

PIONEER NATURAL RESOURCES CO
Form 10-Q
November 04, 2011
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2011

or

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

For the transition period from _____ to _____

Commission File Number: 1-13245

PIONEER NATURAL RESOURCES COMPANY

(Exact name of Registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

5205 N. O Connor Blvd., Suite 200, Irving, Texas
(Address of principal executive offices)

(972) 444-9001

75-2702753
(I.R.S. Employer
Identification No.)

75039
(Zip Code)

(Registrant's telephone number, including area code)

Not applicable

Edgar Filing: PIONEER NATURAL RESOURCES CO - Form 10-Q

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

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. **Yes** **No**

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

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

Large accelerated filer

Accelerated filer

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

Smaller reporting company

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

Number of shares of Common Stock outstanding as of November 1, 2011

116,881,280

Table of Contents

PIONEER NATURAL RESOURCES COMPANY

TABLE OF CONTENTS

	Page
<u>Cautionary Statement Concerning Forward-Looking Statements</u>	3
<u>Definitions of Certain Terms and Conventions Used Herein</u>	4
<u>PART I. FINANCIAL INFORMATION</u>	
Item 1. <u>Financial Statements</u>	
<u>Consolidated Balance Sheets as of September 30, 2011 and December 31, 2010</u>	5
<u>Consolidated Statements of Operations for the three and nine months ended September 30, 2011 and 2010</u>	7
<u>Consolidated Statement of Stockholders' Equity for the nine months ended September 30, 2011</u>	8
<u>Consolidated Statements of Cash Flows for the nine months ended September 30, 2011 and 2010</u>	9
<u>Consolidated Statements of Comprehensive Income for the three and nine months ended September 30, 2011 and 2010</u>	10
<u>Notes to Consolidated Financial Statements</u>	11
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	36
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	51
Item 4. <u>Controls and Procedures</u>	54
<u>PART II. OTHER INFORMATION</u>	
Item 1. <u>Legal Proceedings</u>	55
Item 1A. <u>Risk Factors</u>	55
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	56
Item 6. <u>Exhibits</u>	57
<u>Signatures</u>	58
<u>Exhibit Index</u>	59

Table of Contents

PIONEER NATURAL RESOURCES COMPANY

Cautionary Statement Concerning Forward-Looking Statements

The information in this Quarterly Report on Form 10-Q (the Report) contains forward-looking statements that involve risks and uncertainties. When used in this document, the words believes, plans, expects, anticipates, forecasts, intends, continue, may, will, could, should, future, potential, estimate or the negative of such terms and similar expressions as they relate to Pioneer Natural Resources Company (Pioneer or the Company) are intended to identify forward-looking statements. The forward-looking statements are based on the Company s current expectations, assumptions, estimates and projections about the Company and the industry in which the Company operates. Although the Company believes that the expectations and assumptions reflected in the forward-looking statements are reasonable, they involve risks and uncertainties that are difficult to predict and, in many cases, beyond the Company s control.

These risks and uncertainties include, among other things, volatility of commodity prices, product supply and demand, competition, the ability to obtain environmental and other permits and the timing thereof, other government regulation or action, the ability to obtain approvals from third parties and negotiate agreements with third parties on mutually acceptable terms, litigation, the costs and results of drilling and operations, availability of equipment, services and personnel required to complete the Company s operating activities, access to and availability of transportation, processing and refining facilities, Pioneer s ability to replace reserves, implement its business plans or complete its development activities as scheduled, access to and cost of capital, the financial strength of counterparties to Pioneer s credit facility and derivative contracts and the purchasers of Pioneer s oil, NGL and gas production, uncertainties about estimates of reserves and the ability to add proved reserves in the future, the assumptions underlying production forecasts, quality of technical data, environmental and weather risks, including the possible impacts of climate change, international operations and acts of war or terrorism. These and other risks are described in the Company s Annual Report on Form 10-K, this and other Quarterly Reports on Form 10-Q and other filings with the United States Securities and Exchange Commission (the SEC). In addition, the Company may be subject to currently unforeseen risks that may have a materially adverse effect on it. Accordingly, no assurances can be given that the actual events and results will not be materially different than the anticipated results described in the forward-looking statements. See Part I, Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations, Part I, Item 3. Quantitative and Qualitative Disclosures About Market Risk and Part II, Item 1A. Risk Factors in this Report and Part I, Item 1. Business Competition, Markets and Regulations, Part I, Item 1A. Risk Factors, Part II, Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations and Part II, Item 7A. Quantitative and Qualitative Disclosures About Market Risk in the Company s Annual Report on Form 10-K for the year ended December 31, 2010 and Part II, Item 1A. Risk Factors in the Company s Quarterly Report on Form 10-Q for the quarter ended June 30, 2011 for a description of various factors that could materially affect the ability of Pioneer to achieve the anticipated results described in the forward-looking statements. Readers are cautioned not to place undue reliance on forward-looking statements, which speak only as of the date hereof. The Company undertakes no duty to publicly update these statements except as required by law.

