

# POSTROCK ENERGY CORP

## FORM 10-Q (Quarterly Report)

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Address	210 PARK AVENUE SUITE 2750 OKLAHOMA CITY, OK 73102
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Symbol	PSTR
SIC Code	1311 - Crude Petroleum and Natural Gas
Industry	Oil & Gas - Integrated
Sector	Energy
Fiscal Year	12/31

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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**  
Washington, D.C. 20549

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**Form 10-Q**

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**QUARTERLY REPORT UNDER SECTION 13 OR 15(d)  
OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended March 31, 2013

Commission file number: 001-34635

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**POSTROCK ENERGY CORPORATION**

(Exact name of registrant as specified in its charter)

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**Delaware**  
(State or other jurisdiction of  
incorporation or organization)

**27-0981065**  
(I.R.S. Employer  
Identification No.)

**210 Park Avenue, Oklahoma City, OK 73102**  
(Address of principal executive offices) (Zip Code)

**(405) 600-7704**  
(Registrant's telephone number, including area code)

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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 past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

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

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

At May 1, 2013, there were 24,263,746 outstanding shares of the registrant's common stock having an aggregate market value of \$35.2 million based on a closing price of \$1.45 per share.

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**POSTROCK ENERGY CORPORATION  
FORM 10-Q  
FOR THE QUARTER ENDED MARCH 31, 2013**

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PART I — FINANCIAL INFORMATION

Item 1. Financial Statements

POSTROCK ENERGY CORPORATION  
CONDENSED CONSOLIDATED BALANCE SHEETS  
(in thousands, except share and per share data)

	December 31, 2012	March 31, 2013 (Unaudited)
<b>ASSETS</b>		
Current assets		
Cash and equivalents	\$ 525	\$ 65
Restricted cash	1,500	1,500
Accounts receivable—trade, net	7,207	6,944
Other receivables	180	459
Inventory	990	854
Other	2,100	1,069
Derivative financial instruments	1,771	266
Total	14,273	11,157
Oil and natural gas properties, full cost method of accounting, net	107,531	112,000
Other property and equipment, net	14,244	13,450
Other, net	2,180	2,091
Equity investment	7,820	11,402
Derivative financial instruments	615	644
Total assets	<u>\$ 146,663</u>	<u>\$ 150,744</u>
<b>LIABILITIES AND STOCKHOLDERS' DEFICIT</b>		
Current liabilities		
Accounts payable	\$ 9,373	\$ 5,765
Revenue payable	4,447	4,324
Accrued expenses and other	4,928	3,165
Derivative financial instruments	4,449	5,723
Total	23,197	18,977
Derivative financial instruments	2,638	6,136
Long term debt	57,500	66,000
Asset retirement obligations	10,868	11,190
Other	316	280
Total liabilities	94,519	102,583
Commitments and contingencies		
Series A Cumulative Redeemable Preferred Stock, \$0.01 par value; issued and outstanding—7,250 shares	73,152	75,732
Stockholders' equity		
Preferred stock, \$0.01 par value; 5,000,000 authorized shares; 265,095 and 278,403 Series B Voting Preferred Stock issued and outstanding, respectively	3	3
Common stock, \$0.01 par value; 100,000,000 authorized shares; 21,309,159 and 23,732,480 shares issued and outstanding, respectively	213	237
Additional paid-in capital	396,732	398,039
Accumulated deficit	(417,956)	(425,850)
Total stockholders' deficit	(21,008)	(27,571)
Total liabilities and stockholders' deficit	<u>\$ 146,663</u>	<u>\$ 150,744</u>

The accompanying notes are an integral part of these statements.

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**POSTROCK ENERGY CORPORATION**  
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**  
(in thousands, except per share data)  
(Unaudited)

	<b>Three Months Ended March 31,</b>	
	<b>2012</b>	<b>2013</b>
<b>Revenues</b>		
Natural gas sales	\$ 11,774	\$ 12,442
Crude oil sales	1,848	2,957
Gathering	699	654
Total	<u>14,321</u>	<u>16,053</u>
<b>Costs and expenses</b>		
Production expense	11,501	9,775
General and administrative	4,263	3,546
Depreciation, depletion and amortization	6,162	6,428
(Gain) loss on disposal of assets	(104)	31
Total	<u>21,822</u>	<u>19,780</u>
Operating loss	(7,501)	(3,727)
<b>Other income (expense)</b>		
Realized gains (losses) from derivative financial instruments	12,085	(873)
Unrealized losses from derivative financial instruments	(60)	(6,248)
Gain from equity investment	4,169	3,582
Other income	11	13
Interest expense, net	(2,696)	(641)
Total	<u>13,509</u>	<u>(4,167)</u>
Income (loss) from continuing operations before income taxes	6,008	(7,894)
Income taxes	—	—
Income (loss) from continuing operations	6,008	(7,894)
Income from discontinued operations	1,339	—
Net income (loss)	7,347	(7,894)
Preferred stock dividends	(2,093)	(2,740)
Accretion of redeemable preferred stock	(471)	(778)
Net income (loss) available to common stockholders	<u>\$ 4,783</u>	<u>\$ (11,412)</u>
<b>Net income (loss) per share common share</b>		
Basic income (loss) per share—continuing operations	\$ 0.31	\$ (0.50)
Basic income (loss) per share—discontinued operations	\$ 0.12	\$ —
Basic income (loss) per share	<u>\$ 0.43</u>	<u>\$ (0.50)</u>
Diluted income (loss) per share—continuing operations	\$ 0.27	\$ (0.50)
Diluted income (loss) per share—discontinued operations	\$ 0.10	\$ —
Diluted income (loss) per share	<u>\$ 0.37</u>	<u>\$ (0.50)</u>
<b>Weighted average common shares outstanding</b>		
Basic	11,206	22,763
Diluted	12,786	22,763

The accompanying notes are an integral part of these statements.

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**POSTROCK ENERGY CORPORATION**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**(in thousands)**  
**(Unaudited)**

	<b>Three Months Ended</b>	
	<b>March 31,</b>	
	<b>2012</b>	<b>2013</b>
Cash flows from operating activities		
Net income (loss)	\$ 7,347	\$ (7,894)
Adjustments to reconcile net income (loss) to net cash from (used in) operations		
Depreciation, depletion and amortization	7,013	6,428
Stock-based compensation	442	719
Other non-cash compensation	—	209
Amortization of deferred loan costs	409	104
Change in fair value of derivative financial instruments	60	6,248
Loss (gain) on disposal of assets	(109)	31
Gain from equity investment	(4,169)	(3,582)
Other non-cash changes to items affecting net loss	130	(15)
Changes in assets and liabilities		
Receivables	3,356	153
Payables	(555)	(5,559)
Other	(3,489)	329
Net cash flows from (used in) operating activities	<u>10,435</u>	<u>(2,829)</u>
Cash flows from investing activities		
Expenditures for equipment, development, leasehold and pipeline	(4,491)	(9,211)
Proceeds from sale of assets	232	12
Net cash flows used in investing activities	<u>(4,259)</u>	<u>(9,199)</u>
Cash flows from financing activities		
Proceeds from debt	—	8,500
Repayments of debt	(14,000)	—
Debt and equity financing costs	—	(224)
Proceeds from issuance of common stock	7,500	3,292
Net cash flows from (used in) financing activities	<u>(6,500)</u>	<u>11,568</u>
Net decrease in cash and cash equivalents	(324)	(460)
Cash and equivalents beginning of period	349	525
Cash and equivalents end of period	<u>\$ 25</u>	<u>\$ 65</u>

The accompanying notes are an integral part of these statements.

**POSTROCK ENERGY CORPORATION**  
**CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS' DEFICIT**  
(Amounts subsequent to December 31, 2012 are unaudited)  
(in thousands, except share data)

	Preferred Shares	Preferred Stock Par Value	Common Shares Issued	Common Stock Par Value	Additional Paid-in Capital	Accumulated Deficit	Total (Deficit) Equity
<b>Balance, December 31, 2012</b>	265,095	\$ 3	21,301,159	\$ 213	\$396,732	\$ (417,956)	\$(21,008)
Stock-based compensation	—	—	—	—	719	—	719
Restricted stock grants, net of forfeitures	—	—	376,563	4	(4)	—	—
Issuance of Series B preferred stock	13,308	—	—	—	—	—	—
Issuance of warrants	—	—	—	—	938	—	938
Issuance of common stock, net	—	—	2,054,758	20	3,172	—	3,192
Preferred stock dividends	—	—	—	—	(2,740)	—	(2,740)
Preferred stock accretion	—	—	—	—	(778)	—	(778)
Net loss	—	—	—	—	—	(7,894)	(7,894)
<b>Balance, March 31, 2013</b>	<u>278,403</u>	<u>\$ 3</u>	<u>23,732,480</u>	<u>\$ 237</u>	<u>\$398,039</u>	<u>\$ (425,850)</u>	<u>\$(27,571)</u>

The accompanying notes are an integral part of these statements.

**POSTROCK ENERGY CORPORATION  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**Note 1 — Basis of Presentation**

PostRock Energy Corporation is an independent oil and gas company engaged in the acquisition, exploration, development, production and gathering of crude oil and natural gas. Its primary production activity is focused in the Cherokee Basin, a 15-county region in southeastern Kansas and northeastern Oklahoma. It also has oil producing properties in Oklahoma and minor oil and gas producing properties in the Appalachian Basin. The Company previously owned an interstate natural gas pipeline in its PostRock KPC Pipeline, LLC (“KPC”) subsidiary. KPC was sold in September 2012 and its results are reported as a discontinued operation in the condensed consolidated financial statements. Unless the context requires otherwise, references to “PostRock,” the “Company,” “we,” “us” and “our” refer to PostRock Energy Corporation and its consolidated subsidiaries.

The unaudited interim condensed consolidated financial statements have been prepared by the Company pursuant to the rules and regulations of the Securities and Exchange Commission (“SEC”), and reflect all adjustments that are, in the opinion of management, necessary for a fair statement of the results for the interim periods on a basis consistent with the annual audited consolidated financial statements. All such adjustments are of a normal recurring nature. Certain information, accounting policies and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) have been omitted pursuant to such rules and regulations, although the Company believes that the disclosures are adequate to make the information presented not misleading. These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and the summary of significant accounting policies and notes included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2012 (the “2012 10-K”).

The preparation of condensed consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the condensed consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The operating results for the interim periods are not necessarily indicative of the results to be expected for the full year.

***Recent Accounting Pronouncements***

In February 2013, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2013-04 , *Liabilities (Topic 405): Obligations Resulting from Joint and Several Liability Arrangements for Which the Total Amount of the Obligation Is Fixed at the Reporting Date* . The amendment requires an entity to measure obligations resulting from joint and several liability arrangements for which the total amount of the obligation within the scope of this guidance is fixed at the reporting date, as the sum of (i) the amount the reporting entity agreed to pay on the basis of its arrangement among its co-obligors and (ii) any additional amount the reporting entity expects to pay on behalf of its co-obligors. The amendment also requires an entity to disclose the nature and amount of the obligation as well as other information about those obligations. The amendments in the update are effective for fiscal years, and interim periods within those years, beginning after December 15, 2013. The Company does not expect the amendment to have a material impact on it financial statements.

**POSTROCK ENERGY CORPORATION**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)**

**Note 2 — Other Balance Sheet Items**

The following describes the components of the following condensed consolidated balance sheet items (in thousands):

	December 31, 2012	March 31, 2013
<b>Other current assets</b>		
Prepaid fees and deposits	\$ 1,036	\$ 1,069
Escrowed funds from Appalachian Basin sale (1)	564	—
Escrowed funds from KPC sale (2)	500	—
Total	<u>\$ 2,100</u>	<u>\$ 1,069</u>
<b>Other noncurrent assets, net</b>		
Deferred financing costs	\$ 1,668	\$ 1,595
Noncurrent deposits and other	512	496
Total	<u>\$ 2,180</u>	<u>\$ 2,091</u>
<b>Accrued expenses and other</b>		
Interest	\$ 56	\$ 56
Employee-related costs and benefits	1,790	1,206
Non-income related taxes	88	769
Escrowed funds due to third parties (3)	400	—
KPC site cleanup costs (4)	313	—
Fees for services	1,327	425
Other	954	709
Total	<u>\$ 4,928</u>	<u>\$ 3,165</u>
<b>Other noncurrent liabilities</b>		
Lease termination costs	\$ 255	\$ 209
Other	61	71
Total	<u>\$ 316</u>	<u>\$ 280</u>

- (1) Escrowed funds relate to the proceeds from the Appalachian Basin sale. The escrowed funds are restricted to cover indemnities and title defects related to the sale. The remaining balance at December 31, 2012 of \$564,000 was released to the purchaser in January 2013.
- (2) Escrowed funds relate to the proceeds from the KPC sale and were released to the Company in January 2013 upon acceptable cleanup of a site previously owned by KPC.
- (3) The balance at December 31, 2012, represents escrowed funds from the Appalachian Basin sale that, upon release in January 2013, were released to the purchaser.
- (4) Represent accrued costs for cleanup of a site previously owned by KPC as discussed above.

**Note 3 — Derivative Financial Instruments**

The Company is exposed to commodity price risk and management believes it prudent to periodically reduce exposure to cash-flow variability resulting from this volatility. Accordingly, the Company enters into certain derivative financial instruments in order to manage exposure to commodity price risk inherent in its oil and gas production. Derivative financial instruments are also used to manage commodity price risk inherent in customer pricing requirements and to fix margins on the future sale of natural gas. Specifically, the Company may utilize futures, swaps and options.

