

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

ANNUAL REPORT PURSUANT TO SECTION 13 or 15 (d) OF
THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 1996

Commission File Number 0-7246

Transition Report Pursuant to Section 13 or 15(d) of the Securities
Exchange Act of 1934 for the transaction period from to

PETROLEUM DEVELOPMENT CORPORATION
(Exact name of registrant as specified in its charter)

Nevada

(State or other jurisdiction of
incorporation or organization)

95-2636730

(I.R.S. Employer
Identification No.)

103 East Main Street, Bridgeport, West Virginia 26330
(Address of principal executive offices) (zip code)

Registrant's telephone number, including area code (304) 842-3597

SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT: NONE

SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT:

Petroleum Development Corporation Common Stock, \$.01 par value
(Title of class)

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 and (2) has been subject to such filing
requirements for the past 90 days. Yes X No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405
of Regulation
S-K is not contained herein, and will be contained, to the best of registrant's
knowledge,
in definitive proxy or information statements incorporated by reference in Part
III of this
Form 10-K or any amendment to this Form 10-K. []

As of March 15, 1997, 10,485,753 shares of the Registrant's Common Stock were
issued
and outstanding, and the aggregate market value of such shares held by
non-affiliates of the
Registrant on such date was \$31,788,724 (based on the last traded price of
\$4.00).

DOCUMENTS INCORPORATED BY REFERENCE

Document Form 10-K Part III
Proxy Items 11 and 12

PART I

Item 1. Business

General

Petroleum Development Corporation (PDC) is a Nevada corporation which
was formed in 1955 and commenced gas and oil operations in 1969. The
Company and its subsidiaries (the Company) are engaged in the leasing of
natural gas and oil mineral rights, the development of these rights by
drilling exploratory and development gas and oil wells, the production and
sale of gas and oil from these wells, the operation of gas and oil wells
for a fee, the marketing of natural gas for itself and other producers, and
the distribution of natural gas to residential, commercial and industrial
customers.

The Company typically develops its oil and gas properties in
conjunction with outside investors through partnerships, joint ventures, or
similar arrangements. These arrangements allow the Company to reduce the
risk of its development investments through increased diversification. In
addition the Company is compensated for its management of the development
process through payments for services rendered to the investor partners and
through an increased share in the revenues produced by the developed
properties.

Prior to 1984, virtually all of the outside investment capital was contributed by unaffiliated partnerships and joint ventures. Beginning in 1984 the Company began sponsoring as the managing general partner drilling partnerships which have invested their proceeds in Company development projects. Currently a majority of the investment in Company development programs originates from this source, however, a majority of the wells operated by the Company continue to be associated with non-affiliated investors.

In order to facilitate the marketing of natural gas from the wells operated by PDC, the Company constructs and operates gas gathering systems which interconnect to industrial customers, interstate pipeline company facilities, and/or local distribution utilities. The Company receives gathering fees for the use of these systems.

Gas and oil produced by wells are primarily marketed by the Company, and its gas marketing subsidiary, Riley Natural Gas (RNG). RNG also purchases natural gas from other producers and resells it to utilities, end-users or other marketers.

The Company has an Ohio subsidiary, Paramount Natural Gas Company (PNG), which commenced operations in October of 1992 as a regulated Ohio distribution utility. Paramount Transmission Corporation (PTC), another Ohio subsidiary of the Company focuses its efforts on the acquisition and marketing of Ohio gas production.

Exploration and Development Activities

Prospect Generation and Leasing

PDC's staff of professional geologists is responsible for identifying areas with potential for economic production of natural gas and oil. To further this end the Company has collected and continues to collect logs, core data, production information and other raw data available from state and private agencies, other companies and individuals actively drilling in the region. From this information the geologists develop models of the subsurface structures and stratigraphy which are used to predict areas with above average prospects for economic development.

On the basis of these models the geologists instruct the land department to obtain available gas and oil leaseholds in these prospective areas. These leases are then obtained, if possible, by the Company's land department or contract landmen under the direction of the Company's land manager. In most cases, these leases are obtained for a lease bonus and annual rental payments changing to a 12.5% royalty on gross production

revenue. In some instances additional overriding royalty payments may be made to third parties or royalty owners with particularly attractive prospects. As of December 31, 1996, the Company had a total leasehold inventory of approximately 127,050 gross acres and 125,250 net acres. See "Properties - Oil and Gas Leases".

Drilling Activities

When prospects have been identified and leased, the Company develops these properties by drilling exploratory or development wells. Typically the Company will act as driller-operator for these prospects, entering into contracts with partnerships, including Company sponsored partnerships, and other entities that are interested in exploration or development of the prospects. The Company generally retains an interest in each well it drills. This arrangement is beneficial to all parties, which benefit from the diversification of risk. See "Financing of Exploration and Development Activities".

The Company enters into a development agreement with each of its investor partners, wherein the Company agrees to assign rights in the property to be drilled to the partnership or other entity which thereby becomes owner of a working interest in the property. The Company also agrees to supervise and manage all drilling activities on the property and to supply, either directly or through subcontractors, all necessary drilling and related services and equipment. All work associated with drilling, completing and connecting wells is performed under the direct supervision of the Company. However, much of the work, including drilling, fracturing, logging and pipeline construction is performed by subcontractors specializing in those operations, as is common in the industry. Because the prices paid to the Company by its investor partners are frequently fixed before the wells are drilled, the Company is subject to risk that prices of goods or services used in the development process could increase, rendering its contracts with its investor partners less profitable or unprofitable. In addition, problems encountered in the process can substantially increase development costs, sometimes without recourse for the Company to recover its costs from its partners. To minimize these risks, the Company seeks to lock in its costs in advance of drilling and when possible at the same time it is committing to its investor partners. A large part of the materials and services used by the Company in the development process is acquired through competitive bidding by approved vendors. The company also negotiates rates and costs for services and supplies when conditions indicate that such an approach is warranted.

The Company's development contracts with its investor partners are negotiated with each partner and have historically taken many different forms. Generally the agreements can be classified as "turnkey", in which a specified amount is paid for drilling and another amount for completion; "cost-plus", in which the Company is reimbursed for its actual cost of drilling plus some additional amount for overhead and profit, or a "footage based" rate whereby the Company receives drilling and completion payments based on the depth of the well. As part of its compensation for its services, the Company also generally receives some interest in the production from the well in the form of an overriding royalty interest, working interest or other proportionate share of revenue or profits.

Development Agreements with Partnerships sponsored by the Company provide for a combination of several of the aforementioned payment options. Basic drilling and completion operations are performed on a footage-based rate, with leases and gathering pipelines being contributed at Company cost. The Company also purchases a working interest in the properties.

The majority of the activity currently being pursued by the Company is focused on the development of natural gas production in West Virginia, Michigan, eastern Ohio, and western Pennsylvania. During 1996 the Company was one of the most active drilling companies in the state of West Virginia. Despite the level of activity, the Company was able to maintain a high level of environmental sensitivity and was previously selected for four years in

a row by the West Virginia Department of Environmental Protection for the state's top award for the quality of the environmental and reclamation work in its drilling activities. As a matter of corporate policy and commitment, the Company attempts to minimize the adverse environmental impact of all its operations.

The sale of natural gas requires that wells be connected by pipeline to gas markets. Over the years the Company has developed extensive gathering systems in its areas of operations. The Company also continues to construct new trunklines as necessary to provide for the marketing of gas being developed from new areas, and to enhance or maintain its existing systems. The Company is paid a transportation fee for gas which is moved through these pipeline systems. In many cases the Company has been able to receive higher gas prices as a result of its ability to move gas to more attractive markets through this pipeline system, to the benefit of both the Company and its investor partners.

Acquisitions of Producing Properties

In addition to drilling new wells, the Company continues to pursue opportunities to purchase existing producing wells from other producers and interests in the wells it operates. Generally, outside interests purchased include a majority interest in the wells and well operations.

In 1996 the Company purchased approximately 188 producing wells from Angerman Associates. The wells, located primarily in Gilmer County, West Virginia, added over 4 Bcf of proved producing reserves at December 31, 1996, in addition to several proved undeveloped locations.

Production Operations

The Company currently operates approximately 1,150 wells in the Appalachian Basin. On average, the Company has an approximate 40% ownership interest in the wells it operates, with the balance belonging to investor partners. The Company employs engineers, supervisors and well tenders who are responsible for the day to day operation of the wells and pipeline systems. Currently these wells produce an aggregate of about 19 million cubic feet of gas per day, including the Company's share of about 4.1 million cubic feet per day. The Company's share of oil production is about 7,000 barrels per year. See "Properties - Production"

The Company is paid a monthly operating charge for each well it operates. The rate is competitive with rates charged by other operators in the area. The charge covers monthly operating and accounting costs, insurance and other recurring costs. The Company may also receive additional compensation for special non-recurring activities like reworks and recompletions.

Oil and Gas Marketing

In West Virginia, the Company markets the gas from its own and its investor partner interests directly, or in some cases with assistance from Riley Natural Gas, a subsidiary of the Company, as a part of the services provided under the basic monthly operating charge. RNG was acquired in a stock for stock exchange in early 1996. The acquisition of RNG added five employees to the Company's work force and brings substantial experience in natural gas marketing and hedging of natural gas transactions. In addition to gas produced by the Company, RNG also purchases gas from other producers for resale. The gas is marketed to gas utilities, pipelines and industrial and commercial customers, either directly through the Company's gathering system, or utilizing transportation services provided by regulated interstate pipeline companies. Generally the Company negotiates its own contacts with customers. However, occasionally the services of outside gas brokers or marketers are used.

In Ohio, the Company's subsidiary, Paramount Transmission Company (PTC), purchases gas from local producers and gas brokers and sells gas to industrial and commercial customers utilizing open access transportation services provided by interstate pipelines and the Company's subsidiary,

Paramount Natural Gas Company (PNG), which is a regulated Ohio distribution utility. The majority of PNG's throughput is attributable to gas transported for PTC and industrial customers, for a transportation tariff, with the balance being sales to residential, commercial and industrial customers.

The Company produces oil from wells in Tennessee, Ohio and West Virginia. All of the oil produced is sold on a spot basis to local refinery customers. See "Market for Oil and Gas".

