code Number: \_\_\_\_\_

**BY CREDITING THE CURRENT NOTES TO THE EXCHANGE AGENT'S ACCOUNT WITH DTC'S ATOP AND BY COMPLYING WITH APPLICABLE ATOP PROCEDURES WITH RESPECT TO THE EXCHANGE OFFER, THE HOLDER OF THE CURRENT NOTES ACKNOWLEDGES AND AGREES TO BE BOUND BY THE TERMS OF THIS LETTER OF TRANSMITTAL AND CONFIRMS ON BEHALF OF ITSELF AND THE BENEFICIAL OWNERS OF SUCH CURRENT NOTES ALL PROVISIONS OF THIS LETTER OF TRANSMITTAL APPLICABLE TO IT AND SUCH BENEFICIAL OWNERS AS FULLY AS IF SUCH BENEFICIAL OWNERS HAD COMPLETED THE INFORMATION REQUIRED HEREIN AND EXECUTED AND TRANSMITTED THIS LETTER OF TRANSMITTAL.**

.. **CHECK HERE IF TENDERED BY BOOK-ENTRY TRANSFER AND NON-EXCHANGED CURRENT NOTES ARE TO BE RETURNED BY CREDITING THE DTC ACCOUNT SET FORTH ABOVE.**

.. **CHECK HERE IF YOU ARE A BROKER-DEALER AND ARE ELIGIBLE TO PARTICIPATE IN THE EXCHANGE OFFER. IF SO, YOU WILL RECEIVE 10 ADDITIONAL COPIES OF THE PROSPECTUS AND 10 COPIES OF ANY AMENDMENTS OR SUPPLEMENTS THERETO.**

Name: \_\_\_\_\_

Address: \_\_\_\_\_

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**ATTENTION BROKER-DEALERS: IMPORTANT NOTICE  
CONCERNING YOUR ABILITY TO RESELL THE NEW NOTES**

**IF THE EXCHANGE AGENT DOES NOT RECEIVE ANY LETTERS OF TRANSMITTAL FROM BROKER-DEALERS REQUESTING ADDITIONAL COPIES OF THE PROSPECTUS FOR USE IN CONNECTION WITH RESALES OF THE NEW NOTES, BROKER-DEALERS MAY NOT USE THE PROSPECTUS AND THE COMPANY WILL HAVE NO OBLIGATION TO MAINTAIN THE EFFECTIVENESS OF THE REGISTRATION STATEMENT. IF THE EFFECTIVENESS OF THE REGISTRATION STATEMENT IS TERMINATED, YOU WILL NOT BE ABLE TO USE THE PROSPECTUS IN CONNECTION WITH RESALES OF NEW NOTES AFTER SUCH TIME. SEE SECTION ENTITLED THE EXCHANGE OFFER TERMS OF THE EXCHANGE OFFER CONTAINED IN THE PROSPECTUS FOR MORE INFORMATION. BY EXECUTION HEREOF, THE UNDERSIGNED AGREES THAT THE COMPANY MAY RELY ON THE UNDERSIGNED'S INDICATION OF ITS STATUS AS BROKER-DEALER AS SET FORTH ABOVE.**

Ladies and Gentlemen:

Subject to the terms of the Exchange Offer, the undersigned hereby tenders to the Company the principal amount of Current Notes indicated above. By executing this Letter of Transmittal the undersigned hereby irrevocably constitutes and appoints the Exchange Agent its agent and attorney-in-fact (with full knowledge that the Exchange Agent also acts as the agent of the Company and as trustee under the indenture for the Current Notes and the New Notes) with respect to the tendered Current Notes with full power of substitution to (i) deliver certificates for such Current Notes to the Company, or transfer ownership of such Current Notes on the account books maintained by DTC, together, in either such case, with all accompanying evidences of transfer and authenticity to, or upon the order of, the Company and (ii) present such Current Notes for transfer on the books of the Company and (iii) receive all benefits and otherwise exercise all rights of beneficial ownership of such Current Notes, all in accordance with the terms of the Exchange Offer. The power of attorney granted in this paragraph shall be deemed irrevocable and coupled with an interest.