Derivative instruments expose the Company to counterparty credit risk. The Company's commodity derivative instruments are currently with two counterparties. The Company generally executes commodity derivative instruments under master agreements which allow it, in the event of default, to elect early termination of all contracts with the defaulting counterparty. If the Company chooses to elect early termination, all asset and liability positions with the defaulting counterparty would be net cash settled at the time of election.

The Company monitors the creditworthiness of its counterparties; however, it is not able to predict sudden changes in counterparties' creditworthiness. In addition, even if such changes are not sudden, it may be limited in its ability to mitigate an increase in counterparty credit risk. Possible actions would be to transfer its position to another counterparty or request a voluntary termination of the derivative contracts resulting in a cash settlement. Should one

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**POSTROCK ENERGY CORPORATION**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)**

of these counterparties not perform, the Company may not realize the benefit of some of its derivative instruments under lower commodity prices as well as incur a loss. The Company includes a measure of counterparty credit risk in its estimates of the fair values of derivative instruments in an asset position. At March 31, 2013, the Company was a net obligor with respect to its outstanding derivative contracts and therefore utilized its own credit risk in estimating the fair value of its derivatives.

The Company does not designate its derivative financial instruments as hedging instruments for financial accounting purposes and, as a result, it recognizes the change in the respective instruments' fair value currently in earnings. The table below outlines the classification of derivative financial instruments on the condensed consolidated balance sheet and their financial impact on the condensed consolidated statements of operations at and for the periods indicated (in thousands):

<u>Derivative Financial Instruments</u>	<u>Balance Sheet location</u>	<u>December 31,</u>	
		<u>2012</u>	<u>March 31,</u> <u>2013</u>
Commodity contracts	Current derivative financial instrument asset	\$ 1,771	\$ 266
Commodity contracts	Long-term derivative financial instrument asset	615	644
Commodity contracts	Current derivative financial instrument liability	(4,449)	(5,723)
Commodity contracts	Long-term derivative financial instrument liability	(2,638)	(6,136)
		<u>\$ (4,701)</u>	<u>\$ (10,949)</u>

Gains and losses associated with derivative financial instruments related to oil and gas production were as follows for the periods indicated (in thousands):

	<u>Three Months Ended March 31,</u>	
	<u>2012</u>	<u>2013</u>
Realized gains (losses)	\$ 12,085	\$ (873)
Unrealized gains (losses)	(60)	(6,248)
Total gain from derivative financial instruments	<u>\$ 12,025</u>	<u>\$ (7,121)</u>

The following table summarizes the estimated volumes, fixed prices and fair values attributable to all of the Company's oil and gas derivative contracts at March 31, 2013.

	<u>Remainder of</u> <u>2013</u>	<u>Year Ending December 31,</u>			<u>Total</u>
		<u>2014</u>	<u>2015</u>	<u>2016</u>	
		(\$ in thousands, except per unit data)			
<b>Natural Gas Swaps</b>					
Contract volumes (Mmbtu)	8,711,037	10,327,572	8,983,560	7,814,028	35,836,197
Weighted-average fixed price per Mmbtu	\$ 4.01	\$ 4.01	\$ 4.01	\$ 4.01	\$ 4.01
Fair value, net	\$ (980)	\$ (2,214)	\$ (2,403)	\$ (2,457)	\$ (8,054)
<b>Natural Gas Basis Swaps</b>					
Contract volumes (Mmbtu)	6,780,824	—	—	—	6,780,824
Weighted-average fixed price per Mmbtu	\$ (0.74)	\$ —	\$ —	\$ —	\$ (0.74)
Fair value, net	\$ (3,800)	\$ —	\$ —	\$ —	\$ (3,800)
<b>Crude Oil Swaps</b>					
Contract volumes (Bbl)	66,114	79,548	71,568	65,568	282,798
Weighted-average fixed price per Bbl	\$ 100.49	\$ 96.28	\$ 92.73	\$ 90.33	\$ 94.98
Fair value, net	\$ 241	\$ 265	\$ 217	\$ 182	\$ 905
<b>Total fair value, net</b>	<b>\$ (4,539)</b>	<b>\$ (1,949)</b>	<b>\$ (2,186)</b>	<b>\$ (2,275)</b>	<b>\$ (10,949)</b>

**POSTROCK ENERGY CORPORATION**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)**

**Note 4 — Fair Value Measurements**

Certain assets and liabilities are measured at fair value on a recurring basis in the Company’s condensed consolidated balance sheets. The following methods and assumptions were used to estimate the fair values:

*Cash and Equivalents, Accounts Receivable and Accounts Payable* The carrying amounts approximate fair value due to the short-term nature or maturity of the instruments.

*Commodity Derivative Instruments* The Company’s oil and gas derivative instruments may consist of variable to fixed price swaps, collars and basis swaps. When possible, the Company estimates the fair values of these instruments based on published forward commodity price curves as of the date of the estimate. The discount rate used in the discounted cash flow projections is based on published LIBOR rates adjusted for counterparty credit risk. Counterparty credit risk is incorporated into derivative assets while the Company’s own credit risk is incorporated into derivative liabilities. Both are based on the current published credit default swap rates.

*Equity Investment* The Company owns an equity investment in Constellation Energy Partners LLC (“CEP”). At March 31, 2013, the investment included 484,505 Class A Member Interests and 5,918,894 Class B Member Interests, for a total 26.4% voting interest in CEP. Fair value for the Class B Member Interests, which are publicly traded, is based on market price and classified as a Level 1 measurement under the fair value hierarchy. Fair value for the Class A Member Interests, classified as a Level 2 measurement, is based on the market price of the publicly traded interests and a premium reflecting certain additional rights. At March 31, 2013, the fair values used for the Class A units and the Class B units were \$2.52 and \$1.72 per unit, respectively.

The Company classifies assets and liabilities within the fair value hierarchy based on the lowest level of input that is significant to the fair value measurement of each individual asset and liability taken as a whole. Measurement information for assets and liabilities that are measured at fair value on a recurring basis was as follows (in thousands):

	Level 1	Level 2	Level 3	Total Net Fair Value
<b>At December 31, 2012</b>				
Equity investment	\$ 6,984	\$ 836	\$ —	\$ 7,820
Derivative financial instruments—assets	—	2,386	—	2,386
Derivative financial instruments—liabilities	—	(7,087)	—	(7,087)
<b>Total</b>	<b>\$ 6,984</b>	<b>\$ (3,865)</b>	<b>\$ —</b>	<b>\$ 3,119</b>
<b>At March 31, 2013</b>				
Equity investment	\$10,181	\$ 1,221	\$ —	\$ 11,402
Derivative financial instruments—assets	—	910	—	910
Derivative financial instruments—liabilities	—	(11,859)	—	(11,859)
<b>Total</b>	<b>\$10,181</b>	<b>\$ (9,728)</b>	<b>\$ —</b>	<b>\$ 453</b>

The Company classifies assets and liabilities within the fair value hierarchy based on the lowest level of input that is significant to the fair value measurement of each individual asset and liability taken as a whole.

There were no movements between Levels 1 and 2 during the three months ended March 31, 2012 and 2013. The Company has not owned any Level 3 assets or liabilities since 2012.

*Additional Fair Value Disclosures* — The Company has 7,250 outstanding shares of Series A Cumulative Redeemable Preferred Stock (“Series A Preferred Stock”) (see Note 8 — Redeemable Preferred Stock and Warrants) at March 31, 2013. The fair value and the carrying value of the Series A Preferred Stock were \$106.4 million and \$73.2 million, respectively, at December 31, 2012, and \$112.2 million and \$75.7 million, respectively, at March 31, 2013. The fair value was determined by discounting the cash flows over the remaining life of the securities utilizing a LIBOR interest rate and a risk premium of approximately 7.1% and 6.1% at December 31, 2012, and March 31, 2013, respectively, which was based on companies with similar leverage ratios to PostRock. The Company has classified the valuation of these securities under Level 2 of the fair value hierarchy.

**POSTROCK ENERGY CORPORATION**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)**

The Company's debt consists entirely of floating-rate facilities. The carrying amount of floating-rate debt approximates fair value because the interest rates paid on such debt are generally set for periods of nine months or shorter.

**Note 5 — Equity Investment**

The Company believes that its 26.4% voting interest in CEP at March 31, 2013, along with the right to appoint two directors to CEP's Board provide it the ability to exercise significant influence over the operating and financial policies of CEP. Rather than accounting for the investment under the equity method, the Company elected the fair value option to account for its interest in CEP. The fair value option was chosen as the Company determined that the market price of CEP's publicly traded interests provided a more accurate fair value measure of the Company's investment in CEP. The Company has not elected the fair value option for any of its other assets and liabilities.

The following table presents the mark-to-market gains (losses) on our equity investment, which are recorded as a component of other income (expense) in the condensed consolidated statement of operations (in thousands):

	Three Months Ended March 31,	
	2012	2013
Mark to market gains on equity investment	\$ 4,169	\$ 3,582

The following table presents summarized financial information of CEP (in thousands). The information was provided by CEP whose Quarterly Report on Form 10-Q for the quarter ended March 31, 2013, will be filed on or around May 15, 2013.

	Three Months Ended March 31,	
	2012	2013
Revenues	\$23,760	\$ 5,100
Gross profit (loss)(1)	7,407	(9,362)
Net income (loss)	5,885	(13,332)

(1) Equals revenues less operating expenses

**Note 6 — Asset Retirement Obligations**

The following table reflects the changes to asset retirement obligations for the periods indicated (in thousands):

	Three Months Ended March 31,	
	2012	2013
Asset retirement obligations at beginning of period (1)	\$10,087	\$10,868
Liabilities incurred	—	129
Liabilities settled	(48)	—
Accretion	180	193
Asset retirement obligations at end of period	<u>\$10,219</u>	<u>\$11,190</u>

(1) Amounts in the table do not include the asset retirement obligations pertaining to KPC, which was divested by the Company during 2012.

**POSTROCK ENERGY CORPORATION**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)**

**Note 7 — Long-Term Debt**

The Company has a single credit facility comprised of a \$200 million senior secured revolving facility (the “Borrowing Base Facility”) with a borrowing base of \$90 million and the following outstanding balances (in thousands):

	December 31, 2012	March 31, 2013
Borrowing Base Facility	\$ 57,500	\$66,000
Less current maturities	—	—
<b>Total long-term debt</b>	<b>\$ 57,500</b>	<b>\$66,000</b>

The terms of the Borrowing Base Facility are described within Note 10 of Item 8. Financial Statement and Supplementary Data in the 2012 10-K (referenced in the 2012 10-K as the “New Borrowing Base Facility”). With outstanding borrowings of \$66.0 million, \$24.0 million was available for additional borrowings at March 31, 2013.

The Company was in compliance with all of its financial covenants under the Borrowing Base Facility at March 31, 2013.

**Note 8 — Redeemable Preferred Stock and Warrants**

Prior to December 31, 2014, the Company may accrue dividends on its Series A Preferred Stock rather than paying them in cash. Whenever dividends are accrued on a quarterly dividend payment date, the liquidation preference of the Series A Preferred Stock is increased by the amount of the accrued dividends and additional warrants to purchase shares of PostRock common stock are issued. The Company records the increase in liquidation preference and the issuance of additional warrants by allocating their relative fair values to the amount of accrued dividends. The allocation results in an increase to the Company’s temporary equity related to the Series A Preferred Stock and an increase to additional paid in capital related to the additional warrants issued. The increase to additional paid in capital related to additional warrants issued for dividends paid in kind was \$938,000 during the three months ended March 31, 2013.

The following table describes the changes in temporary equity, currently consisting of the Series A Preferred Stock (in thousands except share amounts), and in the outstanding warrants:

	Carrying Value of Series A Preferred Stock	Number of Outstanding Series A Preferred Shares	Liquidation Value of Series A Preferred Stock	Number of Outstanding Warrants	Weighted Average Exercise Price of Warrants
December 31, 2012	\$ 73,152	7,250	\$ 91,342	34,336,414	\$ 2.66
Accrued dividends	1,802	—	2,740	1,565,560	1.75
Accretion	778	—	—	—	—
March 31, 2013	\$ 75,732	7,250	\$ 94,082	35,901,974	\$ 2.62

**POSTROCK ENERGY CORPORATION**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)**

**Note 9 — Equity and Earnings per Share**

*Share-Based Payments* — The Company recorded share based compensation expense of \$442,000 and \$719,000 for the three months ended March 31, 2012 and 2013, respectively. Total share-based compensation to be recognized on unvested stock awards and options at March 31, 2013, is \$3.8 million over a weighted average period of 1.37 years. The following table summarizes option and restricted awards granted during 2013 and their associated valuation assumptions:

	<u>Number of awards granted</u>	<u>Fair value per option or share</u>	<u>Exercise price</u>	<u>Risk free rate</u>	<u>Volatility</u>
<b>Options</b>					
First quarter 2013 employee awards (1)	490,229	\$ 0.89	\$ 1.83	1.0%	64.0%
<b>Restricted Stock Awards</b>					
First quarter 2013 employee awards (2)	493,438	\$ 1.83	n/a	n/a	n/a
First quarter 2013 director awards (3)	10,243	\$ 1.47	n/a	n/a	n/a

- (1) Awards vest ratably over a three year period.
- (2) 188,386 restricted shares vest in one year, 184,017 restricted shares vest in two years and 121,035 restricted shares vest in three years.
- (3) Awards vest immediately.