Financing of Exploration and Development Activities

The Company conducts drilling activities for its own account and for other investors. In 1984 the Company began sponsoring private limited partnerships, and in 1989 the Company began to register public drilling programs with the Securities and Exchange Commission. Because of the Company's success with its own partnerships, and declining sales nationwide of unaffiliated partnerships, most drilling and development funds now come from partnerships in which the Company serves as Managing General Partner. However, because wells produce for a number of years, the Company continues to serve as operator for a large number of unaffiliated parties.

The level of the Company's drilling and development activity is dependent upon the amount of subscriptions in its public drilling partnerships and investment from other partnerships or other joint venture partners. Funds received pursuant to drilling contracts were \$24,965,000 in 1996, \$13,619,000 in 1995 and \$14,858,000 in 1994. While funds were received by the Company pursuant to drilling contracts in the years indicated, the Company recognizes revenues from drilling operations on the percentage of completion method as the wells are drilled, rather than when funds are received.

The Company believes that investments in drilling activities, whether through Company-sponsored partnerships or other sources, are influenced by the favorable treatment which such investments enjoy under the Federal income tax laws.

The Company invests in drilling activities through a 20% investment in the partnerships it sponsors, and through direct working interest investments. Certain conflict of interest provisions in joint venture and partnership agreements limit the Company's ability to benefit disproportionately from discoveries made through partnership activities. Company investments in drilling activities are funded from internally generated funds.

Market for Oil and Gas

The market for the Company's oil and gas depends upon a number of factors including the availability of other domestic production, crude oil and natural gas imports, the proximity of oil and gas pipelines and general fluctuations in the supply and demand for oil and gas.

For nearly a decade the United States has experienced an oversupply of natural gas. This oversupply was caused primarily by a decrease in market demand and unusually warm weather conditions. Seasonal variations exist to the extent that the demand for natural gas is somewhat lower during the summer months than during the winter season.

Generally, the Company, along with its marketing subsidiary, Riley Natural Gas, has been and expects to continue to be able to produce and market gas from its wells without curtailment by providing gas to purchasers at competitive prices. Open access transportation on the country's interstate pipeline system has greatly increased the range of potential markets. Whenever feasible the Company allows for multiple market possibilities from each of its gathering systems, while seeking the best available market for its gas at any point in time.

Natural gas is sold by the Company under contracts ranging from month to month spot to a 3 year term. Virtually all of the Company's contracts have pricing tied to a market index, so the price of the gas moves to remain competitive with other available gas supplies. As a result the revenue from the sale of gas will suffer if market prices decline or benefit if they increase. The provisions of the Company's gas contracts are believed by the Company to be customary in the industry.

The Company's sales of natural gas are to various customers, one customer, Hope Gas, Inc., accounted for 30.7% of the Company's revenues from oil and gas sales (16.1% of total revenues) in 1996. Hope Gas, Inc. is a regulated public utility. In general, the prices it pays for gas, and the producers from which it purchases gas, are influenced by the state and federal agencies that regulate them. No other single purchaser of the Company's natural gas accounted for 10% or more of the Company's revenues from oil and gas sales in 1996.

Gas produced by the Company sold at December 31, 1996 at prices per Mcf ranging from \$1.75 to \$6.31, depending upon the location, the date of the sales contract and whether the gas was sold in interstate or intrastate commerce. The weighted net average price of gas sold by the Company in 1996 was \$3.04 per Mcf at the wellhead.

The Company is presently able to sell all the oil which it can produce under existing sales contracts with petroleum refiners and marketers. The Company's crude oil production is sold to purchasers at or near the Company's wells under short-term purchase contracts at prices and in accordance with arrangements which are customary in the oil industry. None of the Company's oil production is sold under long-term contracts. The Company does not refine any of its oil production. No single purchaser of the Company's crude oil accounted for 10% or more of the Company's revenues from oil and gas sales in 1996.

Oil produced by the Company sold at December 31, 1996 at prices ranging from \$21.50 to \$22.50 per barrel, depending upon the location and quality of oil. In 1996, the weighted net average price per barrel of oil sold by the Company was \$16.35.

Use of Commodities Markets to Hedge Natural Gas Transactions

The Company has established a policy which allows the use of NYMEX natural gas futures to reduce the risk of volatility in natural gas prices. These uses include coordinating fixed and variable priced purchases and sales by RNG and "locking in" fixed prices from time to time for the Company's share of production. The policy prohibits the use of natural gas futures for speculative purposes and can be utilized only if there is an underlying physical position.

Governmental Regulation

The Company's business and the oil and gas industry in general are highly regulated. The Company's services to investor partnerships include taking the steps necessary to comply with applicable regulations.

Local Regulation. All of the Company's oil and gas production is from properties in states in which drilling activities and well operations are regulated by state authorities. These regulations, among other things, require the Company to obtain permits to build roads and drill wells and impose land restoration and minimum spacing requirements. See also "Environmental Matters".

PNG, which is an Ohio public utility, is subject to regulation by the Public Utilities Commission of Ohio in virtually all of its activities, including pricing and supply of services, addition of and abandonment of service to customers, design and construction of facilities, and safety issues.

Federal Regulations. Pricing of gas sold by the Company is now fully deregulated from Federal Price controls, and no proposals currently exist to reimpose controls.

All of the interstate pipelines which the Company uses to transport gas from wells to markets are regulated by the Federal Energy Regulatory Commission (FERC). Over the past few years FERC has changed regulations on these interstate pipeline systems, forcing them, among other things, to offer open access transportation service, to unbundle the various services they provide to allow customers to pay only for those services which they use, and to change the structure of the rates which they charge. These policy changes have not yet been fully determined or implemented, and it is impossible at this time to predict the impact on the Company's business.

Also, the Company cannot determine to what extent future operations and earnings of the Company may be affected by new legislation, new regulations or changes in existing regulations.

Environmental Matters

The oil and gas industry is subject to numerous federal and state environmental statutes, regulations and other pollution controls. In general, the Company is and will continue to be subject to present and future environmental statutes and regulations, and in the future the cost of its drilling and exploration and other activities may materially increase as a result.

The Company's expenses relating to preserving the environment during 1996 were not significant in relation to operating costs and the Company expects no material change in 1997. Environmental regulations have had no materially adverse effect on the Company's operations to date, but no assurance can be given that environmental regulations will not, in the future, result in a curtailment of production or otherwise have a materially adverse effect on the Company's operations or financial condition.

Competition

The Company competes with many other companies in the search for and acquisition of oil and gas properties and leases for exploration and development, and also competes with other companies in its activities as drilling contractor and natural gas marketers. Many of these companies have substantially greater financial, technical and other resources than the Company. Competition among oil and gas companies for favorable oil and gas prospects can be expected to continue. It is anticipated that the cost of acquiring oil and gas properties will increase appreciably. The Company is not a significant factor in the oil and gas industry.

Likewise, the Company competes with a number of other companies which offer interests in drilling partnerships with a wide range of investment objectives and program structures. Competition for investment capital for both public and private drilling programs is intense.

Other Industry Factors

Oil and gas drilling operations are subject to hazards such as fire, explosion, blowouts, cratering and oil spills, each of which could result in substantial damage to oil and gas wells, producing facilities, other property and the environment or in personal injury. Although the Company maintains liability insurance in an amount which it considers adequate, the nature of these risks is such that liabilities could exceed policy limits in which event the Company could incur significant costs that could have a materially adverse effect upon its financial condition.

Employees

As of December 31, 1996, the Company had 72 employees. The Company's employees are not covered by a collective bargaining agreement. The Company considers relations with its employees to be excellent.

Item 2. Properties

Drilling Activity

The following table summarizes the Company's drilling activity for the past five years. There is no correlation between the number of productive wells completed during any period and the aggregate reserves attributable to those wells.

Exploratory Wells Drilled

	Total		Productive Gas		Dry	
	Drilled	Net	Drilled	Net	Drilled	Net
1992	-	-	-	-	-	-
1993	3	.75	-	-	3	.75
1994	-	-	-	-	-	-
1995	-	-	-	-	-	-
1996	-	-	-	-	-	-
Total	3	.75	-	-	3	.75

Development Wells Drilled

	Total		Productive Gas		Dry	
	Drilled	Net	Drilled	Net	Drilled	Net
1992	80	15.86	73	14.47	7	1.39
1993	56	10.00	49	8.75	7	1.25
1994	75	13.76	71	13.00	4	.76
1995	72	13.40	64	11.80	8	1.60
1996	97	17.44	92	16.46	5	.98
Total	380	70.46	349	64.48	31	5.98

The term "exploratory well" means a well drilled with the hope of greatly extending the limits of an already developed pool or in search of an undiscovered pool of oil or gas. A "development well" is one drilled to extend the limits of an already developed pool, or within a proved area of an oil or gas reservoir to the depth of a stratigraphic horizon known to be productive. A "dry well (hole)" is an exploratory or a development well found to be incapable of producing either oil or gas in sufficient quantities to justify completion as an oil or gas well.

A "drilled" well is a well for which the Company supervised drilling activity or in which it has a working interest. A "net" well is deemed to be held when the sum of the fractional working interests owned by the Company in wells equals one.

Production

The following table shows the Company's net production in barrels ("Bbls") of crude oil and in thousands of cubic feet ("Mcf") of natural gas and the costs and weighted average selling prices thereof, for the periods indicated.

	Year Ended December 31,				
	1996	1995	1994	1993	1992
Production (1):					
Oil (Bbls)	7,000	11,000	11,000	10,000	16,000
Natural Gas (Mcf)	1,495,000	1,336,000	1,195,000	965,000	948,000
Equivalent Mcfs (2)	1,537,000	1,402,000	1,261,000	1,025,000	1,044,000
Average sales price per equivalent Mcf (3)	\$3.04	\$1.81	\$2.07	\$2.15	\$2.20
Average production cost (lifting cost) per equivalent Mcf (4)	\$.63	\$.53	\$.58	\$.57	\$.48

(1) Production as shown in the table, which is net after the royalty interests of others, is determined by multiplying the gross production volume of properties in which the Company has an interest by the percentage of the leasehold or other property interest owned by the Company.

