

PIONEER NATURAL RESOURCES CO  
Form 10-Q  
August 07, 2012  
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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 PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2012  
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

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PIONEER NATURAL RESOURCES COMPANY  
(Exact name of Registrant as specified in its charter)

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Delaware  
(State or other jurisdiction of  
incorporation or organization)

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

5205 N. O'Connor Blvd., Suite 200, Irving, Texas  
(Address of principal executive offices)  
(972) 444-9001  
(Registrant's telephone number, including area code)

75039  
(Zip Code)

Not applicable  
(Former name, former address and former fiscal year, if changed since last report)

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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 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 August 1, 2012 123,035,765



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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 (including joint venture 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, the risks associated with the ownership and operation of an industrial sand mining business, 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 1, 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, 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.

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PIONEER NATURAL RESOURCES COMPANY

Definitions of Certain Terms and Conventions Used Herein

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

• "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.

• "MCF" means one thousand cubic feet and is a measure of gas volume.

• "MMBTU" means one million BTUs.

• "MMBTUPD" means MMBTU per day.

• "Mont Belvieu" 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.

• "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.

(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.

•"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.

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## PART I. FINANCIAL INFORMATION

## Item 1. Financial Statements

## PIONEER NATURAL RESOURCES COMPANY

## CONSOLIDATED BALANCE SHEETS

(in thousands)

	June 30, 2012 (Unaudited)	December 31, 2011
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$317,769	\$537,484
Accounts receivable:		
Trade, net of allowance for doubtful accounts of \$706 and \$806 as of June 30, 2012 and December 31, 2011, respectively	250,192	275,991
Due from affiliates	2,301	7,822
Income taxes receivable	2,417	3
Inventories	277,539	241,609
Prepaid expenses	28,213	14,263
Discontinued operations held for sale	70,177	73,349
Other current assets:		
Derivatives	308,762	238,835
Other	26,663	12,936
Total current assets	1,284,033	1,402,292
Property, plant and equipment, at cost:		
Oil and gas properties, using the successful efforts method of accounting:		
Proved properties	12,964,291	12,013,805
Unproved properties	296,827	235,527
Accumulated depletion, depreciation and amortization	(4,013,770 )	(3,648,465 )
Total property, plant and equipment	9,247,348	8,600,867
Goodwill	298,142	298,142
Other property and equipment, net	1,134,532	573,075
Other assets:		
Investment in unconsolidated affiliate	184,374	169,532
Derivatives	260,929	243,240
Other, net of allowance for doubtful accounts of \$655 and \$340 as of June 30, 2012 and December 31, 2011, respectively	160,376	160,008
	\$12,569,734	\$11,447,156

The financial information included as of June 30, 2012 has been prepared by management without audit by independent registered public accountants.

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



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

	June 30, 2012 (Unaudited)	December 31, 2011
<b>LIABILITIES AND EQUITY</b>		
Current liabilities:		
Accounts payable:		
Trade	\$769,611	\$647,455
Due to affiliates	39,547	68,756
Interest payable	57,329	57,240
Income taxes payable	1,881	9,788
Deferred income taxes	89,656	57,713
Discontinued operations held for sale	77,310	75,901
Other current liabilities:		
Derivatives	30,650	74,415
Deferred revenue	21,150	42,069
Other	41,857	36,174
Total current liabilities	1,128,991	1,069,511
Long-term debt		
Derivatives	3,285,497	2,528,905
Deferred income taxes	17,785	33,561
Other liabilities	2,154,301	1,942,446
	226,184	221,595
Equity:		
Common stock, \$.01 par value; 500,000,000 shares authorized; 134,763,095 and 133,121,092 shares issued at June 30, 2012 and December 31, 2011, respectively	1,348	1,331
Additional paid-in capital	3,611,799	3,613,808
Treasury stock at cost: 11,727,359 and 11,264,936 at June 30, 2012 and December 31, 2011, respectively	(511,628 )	(458,281 )
Retained earnings	2,473,504	2,335,066
Accumulated other comprehensive loss - net deferred hedge losses, net of tax	—	(3,130 )
Total equity attributable to common stockholders	5,575,023	5,488,794
Noncontrolling interests in consolidating subsidiaries	181,953	162,344
Total equity	5,756,976	5,651,138
Commitments and contingencies		
	\$12,569,734	\$11,447,156

The financial information included as of June 30, 2012 has been prepared by management without audit by independent registered public accountants.