The undersigned hereby further represents to the Company that (i) neither the undersigned nor any person receiving any New Notes directly or indirectly from the undersigned pursuant to the Exchange Offer is an affiliate of the Company or its subsidiaries, as defined under Rule 405 under the Securities Act, (ii) neither the undersigned nor any person receiving any New Notes directly or indirectly from the undersigned pursuant to the Exchange Offer (if not a broker-dealer referred to in the last sentence of this paragraph) is engaging or intends to engage in the distribution of the New Notes and none of them have any arrangement or understanding with any person to participate in the distribution of the New Notes, (iii) the New Notes to be acquired pursuant to the Exchange Offer will be acquired in the ordinary course of business of the person acquiring the New Notes, whether or not such person is the undersigned, (iv) if it is a broker-dealer that holds Current Notes that were acquired for its own account as a result of market-making activities or other trading activities (other than Current Notes acquired directly from the Company or any of its affiliates), it will deliver a Prospectus meeting the requirements of the Securities Act in connection with any resales of the New Notes received by it in the Exchange Offer, (v) the undersigned and each person receiving any New Notes directly or indirectly from the undersigned pursuant to the Exchange Offer acknowledge and agree that any broker-dealer or any person participating in the Exchange Offer for the purpose of distributing the New Notes (x) must comply with the registration and Prospectus delivery requirements of the Securities Act in connection with a secondary resale transaction of the New Notes acquired by such person and (y) cannot rely on the position of the staff of the Securities and Exchange Commission (the Commission) set forth in the Exxon Capital Holdings Corporation no-action letter (available May 13, 1988) and the Morgan Stanley and Co., Inc. no-action letter (available June 5, 1991), as interpreted in the Commission's no-action letter to Shearman & Sterling dated July 2, 1993, and similar no-action letters, (vi) the undersigned and each person receiving any New Notes directly or indirectly from the undersigned pursuant to the Exchange Offer understand that a secondary resale transaction described in clause (v) above should be covered by an effective registration statement; (vii) if it is a broker-dealer, that it did not purchase the Securities to be exchanged in the Exchange Offer from the Company or any of its affiliates, and (viii) the undersigned is not acting on behalf of any person who could not truthfully and completely make the representations contained in the foregoing subclauses (i) through (viii). If the undersigned is a broker-dealer that will receive New Notes for its own account in exchange for Current Notes that

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were acquired as a result of market making or other trading activities, it acknowledges that it will deliver a Prospectus meeting the requirements of the Securities Act in connection with any resale of such New Notes received in respect of such Current Notes pursuant to the Exchange Offer; however, by so acknowledging and by delivering a Prospectus, the undersigned will not be deemed to admit that it is an underwriter within the meaning of the Securities Act.

The Company has agreed that, subject to the provisions of the registration rights agreement, the Prospectus, as it may be amended or supplemented from time to time, may be used by a participating broker-dealer (as defined below) in connection with resales of New Notes received in exchange for Current Notes, where such Current Notes were acquired by such participating broker-dealer for its own account as a result of market-making activities or other trading activities, for a period of up to 180 days commencing when New Notes are first issued in the Exchange Offer and ending upon the earlier of the expiration of the 180<sup>th</sup> day after the exchange offer has been completed or such time as such broker-dealers no longer own any Current Notes. In that regard, each broker-dealer who acquired Current Notes for its own account as a result of market-making or other trading activities (a participating broker-dealer), by tendering such Current Notes and executing, or otherwise becoming bound by, this Letter of Transmittal, agrees that, upon receipt of notice from the Company of the occurrence of any event or the discovery of any fact which makes any statement contained or incorporated by reference in the Prospectus untrue in any material respect or which causes the Prospectus to omit to state a material fact necessary in order to make the statements contained or incorporated by reference therein, in light of the circumstances under which they were made, not misleading or of the occurrence of certain other events specified in the registration rights agreement, such participating broker-dealer will suspend the sale of New Notes pursuant to the Prospectus until the Company has amended or supplemented the Prospectus to correct such misstatement or omission and has furnished copies of the amended or supplemented Prospectus to the participating broker-dealer or the Company has given notice that the sale of the New Notes may be resumed, as the case may be.