(2) The ratio of energy content of oil and gas (six Mcf of gas equals one barrel of oil) was used to obtain a conversion factor to convert oil production into equivalent Mcfs of natural gas.

(3) The average sales price per barrel of oil sold by the Company was \$16.35 in 1996, \$15.80 in 1995, \$14.41 in 1994, \$16.62 in 1993 and \$18.21 in 1992 and the average sales price per Mcf of gas was \$3.04 in 1996, \$1.75 in 1995, \$2.01 in 1994, \$2.24 in 1993 and \$2.41 in 1992.

(4) Production costs represent oil and gas operating expenses as reflected in the financial statements of the Company plus depreciation of support equipment and facilities.

Summary of Productive Wells. The table below gives the number of the Company's productive gross and net wells at December 31, 1996.

Location	WELLS		Oil	
	Gross	Net	Gross	Net
Ohio	16	5.50	9	2.03
Tennessee	1	.57	55	20.37
Pennsylvania	98	23.93	-	-
West Virginia	961	423.92	10	4.46
Total	1,076	453.92	74	26.86

Reserves

All of the Company's oil and gas reserves are located in the United States.

"Proved reserves" are those quantities of crude oil and natural gas which, upon analysis of geologic and engineering data, appear with reasonable certainty to be recoverable in the future from known oil and gas reservoirs on leases held by the Company under existing economic and operating conditions. The Company's approximate net proved reserves were estimated by the Company to be 79,000 barrels of oil and 32,225,000 Mcf of gas at December 31, 1994 and 140,000 barrels of oil and 33,829,000 Mcf of gas at December 31, 1995 and 81,000 barrels of oil and 43,312,000 Mcf of gas at December 31, 1996.

"Proved developed reserves" are proved reserves which are expected to be recovered through existing wells with existing equipment and operating methods. The Company's approximate net proved developed reserves were estimated by the Company to be 79,000 barrels of oil and 27,746,000 Mcf of gas at December 31, 1994 and 140,000 barrels of oil and 29,326,000 Mcf of gas at December 31, 1995 and 81,000 barrels of oil and 35,516,000 Mcf of gas at December 31, 1996.

No major discovery or other favorable or adverse event which would cause a significant change in estimated reserves is believed by the Company to have occurred since December 31, 1996. Reserves cannot be measured exactly as reserve estimates involve subjective judgment. The estimates must be reviewed periodically and adjusted to reflect additional information gained from reservoir performance, new geological and geophysical data and economic changes.

The standardized measure of discounted future net cash flows attributable to the Company's proved oil and gas reserves giving effect to future estimated income tax expenses, was estimated by the Company to be \$14,445,000 as of December 31, 1994, and \$21,060,000 as of December 31, 1995 and \$34,262,000 as of December 31, 1996. These amounts are based on year-end prices at the respective dates. Since December 31, 1996, prices have decreased to seasonal levels. The values expressed are estimates only, and may not reflect realizable values or fair market values of the oil and gas

ultimately extracted and recovered. The standardized measure of discounted future net cash flows may not accurately reflect proceeds of production to be received in the future from the sale of oil and gas currently owned and does not necessarily reflect the actual costs that would be incurred to acquire equivalent oil and gas reserves.

Substantially all of the Company's oil and gas reserves have been mortgaged or pledged as security for bank loans to the Company. See Note 3 of Notes to Consolidated Financial Statements.

For additional information concerning oil and gas reserves and activities, see Notes 16, 17 and 18 of Notes to Consolidated Financial Statements.

The Company has not filed any estimates (on a consolidated basis) of its oil and gas reserves with, nor were such estimates included in any reports to, any Federal or foreign governmental agency other than the Securities and Exchange Commission within the 12 months prior to the date of this filing.

Oil and Gas Leases

The following table sets forth, as of December 31, 1996, the acres of developed and undeveloped oil and gas properties in which the Company had an interest, listed alphabetically by state.

	Developed Acreage Gross	Developed Acreage Net	Undeveloped Acreage Gross	Undeveloped Acreage Net
Michigan	-0-	-0-	26,200	26,200
Ohio	1,200	800	-0-	-0-
Pennsylvania	250	250	10,200	9,500
Tennessee	3,600	3,600	-	-
West Virginia	59,900	59,500	25,600	25,400
	64,950	64,150	62,000	61,100

"Undeveloped acreage" is that leasehold acreage on which wells have not been drilled or completed to a point that would permit the production of commercial quantities of oil and gas regardless of whether or not such acreage contains proved reserves.

A "gross" acre is an acre in which the Company owns a working interest. A "net" acre is deemed to exist when the sum of the fractional working interests owned by the Company in gross acres equals one.

As is customary in the oil and gas industry, only a perfunctory title examination is conducted at the time the properties believed to be suitable for drilling operations are acquired by the Company. Prior to the commencement of drilling operations, a title examination is conducted and curative work is performed with respect to defects which the Company deems to be significant. A title examination has been performed with respect to substantially all of the Company's producing properties. The Company believes that the title to such properties is good and indefeasible in accordance with standards generally accepted in the oil and gas industry, subject to such exceptions stated in the opinion of counsel employed in the various areas in which the Company conducts its exploration activities which, in the Company's judgment, are not so material as to detract substantially from the use of such property. Also, no single property represents a material portion of the Company's holdings.

The properties owned by the Company are subject to royalty, overriding royalty and other outstanding interests customary in the industry. The properties are also subject to burdens such as liens incident to operating

agreements, current taxes, development obligations under oil and gas leases, farmout arrangements and other encumbrances, easements and restrictions. The Company does not believe that any of these burdens will materially interfere with the use of the properties.

Item 3. Legal Proceedings

Legal Proceedings

The Company is not party to any legal action that would materially affect the Company's operations or financial statements.

Item 4. Submission of Matters to a Vote of Security Holders

No matters were submitted to a vote of security holders during the fourth quarter of the fiscal year covered by this report.

PART II

Item 5. Market for the Company's Common Stock and Related Security Holder Matters

The common stock of the Company is traded in the over-the-counter market under the symbol PETD. The following table sets forth, for the periods indicated, the high and low bid quotations per share of the Company's common stock in the over-the-counter market, as reported by the National Quotation Bureau Incorporated. These quotations represent inter-dealer prices without retail markups, markdowns, commissions or other adjustments and may not represent actual transactions.

	High	Low
1995		
First Quarter	1 3/8	7/8
Second Quarter	1 9/16	1 1/16
Third Quarter	1 3/8	1
Fourth Quarter	1 5/8	31/32
1996		
First Quarter	2 1/8	1 5/16
Second Quarter	2 13/16	1 7/8
Third Quarter	3 9/16	2 7/16
Fourth Quarter	6 3/16	3 3/8

As of December 31, 1996, there were approximately 2,463 record holders of the Company's common stock.

The Company has not paid any dividends on its common stock and currently intends to retain earnings for use in its business. Therefore, it does not expect to declare cash dividends in the foreseeable future. Further, the Company's Credit Agreement restricts the payment of dividends.

Item 6. Selected Financial Data (1)

	Year Ended December 31,				
	1996	1995	1994	1993	1992
Revenues					
Oil and gas well drilling operations	\$18,698,200	\$13,941,000	\$15,190,200	\$12,073,500	\$14,930,700
Oil and gas sales	26,051,100	4,150,600	4,361,300	4,471,200	4,867,300
Well operations income	3,928,800	3,750,900	3,730,300	3,843,100	2,935,900
Other income	935,600	504,000	524,400	97,600	432,600
Total	\$49,613,700	\$22,346,500	\$23,806,200	\$20,485,400	\$23,166,500
Costs and Expenses (excluding interest and depreciation, depletion and amortization)					
Interest Expense	\$ 380,000	\$ 319,700	\$ 300,200	\$ 55,500	\$ 54,000
Depreciation, Depletion and Amortization	\$ 2,309,600	\$ 2,152,100	\$ 1,848,200	\$ 1,717,400	\$1,671,600
Income before extraordinary item	\$ 3,549,400	\$ 1,481,500	\$ 921,600	\$ 1,320,800	\$1,748,100
Extraordinary item net of income taxes	-	-	-	269,000	-
Net Income	\$ 3,549,400	\$ 1,481,500	\$ 921,600	\$ 1,589,800	\$1,748,100
Primary earnings per common and common equivalent share					
Income before extraordinary item	\$.31	\$.13	\$.08	\$.11	\$.16
Net income	\$.31	\$.13	\$.08	\$.14	\$.16
Average Common and Common Equivalent Shares Outstanding During the Year					
	11,573,429	11,606,690	11,990,497	11,563,648	11,190,709
December 31,					
	1996	1995	1994	1993	1992
Total Assets	\$63,604,200	\$40,620,100	\$38,325,300	\$36,412,900	\$34,631,500
Working Capital	\$(2,357,200)	\$(1,519,700)	\$(1,613,700)	\$ 289,000	\$ (590,100)
Long-Term Debt, excluding current maturities	\$ 5,320,000	\$ 2,500,000	\$ 3,100,000	\$ 3,167,300	\$ 3,968,900
Stockholders' Equity	\$23,072,500	\$19,920,900	\$18,380,500	\$17,235,700	\$15,347,100

(1) See Consolidated Financial Statements elsewhere herein.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

Safe Harbor Statement Under the Private Securities Litigation Reform Act of 1995

Statements, other than historical facts, contained in this Annual Report on Form 10-K, including statements of estimated oil and gas production and reserves, drilling plans, future cash flows, anticipated capital expenditures and Management's strategies, plans and objectives, are "forward looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Although the Company believes that its forward looking statements are based on reasonable assumptions, it cautions that such statements are subject to a wide range of risks and uncertainties incident to the exploration for, acquisition, development and marketing of oil and gas, and it can give no assurance that its estimates and expectations will be realized. Important factors that could cause actual results to differ materially from the forward looking statements include, but are not limited to, changes in production volumes, worldwide demand, and commodity prices for petroleum natural resources; the timing and extent of the Company's success in discovering, acquiring, developing and producing oil and gas reserves; risks incident to the drilling and operation of oil and gas wells; future production and development costs; the effect of existing and future laws, governmental regulations and the political and economic climate of the United States; the effect of hedging activities; and conditions in the capital markets. Other risk factors are discussed elsewhere in this Form 10-K, including those risk factors described under the headings "Market for Oil and Gas", "Other Industry Factors" and "Environmental Matters."