*Income/(Loss) per Share* — A reconciliation of the denominator (number of shares) used in the basic and diluted per share calculations for the periods indicated is as follows:

	<u>Three Months Ended March 31,</u>	
	<u>2012</u>	<u>2013</u>
Denominator for basic earnings per share	11,206,112	22,763,461
Effect of potentially dilutive securities		
Unvested share-based awards	49,270	—
Warrants	1,528,334	—
Stock options	2,023	—
Denominator for diluted earnings per share	<u>12,785,739</u>	<u>22,763,461</u>
Securities excluded from earnings per share calculation		
Unvested share-based awards	14,998	149,988
Antidilutive stock options	1,070,620	2,455,663
Warrants	1,830,462	34,785,629

*Common Stock Issuance* — The Company has an effective \$100 million universal shelf registration statement under which it has been selling common shares pursuant to an at-the-market issuance sales agreement with a sales agent. During the three months ended March 31, 2013, the Company sold 2,054,758 common shares for net proceeds of \$3.2 million.

**Note 10 — Commitments and Contingencies**

*Litigation* — The Company is subject, from time to time, to certain legal proceedings and claims in the ordinary course of conducting its business. It records a liability related to its legal proceedings and claims when it has determined that it is probable that it will be obligated to pay and the related amount can be reasonably estimated. The Company currently believes that there are no pending legal proceedings in which it is currently involved which, if adversely determined, would have a material adverse effect on its financial position, results of operations or cash flows.

*Contractual Commitments* — The Company has numerous contractual commitments in the ordinary course of business including debt service requirements, operating leases and purchase obligations. During the three months ended March 31, 2013, the Company entered into new contractual commitments for software, information technology services, compressors and office space. It also entered into a sublease of unutilized office space at its corporate headquarters allowing the Company to reduce its future rent expense at that facility. As a result, the \$1.5 million minimum amount of these contracts over a span of five years would be an increase to the amount included in the Company's outstanding contractual commitments table at December 31, 2012.

**POSTROCK ENERGY CORPORATION**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)**

Other than the contractual commitments discussed above and additional debt borrowings during the three months ended March 31, 2013, there were no material changes to the Company’s contractual commitments since December 31, 2012.

**Note 11 — Discontinued Operations**

In September 2012, the Company consummated the sale of KPC to MV Pipelines, LLC (“MV”) for \$53.5 million in cash, \$53.4 million after a working capital adjustment. Of this amount, \$500,000 was deposited into an escrow account pending acceptable cleanup of a site previously owned by KPC. The cleanup was completed and escrow was released to the Company in January 2013. The operating results of KPC prior to its sale are classified as discontinued operations and are presented separately in the condensed consolidated statement of operations.

The following table discloses the results of discontinued operations related to KPC (in thousands):

	<b>Three Months Ended</b>	
	<b>March 31, 2012</b>	
Interstate pipeline revenue	\$	3,428
Pipeline expense		(882)
Depreciation and amortization		(851)
Gain on disposal of assets		5
General and administrative expenses		(316)
Interest expense		(45)
Income from discontinued operations before income taxes		1,339
Income taxes		—
Total income from discontinued operations	\$	<u>1,339</u>

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### ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

#### Overview

We are an independent oil and gas company engaged in the acquisition, exploration, development, production and gathering of crude oil and natural gas. Our primary production activity is focused in the Cherokee Basin, a 15-county region in southeastern Kansas and northeastern Oklahoma. We also have oil producing properties in Oklahoma and minor oil and gas producing properties in the Appalachian Basin. We previously owned an interstate natural gas pipeline which was sold in September 2012, and we report its results as a discontinued operation in our financial statements. Unless the context requires otherwise, references to "PostRock," the "Company," "we," "us" and "our" refer to PostRock Energy Corporation and its consolidated subsidiaries.

The following discussion should be read together with the unaudited condensed consolidated financial statements and related notes included elsewhere herein and with our annual report on Form 10-K for the year ended December 31, 2012.

#### 2013 Drilling Program and Production Update

During the first quarter of 2013, we drilled 55 new oil wells and recompleted 40 wells in the Cherokee Basin and recompleted two wells in Central Oklahoma. Capital spending during the three months ended March 31, 2013, included \$8.9 million on oil directed drilling and recompletions, \$791,000 on maintenance related projects, including truck replacement and compressor optimization projects, and \$378,000 to extend leases in the Cherokee Basin and to acquire new acreage in Central Oklahoma. Oil production continues to increase from our oil directed development program. Net oil sales during the current quarter averaged 363 barrels a day, a 77% increase from the prior year quarter. In early May 2013, our estimated net oil production exceeded 500 barrels per day. For the remainder of 2013 we plan to drill an additional 150 oil wells and recomplete an additional 20 wells in the Cherokee Basin. We also plan to recomplete seven wells and drill five wells, including two horizontals, in Central Oklahoma. Our capital spending for the remainder of 2013 is subject to available capital as discussed below in "*Sources of Liquidity in 2013 and Capital Requirements.*"

Gas prices climbed throughout the first quarter to approximately \$4.00 per Mmbtu at quarter end. Subsequently, they have continued to climb past \$4.00 per Mmbtu. Despite current gas prices, we continue to maintain our curtailment of all capital expenditures related to natural gas development and will continue to focus on transitioning to a more balanced production profile. This is a significant contributing factor to our 14% decline in gas and 76% increase in oil sales volumes when comparing the three month periods ended March 31, 2012 and 2013.

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### Three Months Ended March 31, 2012 Compared to the Three Months Ended March 31, 2013

The following table presents financial and operating data for the periods indicated as follows:

	Three Months Ended March 31,		Increase/ (Decrease)	
	2012	2013		
	(\$ in thousands except per unit data)			
Natural gas sales	\$11,774	\$12,442	\$ 668	5.7%
Crude oil sales	\$ 1,848	\$ 2,957	\$ 1,109	60.0%
Gathering revenue	\$ 699	\$ 654	\$ (45)	(6.4)%
Production expense	\$11,501	\$ 9,775	\$ (1,726)	(15.0)%
Depreciation, depletion and amortization	\$ 6,162	\$ 6,428	\$ 266	4.3%
Gain (loss) on disposal of assets	\$ 104	\$ (31)	\$ (135)	*
<b>Sales Data</b>				
Oil sales (Bbls)	18,624	32,679	14,055	75.5%
Natural gas sales (Mmcf)	4,318	3,720	(598)	(13.8)%
Total sales (Mmcfe)	4,429	3,917	(512)	(11.6)%
Average daily sales (Mmcfe/d)	48.7	43.5	(5.2)	(10.6)%
<b>Average Sales Price per Unit</b>				
Natural Gas (Mcf)	\$ 2.73	\$ 3.34	\$ 0.61	22.3%
Oil(Bbl)	\$ 99.25	\$ 90.49	\$ (8.76)	(8.8)%
Natural Gas Equivalent (Mcf)	\$ 3.08	\$ 3.93	\$ 0.85	27.6%
<b>Average Unit Costs per Mcfe</b>				
Production expense	\$ 2.60	\$ 2.50	\$ (0.10)	(3.8)%
Depreciation, depletion and amortization	\$ 1.39	\$ 1.64	\$ 0.25	18.0%

\* Not meaningful

Natural gas sales increased \$668,000, or 5.7%, from \$11.8 million during the three months ended March 31, 2012, to \$12.4 million during the three months ended March 31, 2013. Higher natural gas prices resulted in increased revenues of \$2.3 million while lower gas volumes partially offset that increase by \$1.6 million. The decline in gas volumes was the result of a continued suspension of gas development as gas prices remain uneconomic during the first quarter as well as the natural decline of our existing wells. Our average realized natural gas price increased from \$2.73 per Mcf for the three months ended March 31, 2012, to \$3.34 per Mcf for the three months ended March 31, 2013.

Oil revenue increased \$1.1 million, or 60.0%, from \$1.9 million during the three months ended March 31, 2012, to \$3.0 million during the three months ended March 31, 2013. Higher oil volumes resulted in increased revenues of \$1.4 million while lower oil prices partially offset that increase by \$286,000. Our average realized oil price decreased from \$99.25 per barrel for the three months ended March 31, 2012, to \$90.49 per barrel for the three months ended March 31, 2013.

Gathering revenue decreased \$45,000, or 6.4%, from \$699,000 for the three months ended March 31, 2012, to \$654,000 for the three months ended March 31, 2013. The decrease is primarily due to lower gas volumes being transported as a result of our 14.1% natural gas production decline in the Cherokee Basin and 24.2% decline in third-party volumes transported. The decrease was partially offset by higher realized prices.

Production expense consists of lease operating expenses, severance and ad valorem taxes ("production taxes") and gathering expense. Production expense decreased \$1.7 million, or 15.0%, from \$11.5 million for the three months ended March 31, 2012, to \$9.8 million for the three months ended March 31, 2013. The variance is driven by lower maintenance, electricity and labor costs of \$1.0 million, one-time field restructuring costs of \$368,000 recognized in the prior-year period, and higher capitalized lease operating expenses of \$162,000 as development activities increased. Production expense was \$2.60 per Mcfe for the three months ended March 31, 2012, as compared to \$2.50 per Mcfe for the three months ended March 31, 2013. Excluding the one-time field restructuring costs, production expense for the three months ended March 31, 2012, was \$2.51 per Mcfe.

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Depreciation, depletion and amortization increased \$266,000, or 4.3%, from \$6.2 million during the three months ended March 31, 2012, to \$6.4 million during the three months ended March 31, 2013. On a per unit basis, we had an increase of \$0.25 per Mcfe from \$1.39 per Mcfe during the three months ended March 31, 2012, to \$1.64 per Mcfe during the three months ended March 31, 2013. The increase was primarily a result of an increase in the depreciation rate which was partially offset by lower volumes.

General and administrative expenses decreased \$717,000, or 16.8%, from \$4.3 million during the three months ended March 31, 2012, to \$3.5 million during the three months ended March 31, 2013. The decrease was primarily due to lower compensation costs of \$482,000 coupled with lower legal and professional fees of \$231,000. Compensation costs were lower, in part, due to cost savings resulting from the restructuring of our Oklahoma City office in 2012.

Other income (expense) consists primarily of realized and unrealized gains or losses from derivative instruments, gain or loss from equity investment and net interest expense. We recorded a realized gain on our derivative contracts of \$12.1 million for the three months ended March 31, 2012, compared to a realized loss of \$873,000 for the three months ended March 31, 2013. The current quarter loss was due to realized losses on our Southern Star Basis swaps, and was partially offset by realized gains on our NYMEX oil swaps. In the fourth quarter of 2012, we monetized all of our NYMEX gas swaps scheduled for 2013, which prior to being monetized would have significantly offset the losses realized on the Southern Star Basis swaps. Our natural gas swaps that settled during 2012, including the 2013 swaps that we early-settled during the fourth quarter of 2012, were priced at an average of slightly above \$7.00 per Mmbtu. Our 2013 contracts are now priced at an average of approximately \$4.00 per Mmbtu. As a result of lower contract prices as well as the expected improvement in natural gas spot prices in 2013, we expect realized gains on our natural gas commodity derivatives to be lower during the remainder of 2013 compared to 2012. We recorded unrealized losses from derivative instruments of \$60,000 and \$6.2 million on our derivative contracts for the three months ended March 31, 2012 and 2013, respectively. We recorded mark-to-market gains on our equity investment in Constellation Energy Partners LLC ("CEP") of \$4.2 million and \$3.6 million for the three months ended March 31, 2012 and 2013, respectively. These gains are the result of improvements in the market price of CEP's traded units relative to the prior period. Interest expense, net, was \$2.7 million during the three months ended March 31, 2012, and \$641,000 during the three months ended March 31, 2013. Interest was lower as a result of reduced debt.

## Liquidity and Capital Resources

Cash flows from operating activities have historically been driven by the quantities of our production and the prices received from the sale of this production. Prices of oil and gas have historically been very volatile and can significantly impact the cash received from the sale of our production. Use of derivative financial instruments help mitigate this price volatility. Proceeds from derivative settlements are included in cash flows from operations. Cash expenses also impact our operating cash flow and consist primarily of production expenses, interest on our indebtedness and general and administrative expenses.

Our primary sources of liquidity for the three months ended March 31, 2013, were proceeds from issuing common stock and borrowings under our borrowing base credit facility. At March 31, 2013, our debt increased by \$8.5 million from December 31, 2012. The increase was primarily due to a \$4.5 million royalty settlement payment and \$1.1 million in property tax payments, both which were made in December 2012 and funded in early 2013. The remaining increase funded our current capital expenditures and working capital needs.

### *Cash Flows from Operating Activities*

Cash flows provided by operating activities was \$10.4 million for the three months ended March 31, 2012, compared to cash used of \$2.8 million for the three months ended March 31, 2013. The decrease in cash was primarily a result of a decrease in realized gains from commodity derivatives where \$12.1 million in realized gains were generated in the prior year quarter compared to \$873,000 in realized losses in the current quarter. In addition, a significant portion of cash was utilized in the current quarter to fund the royalty settlement and property tax payments discussed above.

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### *Cash Flows from Investing Activities*

Cash flows used in investing activities were \$4.3 million for the three months ended March 31, 2012, compared to cash used of \$9.2 million for the three months ended March 31, 2013. The increased outflow was primarily due to higher capital expenditures which increased from \$4.5 million during the three months ended March 31, 2012, to \$9.2 million during the three months ended March 31, 2013. Capital expenditures in the prior year quarter were lower compared to the current quarter as result of the steep decline in natural gas prices in early 2012 which prompted us to curtail gas related projects early in the year and begin identifying viable oil development projects. Capital expenditures in the current quarter reflect our oil development activities in the Cherokee Basin. The following table sets forth our capital expenditures, including costs we have incurred but not paid, by major categories for the three months ended March 31, 2013 (in thousands):

	Three Months Ended	
	March 31, 2013	
<b>Capital expenditures</b>		
Leasehold acquisition	\$	378
Development		8,921
Other items		791
<b>Total capital expenditures</b>	<b>\$</b>	<b>10,090</b>

### *Cash Flows from Financing Activities*

Cash flows used in financing activities were \$6.5 million for the three months ended March 31, 2012, as compared to cash received of \$11.6 million for the three months ended March 31, 2013. Debt repayments were \$14.0 million for the three months ended March 31, 2012, compared to borrowings of \$8.5 million for the three months ended March 31, 2013. During the three months ended March 31, 2012, we issued \$7.5 million of common stock to White Deer while \$3.3 million of common stock was issued during the three months ended March 31, 2013, under our at-the-market sales agreement, as discussed below.