The undersigned will, upon request, execute and deliver any additional documents deemed by the Exchange Agent or the Company to be necessary or desirable to complete the assignment and transfer of the Current Notes tendered hereby.

The undersigned acknowledges that, for purposes of the Exchange Offer, the Company will be deemed to have accepted for exchange, and to have exchanged, validly tendered Current Notes, if, as and when the Company gives oral or written notice thereof to the Exchange Agent.

All authority herein conferred or agreed to be conferred shall survive the death, incapacity, liquidation, dissolution, winding up or any other event relating to the undersigned, and any obligation of the undersigned hereunder shall be binding upon the heirs, personal representatives, successors and assigns of the undersigned.

The undersigned acknowledges that the Company's acceptance of Current Notes validly tendered for exchange pursuant to any one of the procedures described in the section of the Prospectus entitled "The Exchange Offer" and in the instructions hereto will constitute a valid, binding and enforceable agreement between the undersigned and the Company upon the terms and subject to the conditions of the Exchange Offer.

Unless otherwise indicated under "Special Issuance Instructions," please issue the certificates representing the New Notes issued in exchange for the Current Notes accepted for exchange and return any Current Notes not tendered or not exchanged, in the name(s) of the undersigned (or in either such event in the case of Current Notes tendered by DTC, by credit to the account at DTC). Similarly, unless otherwise indicated under "Special Delivery Instructions," please send the certificates representing the New Notes issued in exchange for the Current Notes accepted for exchange and any certificates for Current Notes not tendered or not exchanged (and accompanying documents, as appropriate) to the undersigned at the address shown below the undersigned's signatures, unless, in either event, tender is being made through DTC. In the event that both "Special Issuance Instructions" and "Special Delivery Instructions" are completed, please issue the certificates representing the New Notes issued in exchange for the Current Notes accepted for exchange and return any Current Notes not tendered or not exchanged in the name(s) of, and send said certificates to, the person(s) so indicated. The undersigned recognizes that the Company has no obligation pursuant to the "Special Issuance Instructions" and "Special Delivery Instructions" to transfer any Current Notes from the name of the registered holder(s) thereof if the Company does not accept for exchange any of the Current Notes so tendered.

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**HOLDER(S) SIGN HERE**

X \_\_\_\_\_

Date: \_\_\_\_\_

**Signature of Owner**

Must be signed by registered holder(s) exactly as name(s) appear(s) on certificate(s) for the Current Notes hereby tendered or on a security position listing, or by any person(s) authorized to become the registered holder(s) by endorsements and documents transmitted herewith. If signature is by an attorney-in-fact, executor, administrator, trustee, guardian, officer of a corporation or another acting in a fiduciary or representative capacity, please set forth the signer's full title. See Instruction 6.

**Names**

**Capacity (Full Title)**

**Address (including zip code)**

**Area Code and Telephone Number**

**Tax Identification Number or Social Security Number**

**SIGNATURE GUARANTEE**

**(SIGNATURE(S) MUST BE GUARANTEED IF REQUIRED BY INSTRUCTION 1)**

**(Name of Eligible Institution Guaranteeing Signatures)**

**(Address (including zip code) and Telephone Number (including area code) of Firm)**

**(Authorized Signature)**

**(Printed Name)**

**(Title)**

**Date**

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**SPECIAL ISSUANCE INSTRUCTIONS**

**(See Instruction 4 herein)**

To be completed ONLY if certificates for Current Notes in a principal amount not tendered are to be issued in the name of, or the New Notes issued pursuant to the Exchange Offer are to be issued to the order of, someone other than the person or persons whose signature(s) appear(s) within this Letter of Transmittal or issued to an address different from that shown in the box entitled Description of Current Notes within this Letter of Transmittal, or if Current Notes tendered by book-entry transfer that are not accepted for purchase are to be credited to an account maintained at DTC other than the account at DTC indicated above.

Name: **(Please Print)**

Address: **(Please Print)**

**Zip Code**

**Taxpayer Identification or Social Security Number**

.. Credit unexchanged Current Notes delivered by book-entry transfer to the Book-Entry Transfer Facility account set forth below.

