

PIONEER NATURAL RESOURCES CO

Form 10-Q

November 05, 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 September 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)

75039

(Zip Code)

(972) 444-9001

(Registrant's telephone number, including area 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 October 31, 2012 123,232,483



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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, resources 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 (including its plan to complete certain asset divestments) 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 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)

	September 30, 2012 (Unaudited)	December 31, 2011
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$333,886	\$537,484
Accounts receivable:		
Trade, net of allowance for doubtful accounts of \$832 and \$806 as of September 30, 2012 and December 31, 2011, respectively	298,320	275,991
Due from affiliates	2,250	7,822
Income taxes receivable	10,126	3
Inventories	277,419	241,609
Prepaid expenses	21,657	14,263
Discontinued operations held for sale	400,392	73,349
Other current assets:		
Derivatives	225,900	238,835
Other	9,934	12,936
Total current assets	1,579,884	1,402,292
Property, plant and equipment, at cost:		
Oil and gas properties, using the successful efforts method of accounting:		
Proved properties	13,250,249	12,013,805
Unproved properties	203,285	235,527
Accumulated depletion, depreciation and amortization	(4,107,432)	(3,648,465)
Total property, plant and equipment	9,346,102	8,600,867
Goodwill	293,449	298,142
Other property and equipment, net	1,186,131	573,075
Other assets:		
Investment in unconsolidated affiliate	194,003	169,532
Derivatives	101,023	243,240
Other, net of allowance for doubtful accounts of \$644 and \$340 as of September 30, 2012 and December 31, 2011, respectively	113,409	160,008
	\$12,814,001	\$11,447,156

The financial information included as of September 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)

	September 30, 2012 (Unaudited)	December 31, 2011
<b>LIABILITIES AND EQUITY</b>		
Current liabilities:		
Accounts payable:		
Trade	\$736,381	\$647,455
Due to affiliates	68,255	68,756
Interest payable	40,960	57,240
Income taxes payable	222	9,788
Deferred income taxes	63,927	57,713
Discontinued operations held for sale	5,919	75,901
Other current liabilities:		
Derivatives	14,815	74,415
Deferred revenue	10,575	42,069
Other	50,794	36,174
Total current liabilities	991,848	1,069,511
Long-term debt		
Derivatives	3,562,070	2,528,905
Deferred income taxes	27,938	33,561
Other liabilities	2,209,472	1,942,446
	222,564	221,595
Equity:		
Common stock, \$.01 par value; 500,000,000 shares authorized; 134,782,883 and 133,121,092 shares issued at September 30, 2012 and December 31, 2011, respectively	1,348	1,331
Additional paid-in capital	3,641,248	3,613,808
Treasury stock at cost: 11,551,195 and 11,264,936 at September 30, 2012 and December 31, 2011, respectively	(504,140)	(458,281)
Retained earnings	2,485,935	2,335,066
Accumulated other comprehensive loss - net deferred hedge losses, net of tax	—	(3,130)
Total equity attributable to common stockholders	5,624,391	5,488,794
Noncontrolling interests in consolidating subsidiaries	175,718	162,344
Total equity	5,800,109	5,651,138
Commitments and contingencies		
	\$12,814,001	\$11,447,156

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

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CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except per share data)

(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Revenues and other income:				
Oil and gas	\$695,422	\$574,114	\$2,014,920	\$1,595,563
Interest and other	18,733	7,311	53,224	49,378
Derivative gains (losses), net	(123,994 )	401,072	243,568	386,118
Gain (loss) on disposition of assets, net	13,237	1,048	57,973	(1,439 )
	603,398	983,545	2,369,685	2,029,620
Costs and expenses:				
Oil and gas production	176,711	112,661	449,861	305,098
Production and ad valorem taxes	49,036	37,713	137,797	105,982
Depletion, depreciation and amortization	204,264	138,413	557,064	387,320
Exploration and abandonments	26,652	14,021	108,914	42,809
General and administrative	62,567	49,618	180,591	137,868
Accretion of discount on asset retirement obligations	2,369	1,993	6,994	5,930
Interest	54,441	45,560	150,307	135,782
Hurricane activity, net	—	(1,487 )	—	(1,418 )
Other	31,923	17,057	86,028	46,971
	607,963	415,549	1,677,556	1,166,342
Income (loss) from continuing operations before income taxes	(4,565 )	567,996	692,129	863,278
Income tax provision	(8,386 )	(182,728 )	(248,535 )	(278,732 )
Income (loss) from continuing operations	(12,951 )	385,268	443,594	584,546
Income (loss) from discontinued operations, net of tax	34,650	330	(240,474 )	410,556
Net income	21,699	385,598	203,120	995,102
Net income attributable to noncontrolling interests	(2,475 )	(34,134 )	(39,669 )	(49,467 )
Net income attributable to common stockholders	\$19,224	\$351,464	\$163,451	\$945,635
Basic earnings per share:				
Income (loss) from continuing operations attributable to common stockholders	\$(0.13 )	\$2.96	\$3.27	\$4.53
Income (loss) from discontinued operations attributable to common stockholders	0.28	—	(1.96 )	3.47
Net income attributable to common stockholders	\$0.15	\$2.96	\$1.31	\$8.00
Diluted earnings per share:				
Income (loss) from continuing operations attributable to common stockholders	\$(0.13 )	\$2.95	\$3.19	\$4.44
Income (loss) from discontinued operations attributable to common stockholders	0.28	—	(1.91 )	3.41
Net income attributable to common stockholders	\$0.15	\$2.95	\$1.28	\$7.85
Weighted average shares outstanding:				
Basic	123,111	116,281	122,874	116,122
Diluted	123,111	117,075	126,111	118,350
Dividends declared per share	\$0.04	\$0.04	\$0.08	\$0.08