### *Sources of Liquidity in 2013 and Capital Requirements*

We rely on our cash flows from operating activities as a source of internally generated liquidity. Our long-term ability to generate liquidity internally depends, in part, on our ability to hedge future production at attractive prices as well as our ability to control operating expenses. This has become especially critical in light of depressed natural gas prices in 2012 which have since begun a modest rebound in 2013. To a lesser extent, we have in the past relied on the sale of our non-core assets to generate liquidity. During 2010 and 2011, we sold non-core assets in the Appalachian Basin generating proceeds of \$44.6 million. In September 2012, we sold our interstate pipeline for \$53.5 million, \$53.4 net after a working capital adjustment. From time to time, we may also issue equity as an external source of liquidity. During 2012, we generated proceeds of \$32.5 million from issuing equity to White Deer. The proceeds from the sale of our non-core assets and from equity issuances have generally been utilized to repay outstanding debt and for working capital purposes.

At March 31, 2013, we had a \$200 million secured borrowing base revolving credit facility with a borrowing base of \$90 million (the "Borrowing Base Facility"). We rely on this facility as an external source of long and short-term liquidity. With borrowings of \$66.0 million at March 31, 2013, we had \$24.0 million available under the facility on that date. The terms of this facility are described within Note 10 of Item 8. Financial Statement and Supplementary Data in our Annual Report on Form 10-K for the year ended December 31, 2012 (referenced in the document as the "New Borrowing Base Facility").

The borrowing base under our Borrowing Base Facility was redetermined on May 8, 2013, based on reserves at December 31, 2012, to be \$95 million, an increase of \$5 million. The borrowing base is determined based on the value of our oil and natural gas reserves at our lenders' forward price forecasts, which are generally derived from futures prices. At May 8, 2013, with borrowings of \$73 million, we had \$22 million available under the facility. With the current availability under our Borrowing Base Facility and expected cash flows from operations, we believe that we have sufficient liquidity to fund our capital expenditures and financial obligations for the remainder of 2013.

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We have an effective universal shelf registration statement on Form S-3. Pursuant to the registration statement, we have implemented an at-the-market program under which shares of our common stock are sold. Through May 1, 2013, we sold under the program 2,578,962 shares of common stock for \$3.9 million, net of \$114,000 in agent commissions during the year.

### ***Dilution***

At March 31, 2013, including 9,834,620 shares of our common stock held by White Deer, we had 23,732,480 shares of common stock issued and outstanding. In addition, we had 36,351,189 outstanding warrants to purchase our common stock of which 35,901,974 are owned by White Deer at an average exercise price of \$2.62 and 449,215 are owned by Constellation Energy Group Inc. at an average exercise price of \$7.32. We also had 149,988 restricted stock units and 2,455,663 options outstanding granted under our long-term incentive plan. Consequently, if these securities were included as outstanding, our outstanding shares would have been 62,689,320 of which the warrants and common stock owned by White Deer would represent approximately 73%. By exercising their warrants, White Deer can benefit from their respective percentage of all of our profits and growth. In addition, if White Deer begins to sell significant amounts of our common stock, or if public markets perceive that they may sell significant amounts of our common stock, the market price of our common stock may be significantly impacted.

### **Contractual Obligations**

We have numerous contractual commitments in the ordinary course of business including debt service requirements, operating leases and purchase obligations. During the three months ended March 31, 2013, we entered into new contractual commitments for software, information technology services, compressors and office space. We also entered into a sublease of unutilized office space at our corporate headquarters allowing us to reduce future rent expense for that facility. As a result, the \$1.5 million minimum amount of these contracts over a span of five years would be an increase to the amount included in our outstanding contractual commitments table at December 31, 2012.

Other than the contractual commitments discussed above and additional debt borrowings during the three months ended March 31, 2013, there were no material changes to the our contractual commitments since December 31, 2012.

### **Forward-Looking Statements**

Various statements in this report, including those that express a belief, expectation, or intention, as well as those that are not statements of historical fact, are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements include those regarding projections and estimates concerning the timing and success of specific projects; financial position; business strategy; budgets; amount, nature and timing of capital expenditures; drilling of wells and construction of pipeline infrastructure; acquisition and development of oil and natural gas properties and related pipeline infrastructure; timing and amount of future production of oil and natural gas; operating costs and other expenses; estimated future net revenues from oil and natural gas reserves and the present value thereof; cash flow and anticipated liquidity; funding of our capital expenditures; ability to meet our debt service obligations; and other plans and objectives for future operations.

When we use the words “believe,” “intend,” “expect,” “may,” “will,” “should,” “anticipate,” “could,” “estimate,” “plan,” “predict,” “project,” or their negatives, or other similar expressions, the statements which include those words are usually forward-looking statements. When we describe strategy that involves risks or uncertainties, we are making forward-looking statements. The factors impacting these risks and uncertainties include, but are not limited to:

- current weak economic conditions;
- volatility of oil and natural gas prices;

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- increases in the cost of drilling, completion and gas gathering or other costs of developing and producing our reserves;
- our debt covenants;
- access to capital, including debt and equity markets;
- results of our hedging activities;
- drilling, operational and environmental risks; and
- regulatory changes and litigation risks.

You should consider carefully the statements under Item 1A. Risk Factors included in our annual report on Form 10-K for the year ended December 31, 2012, which describe factors that could cause our actual results to differ from those set forth in the forward-looking statements. Our annual report on Form 10-K for the year ended December 31, 2012, is available on our website at [www.pstr.com](http://www.pstr.com).

We have based these forward-looking statements on our current expectations and assumptions about future events. The forward-looking statements in this report speak only as of the date of this report; we disclaim any obligation to update these statements unless required by securities law, and we caution you not to rely on them unduly. Readers are urged to carefully review and consider the various disclosures made by us in our reports filed with the SEC, which attempt to advise interested parties of the risks and factors that may affect our business, financial condition, results of operation and cash flows. If one or more of these risks or uncertainties materialize, or if the underlying assumptions prove incorrect, our actual results may vary materially from those expected or projected.

### ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

The following table summarizes the estimated volumes, fixed prices and fair value attributable to our oil and gas derivative contracts at March 31, 2013.

	Remainder of 2013	Year Ending December 31,			Total
		2014	2015	2016	
(\$ in thousands, except per unit data)					
<b>Natural Gas Swaps</b>					
Contract volumes (Mmbtu)	8,711,037	10,327,572	8,983,560	7,814,028	35,836,197
Weighted-average fixed price per Mmbtu	\$ 4.01	\$ 4.01	\$ 4.01	\$ 4.01	\$ 4.01
Fair value, net	\$ (980)	\$ (2,214)	\$ (2,403)	\$ (2,457)	\$ (8,054)
<b>Natural Gas Basis Swaps</b>					
Contract volumes (Mmbtu)	6,780,824	—	—	—	6,780,824
Weighted-average fixed price per Mmbtu	\$ (0.74)	\$ —	\$ —	\$ —	\$ (0.74)
Fair value, net	\$ (3,800)	\$ —	\$ —	\$ —	\$ (3,800)
<b>Crude Oil Swaps</b>					
Contract volumes (Bbl)	66,114	79,548	71,568	65,568	282,798
Weighted-average fixed price per Bbl	\$ 100.49	\$ 96.28	\$ 92.73	\$ 90.33	\$ 94.98
Fair value, net	\$ 241	\$ 265	\$ 217	\$ 182	\$ 905
<b>Total fair value, net</b>	<b>\$ (4,539)</b>	<b>\$ (1,949)</b>	<b>\$ (2,186)</b>	<b>\$ (2,275)</b>	<b>\$ (10,949)</b>

### ITEM 4. CONTROLS AND PROCEDURES

Disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934) are designed to ensure that information required to be disclosed in reports filed or submitted under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in SEC rules and forms and that such information is accumulated and communicated to management, including the principal executive officer and the principal financial officer, to allow timely decisions regarding required disclosures. There

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are inherent limitations to the effectiveness of any system of disclosure controls and procedures, including the possibility of human error and the circumvention or overriding of the controls and procedures. Accordingly, even effective disclosure controls and procedures can only provide reasonable assurance of achieving their control objectives.

In connection with the preparation of this quarterly report on Form 10-Q, our management, under the supervision and with the participation of our principal executive officer and principal financial officer, conducted an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures as of March 31, 2013. Based on that evaluation, our principal executive officer and principal financial officer concluded that, as of March 31, 2013, our disclosure controls and procedures were effective with respect to the recording, processing, summarizing and reporting, within the time periods specified in the SEC's rules and forms, of information required to be disclosed by us in the reports that we file or submit under the Exchange Act.

There were no changes in internal control over financial reporting that occurred during the quarter covered by this report that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## PART II — OTHER INFORMATION

### ITEM 1A. RISK FACTORS.

For additional information about our risk factors, see Item 1A. "Risk Factors" in our 2012 10-K.

### ITEM 6. EXHIBITS

10.1†*	PostRock Energy Corporation Executive Nonqualified Excess Plan Adoption Agreement.
10.2†*	PostRock Energy Corporation Executive Nonqualified Excess Plan.
31.1*	Certification by principal executive officer pursuant to Rule 13a-14(a) or 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2*	Certification by principal financial officer pursuant to Rule 13a-14(a) or 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1*	Certification by principal executive officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2*	Certification by principal financial officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS**	XBRL Instance Document.
101.SCH**	XBRL Taxonomy Extension Schema Document.
101.CAL**	XBRL Taxonomy Extension Calculation Linkbase Document.
101.LAB**	XBRL Taxonomy Extension Labels Linkbase Document.
101.PRE**	XBRL Taxonomy Extension Presentation Linkbase Document.
101.DEF**	Taxonomy Extension Definition Linkbase Document.

\* Filed herewith.

\*\* Furnished not filed.

† Management contracts and compensatory plans and arrangements.

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PLEASE NOTE: Pursuant to the rules and regulations of the Securities and Exchange Commission, we have filed or incorporated by reference the agreements referenced above as exhibits to this Quarterly Report on Form 10-Q. The agreements have been filed to provide investors with information regarding their respective terms. The agreements are not intended to provide any other factual information about the Company or its business or operations. In particular, the assertions embodied in any representations, warranties and covenants contained in the agreements may be subject to qualifications with respect to knowledge and materiality different from those applicable to investors and may be qualified by information in confidential disclosure schedules not included with the exhibits. These disclosure schedules may contain information that modifies, qualifies and creates exceptions to the representations, warranties and covenants set forth in the agreements. Moreover, certain representations, warranties and covenants in the agreements may have been used for the purpose of allocating risk between the parties, rather than establishing matters as facts. In addition, information concerning the subject matter of the representations, warranties and covenants may have changed after the date of the respective agreement, which subsequent information may or may not be fully reflected in the Company's public disclosures. Accordingly, investors should not rely on the representations, warranties and covenants in the agreements as characterizations of the actual state of facts about the Company or its business or operations on the date hereof.

**SIGNATURES**

Pursuant to the requirements 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 this 9th day of May 2013.

PostRock Energy Corporation

By: /s/ Terry W. Carter

Terry W. Carter

*Chief Executive Officer and President*

By: /s/ David J. Klvac

David J. Klvac

*Executive Vice President, Chief Financial Officer and Chief Accounting Officer*

**NOTE: Execution of this Adoption Agreement creates a legal liability of the Employer with significant tax consequences to the Employer and Participants. Principal Life Insurance Company disclaims all liability for the legal and tax consequences which result from the elections made by the Employer in this Adoption Agreement.**

Principal Life Insurance Company, Raleigh, NC 27612  
A member of the Principal Financial Group®

**THE EXECUTIVE NONQUALIFIED “EXCESS” PLAN  
ADOPTION AGREEMENT**

THIS AGREEMENT is the adoption by **PostRock Energy Services Corporation** (the “Company”) of the Executive Nonqualified Excess Plan (“Plan”).

**WITNESSETH:**

WHEREAS, the Company desires to adopt the Plan as an unfunded, nonqualified deferred compensation plan; and

WHEREAS, the provisions of the Plan are intended to comply with the requirements of Section 409A of the Code and the regulations thereunder and shall apply to amounts subject to section 409A; and

WHEREAS, the Company has been advised by Principal Life Insurance Company to obtain legal and tax advice from its professional advisors before adopting the Plan,

NOW, THEREFORE, the Company hereby adopts the Plan in accordance with the terms and conditions set forth in this Adoption Agreement:

**ARTICLE I**

Terms used in this Adoption Agreement shall have the same meaning as in the Plan, unless some other meaning is expressly herein set forth. The Employer hereby represents and warrants that the Plan has been adopted by the Employer upon proper authorization and the Employer hereby elects to adopt the Plan for the benefit of its Participants as referred to in the Plan. By the execution of this Adoption Agreement, the Employer hereby agrees to be bound by the terms of the Plan.

**ARTICLE II**

The Employer hereby makes the following designations or elections for the purpose of the Plan:

**2.6 Committee:** The duties of the Committee set forth in the Plan shall be satisfied by:

- (a) Company
- (b) The administrative committee appointed by the Board to serve at the pleasure of the Board.
- (c) Board.
- (d) Other (specify): .