Results of Operations

1996 Compared with 1995

Total revenue increased \$27,267,200 from \$22,346,500 to \$49,613,700 in 1996. Oil and gas sales increased \$21,900,500 primarily due to the gas marketing activities of Riley Natural Gas Company (RNG), a company acquired on April 1, 1996, along with increased production and higher average sales prices from the Company's producing properties and increased gas purchased for resale. Revenues relating to the Company's drilling activities increased \$4,757,200 due to an increase in drilling and completion activities in 1996 compared to 1995 which was a direct result of an increase in drilling funds from the Company's public drilling programs.

Costs and expenses increased \$24,449,600 from \$20,514,100 to \$44,963,700 in 1996 as a result of increased oil and gas purchases and production costs and to a lesser extent increased well drilling costs. Oil and gas purchases and production costs increased \$20,051,600 primarily due to gas purchases by RNG for resale and to a lesser extent higher volumes of gas purchased for resale at higher average prices. Oil and gas well drilling costs increased \$3,836,800 as a result of the higher volume of drilling activity referred to above.

The foregoing resulted in income before income taxes of \$4,650,000 compared to \$1,832,400 in 1995. The net income for 1996 was \$3,549,400 compared to net income of \$1,481,500 in 1995.

1995 Compared with 1994

Total revenue decreased 6.1% from \$23,806,200 to \$22,346,500 in 1995. Revenues relating to the Company's drilling activities decreased \$1,249,200 due to a slight decrease in drilling and completion activities in 1995 compared to 1994. Overall oil and gas sales decreased 4.8% in 1995 compared to 1994 as a result of lower average gas sales prices offset by increased volumes of natural gas sold.

Costs and expenses decreased 9.7% from \$22,707,900 to \$20,514,100 principally as a result of decreased drilling activity. Cost of oil and gas well drilling operations decreased \$2,345,700 as a result of the decrease in drilling and completion activities referred to above. General and administrative expenses decreased 11.0% as a result of a general company wide cost cutting program. Depreciation, depletion, and amortization increased 16.4% in 1995 compared to 1994 as a result of an increase in the Company's investment in natural gas wells and increased production levels.

The foregoing resulted in income before income taxes of \$1,832,400 compared to \$1,098,300 in 1994. Net income for 1995 was \$1,481,500 compared to net income of \$921,600 in 1994.

Liquidity and Capital Resources

Sales volumes of natural gas continued to increase while the natural gas prices fluctuated monthly but resulted in a higher average price than the prior year. The Company's gas sales prices are subject to increase and decrease based on various market sensitive indices. A major factor in the variability of these indices is the seasonal variation of demand for natural gas, which typically peaks during the winter months. The volumes of gas sales are expected to continue to increase as a result of continued drilling activities.

The Company closed its fourth 1996 drilling partnership on December 31, 1996 and will drill approximately 85 wells during the first quarter of 1997. Typically, the Company's drilling activity peaks during the winter months. The Company has commenced sales of units in the first public drilling program partnership of 1997 which is scheduled to close in May, 1997. The Company's public drilling programs continue to receive wide market acceptance.

The acquisition of Riley Natural Gas Company (RNG) on April 1, 1996 in a stock for stock exchange has, as expected, increased both oil and gas sales revenues (\$18.7 million) and oil and gas purchases. The RNG employees added to PDC's work force have substantial experience in natural gas markets and natural gas hedging transactions and have greatly expanded the Company's capabilities in the gas marketing area.

On March 13, 1997 the Company executed an amendment to a bank credit agreement which provides a borrowing base of \$10,000,000 subject to adequate oil and gas reserves, which at the request of the Company the bank may increase the borrowing base to \$20,000,000. Interest accrues at prime with LIBOR (London Interbank Market) rate alternatives available at the discretion of the Company. No principal payments are required until the credit agreement expires on December 31, 1999.

The Company continues to pursue capital investment opportunities in producing gas properties along with its commitment to participate in its sponsored gas drilling partnerships. Management believes that the Company has adequate capital to meet its investing and operating requirements and continues to pursue opportunities for operating improvements and cost efficiencies.

PART III

Item 8. Financial Statements and Supplementary Data:

The response to this Item is set forth herein in a separate section of this Report, beginning on Page F-1.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.

None.

Item 10. Directors and Executive Officers of the Company

The executive officers and directors of the Company, their principal occupations for the past five years and additional information are set forth below:

Name	Age	Positions and Offices Held	Held Current Position Since
James N. Ryan	65	Chairman, Chief Executive Officer and Director	March, 1983
Steven R. Williams	45	President and Director	March, 1983
Roger J. Morgan	69	Secretary and Director	November, 1969
Vincent F. D'Annunzio	44	Director	February, 1989
Dale G. Rettinger	52	Executive Vice President, Treasurer and Director	July, 1980
Jeffrey C. Swoveland	42	Director	March, 1991

The term of directors is three years expiring in alternating years. Executive officers have a term of one year and until a successor is elected. Such elections are expected to occur at the Company's next annual meeting presently scheduled for June, 1996. There is no family relationship between any director or executive officer and any other director or executive officer of the Company. There are no arrangements or understandings between any director or officer and any other person pursuant to which such person was selected as an officer.

The following is a brief account of the business experience during the past five years of each director and executive officer:

James N. Ryan has served as President and Director of the Company from 1969 to 1983 and was elected Chairman and Chief Executive Officer in March, 1983.

Steven R. Williams has served as President and Director of the Company since March 1983. Prior to joining the Company, Mr. Williams was employed by Exxon until 1979 and attended Stanford Graduate School of Business, graduating in 1981. He then worked with Texas Oil and Gas until July, 1982, when he joined Exco Enterprises as Manager of Operations.

Roger J. Morgan has been a member of the law firm of Young, Morgan & Cann, Clarksburg, West Virginia, for more than the past five years. Mr. Morgan is not active in the day-to-day business of the Company, but his law firm provides legal services to the Company.

Vincent F. D'Annunzio has for the past five years served as President of Beverage Distributors, Inc. located in Clarksburg, West Virginia.

Dale G. Rettinger has served as Vice President and Treasurer of the Company since July, 1980. Mr. Rettinger was elected Director in 1985. Previously, Mr. Rettinger was a partner with KMG Main Hurdman, Certified Public Accountants, having served in that capacity since 1976.

Jeffrey C. Swoveland has been with Equitable Resources since the fall of 1994 and presently serves as Treasurer. Mr. Swoveland previously served as Vice President and a lending officer, with Mellon Bank, N.A. from July, 1989 to late 1994.

Item 11. Management Remuneration and Transactions

There is incorporated by reference herein in response to this Item the material under the heading "Election of Directors - Remuneration of Directors and Officers", "Election of Directors - Stock Options" and "Election of Directors - Interest of Management in Certain Transactions" in the Company's definitive proxy statement for its 1997 annual meeting of stockholders filed or to be filed with the Commission on or before April 30, 1997.

Item 12. Security Ownership of Certain Beneficial Owners and Management

There is incorporated by reference herein in response to this Item, the material under the heading "Election of Directors", in the Company's definitive proxy statement for its 1997 annual meeting of stockholders filed or to be filed with the Commission on or before April 30, 1997.

Item 13. Certain Relationships and Related Transactions

The response to this item is set forth herein in Note 8 in the Notes to Consolidated Financial Statements.

PART IV

Item 14. Exhibits, Financial Statement Schedules and Reports on Form 8-K

(a) (1) Financial Statements:

See Index to Financial Statements and Schedules on page F-1.

(2) Financial Statement Schedules:

See Index to Financial Statements and Schedules on page F-1.

Schedules and Financial Statements Omitted

All other financial statement schedules are omitted because they are not required, inapplicable, or the information is included in the Financial Statements or Notes thereto.

(3) Exhibits:

See Exhibits Index on page E-1.

(b) During the fourth quarter of 1996, the Company filed no report on Form 8-K.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

PETROLEUM DEVELOPMENT CORPORATION

By /s/ James N. Ryan
James N. Ryan, Chairman

March 20, 1997

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated:

Signature	Title	Date
/s/ James N. Ryan James N. Ryan	Chairman, Chief Executive Officer and Director	March 20, 1997
/s/ Steven R. Williams Steven R. Williams	President and Director	March 20, 1997
/s/ Dale G. Rettinger Dale G. Rettinger	Executive Vice President, Treasurer and Director (principal financial and accounting officer)	March 20, 1997
/s/ Roger J. Morgan Roger J. Morgan	Secretary and Director	March 20, 1997

PETROLEUM DEVELOPMENT CORPORATION AND SUBSIDIARIES

Index to Financial Statements and Financial Statement Schedules

1. Financial Statements:	
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Consolidated Balance Sheets - December 31, 1996 and 1995	F-3 & 4
Consolidated Statements of Income - Years Ended December 31, 1996, 1995, and 1994	F-5
Consolidated Statements of Stockholders' Equity - Years Ended December 31, 1996, 1995, and 1994	F-6
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2. Financial Statement Schedule:	
Schedule II - Valuation and Qualifying Accounts and Reserves	F-21

Independent Auditors' Report

The Stockholders and Board of Directors
Petroleum Development Corporation:

We have audited the consolidated financial statements of Petroleum Development Corporation and subsidiaries as listed in the accompanying index. In connection with our audits of the consolidated financial statements, we also have audited the financial statement schedule as listed in the accompanying index. These consolidated financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Petroleum Development Corporation and subsidiaries as of December 31, 1996 and 1995, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 1996, in conformity with generally accepted accounting principles. Also in our opinion, the related financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