Table of Contents

PIONEER NATURAL RESOURCES COMPANY

Definitions of Certain Terms and Conventions Used Herein

Within this Report, the following terms and conventions have specific meanings:

AOCI - Hedging means accumulated other comprehensive income net deferred hedge gains, net of tax, a component of the Company's consolidated stockholders' equity in the accompanying consolidated balance sheets.

Bbl means a standard barrel containing 42 United States gallons.

BOE means a barrel of oil equivalent and is a standard convention used to express oil and gas volumes on a comparable oil equivalent basis. Gas equivalents are determined under the relative energy content method by using the ratio of six thousand cubic feet of gas to one Bbl of oil or natural gas liquid.

BOEPD means BOE per day.

Btu means British thermal unit, which is a measure of the amount of energy required to raise the temperature of one pound of water one degree Fahrenheit.

Conway means the daily average natural gas liquids components as priced in *Oil Price Information Service* (*OPIS*) in the table "U.S. and Canada LP Gas Weekly Averages" at Conway, Kansas.

DD&A means depletion, depreciation and amortization.

GAAP means accounting principles that are generally accepted in the United States of America.

LIBOR means London Interbank Offered Rate, which is a market rate of interest.

MBbl means one thousand Bbls.

MBOE means one thousand BOEs.

Mcf means one thousand cubic feet and is a measure of gas volume.

MMBbl means one million Bbls.

MMBOE means one million BOEs.

MMBtu means one million Btus.

MMcf means one million cubic feet.

MMcfd means one million cubic feet per day.

Mont Belvieu posted-price means the daily average natural gas liquids components as priced in OPIS in the table U.S. and Canada LP Gas Weekly Averages at Mont Belvieu, Texas.

NGL means natural gas liquid.

NYMEX means the New York Mercantile Exchange.

NYSE means the New York Stock Exchange.

Pioneer or the **Company** means Pioneer Natural Resources Company and its subsidiaries.

Pioneer Southwest means Pioneer Southwest Energy Partners L.P. and its subsidiaries.

Proved reserves mean the quantities of oil and gas, which, by analysis of geoscience and engineering data, can be estimated with reasonable certainty to be economically producible from a given date forward, from known reservoirs, and under existing economic conditions, operating methods, and government regulations prior to the time at which contracts providing the right to operate expire, unless evidence indicates that renewal is reasonably certain, regardless of whether deterministic or probabilistic methods are used for the estimation. The project to extract the hydrocarbons must have commenced or the operator must be reasonably certain that it will commence the project within a reasonable time.

(i) The area of the reservoir considered as proved includes: (A) The area identified by drilling and limited by fluid contacts, if any, and (B) Adjacent undrilled portions of the reservoir that can, with reasonable certainty, be judged to be continuous with it and to contain economically producible oil or gas on the basis of available geoscience and engineering data.

(ii) In the absence of data on fluid contacts, proved quantities in a reservoir are limited by the lowest known hydrocarbons (LKH) as seen in a well penetration unless geoscience, engineering, or performance data and reliable technology establishes a lower contact with reasonable certainty.

(iii) Where direct observation from well penetrations has defined a highest known oil (HKO) elevation and the potential exists for an associated gas cap, proved oil reserves may be assigned in the structurally higher portions of the reservoir only if geoscience, engineering or performance data and reliable technology establish the higher contact with reasonable certainty.

(iv) Reserves which can be produced economically through application of improved recovery techniques (including, but not limited to, fluid injection) are included in the proved classification when: (A) Successful testing by a pilot project in an area of the reservoir with properties no more favorable than in the reservoir as a whole, the operation of an installed program in the reservoir or an analogous reservoir, or other evidence using reliable technology establishes the reasonable certainty of the engineering analysis on which the project or program was based; and (B) The project has been approved for development by all necessary parties and entities, including governmental entities.

Edgar Filing: PIONEER NATURAL RESOURCES CO - Form 10-Q

(v) Existing economic conditions include prices and costs at which economic producibility from a reservoir is to be determined. The price shall be the average during the 12-month period prior to the ending date of the period covered by the report, determined as an unweighted arithmetic average of the first-day-of-the-month price for each month within such period, unless prices are defined by contractual arrangements, excluding escalations based upon future conditions.

Standardized Measure means the after-tax present value of estimated future net cash flows of proved reserves, determined in accordance with the rules and regulations of the SEC, using prices and costs employed in the determination of proved reserves and a ten percent discount rate.