**2.8 Compensation:** The "Compensation" of a Participant shall mean all of a Participant's:

- (a) Base salary.
- (b) Service Bonus.
- (c) Performance-Based Compensation earned in a period of 12 months or more.
- (d) Commissions.
- (e) Compensation received as an Independent Contractor reportable on Form 1099.
- (f) Other:

**2.9 Crediting Date:** The Deferred Compensation Account of a Participant shall be credited as follows:

Participant Deferral Credits at the time designated below:

- (a) The last business day of each Plan Year.
- (b) The last business day of each calendar quarter during the Plan Year.
- (c) The last business day of each month during the Plan Year.
- (d) The last business day of each payroll period during the Plan Year.
- (e) Each pay day as reported by the Employer.
- (f) On any business day as specified by the Employer.
- (g) Other: .

Employer Credits at the time designated below:

- (a) On any business day as specified by the Employer.
- (b) Other: .

**2.13 Effective Date:**

- (a) This is a newly-established Plan, and the Effective Date of the Plan is **January 01, 2013**.
- (b) This is an amendment of a plan named \_\_\_\_\_ dated \_\_\_\_\_ and governing all contributions to the plan through \_\_\_\_\_.  
The Effective Date of this amended Plan is \_\_\_\_\_.

**2.20 Normal Retirement Age:** The Normal Retirement Age of a Participant shall be:

- XX (a) Age 65.
- \_\_\_ (b) The later of age \_\_\_ or the \_\_\_ anniversary of the participation commencement date. The participation commencement date is the first day of the first Plan Year in which the Participant commenced participation in the Plan.
- \_\_\_ (c) Other: \_\_\_\_\_.

**2.23 Participating Employer(s):** As of the Effective Date, the following Participating Employer(s) are parties to the Plan:

<u>Name of Employer</u>	<u>Address</u>	<u>Telephone No.</u>	<u>EIN</u>
PostRock Energy Services Corporation	210 Park Ave., Suite 2750 Oklahoma City, OK 73102	405-600-7704	90-0196936

**2.26 Plan:** The name of the Plan is

PostRock Energy Services Corporation Deferred Compensation Plan.

**2.28 Plan Year:** The Plan Year shall end each year on the last day of the month of December.

**2.30 Seniority Date:** The date on which a Participant has:

- \_\_\_ (a) Attained age \_\_\_.
- \_\_\_ (b) Completed \_\_\_ Years of Service from First Date of Service.
- \_\_\_ (c) Attained age \_\_\_ and completed \_\_\_ Years of Service from First Date of Service.
- \_\_\_ (d) Attained an age as elected by the Participant.
- \_\_\_ (e) Not applicable – distribution elections for Separation from Service are not based on Seniority Date
- XX (f) Other: Attained age 55 or completed 5 Years of Service from First Date of Service.

**4.1 Participant Deferral Credits:** Subject to the limitations in Section 4.1 of the Plan, a Participant may elect to have his Compensation (as selected in Section 2.8 of this Adoption Agreement) deferred within the annual limits below by the following percentage or amount as designated in writing to the Committee:

- (a) Base salary:
  - minimum deferral: 0%
  - maximum deferral: \$ or 75%
- (b) Service Bonus:
  - minimum deferral: 0%
  - maximum deferral: \$ or 100%
- (c) Performance-Based Compensation:
  - minimum deferral: 0%
  - maximum deferral: \$ or 100%
- (d) Commissions:
  - minimum deferral: 0%
  - maximum deferral: \$ or 100%
- (e) Form 1099 Compensation:
  - minimum deferral: 0%
  - maximum deferral: \$ or 100%
- (f) Other:
  - minimum deferral: %
  - maximum deferral: \$ or %
- (g) Participant deferrals not allowed.

**4.2 Employer Credits:** Employer Credits will be made in the following manner:

- (a) **Employer Discretionary Credits** : The Employer may make discretionary credits to the Deferred Compensation Account of each Active Participant in an amount determined as follows:
- (i) An amount determined each Plan Year by the Employer.
- (ii) Other: .
- (b) **Other Employer Credits** : The Employer may make other credits to the Deferred Compensation Account of each Active Participant in an amount determined as follows:
- (i) An amount determined each Plan Year by the Employer.
- (ii) Other: .
- (c) Employer Credits not allowed.

**5.2 Disability of a Participant:**

- (a) A Participant's becoming Disabled shall be a Qualifying Distribution Event and the Deferred Compensation Account shall be paid by the Employer as provided in Section 7.1.
- (b) A Participant becoming Disabled shall not be a Qualifying Distribution Event.

**5.3 Death of a Participant:** If the Participant dies while in Service, the Employer shall pay a benefit to the Beneficiary in an amount equal to the vested balance in the Deferred Compensation Account of the Participant determined as of the date payments to the Beneficiary commence, plus:

- (a) An amount to be determined by the Committee.
- (b) Other: .
- (c) No additional benefits.

**5.4 In-Service or Education Distributions:** In-Service and Education Accounts are permitted under the Plan:

- (a) In-Service Accounts are allowed with respect to:
- Participant Deferral Credits only.
  - Employer Credits only.
  - Participant Deferral and Employer Credits.
- In-service distributions may be made in the following manner:
- Single lump sum payment.
  - Annual installments over a term certain not to exceed \_\_\_\_\_ years.
- Education Accounts are allowed with respect to:
- Participant Deferral Credits only.
  - Employer Credits only.
  - Participant Deferral and Employer Credits.
- Education Accounts distributions may be made in the following manner:
- Single lump sum payment.
  - Annual installments over a term certain not to exceed \_\_\_\_\_ years.
- If applicable, amounts not vested at the time payments due under this Section cease will be:
- Forfeited
  - Distributed at Separation from Service if vested at that time
- (b) No In-Service or Education Distributions permitted.

**5.5 Change in Control Event:**

- (a) Participants may elect upon initial enrollment to have accounts distributed upon a Change in Control Event.
- (b) A Change in Control shall not be a Qualifying Distribution Event.

**5.6 Unforeseeable Emergency Event:**

- (a) Participants may apply to have accounts distributed upon an Unforeseeable Emergency event.
- (b) An Unforeseeable Emergency shall not be a Qualifying Distribution Event

**6. Vesting:** An Active Participant shall be fully vested in the Employer Credits made to the Deferred Compensation Account upon the first to occur of the following events:

- XX (a) Normal Retirement Age.
- XX (b) Death.
- XX (c) Disability.
- XX (d) Change in Control Event
- (e) Other:
- XX (f) Satisfaction of the vesting requirement as specified below:

XX **Employer Discretionary Credits:**

- (i) Immediate 100% vesting.
- (ii) 100% vesting after    Years of Service.
- (iii) 100% vesting at age    .

<u>XX</u> (iv)	Number of Years of Service	Vested Percentage
	Less than 1	<u>0</u> %
	1	<u>33</u> %
	2	<u>67</u> %
	3	<u>100</u> %
	4	%
	5	%
	6	%
	7	%
	8	%
	9	%
	10 or more	%

For this purpose, Years of Service of a Participant shall be calculated from the date designated below:

- (1) First Day of Service.
- (2) Effective Date of Plan Participation.
- XX (3) Each Crediting Date. Under this option (3), each Employer Credit shall vest based on the Years of Service of a Participant from the Crediting Date on which each Employer Discretionary Credit is made to his or her Deferred Compensation Account.

— **Other Employer Credits:**

- (i) Immediate 100% vesting.
- (ii) 100% vesting after    Years of Service.
- (iii) 100% vesting at age   .

— (iv)	Number of Years of Service	Vested Percentage	
	Less than	1	%
		1	%
		2	%
		3	%
		4	%
		5	%
		6	%
		7	%
		8	%
		9	%
		10 or more	%

For this purpose, Years of Service of a Participant shall be calculated from the date designated below:

- (1) First Day of Service.
- (2) Effective Date of Plan Participation.
- (3) Each Crediting Date. Under this option (3), each Employer Credit shall vest based on the Years of Service of a Participant from the Crediting Date on which each Employer Discretionary Credit is made to his or her Deferred Compensation Account.

**7.1 Payment Options:** Any benefit payable under the Plan upon a permitted Qualifying Distribution Event may be made to the Participant or his Beneficiary (as applicable) in any of the following payment forms, as selected by the Participant in the Participation Agreement:

- (a) Separation from Service prior to Seniority Date, or Separation from Service if Seniority Date is Not Applicable
- (i) A lump sum.  
 (ii) Annual installments over a term certain as elected by the Participant not to exceed    years.  
 (iii) Other:                   .
- (b) Separation from Service on or After Seniority Date, If Applicable
- (i) A lump sum.  
 (ii) Annual installments over a term certain as elected by the Participant not to exceed 5 years.  
 (iii) Other:                   .
- (c) Separation from Service Upon a Change in Control Event
- (i) A lump sum.  
 (ii) Annual installments over a term certain as elected by the Participant not to exceed    years.  
 (iii) Other:                   .
- (d) Death
- (i) A lump sum.  
 (ii) Annual installments over a term certain as elected by the Participant not to exceed    years.  
 (iii) Other:                   .
- (e) Disability
- (i) A lump sum.  
 (ii) Annual installments over a term certain as elected by the Participant not to exceed 5 years.  
 (iii) Other:                   .  
 (iv) Not applicable.

If applicable, amounts not vested at the time payments due under this Section cease will be:

- Forfeited  
 Distributed at Separation from Service if vested at that time



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**17.9 Construction:** The provisions of the Plan shall be construed and enforced according to the laws of the State of Oklahoma, except to the extent that such laws are superseded by ERISA and the applicable provisions of the Code.

IN WITNESS WHEREOF, this Agreement has been executed as of the day and year stated below.

**PostRock Energy Services Corporation**

Name of Employer

By: /s/ Kyle Essmiller

Authorized Person

Date: November 26, 2012

**THE EXECUTIVE NONQUALIFIED EXCESS PLAN  
PLAN DOCUMENT**

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## THE EXECUTIVE NONQUALIFIED EXCESS PLAN

### **Section 1.**      **Purpose:**

By execution of the Adoption Agreement, the Employer has adopted the Plan set forth herein, and in the Adoption Agreement, to provide a means by which certain management Employees or Independent Contractors of the Employer may elect to defer receipt of current Compensation from the Employer in order to provide retirement and other benefits on behalf of such Employees or Independent Contractors of the Employer, as selected in the Adoption Agreement. The Plan is intended to be a nonqualified deferred compensation plan that complies with the provisions of Section 409A of the Internal Revenue Code (the "Code"). The Plan is also intended to be an unfunded plan maintained primarily for the purpose of providing deferred compensation benefits for a select group of management or highly compensated employees under Sections 201(2), 301(a)(3) and 401(a)(1) of the Employee Retirement Income Security Act of 1974 ("ERISA") and independent contractors. Notwithstanding any other provision of this Plan, this Plan shall be interpreted, operated and administered in a manner consistent with these intentions.

### **Section 2.**      **Definitions:**

As used in the Plan, including this Section 2, references to one gender shall include the other, unless otherwise indicated by the context:

**2.1 "Active Participant"** means, with respect to any day or date, a Participant who is in Service on such day or date; provided, that a Participant shall cease to be an Active Participant (i) immediately upon a determination by the Committee that the Participant has ceased to be an Employee or Independent Contractor, or (ii) at the end of the Plan Year that the Committee determines the Participant no longer meets the eligibility requirements of the Plan.

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**2.2 “Adoption Agreement”** means the written agreement pursuant to which the Employer adopts the Plan. The Adoption Agreement is a part of the Plan as applied to the Employer.

**2.3 “Beneficiary”** means the person, persons, entity or entities designated or determined pursuant to the provisions of Section 13 of the Plan.

**2.4 “Board”** means the Board of Directors of the Company, if the Company is a corporation. If the Company is not a corporation, “Board” shall mean the Company.

**2.5 “Change in Control Event”** means an event described in Section 409A(a)(2)(A)(v) of the Code (or any successor provision thereto) and the regulations thereunder.

**2.6 “Committee”** means the persons or entity designated in the Adoption Agreement to administer the Plan. If the Committee designated in the Adoption Agreement is unable to serve, the Employer shall satisfy the duties of the Committee provided for in Section 9.

**2.7 “Company”** means the company designated in the Adoption Agreement as such.

**2.8 “Compensation”** shall have the meaning designated in the Adoption Agreement.

**2.9 “Crediting Date”** means the date designated in the Adoption Agreement for crediting the amount of any Participant Deferral Credits or Employer Credits to the Deferred Compensation Account of a Participant.

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**2.10 “Deferred Compensation Account”** means the account maintained with respect to each Participant under the Plan. The Deferred Compensation Account shall be credited with Participant Deferral Credits and Employer Credits, credited or debited for deemed investment gains or losses, and adjusted for payments in accordance with the rules and elections in effect under Section 8. The Deferred Compensation Account of a Participant shall include any In-Service or Education Account of the Participant, if applicable.

**2.11 “Disabled”** means Disabled within the meaning of Section 409A of the Code and the regulations thereunder. Generally, this means that the Participant is unable to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment which can be expected to result in death or can be expected to last for a continuous period of not less than 12 months, or is, by reason of any medically determinable physical or mental impairment which can be expected to result in death or can be expected to last for a continuous period of not less than 12 months, receiving income replacement benefits for a period of not less than three months under an accident and health plan covering Employees of the Employer.

**2.12 “Education Account”** is an In-Service Account which will be used by the Participant for educational purposes.

**2.13 “Effective Date”** shall be the date designated in the Adoption Agreement.

**2.14 “Employee”** means an individual in the Service of the Employer if the relationship between the individual and the Employer is the legal relationship of employer and employee. An individual shall cease to be an Employee upon the Employee’s Separation from Service.