KPMG PEAT MARWICK LLP

Pittsburgh, Pennsylvania
March 13, 1997

PETROLEUM DEVELOPMENT CORPORATION AND SUBSIDIARIES

Consolidated Balance Sheets

December 31, 1996 and 1995

	1996	1995
Assets		
Current assets:		
Cash and cash equivalents (includes restricted cash of \$1,734,900 in 1996)	\$20,615,400	10,053,600
Notes and accounts receivable	6,696,000	2,016,600
Inventories	567,200	217,900
Prepaid expenses	740,900	868,800
Total current assets	28,619,500	13,156,900
Properties and equipment:		
Oil and gas properties (successful efforts accounting method)	46,525,700	37,992,000
Pipelines	7,186,900	6,851,900
Transportation and other equipment	2,151,200	2,546,900
Land and buildings	1,098,200	849,200
	56,962,000	48,240,000
Less accumulated depreciation, depletion and amortization	22,522,300	21,127,100
	34,439,700	27,112,900
Other assets	545,000	350,300
	\$63,604,200	40,620,100

(Continued)

PETROLEUM DEVELOPMENT CORPORATION AND SUBSIDIARIES

Consolidated Balance Sheets

December 31, 1996 and 1995

	1996	1995
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$ 9,703,800	2,119,100
Accrued taxes	506,000	155,100
Other accrued expenses	1,505,900	1,628,800
Advances for future drilling contracts	18,397,000	10,069,600
Funds held for future distribution	864,000	704,000
Total current liabilities	30,976,700	14,676,600
Long-term debt, excluding current maturities	5,320,000	2,500,000
Other liabilities	1,094,200	601,700
Deferred income taxes	3,140,800	2,920,900
Commitments and contingencies		
Stockholders' equity:		
Common stock, par value \$.01 per share; authorized 22,250,000 shares; issued and outstanding 10,460,753 and 11,208,627	104,600	112,100
Common stock, Class A, par value \$.01 per share; authorized 2,750,000 shares; issued and outstanding - none	-	-
Additional paid-in capital	6,617,300	7,019,800
Retained earnings	16,427,400	12,878,000
Unamortized stock award	(76,800)	(89,000)
Total stockholders' equity	23,072,500	19,920,900
	\$63,604,200	40,620,100

See accompanying notes to consolidated financial statements.

PETROLEUM DEVELOPMENT CORPORATION AND SUBSIDIARIES

Consolidated Statements of Income

Years Ended December 31, 1996, 1995 and 1994

	1996	1995	1994
Revenues:			
Oil and gas well drilling operations	\$18,698,200	13,941,000	15,190,200
Oil and gas sales	26,051,100	4,150,600	4,361,300
Well operations and pipeline income	3,928,800	3,750,900	3,730,300
Other income	935,600	504,000	524,400
	49,613,700	22,346,500	23,806,200
Costs and expenses:			
Cost of oil and gas well drilling operations	15,779,800	11,943,000	14,288,700
Oil and gas purchases and production cost	24,190,300	4,138,700	4,067,000
General and administrative expenses	2,304,000	1,960,600	2,203,800
Depreciation, depletion and amortization	2,309,600	2,152,100	1,848,200
Interest	380,000	319,700	300,200
	44,963,700	20,514,100	22,707,900
Income before income taxes	4,650,000	1,832,400	1,098,300
Income taxes	1,100,600	350,900	176,700
Net income	\$ 3,549,400	1,481,500	921,600
Earnings per common and common equivalent share	\$.31	.13	.08

See accompanying notes to consolidated financial statements.

PETROLEUM DEVELOPMENT CORPORATION AND SUBSIDIARIES

Consolidated Statements of Stockholders' Equity

Years Ended December 31, 1996, 1995 and 1994

	Common stock issued		Additional paid-in capital	Retained earnings	Unamortized Stock Award	Total
	Number of shares	Amount				
Balance, December 31, 1993	10,831,921	\$108,300	6,652,500	10,474,900	-	17,235,700
Issuance of common stock:						
Purchase of properties	55,000	500	109,500	-	-	110,000
Exercise of employee stock options	153,706	1,600	111,600	-	-	113,200
Net income				921,600	-	921,600
Balance, December 31, 1994	11,040,627	\$110,400	6,873,600	11,396,500	-	18,380,500
Issuance of common stock:						
Exercise of employee stock options	78,000	800	45,800	-	-	46,600
Stock award	90,000	900	100,400	-	(101,300)	-
Amortization of stock award	-	-	-	-	12,300	12,300
Net income	-	-	-	1,481,500	-	1,481,500
Balance, December 31, 1995	11,208,627	\$112,100	7,019,800	12,878,000	(89,000)	19,920,900
Issuance of common stock:						
Exercise of employee stock options	230,699	2,300	166,100	-	-	168,400
Purchase of subsidiary	236,094	2,300	446,800	-	-	449,100
Amortization of stock award					12,200	12,200
Repurchase and cancellation of treasury stock	(1,214,667)	(12,100)	(1,015,400)			(1,027,500)
Net income	-	-	-	3,549,400	-	3,549,400
Balance, December 31, 1996	10,460,753	\$104,600	6,617,300	16,427,400	(76,800)	23,072,500

See accompanying notes to consolidated financial statements.

PETROLEUM DEVELOPMENT CORPORATION AND SUBSIDIARIES

Consolidated Statements of Cash Flows

Years Ended December 31, 1996, 1995 and 1994

	1996	1995	1994
Cash flows from operating activities:			
Net income	\$ 3,549,400	1,481,500	921,600
Adjustment to net income to reconcile to cash provided by operating activities:			
Deferred income taxes	213,900	112,600	97,400
Depreciation, depletion and amortization	2,309,600	2,152,100	1,848,200
Disposition of leasehold acreage	151,700	201,300	173,600
Employee compensation paid in stock	17,900	12,300	108,200
(Increase) decrease in notes and accounts receivable	(1,480,600)	(41,200)	39,400
(Increase) decrease in inventories	(349,300)	172,300	(38,100)
Decrease (increase) in prepaid expenses	203,300	10,600	(211,000)
(Increase) decrease in other assets	(226,400)	65,800	65,100
Increase in accounts payable and accrued expenses	3,938,200	42,300	92,200
Increase in advances for future drilling contracts	8,327,400	869,700	1,071,900
Increase (decrease) in funds held for future distribution	160,000	337,300	(474,300)
Other	90,700	(95,800)	18,300
Total adjustments	13,356,400	3,839,300	2,790,900
Net cash provided by operating activities	16,905,800	5,320,800	3,712,500
Cash flows from investing activities:			
Capital expenditures	(10,415,500)	(3,910,400)	(5,606,500)
Proceeds from sale of leases	655,400	289,400	282,100
Proceeds from sale of fixed assets	10,800	36,700	34,200
Net cash acquired from purchase of subsidiary	1,450,000	-	-
Net cash used in investing activities	(8,299,300)	(3,584,300)	(5,290,200)
Cash flows from financing activities:			
Proceeds from debt	4,200,000	-	800,000
Proceeds from issuance of stock	135,300	46,600	5,000
Purchase of treasury stock	(1,000,000)	-	-
Retirement of debt	(1,380,000)	(636,300)	(899,300)
Net cash provided by (used in) financing activities	1,955,300	(589,700)	(94,300)
Net increase (decrease) in cash and cash equivalents	10,561,800	1,146,800	(1,672,000)
Cash and cash equivalents, beginning of year	10,053,600	8,906,800	10,578,800
Cash and cash equivalents, end of year	\$20,615,400	10,053,600	8,906,800

See accompanying notes to consolidated financial statements.

PETROLEUM DEVELOPMENT CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Years Ended December 31, 1996, 1995 and 1994

(1) Summary of Significant Accounting Policies

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of Petroleum Development Corporation and its wholly owned subsidiaries. All material intercompany accounts and transactions have been eliminated in consolidation. The Company accounts for its investment in limited partnerships under the proportionate consolidation method. Under this method, the Company's financial statements include its prorata share of assets and liabilities and revenues and expenses, respectively, of the limited partnerships in which it participates.

The Company is involved in two business segments. The different segments are oil and gas well drilling, production and related property management and marketing and pipeline operations.

The Company grants credit to purchasers of oil and gas and the owners of managed properties, substantially all of whom are located in the Appalachian Basin area of West Virginia, Tennessee, Pennsylvania and Ohio.

Cash Equivalents

For purposes of the statement of cash flows, the Company considers all highly liquid debt instruments with original maturities of three months or less to be cash equivalents.

Inventories

Inventories of well equipment, parts and supplies are valued at the lower of average cost or market. An inventory of natural gas is recorded when gas is purchased in excess of deliveries to customers and is recorded at the lower of cost or market.

Oil and Gas Properties

Exploration and development costs are accounted for by the successful efforts method.

The Company assesses impairment of capitalized costs of proved oil and gas properties by comparing net capitalized costs to undiscounted future net cash flows on a field-by-field basis using expected prices. Prices utilized for measurement purposes and expected costs are held constant. If net capitalized costs exceed undiscounted future net cash flow, the measurement of impairment is based on estimated fair value which would consider future discounted cash flows.

Property acquisition costs are capitalized when incurred. Geological and geophysical costs and delay rentals are expensed as incurred. The costs of drilling exploratory wells are capitalized pending determination of whether the wells have discovered economically producible reserves. If reserves are not discovered, such costs are expensed as dry holes. Development costs, including equipment and intangible drilling costs related to both producing wells and developmental dry holes, are capitalized.

(Continued)

Notes to Consolidated Financial Statements

Unproved properties are assessed on a property-by-property basis and properties considered to be impaired are charged to expense when such impairment is deemed to have occurred.

Costs of proved properties, including leasehold acquisition, exploration and development costs and equipment, are depreciated or depleted by the unit-of-production method based on estimated proved developed oil and gas reserves.

Upon sale or retirement of complete units of depreciable or depletable property, the net cost thereof, less proceeds or salvage value, is credited or charged to income. Upon retirement of a partial unit of property, the cost thereof is charged to accumulated depreciation and depletion.

Based on the Company's experience, management believes site restoration, dismantlement and abandonment costs net of salvage to be immaterial in relation to operating costs. These costs are being expensed when incurred.

Transportation Equipment, Pipelines and Other Equipment

Transportation equipment, pipelines and other equipment are carried at cost. Depreciation is provided principally on the straight-line method over useful lives of 3 to 17 years.