U.S. means United States.

With respect to information on the working interest in wells, drilling locations and acreage, *net* wells, drilling locations and acres are determined by multiplying *gross* wells, drilling locations and acres by the Company's working interest in such wells, drilling locations or acres. Unless otherwise specified, wells, drilling locations and acreage statistics quoted herein represent gross wells, drilling locations or acres.

Unless otherwise indicated, all currency amounts are expressed in U.S. dollars.

Table of Contents**PART I. FINANCIAL INFORMATION****Item 1. Financial Statements****PIONEER NATURAL RESOURCES COMPANY****CONSOLIDATED BALANCE SHEETS**

(in thousands)

	September 30, 2011 (Unaudited)	December 31, 2010
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 210,565	\$ 111,160
Accounts receivable:		
Trade, net of allowance for doubtful accounts of \$755 and \$1,155 as of September 30, 2011 and December 31, 2010, respectively	272,154	237,511
Due from affiliates	6,034	7,792
Income taxes receivable	2,312	30,901
Inventories	260,356	173,615
Prepaid expenses	18,910	11,441
Deferred income taxes	92,140	156,650
Discontinued operations held for sale		281,741
Other current assets:		
Derivatives	234,806	171,679
Other	6,366	14,693
Total current assets	1,103,643	1,197,183
Property, plant and equipment, at cost:		
Oil and gas properties, using the successful efforts method of accounting:		
Proved properties	12,092,300	10,739,114
Unproved properties	249,537	191,112
Accumulated depletion, depreciation and amortization	(3,788,686)	(3,366,440)
Total property, plant and equipment	8,553,151	7,563,786
Deferred income taxes	7,358	
Goodwill	298,154	298,182
Other property and equipment, net	500,709	283,542
Other assets:		
Investment in unconsolidated affiliate	164,107	72,045
Derivatives	224,754	151,011
Other, net of allowance for doubtful accounts of \$348 and \$2,519 as of September 30, 2011 and December 31, 2010, respectively	133,167	113,353
	\$ 10,985,043	\$ 9,679,102

The financial information included as of September 30, 2011 has been prepared by management

Edgar Filing: PIONEER NATURAL RESOURCES CO - Form 10-Q

without audit by independent registered public accountants.

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

Table of Contents

PIONEER NATURAL RESOURCES COMPANY
CONSOLIDATED BALANCE SHEETS (continued)
(in thousands, except share data)

	September 30, 2011 (Unaudited)	December 31, 2010
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable:		
Trade	\$ 583,383	\$ 354,890
Due to affiliates	48,421	64,260
Interest payable	33,955	59,008
Income taxes payable	15,604	19,168
Deferred income taxes		1,144
Discontinued operations held for sale		108,592
Other current liabilities:		
Derivatives	12,377	80,997
Deferred revenue	42,825	44,951
Other	39,552	36,210
Total current liabilities	776,117	769,220
Long-term debt	2,587,371	2,601,670
Derivatives	16,946	56,574
Deferred income taxes	2,133,147	1,751,310
Deferred revenue	46,701	42,069
Other liabilities	228,094	232,234
Stockholders' equity:		
Common stock, \$.01 par value; 500,000,000 shares authorized; 127,614,963 and 126,212,256 shares issued at September 30, 2011 and December 31, 2010, respectively	1,276	1,262
Additional paid-in capital	3,082,058	3,022,768
Treasury stock, at cost: 11,264,660 and 10,903,743 at September 30, 2011 and December 31, 2010, respectively	(458,258)	(421,235)
Retained earnings	2,446,217	1,510,427
Accumulated other comprehensive income (loss) - net deferred hedge gains (losses), net of tax	(58)	7,361
Total stockholders' equity attributable to common stockholders	5,071,235	4,120,583
Noncontrolling interests in consolidating subsidiaries	125,432	105,442
Total stockholders' equity	5,196,667	4,226,025
Commitments and contingencies		
	\$ 10,985,043	\$ 9,679,102

The financial information included as of September 30, 2011 has been prepared by management

without audit by independent registered public accountants.

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

Table of Contents

PIONEER NATURAL RESOURCES COMPANY
CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except per share data)

(Unaudited)

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2011	2010	2011	2010
Revenues and other income:				
Oil and gas	\$ 610,509	\$ 437,411	\$ 1,691,570	\$ 1,331,498
Interest and other	17,573	14,969	68,714	49,929
Derivative gains, net	401,072	127,581	386,118	570,585
Gain (loss) on disposition of assets, net	1,048	2,383	(1,439)	26,971
Hurricane activity, net	1,487	3,452	1,418	5,678
	1,031,689	585,796	2,146,381	1,984,661
Costs and expenses:				
Oil and gas production	119,609	100,717	321,995	280,829