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**2.15 “Employer”** means the Company, as identified in the Adoption Agreement, and any Participating Employer which adopts this Plan. An Employer may be a corporation, a limited liability company, a partnership or sole proprietorship.

**2.16 “Employer Credits”** means the amounts credited to the Participant’s Deferred Compensation Account by the Employer pursuant to the provisions of Section 4.2.

**2.17 “Grandfathered Amounts”** means, if applicable, the amounts that were deferred under the Plan and were earned and vested within the meaning of Section 409A of the Code and regulations thereunder as of December 31, 2004. Grandfathered Amounts shall be subject to the terms designated in the Adoption Agreement.

**2.18 “Independent Contractor”** means an individual in the Service of the Employer if the relationship between the individual and the Employer is not the legal relationship of employer and employee. An individual shall cease to be an Independent Contractor upon the termination of the Independent Contractor’s Service. An Independent Contractor shall include a director of the Employer who is not an Employee.

**2.19 “In-Service Account”** means a separate account to be kept for each Participant that has elected to take in-service distributions as described in Section 5.4. The In-Service Account shall be adjusted in the same manner and at the same time as the Deferred Compensation Account under Section 8 and in accordance with the rules and elections in effect under Section 8.

**2.20 “Normal Retirement Age”** of a Participant means the age designated in the Adoption Agreement.

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**2.21 “Participant”** means with respect to any Plan Year an Employee or Independent Contractor who has been designated by the Committee as a Participant and who has entered the Plan or who has a Deferred Compensation Account under the Plan; provided that if the Participant is an Employee, the individual must be a highly compensated or management employee of the Employer within the meaning of Sections 201(2), 301(a)(3) and 401(a)(1) of ERISA.

**2.22 “Participant Deferral Credits”** means the amounts credited to the Participant’s Deferred Compensation Account by the Employer pursuant to the provisions of Section 4.1.

**2.23 “Participating Employer”** means any trade or business (whether or not incorporated) which adopts this Plan with the consent of the Company identified in the Adoption Agreement.

**2.24 “Participation Agreement”** means a written agreement entered into between a Participant and the Employer pursuant to the provisions of Section 4.1

**2.25 “Performance-Based Compensation”** means compensation where the amount of, or entitlement to, the compensation is contingent on the satisfaction of preestablished organizational or individual performance criteria relating to a performance period of at least twelve months. Organizational or individual performance criteria are considered preestablished if established in writing within 90 days after the commencement of the period of service to which the criteria relates, provided that the outcome is substantially uncertain at the time the criteria are established. Performance-based compensation may include payments based upon subjective performance criteria as provided in regulations and administrative guidance promulgated under Section 409A of the Code.

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**2.26 “Plan”** means The Executive Nonqualified Excess Plan, as herein set out and as set out in the Adoption Agreement, or as duly amended. The name of the Plan as applied to the Employer shall be designated in the Adoption Agreement.

**2.27 “Plan-Approved Domestic Relations Order”** shall mean a judgment, decree, or order (including the approval of a settlement agreement) which is:

2.27.1 Issued pursuant to a State’s domestic relations law;

2.27.2 Relates to the provision of child support, alimony payments or marital property rights to a Spouse, former Spouse, child or other dependent of the Participant;

2.27.3 Creates or recognizes the right of a Spouse, former Spouse, child or other dependent of the Participant to receive all or a portion of the Participant’s benefits under the Plan;

2.27.4 Requires payment to such person of their interest in the Participant’s benefits in a lump sum payment at a specific time; and

2.27.5 Meets such other requirements established by the Committee.

**2.28 “Plan Year”** means the twelve-month period ending on the last day of the month designated in the Adoption Agreement; provided that the initial Plan Year may have fewer than twelve months.

**2.29 “Qualifying Distribution Event”** means (i) the Separation from Service of the Participant, (ii) the date the Participant becomes Disabled, (iii) the death of the Participant, (iv) the time specified by the Participant for an In-Service or Education Distribution, (v) a Change in Control Event, or (vi) an Unforeseeable Emergency, each to the extent provided in Section 5.

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**2.30 “Seniority Date”** shall have the meaning designated in the Adoption Agreement.

**2.31 “Separation from Service”** or **“Separates from Service”** means a “separation from service” within the meaning of Section 409A of the Code.

**2.32 “Service”** means employment by the Employer as an Employee. For purposes of the Plan, the employment relationship is treated as continuing intact while the Employee is on military leave, sick leave, or other bona fide leave of absence if the period of such leave does not exceed six months, or if longer, so long as the Employee’s right to reemployment is provided either by statute or contract. If the Participant is an Independent Contractor, “Service” shall mean the period during which the contractual relationship exists between the Employer and the Participant. The contractual relationship is not terminated if the Participant anticipates a renewal of the contract or becomes an Employee.

**2.33 “Service Bonus”** means any bonus paid to a Participant by the Employer which is not Performance-Based Compensation.

**2.34 “Specified Employee”** means an Employee who meets the requirements for key employee treatment under Section 416(i)(1)(A)(i), (ii) or (iii) of the Code (applied in accordance with the regulations thereunder and without regard to Section 416(i)(5) of the Code) at any time during the twelve month period ending on December 31 of each year (the “identification date”). Unless binding corporate action is taken to establish different rules for determining Specified Employees for all plans of the Company and its controlled group members that are subject to Section 409A of the Code, the foregoing rules and the other default rules under the regulations of Section 409A of the Code shall

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apply. If the person is a key employee as of any identification date, the person is treated as a Specified Employee for the twelve-month period beginning on the first day of the fourth month following the identification date.

**2.35 “Spouse” or “Surviving Spouse”** means, except as otherwise provided in the Plan, a person who is the legally married spouse or surviving spouse of a Participant.

**2.36 “Unforeseeable Emergency”** means an “unforeseeable emergency” within the meaning of Section 409A of the Code.

**2.37 “Years of Service”** means each Plan Year of Service completed by the Participant. For vesting purposes, Years of Service shall be calculated from the date designated in the Adoption Agreement and Service shall be based on service with the Company and all Participating Employers.

**Section 3. Participation:**

The Committee in its discretion shall designate each Employee or Independent Contractor who is eligible to participate in the Plan. A Participant who Separates from Service with the Employer and who later returns to Service will not be an Active Participant under the Plan except upon satisfaction of such terms and conditions as the Committee shall establish upon the Participant’s return to Service, whether or not the Participant shall have a balance remaining in the Deferred Compensation Account under the Plan on the date of the return to Service.

**Section 4. Credits to Deferred Compensation Account:**

**4.1 Participant Deferral Credits.** To the extent provided in the Adoption Agreement, each Active Participant may elect, by entering into a Participation Agreement with the Employer, to defer the receipt of Compensation from the Employer by a dollar

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amount or percentage specified in the Participation Agreement. The amount of Compensation the Participant elects to defer, the Participant Deferral Credit, shall be credited by the Employer to the Deferred Compensation Account maintained for the Participant pursuant to Section 8. The following special provisions shall apply with respect to the Participant Deferral Credits of a Participant:

4.1.1 The Employer shall credit to the Participant's Deferred Compensation Account on each Crediting Date an amount equal to the total Participant Deferral Credit for the period ending on such Crediting Date.

4.1.2 An election pursuant to this Section 4.1 shall be made by the Participant by executing and delivering a Participation Agreement to the Committee. Except as otherwise provided in this Section 4.1, the Participation Agreement shall become effective with respect to such Participant as of the first day of January following the date such Participation Agreement is received by the Committee. A Participant's election may be changed at any time prior to the last permissible date for making the election as permitted in this Section 4.1, and shall thereafter be irrevocable. The election of a Participant shall continue in effect for subsequent years until modified by the Participant as permitted in this Section 4.1.

4.1.3 A Participant may execute and deliver a Participation Agreement to the Committee within 30 days after the date the Participant first becomes eligible to participate in the Plan to be effective as of the first payroll period next following the date the Participation Agreement is fully executed by the Participant. Whether a Participant is treated as newly eligible for participation under this Section shall be determined in accordance with Section 409A of the Code and the regulations thereunder, including (i) rules that treat all elective deferral account balance plans as one plan, and (ii) rules that treat a previously eligible Employee as newly eligible if his benefits had been previously distributed or if he has been ineligible for 24 months. For Compensation that is earned based upon a specified performance period (for example, an annual bonus), where a deferral election is made under this Section but after the beginning of the performance period, the election will only apply to the portion of the Compensation equal to the total amount of the Compensation for the service period multiplied by the ratio of the number of days remaining in the performance period after the election over the total number of days in the performance period.

4.1.4 A Participant may unilaterally modify a Participation Agreement (either to terminate, increase or decrease the portion of his future Compensation which is subject to deferral within the percentage limits set forth in Section 4.1 of the Adoption Agreement) by providing a written modification of the Participation Agreement to the Committee. The modification shall become effective as of the first day of January following the date such written modification is received by the Committee.

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4.1.5 If the Participant performed services continuously from the later of the beginning of the performance period or the date upon which the performance criteria are established through the date upon which the Participant makes an initial deferral election, a Participation Agreement relating to the deferral of Performance-Based Compensation may be executed and delivered to the Committee no later than the date which is 6 months prior to the end of the performance period, provided that in no event may an election to defer Performance-Based Compensation be made after such Compensation has become readily ascertainable.

4.1.6 If the Employer has a fiscal year other than the calendar year, Compensation relating to Service in the fiscal year of the Employer (such as a bonus based on the fiscal year of the Employer), of which no amount is paid or payable during the fiscal year, may be deferred at the Participant's election if the election to defer is made not later than the close of the Employer's fiscal year next preceding the first fiscal year in which the Participant performs any services for which such Compensation is payable.

4.1.7 Compensation payable after the last day of the Participant's taxable year solely for services provided during the final payroll period containing the last day of the Participant's taxable year (i.e., December 31) is treated for purposes of this Section 4.1 as Compensation for services performed in the subsequent taxable year.

4.1.8 The Committee may from time to time establish policies or rules consistent with the requirements of Section 409A of the Code to govern the manner in which Participant Deferral Credits may be made.

4.1.9 If a Participant becomes Disabled all currently effective deferral elections for such Participant shall be cancelled. At the time the participant is no longer Disabled, subsequent elections to defer future compensation will be permitted under this Section 4.

4.1.10 If a Participant applies for and receives a distribution on account of an Unforeseeable Emergency, all currently effective deferral elections for such Participant shall be cancelled. Subsequent elections to defer future compensation will be permitted under this Section 4.

4.1.11 If a Participant receives a hardship distribution under Section 1.401(k)-1(d)(3) of the Code or any other similar provision, all currently effective deferral elections shall be cancelled. Subsequent elections to defer future compensation under this Section 4 will not be effective until the later of the beginning of the next calendar year or six months after the date of the hardship distribution.

**4.2 Employer Credits.** If designated by the Employer in the Adoption Agreement, the Employer shall cause the Committee to credit to the Deferred

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Compensation Account of each Active Participant an Employer Credit as determined in accordance with the Adoption Agreement. A Participant must make distribution elections with respect to any Employer Credits credited to his Deferred Compensation Account by the deadline that would apply under Section 4.1 for distribution elections with respect to Participant Deferral Credits credited at the same time, on a Participation Agreement that is timely executed and delivered to the Committee pursuant to Section 4.1.

**4.3 Deferred Compensation Account.** All Participant Deferral Credits and Employer Credits shall be credited to the Deferred Compensation Account of the Participant as provided in Section 8.

**Section 5. Qualifying Distribution Events:**

**5.1 Separation from Service.** If the Participant Separates from Service with the Employer, the vested balance in the Deferred Compensation Account shall be paid to the Participant by the Employer as provided in Section 7. Notwithstanding the foregoing, no distribution shall be made earlier than six months after the date of Separation from Service (or, if earlier, the date of death) with respect to a Participant who as of the date of Separation from Service is a Specified Employee of a corporation the stock in which is traded on an established securities market or otherwise. Any payments to which such Specified Employee would be entitled during the first six months following the date of Separation from Service shall be accumulated and paid on the first day of the seventh month following the date of Separation from Service, and shall be adjusted for deemed investment gain and loss incurred during the six month period.

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**5.2 Disability.** If the Employer designates in the Adoption Agreement that distributions are permitted under the Plan when a Participant becomes Disabled, and the Participant becomes Disabled while in Service, the vested balance in the Deferred Compensation Account shall be paid to the Participant by the Employer as provided in Section 7.

**5.3 Death.** If the Participant dies while in Service, the Employer shall pay a benefit to the Participant's Beneficiary in the amount designated in the Adoption Agreement. Payment of such benefit shall be made by the Employer as provided in Section 7.

**5.4 In-Service or Education Distributions.** If the Employer designates in the Adoption Agreement that in-service or education distributions are permitted under the Plan, a Participant may designate in the Participation Agreement to have a specified amount credited to the Participant's In-Service or Education Account for in-service or education distributions at the date specified by the Participant. In no event may an in-service or education distribution of an amount be made before the date that is two years after the first day of the year in which any deferral election to such In-Service or Education Account became effective. Notwithstanding the foregoing, if a Participant incurs a Qualifying Distribution Event prior to the date on which the entire balance in the In-Service or Education Account has been distributed, then the balance in the In-Service or Education Account on the date of the Qualifying Distribution Event shall be paid as provided under Section 7.1 for payments on such Qualifying Distribution Event.

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**5.5 Change in Control Event.** If the Employer designates in the Adoption Agreement that distributions are permitted under the Plan upon the occurrence of a Change in Control Event, the Participant may designate in the Participation Agreement to have the vested balance in the Deferred Compensation Account paid to the Participant upon a Change in Control Event by the Employer as provided in Section 7.