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

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CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except per share data)

(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Revenues and other income:				
Oil and gas	\$641,737	\$562,412	\$1,360,693	\$1,038,140
Interest and other	6,043	13,594	34,491	42,067
Derivative gains (losses), net	275,812	229,478	367,562	(14,954 )
Gain (loss) on disposition of assets, net	1,140	(296 )	44,736	(2,487 )
	924,732	805,188	1,807,482	1,062,766
Costs and expenses:				
Oil and gas production	156,838	101,741	295,159	200,576
Production and ad valorem taxes	44,495	35,864	90,291	69,160
Depletion, depreciation and amortization	200,921	135,511	382,339	258,345
Impairment of oil and gas properties	444,880	—	444,880	—
Exploration and abandonments	37,178	19,732	90,465	37,216
General and administrative	54,957	44,339	118,024	88,250
Accretion of discount on asset retirement obligations	2,444	2,048	4,874	4,092
Interest	49,008	44,995	95,866	90,222
Hurricane activity, net	—	(2 )	—	69
Other	30,651	12,053	54,258	29,914
	1,021,372	396,281	1,576,156	777,844
Income (loss) from continuing operations before income taxes	(96,640 )	408,907	231,326	284,922
Income tax benefit (provision)	45,086	(140,182 )	(72,617 )	(92,275 )
Income (loss) from continuing operations	(51,554 )	268,725	158,709	192,647
Income (loss) from discontinued operations, net of tax	12,017	(3,025 )	22,712	416,857
Net income (loss)	(39,537 )	265,700	181,421	609,504
Net income attributable to noncontrolling interests	(30,855 )	(20,123 )	(37,194 )	(15,333 )
Net income (loss) attributable to common stockholders	\$(70,392 )	\$245,577	\$144,227	\$594,171
Basic earnings per share:				
Income (loss) from continuing operations attributable to common stockholders	\$(0.67 )	\$2.10	\$0.98	\$1.50
Income (loss) from discontinued operations attributable to common stockholders	0.10	(0.03 )	0.18	3.53
Net income (loss) attributable to common stockholders	\$(0.57 )	\$2.07	\$1.16	\$5.03
Diluted earnings per share:				
Income (loss) from continuing operations attributable to common stockholders	\$(0.67 )	\$2.06	\$0.95	\$1.46
Income (loss) from discontinued operations attributable to common stockholders	0.10	(0.03 )	0.18	3.44
Net income (loss) attributable to common stockholders	\$(0.57 )	\$2.03	\$1.13	\$4.90
Weighted average shares outstanding:				
Basic	123,028	116,213	122,754	116,042
Diluted	123,028	118,592	125,772	118,986
Dividends declared per share	\$—	\$—	\$0.04	\$0.04

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Amounts attributable to common stockholders:

Income (loss) from continuing operations	\$(82,409 )	\$248,602	\$121,515	\$177,314
Income (loss) from discontinued operations, net of tax	12,017	(3,025 )	22,712	416,857
Net income (loss)	\$(70,392 )	\$245,577	\$144,227	\$594,171

The financial information included herein has been prepared by management

without audit by independent registered public accountants.

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

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CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(in thousands)

(Unaudited)

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2012	2011	2012	2011
Net income (loss)	\$(39,537 )	\$265,700	\$181,421	\$609,504
Other comprehensive activity:				
Net hedge (gains) losses included in continuing operations	2,347	(8,139 )	4,855	(16,195 )
Income tax (benefit) provision	(797 )	4,138	(1,725 )	4,886
Other comprehensive activity	1,550	(4,001 )	3,130	(11,309 )
Comprehensive income (loss)	(37,987 )	261,699	184,551	598,195
Comprehensive (income) loss attributable to the noncontrolling interests	(30,855 )	(16,698 )	(37,194 )	(8,522 )
Comprehensive income (loss) attributable to common stockholders	\$(68,842 )	\$245,001	\$147,357	\$589,673

The financial information included herein has been prepared by management without audit by independent registered public accountants.

