



Case Study: Rex Energy Rollup and IPO

Background – Rex Energy specializes in the acquisition, development and exploration of conventional and unconventional oil and gas reserves in the United States. When Rex Energy’s management decided to pursue an initial public offering of their company, they faced an important and difficult decision when choosing an audit firm to help guide them through the process. Based in State College, PA, the company had a good working relationship with its local auditing firm. However, a firm registered with the Public Company Accounting Oversight Board (PCAOB) was needed. The management also desired to engage a regional firm that would become a valued member of the IPO team, provide personalized service, and that had the resources and reputation to complete the process. With the help and recommendations of their existing audit firm, Rex Energy selected Malin, Bergquist & Company, LLP.

Rex Energy had historically conducted its operations through several operating partnerships under common control and management. From 2004 through 2006, these operating companies completed 15 acquisitions of oil and gas properties and acreage, often coinciding with the creation of a new entity. By the end of 2006, the affiliated companies had mushroomed into 13 separate entities, and the combined entities had invested \$90 million on acquisitions.

Rex Energy Corporation thus was formed in 2007 to acquire all of the operations of the separate companies and simultaneously conduct the IPO.

The company has estimated proved reserves of 14.5 million barrels of oil equivalent, primarily from three regions: the Illinois Basin, Appalachian Basin and the southwestern U.S. The company’s Lawrence Field Alkaline-Surfactant-Polymer Flood Project utilizes technology to wash residual oil from reservoir rock to increase oil recovery in Illinois. The New Albany shale project uses horizontal drilling technologies to access unconventional reserves.

IPO Story - Rex Energy received net proceeds of \$89.2 million from its initial public offering of common stock. The net proceeds were used to repay debt, and provided the company with the financial flexibility to execute its business plan. Rex Energy’s common stock is listed on the Nasdaq Stock Market under the symbol "REXX."

KeyBanc Capital Markets acted as the lead manager for the offering. RBC Capital Markets, A.G. Edwards, Johnson Rice & Co. and Pickering Energy Partners acted as co-managers of the offering. The company’s law firm in the transaction was Fulbright & Jaworski L.L.P. of Houston, TX.

Malin Bergquist’s Role - As Rex Energy’s independent registered public accounting firm, Malin Bergquist audited its combined financial statements to obtain a reasonable assurance that the company’s financial statements were free of material misstatement to the investing public, in accordance with the standards of the Public Company Accounting Oversight Board. This involved:

- Auditing combined financial statements of the 13 founding companies as of Dec. 31, 2006 and 2005, and for each of the three years in the period ended Dec. 31, 2006
- Auditing the individual financial statements of 12 founding companies
- Auditing statements of revenues and direct operating expenses for all “significant” acquisitions of oil & gas properties (six in total)

Technical Details of Interest

- Determination of what financial statements would be required in order to comply with SEC regulations, including:
 - The company (Rex Energy Corp)
 - Predecessor (Combined Founding Companies)
 - Significant acquisitions (statements of revenues and direct operating expenses), including calculation of “significance” under SEC Rule 3-05 and Staff Accounting Bulletin 80 (SAB80)
- Pre-filing correspondence and conference calls with the SEC accounting staff to verify their acceptance of the approach.
- Assistance in drafting responses to SEC comments.
- Continued coordination and involvement of existing audit firm (Seligman Freidman) with the client.
- IPO specialists accessed through CPANetwork of firms, including an oil and gas expert in Tulsa, OK and an SEC/PCAOB expert in Atlanta, GA.
- Comfort letter on all financial data contained in the filing, including verifying that pro forma adjustments were made in accordance with SEC rules and regulations.

For More Information:

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