Maintenance and repairs are charged to expense as incurred. Major renewals and betterments are capitalized. Upon the sale or other disposition of assets, the cost and related accumulated depreciation, depletion and amortization are removed from the accounts, the proceeds applied thereto and any resulting gain or loss is reflected in income.

Buildings

Buildings are carried at cost and depreciated on the straight-line method over estimated useful lives of 30 years.

Retirement Plans

The Company has a 401-K contributory retirement plan (401-K Plan) covering full-time employees. The Company provides a discretionary matching of employee contributions to the plan.

The Company also has a profit sharing plan covering full-time employees. The Company's contributions to this plan are discretionary.

During 1994, the Company established a deferred compensation arrangement covering executive officers of the Company as a supplemental retirement benefit.

During 1995, the Company established split-dollar life insurance arrangements with certain executive officers. Under these arrangements, advances are made to these officers equal to the premiums due. The advances are collateralized by the cash surrender value of the policies. The Company records as other assets its share of the cash surrender value of the policies.

Revenue Recognition

Oil and gas wells are drilled primarily on a contract basis. The Company follows the percentage-of-completion method of income recognition for drilling operations in progress.

(Continued)

Notes to Consolidated Financial Statements

Well operations income consists of operation charges for well upkeep, maintenance and operating lease income on tangible well equipment.

Income Taxes

Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

Derivatives

Gains and losses related to qualifying hedges of firm commitments or anticipated transactions through the use of natural gas futures contracts are deferred and recognized in income or as adjustments of carrying amounts when the underlying hedged transaction occurs. In order for futures contracts to qualify as a hedge, there must be sufficient correlation to the underlying hedged transaction. The change in the fair value of derivative instruments which do not qualify for hedging are recognized into income currently.

Stock Compensation

On January 1, 1996, the Company adopted SFAS No. 123, "Accounting for Stock-Based Compensation," which permits entities to recognize as expense over the vesting period the fair value of all stock-based awards on the date of grant. Alternatively, SFAS 123 allows entities to continue to measure compensation cost for stock-based awards using the intrinsic value based method of accounting prescribed by APB Opinion No. 25, "Accounting for Stock Issued to Employees," and to provide pro forma net income and pro forma earnings per share disclosures as if the fair value based method defined in SFAS 123 had been applied. The Company has elected to continue to apply the provisions of APB 25 and provide the pro forma disclosure provisions of SFAS 123. See note 5 to the financial statements.

Use of Estimates

Management of the Company has made a number of estimates and assumptions relating to the reporting of assets and liabilities and revenues and expenses and the disclosure of contingent assets and liabilities to prepare these financial statements in conformity with generally accepted accounting principles. Actual results could differ from those estimates. Estimates which are particularly significant to the consolidated financial statements include estimates of oil and gas reserves and future cash flows from oil and gas properties.

(2) Notes and Accounts Receivable

The Company held notes receivable from officers, directors and employees with interest from 8% to 12% as of December 31, 1995 in the amount of \$33,300 of which \$200 is current.

Included in other assets are noncurrent notes and accounts receivable as of December 31, 1996 and 1995, in the amounts of \$5,930 and \$168,400, net of the allowance for doubtful accounts of \$147,200 and \$368,800, respectively.

The allowance for doubtful current accounts receivable as of December 31, 1996 and 1995 was \$140,600 and \$20,200, respectively.

(Continued)

PETROLEUM DEVELOPMENT CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(3) Long-Term Debt

The company is party to a bank credit agreement dated November 17, 1993 which, as amended, provides a borrowing base of \$10,000,000 subject to adequate natural gas reserve levels. At the request of the Company, the bank may increase the amount of the commitment to \$20,000,000. The Company has activated \$7.5 million of the facility.

As of December 31, 1996 and 1995, the balance outstanding was \$5,320,000 and \$2,500,000, respectively. No principal payments are required under the credit agreement until maturity on December 31, 1999. Interest accrues at prime with LIBOR (London Interbank Market) rate alternatives available at the discretion of the Company. At December 31, 1996, interest accrues at prime (8-1/4%) plus 1/4%. The Company is required to pay a commitment fee of 1/8% to 1/4% on the unused portion of the credit facility. The loan is secured by substantially all properties of the Company. The credit agreement requires, among other things, the existence of satisfactory levels of natural gas reserves, maintenance of certain working capital and tangible net worth ratios along with a restriction on the payment of dividends.

(4) Income Taxes

The Company's provision for income taxes consisted of the following:

	1996	1995	1994
Current:			
Federal	\$ 545,600	128,400	66,600
State	341,100	109,900	12,700
Total current income taxes	886,700	238,300	79,300
Deferred:			
Federal	165,800	87,300	75,500
State	48,100	25,300	21,900
Total deferred income taxes	213,900	112,600	97,400
Total taxes	\$1,100,600	350,900	176,700

Income tax expense attributable to income from continuing operations was \$1,100,600, \$350,900 and \$176,700 for the years ended December 31, 1996, 1995 and 1994, respectively, and differed from the amounts computed by applying the U.S. federal income tax rate of 34 percent to pretax income from continuing operations as a result of the following:

	1996 Amount	1995 Amount	1994 Amount
Computed "expected" tax	\$1,581,000	623,000	373,400
State income tax	249,900	108,800	71,200
Percentage depletion	(205,800)	(155,900)	(136,000)
Nonconventional source fuel credit	(510,500)	(127,300)	(18,000)
Adjustment to oil and gas properties	-	-	(132,700)
Adjustments to valuation allowance	-	(100,700)	-
Other	(14,000)	3,000	18,800
	\$1,100,600	350,900	176,700

(Continued)

PETROLEUM DEVELOPMENT CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities at December 31, 1996 and 1995 are presented below:

	1996	1995
Deferred tax assets:		
Drilling notes, principally due to allowance for doubtful accounts	\$ 465,800	671,300
Investment tax credit carryforwards	45,200	233,300
Alternative minimum tax credit carryforwards (Section 29)	926,600	909,400
Other	550,800	440,600
Total gross deferred tax assets	1,988,400	2,254,600
Less valuation allowance	(926,600)	(941,300)
Deferred tax assets	1,061,800	1,313,300
Less current deferred tax assets (included in prepaid expenses)	(376,100)	(386,200)
Net non-current deferred tax assets	685,700	927,100
Deferred tax liabilities:		
Plant and equipment, principally due to differences in depreciation and amortization	(3,826,500)	(3,848,000)
Total gross deferred tax liabilities	(3,826,500)	(3,848,000)
Net deferred tax liability	\$(3,140,800)	(2,920,900)

The Company has evaluated each deferred tax asset and has provided a valuation allowance where it is believed it is more likely than not that some portion of the asset will not be realized.

The net changes in the total valuation allowance were for the year ended December 31, 1996 a decrease of \$14,700 and for the years ended December 31, 1995 and 1994 increases of \$98,600 and \$45,000, respectively.

At December 31, 1996, the Company has investment tax credit carryforwards for federal income tax purposes of approximately \$45,200 which are available to reduce future federal income taxes through 2000. In addition, the Company has alternative minimum tax credit carryforwards (Section 29) of approximately \$926,600 which are available to reduce future federal regular income taxes over an indefinite period.

(5) Common Stock

Options

Options amounting to 210,000 shares were granted during 1995 to certain employees and directors under the Company's Stock Option Plans. These options were granted at market value as of the date of grant and vest over a two year period. The outstanding options expire from 1997 to 2005.

The estimated fair value of the options granted during 1995 was \$.67 per option. The fair value was estimated using the Black-Scholes option pricing model with the following assumptions: risk-free interest rate of 5.8%, expected dividend yield of 0%, expected volatility of 51% and expected life of 7 years.

(Continued)

PETROLEUM DEVELOPMENT CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements

	Number of Shares	Average	Range
Outstanding December 31, 1993	2,182,250	\$0.71	.38 - 1.63
Granted	-	\$ -	-
Exercised	(226,250)	\$0.50	.44 - .69
Expired	-	\$ -	-
Outstanding December 31, 1994	1,956,000	\$0.77	.38 - 1.63
Granted	210,000	\$1.13	1.13 - 1.13
Exercised	(78,000)	\$0.60	.56 - .72
Expired	(235,350)	\$0.68	.38 - 1.63
Outstanding December 31, 1995	1,852,650	\$0.91	.50 - 1.63
Granted	-		
Exercised	(230,000)	\$0.72	.50 - 1.125
Expired	(40,000)	\$0.80	.50 - 1.625
Outstanding December 31, 1996	1,582,650	\$0.94	.50 - 1.625

The Company accounts for its stock-based compensation plans under APB 25. For stock options granted, the option price was not less than the market value of shares on the grant date, therefore, no compensation cost has been recognized. Had compensation cost been determined under the provisions of SFAS 123, the Company's net income and earnings per share would have been the following on a pro forma basis:

	1996		1995	
	As Reported	Pro Forma	As Reported	Pro Forma
Net income	\$3,549,400	\$3,473,250	\$1,481,500	\$1,474,400
Earnings per share	\$.31	\$.30	\$.13	\$.13

Stock Redemption Agreement

The Company has stock redemption agreements with three officers of the Company. The agreements require the Company to maintain life insurance on each executive in the amount of \$1,000,000. The agreements provide that the Company shall utilize the proceeds from such insurance to purchase from such executives' estates or heirs, at their option, shares of the Company's stock. The purchase price for the outstanding common stock is to be based upon the average closing asked price for the Company's stock as quoted by NASDAQ during a specified period. The Company is not required to purchase any shares in excess of the amount provided for by such insurance.

Stock Purchase

On January 31, 1996, the Company purchased 1,200,000 shares of its common stock pursuant to an option agreement. The option was obtained in connection with a debt restructuring in 1990. The company utilized its' revolving credit line to acquire the shares for \$1,000,000 or \$0.83 a share. The shares representing approximately 11% of the currently outstanding stock were retired by the Company.

(6) Employee Benefit Plans

The Company made 401-K Plan contributions of \$139,800, \$71,800 and \$68,700 for 1996, 1995 and 1994, respectively.