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PIONEER NATURAL RESOURCES COMPANY  
CONSOLIDATED STATEMENT OF EQUITY  
(in thousands, except dividends per share)  
(Unaudited)

	Equity Attributable To Common Stockholders							Total Equity
	Shares Outstanding	Common Stock	Additional Paid-in Capital	Treasury Stock	Retained Earnings	Accumulated Other Comprehensive Loss	Noncontrolling Interests	
Balance as of December 31, 2011	121,856	\$1,331	\$3,613,808	\$(458,281)	\$2,335,066	\$(3,130)	\$162,344	\$5,651,138
Dividends declared (\$0.04 per share)	—	—	—	—	(4,982)	—	—	(4,982)
Exercise of long-term incentive plan stock options	65	—	(965)	2,780	(807)	—	—	1,008
Treasury stock purchases	(527)	—	—	(56,129)	—	—	(188)	(56,317)
Conversion of 2.875% senior convertible notes	—	—	(2)	2	—	—	—	—
Tax benefit related to stock-based compensation	—	—	17,545	—	—	—	—	17,545
Deferred tax provision attributable to 2008 Pioneer Southwest initial public offering	—	—	(49,072)	—	—	—	—	(49,072)
Compensation costs: Vested compensation awards, net	1,642	17	(17)	—	—	—	—	—
Compensation costs included in net income	—	—	30,502	—	—	—	559	31,061
Cash distributions to noncontrolling interests	—	—	—	—	—	—	(17,956)	(17,956)
Net income	—	—	—	—	144,227	—	37,194	181,421
Other comprehensive activity: Deferred hedging activity, net of tax: Net hedge losses included in	—	—	—	—	—	3,130	—	3,130

continuing  
operations

Balance as of June 30, 2012	123,036	\$1,348	\$3,611,799	\$(511,628)	\$2,473,504	\$—	\$181,953	\$5,756,976
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without audit by independent registered public accountants.

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

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CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

(Unaudited)

	Six Months Ended	
	June 30,	
	2012	2011
Cash flows from operating activities:		
Net income	\$ 181,421	\$ 609,504
Adjustments to reconcile net income to net cash provided by operating activities:		
Depletion, depreciation and amortization	382,339	258,345
Impairment of oil and gas properties	444,880	—
Exploration expenses, including dry holes	39,730	4,275
Deferred income taxes	57,291	87,337
(Gain) loss on disposition of assets, net	(44,736 )	2,487
Accretion of discount on asset retirement obligations	4,874	4,092
Discontinued operations	3,597	(390,868 )
Interest expense	18,152	15,432
Derivative related activity	(144,000 )	56,380
Amortization of stock-based compensation	30,970	21,155
Amortization of deferred revenue	(20,919 )	(22,290 )
Other noncash items	(7,513 )	(9,207 )
Change in operating assets and liabilities, net of effects from acquisitions and dispositions:		
Accounts receivable, net	33,881	(23,605 )
Income taxes receivable	(1,452 )	27,226
Inventories	(33,318 )	(74,136 )
Prepaid expenses	(13,425 )	(9,990 )
Other current assets	(8,846 )	8,772
Accounts payable	30,580	6,201
Interest payable	82	(1,642 )
Income taxes payable	(7,907 )	(11,485 )
Other current liabilities	(20,271 )	6,471
Net cash provided by operating activities	925,410	564,454
Cash flows from investing activities:		
Proceeds from disposition of assets, net of cash sold	62,945	813,520
Payments for acquisition, net of cash acquired	(295,974 )	—
Investment in unconsolidated subsidiary	—	(82,857 )
Additions to oil and gas properties	(1,424,807)	(757,148 )
Additions to other assets and other property and equipment, net	(164,230 )	(215,367 )
Net cash used in investing activities	(1,822,066)	(241,852 )
Cash flows from financing activities:		
Borrowings under long-term debt	1,339,093	72,610
Principal payments on long-term debt	(596,000 )	(115,810 )
Distributions to noncontrolling interests	(17,956 )	(13,366 )
Payments of other liabilities	(744 )	(305 )
Exercise of long-term incentive plan stock options	1,008	362
Purchases of treasury stock	(56,317 )	(39,218 )
Excess tax benefits from share-based payment arrangements	17,545	27,937
Payment of financing fees	(4,660 )	(8,739 )

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Dividends paid	(5,028	)	(4,812	)
Net cash provided by (used in) financing activities	676,941		(81,341	)
Net increase (decrease) in cash and cash equivalents	(219,715	)	241,261	
Cash and cash equivalents, beginning of period	537,484		111,160	
Cash and cash equivalents, end of period	\$317,769		\$352,421	

The financial information included herein has been prepared by management without audit by independent registered public accountants.

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

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PIONEER NATURAL RESOURCES COMPANY  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2012

(Unaudited)