**Book-Entry Facility Account Number, if applicable**

**SPECIAL DELIVERY INSTRUCTIONS**

**(See Instruction 4 herein)**

To be completed ONLY if certificates for Current Notes in a principal amount not tendered or not accepted for purchase or the New Notes issued pursuant to the Exchange Offer are to be sent to someone other than the person or persons whose signature(s) appear(s) within this Letter of Transmittal or to an address different from that shown in the box entitled Description of Current Notes within this Letter of Transmittal or to be credited to an account maintained at DTC other than the account at DTC indicated above.

Name: **(Please Print)**

Address: **(Please Print)**

**Zip Code**

**Taxpayer Identification or Social Security Number**



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**INSTRUCTIONS**

**Forming Part of the Terms and Conditions**

**of the Exchange Offer**

**1. Guarantee of Signatures.**

No signature guarantee on this Letter of Transmittal is required if:

(i) this Letter of Transmittal is signed by the registered Holder (which term, for purposes of this document, shall include any participant in DTC whose name appears on a security position listing as the owner of the Current Notes) of Current Notes tendered herewith, or

(ii) such Current Notes are tendered for the account of a firm that is an eligible guarantor institution within the meaning of Rule 17Ad-15 under the Securities Exchange Act of 1934, as amended (an Eligible Institution).

In all other cases, an Eligible Institution must guarantee the signature(s) on this Letter of Transmittal.

**2. Delivery of this Letter of Transmittal and Current Notes.**

The certificates for the tendered Current Notes (or a confirmation of a book-entry into the Exchange Agent's account at DTC of all Current Notes delivered electronically), as well as a properly completed and duly executed copy of this Letter of Transmittal or facsimile hereof and any other documents required by this Letter of Transmittal must be received by the Exchange Agent at its address set forth herein prior to 11:59 p.m., New York City time, on the Expiration Date. The method of delivery of the tendered Current Notes, this Letter of Transmittal and all other required documents to the Exchange Agent are at the election and risk of the Holder and, except as otherwise provided below, the delivery will be deemed made only when actually received by the Exchange Agent. Instead of delivery by mail, it is recommended that the Holder use an overnight or hand delivery service. In all cases, sufficient time should be allowed to assure timely delivery. No Letter of Transmittal or Current Notes should be sent to the Company.

Holders who wish to tender their Current Notes and cannot complete the procedure for book-entry transfer on a timely basis, must tender their Current Notes through ATOP by following the guaranteed delivery procedures set forth in the Prospectus under "The Exchange Offer - Guaranteed Delivery".

**3. Partial Tenders.**

Holders may tender some or all of their Current Notes pursuant to the Exchange Offer in denominations of \$2,000 and \$1,000 integral multiples in excess of \$2,000 thereof. If a tender for exchange is to be made with respect to less than the entire principal amount of any Current Notes, fill in the principal amount of Current Notes which are tendered for exchange in column (3) of the box entitled "Description of Current Notes". In case of a partial tender for exchange, the untendered principal amount of the Current Notes will be credited to the DTC account of the tendering Holder, unless otherwise indicated in the appropriate box on this Letter of Transmittal, promptly after the expiration or termination of the Exchange Offer.

**4. Signatures on the Letter of Transmittal; Bond Powers and Endorsements.**

The signature(s) of the Holder of Current Notes on this Letter of Transmittal must correspond with the name of such Holder as it appears on a security position listing maintained by DTC or the name(s) as written on the face of the Current Notes, as applicable, without any change whatsoever.

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If this Letter of Transmittal (or facsimile hereof) is signed by the registered Holder(s) of Current Notes tendered and the certificate(s) for New Notes issued in exchange therefor is to be issued (or any untendered principal amount of Current Notes is to be reissued) to the registered Holder, such Holder need not and should not endorse any tendered Old Note, nor provide a separate bond power. In any other case, such Holder must either properly endorse the Current Notes tendered or transmit a properly completed separate bond power with this Letter of Transmittal, with the signatures on the endorsement or bond power guaranteed by an Eligible Institution.

If this Letter of Transmittal (or facsimile hereof) is signed by a person other than the registered Holder(s) of any Current Notes listed, such Current Notes must be endorsed or accompanied by appropriate bond powers signed as the name(s) of the registered Holder(s) appear(s) on the Current Notes.