**5.6 Unforeseeable Emergency.** If the Employer designates in the Adoption Agreement that distributions are permitted under the Plan upon the occurrence of an Unforeseeable Emergency event, a distribution from the Deferred Compensation Account may be made to a Participant in the event of an Unforeseeable Emergency, subject to the following provisions:

5.6.1 A Participant may, at any time prior to his Separation from Service for any reason, make application to the Committee to receive a distribution in a lump sum of all or a portion of the vested balance in the Deferred Compensation Account (determined as of the date the distribution, if any, is made under this Section 5.6) because of an Unforeseeable Emergency. A distribution because of an Unforeseeable Emergency shall not exceed the amount required to satisfy the Unforeseeable Emergency plus amounts necessary to pay taxes reasonably anticipated as a result of such distribution, after taking into account the extent to which the Unforeseeable Emergency may be relieved through reimbursement or compensation by insurance or otherwise or by liquidation of the Participant's assets (to the extent the liquidation of such assets would not itself cause severe financial hardship) or by stopping current deferrals under the Plan pursuant to Section 4.1.10.

5.6.2 The Participant's request for a distribution on account of Unforeseeable Emergency must be made in writing to the Committee. The request must specify the nature of the financial hardship, the total amount requested to be distributed from the Deferred Compensation Account, and the total amount of the actual expense incurred or to be incurred on account of the Unforeseeable Emergency.

5.6.3 If a distribution under this Section 5.6 is approved by the Committee, such distribution will be made as soon as practicable following the date it is approved. The processing of the request shall be completed as soon as practicable from the date on which the Committee receives the properly completed written request for a distribution on account of an Unforeseeable Emergency. If a Participant's Separation from Service occurs after a request is approved in accordance with this Section 5.6.3, but prior to distribution of the full amount approved, the approval of the request shall be automatically null and void and the benefits which the Participant is entitled to receive under the Plan shall be distributed in accordance with the applicable distribution provisions of the Plan.

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5.6.4 The Committee may from time to time adopt additional policies or rules consistent with the requirements of Section 409A of the Code to govern the manner in which such distributions may be made so that the Plan may be conveniently administered.

**Section 6.**      **Vesting:**

A Participant shall be fully vested in the portion of his Deferred Compensation Account attributable to Participant Deferral Credits, and all income, gains and losses attributable thereto. A Participant shall become fully vested in the portion of his Deferred Compensation Account attributable to Employer Credits, and income, gains and losses attributable thereto, in accordance with the vesting schedule and provisions designated by the Employer in the Adoption Agreement. If a Participant's Deferred Compensation Account is not fully vested upon Separation from Service, the portion of the Deferred Compensation Account that is not fully vested shall thereupon be forfeited.

**Section 7.**      **Distribution Rules:**

**7.1 Payment Options.** The Employer shall designate in the Adoption Agreement the payment options which may be elected by the Participant (lump sum, annual installments, or a combination of both). Different payment options may be made available for each Qualifying Distribution Event, and different payment options may be available for different types of Separations from Service, all as designated in the Adoption Agreement. The Participant shall elect in the Participation Agreement the method under which the vested balance in the Deferred Compensation Account will be distributed from among the designated payment options. The Participant may at such time elect a different method of payment for each Qualifying Distribution Event as specified in the Adoption Agreement. If the Participant is permitted by the Employer in

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the Adoption Agreement to elect different payment options and does not make a valid election, the vested balance in the Deferred Compensation Account will be distributed as a lump sum.

Notwithstanding the foregoing, if certain Qualifying Distribution Events occur prior to the date on which the vested balance of a Participant's Deferred Compensation Account is completely paid pursuant to this Section 7.1 following the occurrence of certain initial Qualifying Distribution Events, the following rules apply:

7.1.1 If the initial Qualifying Distribution Event is a Separation from Service or Disability, and the Participant subsequently dies, the remaining unpaid vested balance of a Participant's Deferred Compensation Account shall be paid as a lump sum.

7.1.2 If the initial Qualifying Distribution Event is a Change in Control Event, and any subsequent Qualifying Distribution Event occurs (except an In-Service or Education Distribution described in Section 2.29(iv)), the remaining unpaid vested balance of a Participant's Deferred Compensation Account shall be paid as provided under Section 7.1 for payments on such subsequent Qualifying Distribution Event.

**7.2 Timing of Payments.** Payment shall be made in the manner elected by the Participant and shall commence as soon as practicable after (but no later than 60 days after) the distribution date elected for the Qualifying Distribution Event. In the event the Participant fails to make a valid election of the payment method, the distribution will be made in a single lump sum payment as soon as practicable after (but no later than 60 days after) the Qualifying Distribution Event. A payment may be further delayed to the extent permitted in accordance with regulations and guidance under Section 409A of the Code.

**7.3 Installment Payments.** If the Participant elects to receive installment payments upon a Qualifying Distribution Event, the payment of each installment shall be made on the anniversary of the date of the first installment payment, and the amount of the installment shall be adjusted on such anniversary for credits or debits to the

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Participant's account pursuant to Section 8 of the Plan. Such adjustment shall be made by dividing the balance in the Deferred Compensation Account on such date by the number of installments remaining to be paid hereunder; provided that the last installment due under the Plan shall be the entire amount credited to the Participant's account on the date of payment.

**7.4 De Minimis Amounts.** Notwithstanding any payment election made by the Participant, if the Employer designates a pre-determined de minimis amount in the Adoption Agreement, the vested balance in the Deferred Compensation Account of the Participant will be distributed in a single lump sum payment if at the time of a permitted Qualifying Distribution Event the vested balance does not exceed such pre-determined de minimis amount; provided, however, that such distribution will be made only where the Qualifying Distribution Event is a Separation from Service, death, Disability (if applicable) or Change in Control Event (if applicable). Such payment shall be made on or before the later of (i) December 31 of the calendar year in which the Qualifying Distribution Event occurs, or (ii) the date that is 2-1/2 months after the Qualifying Distribution Event occurs. In addition, the Employer may distribute a Participant's vested balance at any time if the balance does not exceed the limit in Section 402(g)(1)(B) of the Code and results in the termination of the Participant's entire interest in the Plan as provided under Section 409A of the Code.

**7.5 Subsequent Elections.** With the consent of the Committee, a Participant may delay or change the method of payment of the Deferred Compensation Account subject to the following requirements:

7.5.1 The new election may not take effect until at least 12 months after the date on which the new election is made.

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7.5.2 If the new election relates to a payment for a Qualifying Distribution Event other than the death of the Participant, the Participant becoming Disabled, or an Unforeseeable Emergency, the new election must provide for the deferral of the payment for a period of at least five years from the date such payment would otherwise have been made.

7.5.3 If the new election relates to a payment from the In-Service or Education Account, the new election must be made at least 12 months prior to the date of the first scheduled payment from such account.

For purposes of this Section 7.5 and Section 7.6, a payment is each separately identified amount to which the Participant is entitled under the Plan; provided, that entitlement to a series of installment payments is treated as the entitlement to a single payment.

**7.6 Acceleration Prohibited.** The acceleration of the time or schedule of any payment due under the Plan is prohibited except as expressly provided in regulations and administrative guidance promulgated under Section 409A of the Code (such as accelerations for domestic relations orders and employment taxes). It is not an acceleration of the time or schedule of payment if the Employer waives or accelerates the vesting requirements applicable to a benefit under the Plan.

**Section 8. Accounts; Deemed Investment; Adjustments to Account:**

**8.1 Accounts.** The Committee shall establish a book reserve account, entitled the “Deferred Compensation Account,” on behalf of each Participant. The Committee shall also establish an In-Service or Education Account as a part of the Deferred Compensation Account of each Participant, if applicable. The amount credited to the Deferred Compensation Account shall be adjusted pursuant to the provisions of Section 8.3.

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**8.2 Deemed Investments.** The Deferred Compensation Account of a Participant shall be credited with an investment return determined as if the account were invested in one or more investment funds made available by the Committee. The Participant shall elect the investment funds in which his Deferred Compensation Account shall be deemed to be invested. Such election shall be made in the manner prescribed by the Committee and shall take effect upon the entry of the Participant into the Plan. The investment election of the Participant shall remain in effect until a new election is made by the Participant. In the event the Participant fails for any reason to make an effective election of the investment return to be credited to his account, the investment return shall be determined by the Committee.

**8.3 Adjustments to Deferred Compensation Account.** With respect to each Participant who has a Deferred Compensation Account under the Plan, the amount credited to such account shall be adjusted by the following debits and credits, at the times and in the order stated:

8.3.1 The Deferred Compensation Account shall be debited each business day with the total amount of any payments made from such account since the last preceding business day to him or for his benefit. Unless otherwise specified by the Employer, each deemed investment fund will be debited pro-rata based on the value of the investment funds as of the end of the preceding business day.

8.3.2 The Deferred Compensation Account shall be credited on each Crediting Date with the total amount of any Participant Deferral Credits and Employer Credits to such account since the last preceding Crediting Date.

8.3.3 The Deferred Compensation Account shall be credited or debited on each day securities are traded on a national stock exchange with the amount of deemed investment gain or loss resulting from the performance of the deemed investment funds elected by the Participant in accordance with Section 8.2. The amount of such deemed investment gain or loss shall be determined by the Committee and such determination shall be final and conclusive upon all concerned.

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**Section 9. Administration by Committee:**

**9.1 Membership of Committee.** If the Committee consists of individuals appointed by the Board, they will serve at the pleasure of the Board. Any member of the Committee may resign, and his successor, if any, shall be appointed by the Board.

**9.2 General Administration .** The Committee shall be responsible for the operation and administration of the Plan and for carrying out its provisions. The Committee shall have the full authority and discretion to make, amend, interpret, and enforce all appropriate rules and regulations for the administration of this Plan and decide or resolve any and all questions, including interpretations of this Plan, as may arise in connection with this Plan. Any such action taken by the Committee shall be final and conclusive on any party. To the extent the Committee has been granted discretionary authority under the Plan, the Committee's prior exercise of such authority shall not obligate it to exercise its authority in a like fashion thereafter. The Committee shall be entitled to rely conclusively upon all tables, valuations, certificates, opinions and reports furnished by any actuary, accountant, controller, counsel or other person employed or engaged by the Employer with respect to the Plan. The Committee may, from time to time, employ agents and delegate to such agents, including Employees of the Employer, such administrative or other duties as it sees fit.

**9.3 Indemnification .** To the extent not covered by insurance, the Employer shall indemnify the Committee, each Employee, officer, director, and agent of the Employer, and all persons formerly serving in such capacities, against any and all liabilities or expenses, including all legal fees relating thereto, arising in connection with the exercise of their duties and responsibilities with respect to the Plan, provided however that the Employer shall not indemnify any person for liabilities or expenses due to that person's own gross negligence or willful misconduct.

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**Section 10. Contractual Liability, Trust:**

**10.1 Contractual Liability.** Unless otherwise elected in the Adoption Agreement, the Company shall be obligated to make all payments hereunder. This obligation shall constitute a contractual liability of the Company to the Participants, and such payments shall be made from the general funds of the Company. The Company shall not be required to establish or maintain any special or separate fund, or otherwise to segregate assets to assure that such payments shall be made, and the Participants shall not have any interest in any particular assets of the Company by reason of its obligations hereunder. To the extent that any person acquires a right to receive payment from the Company, such right shall be no greater than the right of an unsecured creditor of the Company.

**10.2 Trust.** The Employer may establish a trust to assist it in meeting its obligations under the Plan. Any such trust shall conform to the requirements of a grantor trust under Revenue Procedures 92-64 and 92-65 and at all times during the continuance of the trust the principal and income of the trust shall be subject to claims of general creditors of the Employer under federal and state law. The establishment of such a trust would not be intended to cause Participants to realize current income on amounts contributed thereto, and the trust would be so interpreted and administered.

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**Section 11. Allocation of Responsibilities:**

The persons responsible for the Plan and the duties and responsibilities allocated to each are as follows:

**11.1 Board.**

- (i) To amend the Plan;
- (ii) To appoint and remove members of the Committee; and
- (iii) To terminate the Plan as permitted in Section 14.

**11.2 Committee.**

- (i) To designate Participants;
- (ii) To interpret the provisions of the Plan and to determine the rights of the Participants under the Plan, except to the extent otherwise provided in Section 16 relating to claims procedure;
- (iii) To administer the Plan in accordance with its terms, except to the extent powers to administer the Plan are specifically delegated to another person or persons as provided in the Plan;
- (iv) To account for the amount credited to the Deferred Compensation Account of a Participant;
- (v) To direct the Employer in the payment of benefits;
- (vi) To file such reports as may be required with the United States Department of Labor, the Internal Revenue Service and any other government agency to which reports may be required to be submitted from time to time; and
- (vii) To administer the claims procedure to the extent provided in Section 16.

**Section 12. Benefits Not Assignable; Facility of Payments:**

**12.1 Benefits Not Assignable.** No portion of any benefit credited or paid under the Plan with respect to any Participant shall be subject in any manner to anticipation, alienation, sale, transfer, assignment, pledge, encumbrance or charge, and any attempt so to anticipate, alienate, sell, transfer, assign, pledge, encumber or charge the same shall be void, nor shall any portion of such benefit be in any manner payable to any assignee, receiver or any one trustee, or be liable for his debts, contracts, liabilities, engagements or torts.