The Company has a profit sharing plan (the Plan) covering full-time employees. The Company contributed \$50,000 and \$28,500 to the plan in

(Continued)

Notes to Consolidated Financial Statements

cash during 1996 and 1995, respectively. The Company did not make a contribution to the Plan during 1994.

During 1996 and 1995, the Company expensed and established a liability for \$90,000 each year under a deferred compensation arrangement with the executive officers of the Company.

In 1995, a total of 90,000 restricted shares of the Company's common stock were granted to certain employees and available to them upon retirement. The market value of shares awarded was \$101,300. This amount was recorded as unamortized stock award and is shown as a separate component of stockholders' equity. The unamortized stock award is being amortized to expense over the employees' expected years to retirement and amounted to \$12,200 in 1996 and 1995.

At December 31, 1996 and 1995, the Company has recorded as other assets \$111,800 and \$60,000, respectively as its share of the cash surrender value of the life insurance pledged as collateral for the payment of premiums on split-dollar life insurance policies owned by certain executive officers.

(7) Earnings Per Share

Earnings per share is based on the weighted average number of common and common equivalent shares outstanding of 11,573,429 for 1996, 11,606,690 for 1995 and 11,990,497 for 1994. Stock options are considered to be common stock equivalents and, to the extent appropriate, have been added to the weighted average common shares outstanding. Fully diluted earnings per share have not been presented as the inclusion of such additional shares would not create significant dilution.

(8) Transactions with Affiliates

As part of its duties as well operator, the Company received \$18,234,200 in 1996, \$11,397,000 in 1995 and \$12,834,300 in 1994 representing proceeds from the sale of oil and gas and made distributions to investor groups according to their working interests in the related oil and gas properties. The Company provided oil and gas well drilling services to affiliated partnerships, substantially all of the Company's oil and gas well drilling operations was for such partnerships. The Company also provided related services of operation of wells, reimbursement of syndication costs, management fees, tax return preparation and other services relating to the operation of the partnerships. The Company received \$6,435,700 in 1996, \$4,003,500 in 1995 and \$4,041,600 in 1994 for those services. During 1996, 1995 and 1994, the Company paid \$35,400, \$38,500 and \$127,900, respectively to the Corporate Secretary's law firm for various legal services.

(9) Commitments and Contingencies

The nature of the independent oil and gas industry involves a dependence on outside investor drilling capital and involves a concentration of gas sales to a few customers. The Company sells natural gas to various public utilities and industrial customers. One customer, Hope Gas Inc., a regulated public utility, accounted for 16.1% of total revenues in 1996.

The Company is not party to any legal action that would materially affect the Company's operations or financial statements.

(10) Supplemental Disclosure of Cash Flows

The Company paid \$380,000, \$319,700 and \$300,200 for interest in 1996, 1995 and 1994, respectively. The Company paid income taxes in 1996 and 1994 in the amounts of \$664,300 and \$312,500, respectively.

(Continued)

Notes to Consolidated Financial Statements

(11) Noncash Financing and Investing Activities

In 1994 the Company issued 55,000 shares of common stock for the purchase of producing properties. Also in 1994, employees exercised stock options for 143,706 shares of common stock and surrendered options for 72,544 common shares in lieu of cash payments in connection with the options exercised. This resulted in compensation expense of \$108,200.

(12) Acquisitions

On April 1, 1996, the Company acquired Riley Natural Gas Company (RNG), a privately held gas marketing company in a stock for stock exchange accounted for as a purchase. The acquisition has substantially increased the Company's capabilities in the natural gas marketing area. PDC issued 236,094 shares with a market value of \$449,100, for 100% of the outstanding common stock of RNG. Key employees of RNG have entered into employment contracts with PDC to assure the continuity of RNG's gas marketing operations.

The following unaudited pro forma information presents the results of operations of the Company assuming the RNG acquisition occurred at the beginning of 1995:

Proforma Results (unaudited)

	1996	1995
Revenues	\$53,091,400	\$35,361,800
Net income	\$3,592,800	\$1,546,900
Earnings per share	\$.31	\$.13

The pro forma results are presented for informational purposes only and are not necessarily indicative of results that would have occurred had the RNG acquisition been consummated at the beginning of 1995.

On August 6, 1996 the Company purchased an interest in 188 oil and gas wells in West Virginia. The Company utilized its revolving credit line to finance the purchase. The purchase increased the Company's oil and gas reserves by 4.3 Bcf of natural gas and 27,000 barrels of oil, added 12,000 acres of leases to its leasehold inventory and increased the Company's gathering systems by forty-nine miles. The purchase price was \$3.3 million.

(13) Derivatives and Hedging Activities

The company utilizes commodity based derivative instruments as hedges to manage a portion of its exposure to price volatility stemming from its integrated natural gas production and marketing activities. These instruments consist of natural gas futures contracts traded on the New York Mercantile Exchange. The futures contracts hedge committed and anticipated natural gas purchases and sales, generally forecasted to occur within a 12 month period. The Company does not hold or issue derivatives for trading or speculative purposes.

As of December 31, 1996, the Company had futures contracts for the sale of \$3,869,900 of natural gas. While these contracts have nominal carrying value, their fair value, represented by the estimated amount that would be received upon termination of the contracts, based on market quotes, was a net value of \$217,770 at December 31, 1996.

The Company is required to maintain margin deposits with brokers for outstanding futures contracts. As of December 31, 1996, cash in the amount of \$1,734,900 was on deposit.

(Continued)

PETROLEUM DEVELOPMENT CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(14) Costs Incurred in Oil and Gas Property Acquisition, Exploration and Development Activities

Costs incurred by the Company in oil and gas property acquisition, exploration and development are presented below:

	Years Ended December 31,		
	1996	1995	1994
Property acquisition cost:			
Proved undeveloped properties	\$ 543,600	167,800	426,200
Producing properties	3,211,800	218,500	1,332,100
Development costs	5,344,900	2,977,700	2,260,800
	\$9,100,300	3,364,000	4,019,100

Property acquisition costs include costs incurred to purchase, lease or otherwise acquire a property. Exploration costs include the cost of geological and geophysical activity, dry holes and drilling and equipping exploratory wells. Development costs include costs incurred to gain access to and prepare development well locations for drilling, to drill and equip development wells and to provide facilities to extract, treat, gather and store oil and gas.

(15) Oil and Gas Capitalized Costs

Aggregate capitalized costs for the Company related to oil and gas exploration and production activities with applicable accumulated depreciation, depletion and amortization are presented below:

	December 31,	
	1996	1995
Proved properties:		
Intangible drilling costs	\$19,572,400	16,582,000
Tangible well equipment	21,999,600	16,831,800
Well equipment leased to others	4,063,600	4,063,600
Undeveloped properties	890,100	514,600
	46,525,700	37,992,000
Less accumulated depreciation, depletion and amortization	15,837,800	14,529,900
	\$30,687,800	23,462,100

(16) Results of Operations for Oil and Gas Producing Activities

The results of operations for oil and gas producing activities (excluding marketing) are presented below:

	Years Ended December 31,		
	1996	1995	1994
Revenue:			
Oil and gas sales	\$4,674,900	2,534,000	2,610,100
Expenses:			
Production costs	963,600	596,000	734,700
Depreciation, depletion and amortization	1,248,200	1,000,700	922,300
	2,211,800	1,596,700	1,657,000
Results of operations for oil and gas producing activities before provision for income taxes	2,463,100	937,300	953,100
Provision for income taxes	519,600	137,800	146,600
Results of operations for oil and gas producing activities (excluding corporate overhead and interest costs)	\$1,943,500	799,500	806,500

(Continued)

PETROLEUM DEVELOPMENT CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Production costs include those costs incurred to operate and maintain productive wells and related equipment, including such costs as labor, repairs, maintenance, materials, supplies, fuel consumed, insurance and other production taxes. In addition, production costs include administrative expenses and depreciation applicable to support equipment associated with these activities.

Depreciation, depletion and amortization expense includes those costs associated with capitalized acquisition, exploration and development costs, but does not include the depreciation applicable to support equipment.

The provision for income taxes is computed at the statutory federal income tax rate and is reduced to the extent of permanent differences, such as investment tax and non-conventional source fuel tax credits and statutory depletion allowed for income tax purposes.

(17) Net Proved Oil and Gas Reserves (Unaudited)

The proved reserves of oil and gas of the Company as estimated by an independent petroleum engineer, Wright & Company, Inc. at December 31, 1996 and by the Company's petroleum engineers at December 31, 1995 and 1994. These reserves have been prepared in compliance with the Securities and Exchange Commission rules based on year end prices. Since December 31, 1996 prices have declined to seasonal levels. An analysis of the change in estimated quantities of oil and gas reserves, all of which are located within the United States, is shown below:

	Oil (BBLs)		
	1996	1995	1994
Proved developed and undeveloped reserves:			
Beginning of year	140,000	79,000	91,000
Revisions of previous estimates	(30,000)	72,000	(1,000)
Beginning of year as revised	110,000	151,000	90,000
Dispositions	(49,000)	-	-
Acquisitions	27,000	-	-
Production	(7,000)	(11,000)	(11,000)
End of year	81,000	140,000	79,000
Proved developed reserves:			
Beginning of year	140,000	79,000	91,000
End of year	81,000	140,000	79,000
		Gas (MCF)	
	1996	1995	1994
Proved developed and undeveloped reserves:			
Beginning of year	33,829,000	32,225,000	24,660,000
Revisions of previous estimates	(1,037,000)	686,000	4,472,000
Beginning of year as revised	32,792,000	32,911,000	29,132,000
New discoveries and extensions	2,613,000	2,119,000	2,345,000
Disposition	(127,000)	-	-
Acquisitions	9,529,000	135,000	1,943,000
Production	(1,495,000)	(1,336,000)	(1,195,000)
End of year	43,312,000	33,829,000	32,225,000
Proved developed reserves:			
Beginning of year	29,326,000	27,746,000	20,181,000
End of year	35,516,000	29,326,000	27,746,000

(18) Standardized Measure of Discounted Future Net Cash Flows and Changes Therein Relating to Proved Oil and Gas Reserves (Unaudited)

Summarized in the following table is information for the Company with respect to the standardized measure of discounted future net cash

(Continued)

PETROLEUM DEVELOPMENT CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements

flows relating to proved oil and gas reserves. Future cash inflows are derived by applying current oil and gas prices to estimated future production. Future production, development, site restoration and abandonment costs are derived based on current costs assuming continuation of existing economic conditions. Future income tax expenses are computed by applying the statutory rate in effect at the end of each year to the future pretax net cash flows, less the tax basis of the properties and gives effect to permanent differences, tax credits and allowances related to the properties.