If this Letter of Transmittal (or facsimile hereof) or any Current Notes or bond powers are signed by trustees, executors, administrators, guardians, attorneys-in-fact, or officers of corporations or others acting in a fiduciary or representative capacity, such persons should so indicate when signing, and unless waived by the Company, evidence satisfactory to the Company of their authority so to act must be submitted with this Letter of Transmittal.

Endorsements on Current Notes or signatures on bond powers required by this Instruction 4 must be guaranteed by an Eligible Institution.

### **5. Transfer Taxes.**

The Company will pay all transfer taxes, if any, applicable to the exchange of Current Notes pursuant to the Exchange Offer. If, however, certificates representing New Notes or Current Notes for principal amounts not tendered or accepted for exchange are to be delivered to, or are to be registered or issued in the name of, any person other than the registered Holder of the Current Notes tendered hereby, or if tendered Current Notes are registered in the name of any person other than the person signing this Letter of Transmittal, or if a transfer tax is imposed for any reason other than the exchange of Current Notes pursuant to the Exchange Offer, then the amount of any such transfer taxes (whether imposed on the registered Holder or any other person) will be payable by the tendering Holder. If satisfactory evidence of payment of such taxes or exemption therefrom is not submitted with this Letter of Transmittal, the amount of such transfer taxes will be billed directly to such tendering Holder.

Except as provided in this Instruction 5, it will not be necessary for transfer tax stamps to be affixed to the Current Notes listed in this Letter of Transmittal.

### **6. Irregularities.**

All questions as to the form of documents and the validity, eligibility (including time of receipt), acceptance and withdrawal of Current Notes will be determined by the Company, in its sole discretion, whose determination shall be final and binding. The Company reserves the absolute right to reject any or all tenders for exchange of any particular Current Notes that are not in proper form, or the acceptance of which would, in the opinion of the Company (or its counsel), be unlawful. The Company reserves the absolute right to waive any defect, irregularity or condition of tender for exchange with regard to any particular Current Notes. The Company's interpretation of the terms of, and conditions to, the Exchange Offer (including the instructions herein) will be final and binding. Unless waived, any defects or irregularities in connection with the Exchange Offer must be cured within such time as the Company shall determine. Neither the Company, the Exchange Agent nor any other person shall be under any duty to give notice of any defects or irregularities in Current Notes tendered for exchange, nor shall any of them incur any liability for failure to give such notice. A tender of Current Notes will not be deemed to have been made until all defects and irregularities with respect to such tender have been cured or waived. Any Current Notes received by the Exchange Agent that are not properly tendered and as to which the defects or irregularities have not been cured or waived will be returned by the Exchange Agent to the tendering Holders, unless otherwise provided in this Letter of Transmittal, promptly following the Expiration Date.

### **7. Waiver of Conditions.**

The Company reserves the absolute right to amend, waive or modify specified conditions in the Exchange Offer in the case of any Current Notes tendered.

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**8. Requests for Information or Additional Copies.**

Questions and requests for assistance and requests for the Prospectus, Letter of Transmittal and the related documents may be directed to the Exchange Agent at the address set forth on the cover page of this Letter of Transmittal. Holders may also contact their broker, dealer, commercial bank, trust company or other nominee for assistance concerning the Exchange Offer.

**IMPORTANT: THIS LETTER OF TRANSMITTAL (OR A FACSIMILE THEREOF), OR AN AGENT'S MESSAGE IN LIEU THEREOF, AND ALL OTHER REQUIRED DOCUMENTS MUST BE RECEIVED BY THE EXCHANGE AGENT ON OR PRIOR TO THE EXPIRATION DATE.**

**(DO NOT WRITE IN SPACE BELOW)**

Certificate Surrendered

Current Notes Tendered

Current Notes Accepted

Delivery Prepared by \_\_\_\_\_

Checked by \_\_\_\_\_

Date \_\_\_\_\_

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PROSPECTUS

**PDC Energy, Inc.**

**Offer to Exchange up to**

**\$500,000,000**

**7.750% Senior Notes due 2022**

**That Have Been Registered Under the Securities Act of 1933**

**For Any and All Outstanding Unregistered**

**7.750% Senior Notes due 2022**