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**12.2 Plan-Approved Domestic Relations Orders.** The Committee shall establish procedures for determining whether an order directed to the Plan is a Plan-Approved Domestic Relations Order. If the Committee determines that an order is a Plan-Approved Domestic Relations Order, the Committee shall cause the payment of amounts pursuant to or segregate a separate account as provided by (and to prevent any payment or act which might be inconsistent with) the Plan-Approved Domestic Relations Order.

**12.3 Payments to Minors and Others.** If any individual entitled to receive a payment under the Plan shall be physically, mentally or legally incapable of receiving or acknowledging receipt of such payment, the Committee, upon the receipt of satisfactory evidence of his incapacity and satisfactory evidence that another person or institution is maintaining him and that no guardian or committee has been appointed for him, may cause any payment otherwise payable to him to be made to such person or institution so maintaining him. Payment to such person or institution shall be in full satisfaction of all claims by or through the Participant to the extent of the amount thereof.

**Section 13. Beneficiary:**

The Participant's beneficiary shall be the person, persons, entity or entities designated by the Participant on the beneficiary designation form provided by and filed with the Committee or its designee. If the Participant does not designate a beneficiary, the beneficiary shall be his Surviving Spouse. If the Participant does not designate a beneficiary and has no Surviving Spouse, the beneficiary shall be the Participant's estate. The designation of a beneficiary may be changed or revoked only by filing a new beneficiary designation form with the Committee or its designee. If a beneficiary (the

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“primary beneficiary”) is receiving or is entitled to receive payments under the Plan and dies before receiving all of the payments due him, the balance to which he is entitled shall be paid to the contingent beneficiary, if any, named in the Participant’s current beneficiary designation form. If there is no contingent beneficiary, the balance shall be paid to the estate of the primary beneficiary. Any beneficiary may disclaim all or any part of any benefit to which such beneficiary shall be entitled hereunder by filing a written disclaimer with the Committee before payment of such benefit is to be made. Such a disclaimer shall be made in a form satisfactory to the Committee and shall be irrevocable when filed. Any benefit disclaimed shall be payable from the Plan in the same manner as if the beneficiary who filed the disclaimer had predeceased the Participant.

**Section 14. Amendment and Termination of Plan:**

The Company may amend any provision of the Plan or terminate the Plan at any time; provided, that in no event shall such amendment or termination reduce the balance in any Participant’s Deferred Compensation Account as of the date of such amendment or termination, nor shall any such amendment affect the terms of the Plan relating to the payment of such Deferred Compensation Account. Notwithstanding the foregoing, the following special provisions shall apply:

**14.1 Termination in the Discretion of the Employer.** Except as otherwise provided in Sections 14.2, the Company in its discretion may terminate the Plan and distribute benefits to Participants subject to the following requirements and any others specified under Section 409A of the Code:

14.1.1 All arrangements sponsored by the Employer that would be aggregated with the Plan under Section 1.409A-1(c) of the Treasury Regulations are terminated.

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14.1.2 No payments other than payments that would be payable under the terms of the Plan if the termination had not occurred are made within 12 months of the termination date.

14.1.3 All benefits under the Plan are paid within 24 months of the termination date.

14.1.4 The Employer does not adopt a new arrangement that would be aggregated with the Plan under Section 1.409A-1(c) of the Treasury Regulations providing for the deferral of compensation at any time within 3 years following the date of termination of the Plan.

14.1.5 The termination does not occur proximate to a downturn in the financial health of the Employer.

**14.2 Termination Upon Change in Control Event.** If the Company terminates the Plan within thirty days preceding or twelve months following a Change in Control Event, the Deferred Compensation Account of each Participant shall become fully vested and payable to the Participant in a lump sum within twelve months following the date of termination, subject to the requirements of Section 409A of the Code.

**Section 15. Communication to Participants:**

The Employer shall make a copy of the Plan available for inspection by Participants and their beneficiaries during reasonable hours at the principal office of the Employer.

**Section 16. Claims Procedure:**

The following claims procedure shall apply with respect to the Plan:

**16.1 Filing of a Claim for Benefits.** If a Participant or Beneficiary (the “claimant”) believes that he is entitled to benefits under the Plan which are not being paid to him or which are not being accrued for his benefit, he shall file a written claim therefore with the Committee.

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**16.2 Notification to Claimant of Decision.** Within 90 days after receipt of a claim by the Committee (or within 180 days if special circumstances require an extension of time), the Committee shall notify the claimant of the decision with regard to the claim. In the event of such special circumstances requiring an extension of time, there shall be furnished to the claimant prior to expiration of the initial 90-day period written notice of the extension, which notice shall set forth the special circumstances and the date by which the decision shall be furnished. If such claim shall be wholly or partially denied, notice thereof shall be in writing and worded in a manner calculated to be understood by the claimant, and shall set forth: (i) the specific reason or reasons for the denial; (ii) specific reference to pertinent provisions of the Plan on which the denial is based; (iii) a description of any additional material or information necessary for the claimant to perfect the claim and an explanation of why such material or information is necessary; and (iv) an explanation of the procedure for review of the denial and the time limits applicable to such procedures, including a statement of the claimant's right to bring a civil action under ERISA following an adverse benefit determination on review. Notwithstanding the foregoing, if the claim relates to a disability determination, the Committee shall notify the claimant of the decision within 45 days (which may be extended for an additional 30 days if required by special circumstances).

**16.3 Procedure for Review.** Within 60 days following receipt by the claimant of notice denying his claim, in whole or in part, or, if such notice shall not be given, within 60 days following the latest date on which such notice could have been timely given, the claimant may appeal denial of the claim by filing a written application for review with the Committee. Following such request for review, the Committee shall fully

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and fairly review the decision denying the claim. Prior to the decision of the Committee, the claimant shall be given an opportunity to review pertinent documents and to submit issues and comments in writing.

**16.4 Decision on Review.** The decision on review of a claim denied in whole or in part by the Committee shall be made in the following manner:

16.4.1 Within 60 days following receipt by the Committee of the request for review (or within 120 days if special circumstances require an extension of time), the Committee shall notify the claimant in writing of its decision with regard to the claim. In the event of such special circumstances requiring an extension of time, written notice of the extension shall be furnished to the claimant prior to the commencement of the extension. Notwithstanding the foregoing, if the claim relates to a disability determination, the Committee shall notify the claimant of the decision within 45 days (which may be extended for an additional 45 days if required by special circumstances).

16.4.2 With respect to a claim that is denied in whole or in part, the decision on review shall set forth specific reasons for the decision, shall be written in a manner calculated to be understood by the claimant, and shall set forth:

- (i) the specific reason or reasons for the adverse determination;
- (ii) specific reference to pertinent Plan provisions on which the adverse determination is based;
- (iii) a statement that the claimant is entitled to receive, upon request and free of charge, reasonable access to, and copies of, all documents, records, and other information relevant to the claimant's claim for benefits; and
- (iv) a statement describing any voluntary appeal procedures offered by the Plan and the claimant's right to obtain the information about such procedures, as well as a statement of the claimant's right to bring an action under ERISA section 502(a).

16.4.3 The decision of the Committee shall be final and conclusive.

**16.5 Action by Authorized Representative of Claimant.** All actions set forth in this Section 16 to be taken by the claimant may likewise be taken by a representative of the claimant duly authorized by him to act in his behalf on such matters. The Committee may require such evidence as either may reasonably deem necessary or advisable of the authority to act of any such representative.

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**Section 17.**     **Miscellaneous Provisions:**

**17.1 Set off.** The Employer may at any time offset a Participant's Deferral Compensation Account by an amount up to \$5,000 to collect the amount of any loan, cash advance, extension of other credit or other obligation of the Participant to the Employer that is then due and payable in accordance with the requirements of Section 409A of the Code.

**17.2 Notices.** Each Participant who is not in Service and each Beneficiary shall be responsible for furnishing the Committee or its designee with his current address for the mailing of notices and benefit payments. Any notice required or permitted to be given to such Participant or Beneficiary shall be deemed given if directed to such address and mailed by regular United States mail, first class, postage prepaid. If any check mailed to such address is returned as undeliverable to the addressee, mailing of checks will be suspended until the Participant or Beneficiary furnishes the proper address. This provision shall not be construed as requiring the mailing of any notice or notification otherwise permitted to be given by posting or by other publication.

**17.3 Lost Distributees.** A benefit shall be deemed forfeited if the Committee is unable to locate the Participant or Beneficiary to whom payment is due by the fifth anniversary of the date payment is to be made or commence; provided, that the deemed investment rate of return pursuant to Section 8.2 shall cease to be applied to the Participant's account following the first anniversary of such date; provided further, however, that such benefit shall be reinstated if a valid claim is made by or on behalf of the Participant or Beneficiary for all or part of the forfeited benefit.

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**17.4 Reliance on Data.** The Employer and the Committee shall have the right to rely on any data provided by the Participant or by any Beneficiary. Representations of such data shall be binding upon any party seeking to claim a benefit through a Participant, and the Employer and the Committee shall have no obligation to inquire into the accuracy of any representation made at any time by a Participant or Beneficiary.

**17.5 Headings.** The headings and subheadings of the Plan have been inserted for convenience of reference and are to be ignored in any construction of the provisions hereof.

**17.6 Continuation of Employment.** The establishment of the Plan shall not be construed as conferring any legal or other rights upon any Employee or any persons for continuation of employment, nor shall it interfere with the right of the Employer to discharge any Employee or to deal with him without regard to the effect thereof under the Plan.

**17.7 Merger or Consolidation; Assumption of Plan.** No Employer shall consolidate or merge into or with another corporation or entity, or transfer all or substantially all of its assets to another corporation, partnership, trust or other entity (a "Successor Entity") unless such Successor Entity shall assume the rights, obligations and liabilities of the Employer under the Plan and upon such assumption, the Successor Entity shall become obligated to perform the terms and conditions of the Plan. Nothing herein shall prohibit the assumption of the obligations and liabilities of the Employer under the Plan by any Successor Entity.

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**17.8 Construction.** The Employer shall designate in the Adoption Agreement the state according to whose laws the provisions of the Plan shall be construed and enforced, except to the extent that such laws are superseded by ERISA and the applicable requirements of the Code.

**17.9 Taxes.** The Employer or other payor may withhold a benefit payment under the Plan or a Participant's wages, or the Employer may reduce a Participant's Account balance, in order to meet any federal, state, or local or employment tax withholding obligations with respect to Plan benefits, as permitted under Section 409A of the Code. The Employer or other payor shall report Plan payments and other Plan-related information to the appropriate governmental agencies as required under applicable laws.

**Section 18. Transition Rules:**

This Section 18 does not apply to plans newly established on or after January 1, 2009.

**18.1 2005 Election Termination.** Notwithstanding Section 4.1.4, at any time during 2005, a Participant may terminate a Participation Agreement, or modify a Participation Agreement to reduce the amount of Compensation subject to the deferral election, so long as the Compensation subject to the terminated or modified Participation Agreement is includible in the income of the Participant in 2005 or, if later, in the taxable year in which the amounts are earned and vested.

**18.2 2005 Deferral Election.** The requirements of Section 4.1.2 relating to the timing of the Participation Agreement shall not apply to any deferral elections made on or before March 15, 2005, provided that (a) the amounts to which the deferral election relate have not been paid or become payable at the time of the election, (b) the Plan was in existence on or before December 31, 2004, (c) the election to defer compensation is made in accordance with the terms of the Plan as in effect on December 31, 2005 (other than a requirement to make a deferral election after March 15, 2005), and (d) the Plan is otherwise operated in accordance with the requirements of Section 409A of the Code.

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**18.3 2005 Termination of Participation; Distribution.** Notwithstanding anything in this Plan to the contrary, at any time during 2005, a Participant may terminate his or her participation in the Plan and receive a distribution of his Deferred Compensation Account balance on account of that termination, so long as the full amount of such distribution is includible in the Participant's income in 2005 or, if later, in the taxable year of the Participant in which the amount is earned and vested.

**18.4 Payment Elections.** Notwithstanding the provisions of Sections 7.1 or 7.5 of the Plan, a Participant may elect on or before December 31, 2008, the time or form of payment of amounts subject to Section 409A of the Code provided that such election applies only to amounts that would not otherwise be payable in the year of the election and does not cause an amount to be paid in the year of the election that would not otherwise be payable in such year.

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## CERTIFICATION

I, Terry W. Carter, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the period ended March 31, 2013 of PostRock Energy Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant at, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, at the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ Terry W. Carter

Terry W. Carter

Chief Executive Officer and President

Date: May 9, 2013

**CERTIFICATION**

I, David J. Klvac, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the period ended March 31, 2013 of PostRock Energy Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant at, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, at the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ David J. Klvac

David J. Klvac  
Executive Vice President, Chief Financial Officer and  
Chief Accounting Officer

Date: May 9, 2013

**CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of PostRock Energy Corporation (the "Corporation") on Form 10-Q for the period ended March 31, 2013, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Terry W. Carter, Chief Executive Officer and President, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

1. The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Corporation.

/s/ Terry W. Carter

Terry W. Carter  
Chief Executive Officer and President

May 9, 2013

The foregoing certification is being furnished solely pursuant to Section 906 of the Act and Rule 13a-14(b) promulgated under the Exchange Act and is not being filed as part of the Report or as a separate disclosure document.

**CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of PostRock Energy Corporation (the "Corporation") on Form 10-Q for the period ended March 31, 2013, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, David J. Klvac, Executive Vice President, Chief Financial Officer and Chief Accounting Officer, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

1. The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Corporation.

/s/ David J. Klvac

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David J. Klvac  
Executive Vice President, Chief Financial Officer and  
Chief Accounting Officer

May 9, 2013

The foregoing certification is being furnished solely pursuant to Section 906 of the Act and Rule 13a-14(b) promulgated under the Exchange Act and is not being filed as part of the Report or as a separate disclosure document.