	Years Ended December 31,		
	1996	1995	1994
Future estimated cash flows	\$193,800,000	99,478,000	73,316,000
Future estimated production and development costs	(59,806,000)	(29,288,000)	(24,370,000)
Future estimated income tax expense	(33,499,000)	(20,004,000)	(13,950,000)
Future net cash flows	100,495,000	50,186,000	34,996,000
10% annual discount for estimated timing of cash flows	(66,233,000)	(29,126,000)	(20,551,000)
Standardized measure of discounted future estimated net cash flows	\$ 34,262,000	21,060,000	14,445,000

The following table summarizes the principal sources of change in the standardized measure of discounted future estimated net cash flows:

	Years Ended December 31,		
	1996	1995	1994
Sales of oil and gas production, net of production costs	\$(3,711,000)	(1,938,000)	(1,875,000)
Net changes in prices and production costs	42,384,000	17,024,000	(9,560,000)
Extensions, discoveries, and improved recovery, less related cost	9,659,000	4,609,000	3,875,000
Acquisitions	17,775,000	294,000	2,745,000
Development costs incurred during the period	5,345,000	2,978,000	2,261,000
Revisions of previous quantity estimates	(2,902,000)	1,700,000	8,222,000
Changes in estimated income taxes	(13,495,000)	(6,054,000)	(882,000)
Accretion of discount	(37,107,000)	(8,575,000)	(1,785,000)
Other	(4,746,000)	(3,423,000)	(2,574,000)
	\$ 13,202,000	6,615,000	427,000

It is necessary to emphasize that the data presented should not be viewed as representing the expected cash flow from, or current value of, existing proved reserves since the computations are based on a large number of estimates and arbitrary assumptions. Reserve quantities cannot be measured with precision and their estimation requires many judgmental determinations and frequent revisions. The required projection of production and related expenditures over time requires further estimates with respect to pipeline availability, rates of demand and governmental control. Actual future prices and costs are likely to be substantially different from the current prices and costs utilized in the computation of reported amounts. Any analysis or evaluation of the reported amounts should give specific recognition to the computational methods utilized and the limitations inherent therein.

(Continued)

PETROLEUM DEVELOPMENT CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(19) Business Segments

Information on the Company's operations by business segment are as follows for the years ended December 31,:

	1996	1995	1994
Revenues:			
Drilling and production	\$27,940,200	20,360,100	21,250,800
Marketing and pipeline	20,737,900	1,482,400	2,031,000
	\$48,678,100	21,842,500	23,281,800
Operating Profit:			
Drilling and production	\$ 6,207,000	3,714,300	3,302,800
Marketing and pipeline	191,400	(105,600)	(224,900)
	6,398,400	3,608,700	3,077,900
General and administrative expense	\$(2,304,000)	(1,960,600)	(2,203,800)
Interest expense	(380,000)	(319,700)	(300,200)
Interest income and other	935,600	504,000	524,400
Income before income taxes	\$ 4,650,000	1,832,400	1,098,300
Depreciation, Depletion and Amortization:			
Drilling and production	\$ 2,153,900	2,008,000	1,696,800
Marketing and pipeline	155,700	144,100	151,400
	\$ 2,309,600	2,152,100	1,848,200
Identifiable Assets:			
Drilling and production	\$54,847,000	39,016,000	36,381,000
Marketing and pipeline	8,005,100	1,067,700	1,383,600
Corporate	752,100	536,400	560,700
	\$63,604,200	40,620,100	38,325,300
Capital Expenditures:			
Drilling and production	\$10,059,900	3,817,700	5,478,000
Marketing and pipeline	124,200	86,900	112,200
Corporate	231,400	5,800	16,300
	\$10,415,500	3,910,400	5,606,500

(Continued)

PETROLEUM DEVELOPMENT CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(20) Quarterly Financial Data (Unaudited)

Summarized quarterly financial data for the years ended December 31, 1996 and 1995, are as follows:

	1996				Year
	Quarter	Quarter	Quarter	Quarter	
	First	Second(1)	Third(1)	Fourth(1)	
Revenues	\$11,441,300	\$10,333,700	\$11,317,000	\$16,521,700	\$49,613,700
Cost of operations	9,203,000	8,858,900	9,996,500	14,221,300	42,279,700
Gross profit	2,238,300	1,474,800	1,320,500	2,300,400	7,334,000
General and administrative expenses	541,800	570,100	651,000	541,100	2,304,000
Interest expense	72,100	67,300	106,400	134,200	380,000
	613,900	637,400	757,400	675,300	2,684,000
Income before income taxes	1,624,400	837,400	563,100	1,625,100	4,650,000
Income taxes	344,400	177,500	152,600	426,100	1,100,600
Net income	\$1,280,000	\$ 659,900	\$ 410,500	\$1,199,000	\$ 3,549,400
Primary earnings per share	\$.11	\$.06	\$.04	\$.10	\$.31

	1995				Year
	Quarter	Quarter	Quarter	Quarter	
	First	Second	Third	Fourth	
Revenues	\$9,537,000	\$4,432,800	\$3,582,500	\$4,794,200	\$22,346,500
Cost of operations	8,034,500	3,621,700	2,764,500	3,813,100	18,233,800
Gross profit	1,502,500	811,100	818,000	981,100	4,112,700
General and administrative expenses	450,300	520,900	600,700	388,700	1,960,600
Interest expense	83,400	76,300	71,000	89,000	319,700
	533,700	597,200	671,700	477,700	2,280,300
Income before income taxes	968,800	213,900	146,300	503,400	1,832,400
Income taxes	240,300	53,000	36,300	21,300	350,900
Net income	\$ 728,500	\$ 160,900	\$ 110,000	\$ 482,100	\$ 1,481,500
Primary earnings per share	\$.06	\$.02	\$.01	\$.04	\$.13

Cost of operations include cost of oil and gas well drilling operations, oil and gas purchases and production costs and depreciation, depletion and amortization.

(1) These quarters include the operations of Riley Natural Gas Company acquired on April 1, 1996, see footnote 12.

PETROLEUM DEVELOPMENT CORPORATION AND SUBSIDIARIES

SCHEDULE II - VALUATION AND QUALIFYING ACCOUNTS
AND RESERVES

Years Ended December 31, 1996, 1995 and 1994

Column A Description	Column B Balance at Beginning of Period	Column C Additions, Charged to Costs and Expenses	Column D Deductions	Column E Balance at End of Period
Allowance for doubtful accounts deducted from accounts and notes receivable in the balance sheet				
1996	\$389,000	\$108,100	\$209,300	\$287,800
1995	\$429,400	\$210,000	\$250,400	\$389,000
1994	\$362,300	\$ 75,100	\$ 8,000	\$429,400

Petroleum Development Corporation

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11 Schedule of Computation of Net Income Per Share

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PETROLEUM DEVELOPMENT CORPORATION AND SUBSIDIARIES
EXHIBIT 11
SCHEDULE OF COMPUTATION OF NET INCOME PER SHARE

Years Ended December 31,

PRIMARY

	1996	1995	1994
Net income for primary income per common share before extraordinary item	\$ 3,549,400	\$1,481,500	\$ 921,600
Net income for primary income per common share	3,549,400	\$1,481,500	\$ 921,600
Weighted average number of common shares outstanding during the year	10,449,137	11,056,441	10,878,601
Add - common equivalent shares (determined using the "treasury stock" method) representing shares issuable upon exercise of employee stock options	1,124,292	550,249	1,111,896
Weighted average number of shares used in calculation of primary income per share	11,573,429	11,606,690	11,990,497
Primary income per share	\$.31	\$.13	\$.08

FULLY DILUTED

Net income for primary income per common share	\$ 3,549,400	\$ 1,481,500	\$ 921,600
Net income for fully diluted net income per share	\$ 3,549,400	\$ 1,481,500	\$ 921,600
Weighted average number of shares used in calculating primary income per common share	11,573,429	11,606,690	11,990,497
Shares issuable upon exercise of stock options used in primary calculation above (1,124,292)		(550,249)	(1,111,896)
Shares issuable for fully diluted calculation	1,327,038	880,689	1,111,896
Weighted average number of shares used in calculation of fully diluted income per share	11,776,175	11,937,130	11,990,497
Fully diluted earnings per share	\$.30	\$.12	\$.08

[PERIOD-TYPE]	12-MOS	
[FISCAL-YEAR-END]		DEC-31-1996
[PERIOD-END]		DEC-31-1996
[CASH]		20,615,400
[SECURITIES]		0
[RECEIVABLES]		6,696,000
[ALLOWANCES]		287,800
[INVENTORY]		567,200
[CURRENT-ASSETS]		28,619,500
[PP&E]		56,962,000
[DEPRECIATION]		22,522,300
[TOTAL-ASSETS]		63,604,200
[CURRENT-LIABILITIES]		30,976,700
[BONDS]		5,320,000
[PREFERRED-MANDATORY]		0
[PREFERRED]		0
[COMMON]		104,600
[OTHER-SE]		22,967,900
[TOTAL-LIABILITY-AND-EQUITY]		63,604,200
[SALES]		26,051,100
[TOTAL-REVENUES]		49,613,700
[CGS]		24,190,300
[TOTAL-COSTS]		44,963,700
[OTHER-EXPENSES]		0
[LOSS-PROVISION]		108,100
[INTEREST-EXPENSE]		380,000
[INCOME-PRETAX]		4,650,000
[INCOME-TAX]		1,100,600
[INCOME-CONTINUING]		3,549,400
[DISCONTINUED]		0
[EXTRAORDINARY]		0
[CHANGES]		0
[NET-INCOME]		3,549,400
[EPS-PRIMARY]		.31
[EPS-DILUTED]		0