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Amounts attributable to common stockholders:

Income (loss) from continuing operations	\$ (15,426 )	\$ 351,134	\$ 403,925	\$ 535,079
Income (loss) from discontinued operations, net of tax	34,650	330	(240,474 )	410,556
Net income	\$ 19,224	\$ 351,464	\$ 163,451	\$ 945,635

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

(in thousands)

(Unaudited)

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2012	2011	2012	2011
Net income	\$21,699	\$385,598	\$203,120	\$995,102
Other comprehensive activity:				
Net hedge (gains) losses included in continuing operations	—	(8,224 )	4,855	(24,418 )
Income tax (benefit) provision	—	1,838	(1,725 )	6,724
Other comprehensive activity	—	(6,386 )	3,130	(17,694 )
Comprehensive income	21,699	379,212	206,250	977,408
Comprehensive income attributable to the noncontrolling interests	(2,475 )	(30,670 )	(39,669 )	(39,192 )
Comprehensive income attributable to common stockholders	\$19,224	\$348,542	\$166,581	\$938,216

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 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 (\$0.08 per share)	—	—	—	—	(9,999)	—	—	(9,999)
Exercise of long-term incentive plan stock options and employee stock purchases	190	—	(969)	10,624	(2,583)	—	—	7,072
Treasury stock purchases	(477)	—	—	(56,488)	—	—	(189)	(56,677)
Conversion of 2.875% senior convertible notes	—	—	(5)	5	—	—	—	—
Tax benefit related to stock-based compensation	—	—	31,330	—	—	—	—	31,330
Deferred tax provision attributable to 2008 Pioneer Southwest initial public offering	—	—	(49,072)	—	—	—	—	(49,072)
Compensation costs: Vested compensation awards, net	1,663	17	(17)	—	—	—	—	—
Compensation costs included in net income	—	—	46,173	—	—	—	864	47,037
Cash distributions to noncontrolling interests	—	—	—	—	—	—	(26,970)	(26,970)
Net income	—	—	—	—	163,451	—	39,669	203,120
Other comprehensive activity: Deferred hedging activity, net of tax:								

Net hedge losses included in continuing operations	—	—	—	—	—	3,130	—	3,130
Balance as of September 30, 2012	123,232	\$ 1,348	\$3,641,248	\$(504,140)	\$2,485,935	\$ —	\$ 175,718	\$5,800,109

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 CASH FLOWS

(in thousands)

(Unaudited)

	Nine Months Ended September 30,	
	2012	2011
Cash flows from operating activities:		
Net income	\$203,120	\$995,102
Adjustments to reconcile net income to net cash provided by operating activities:		
Depletion, depreciation and amortization	557,064	387,320
Exploration expenses, including dry holes	52,574	5,228
Deferred income taxes	241,608	270,657
(Gain) loss on disposition of assets, net	(57,973)	) 1,439
Accretion of discount on asset retirement obligations	6,994	5,930
Discontinued operations	293,646	(371,767)
Interest expense	26,812	23,412
Derivative related activity	93,088	(269,746)
Amortization of stock-based compensation	46,899	31,525
Amortization of deferred revenue	(31,494)	) (33,620)
Other noncash items	(20,998)	) 3,480
Change in operating assets and liabilities, net of effects from acquisitions and dispositions:		
Accounts receivable, net	(7,946)	) (35,252)
Income taxes receivable	(8,632)	) 28,588
Inventories	(6,347)	) (115,961)
Prepaid expenses	(6,772)	) (7,558)
Other current assets	7,898	8,520
Accounts payable	23,554	83,632
Interest payable	(16,302)	) (25,053)
Income taxes payable	(9,566)	) (1,807)
Other current liabilities	(29,757)	) 45,969
Net cash provided by operating activities	1,357,470	1,030,038
Cash flows from investing activities:		
Proceeds from disposition of assets, net of cash sold	92,473	819,638
Payments for acquisition, net of cash acquired	(296,959)	) —
Investment in unconsolidated subsidiary	—	(89,620)
Additions to oil and gas properties	(2,072,800)	) (1,319,131)
Additions to other assets and other property and equipment, net	(238,803)	) (265,740)
Net cash used in investing activities	(2,516,089)	) (854,853)
Cash flows from financing activities:		
Borrowings under long-term debt	1,608,618	102,616
Principal payments on long-term debt	(596,000)	) (135,883)
Distributions to noncontrolling interests	(26,970)	) (19,944)
Payments of other liabilities	(894)	) (503)
Exercise of long-term incentive plan stock options and employee stock purchases	7,072	3,690
Purchases of treasury stock	(56,677)	) (40,326)
Excess tax benefits from share-based payment arrangements	31,330	28,123
Payment of financing fees	(6,430)	) (8,741)



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Dividends paid	(5,028	) (4,812	)
Net cash provided by (used in) financing activities	955,021	(75,780	)
Net increase (decrease) in cash and cash equivalents	(203,598	) 99,405	
Cash and cash equivalents, beginning of period	537,484	111,160	