

PIONEER NATURAL RESOURCES CO

Form 10-Q

November 03, 2015

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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2015

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)

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)

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 ý 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 ý 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 ý Accelerated filer ..

Non-accelerated filer o (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 ý

Number of shares of Common Stock outstanding as of October 30, 2015

149,377,919

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PIONEER NATURAL RESOURCES COMPANY

Cautionary Statement Concerning Forward-Looking Statements

The information in this Quarterly Report on Form 10-Q (this "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, which are generally not historical in nature. 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 as and when made, 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, resources and personnel required to perform the Company's drilling and operating activities, access to and availability of transportation, processing, fractionation 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 the Company's industrial sand mining and oilfield services businesses, 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. 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, 2014 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.

• "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.

• "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 millions)

	September 30, 2015 (Unaudited)	December 31, 2014
ASSETS		
Current assets:		
Cash and cash equivalents	\$581	\$1,025
Accounts receivable:		
Trade, net	413	436
Due from affiliates	—	4
Income taxes receivable	—	23
Inventories	238	241
Prepaid expenses	19	15
Notes receivable	497	—
Derivatives	632	578
Other	23	37
Total current assets	2,403	2,359
Property, plant and equipment, at cost:		
Oil and gas properties, using the successful efforts method of accounting:		
Proved properties	16,799	15,662
Unproved properties	170	159
Accumulated depletion, depreciation and amortization	(6,407	) (5,431)
Total property, plant and equipment	10,562	10,390
Goodwill	272	272
Other property and equipment, net	1,480	1,391
Investment in unconsolidated affiliate	—	239
Derivatives	147	181
Other, net	101	94
	\$14,965	\$14,926

The financial information included as of September 30, 2015 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 millions, except share data)

	September 30, 2015 (Unaudited)	December 31, 2014
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable:		
Trade	\$791	\$1,197
Due to affiliates	58	123
Interest payable	36	40
Income taxes payable	27	1
Deferred income taxes	172	161
Derivatives	2	3
Other	61	55
Total current liabilities	1,147	1,580
Long-term debt	2,675	2,665
Derivatives	1	2
Deferred income taxes	1,925	1,803
Other liabilities	236	287
Equity:		
Common stock, \$.01 par value; 500,000,000 shares authorized; 152,774,139 and 152,158,428 shares issued as of September 30, 2015 and December 31, 2014, respectively	2	2
Additional paid-in capital	6,250	6,167
Treasury stock at cost: 3,396,200 and 3,253,781 shares as of September 30, 2015 and December 31, 2014, respectively	(199)	(171)
Retained earnings	2,921	2,583
Total equity attributable to common stockholders	8,974	8,581
Noncontrolling interests in consolidating subsidiaries	7	8
Total equity	8,981	8,589
Commitments and contingencies		
	\$14,965	\$14,926

The financial information included as of September 30, 2015 has been prepared by management without audit by independent registered public accountants.

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CONSOLIDATED STATEMENTS OF OPERATIONS

(in millions, except per share data)

(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Revenues and other income:				
Oil and gas	\$557	\$967	\$1,670	\$2,795
Sales of purchased oil and gas	326	202	665	554
Interest and other	(17	) 2	—	9
Derivative gains, net	573	341	617	19
Gain on disposition of assets, net	779	1	782	11
	2,218	1,513	3,734	3,388
Costs and expenses:				
Oil and gas production	189	168	532	493
Production and ad valorem taxes	36	58	112	169
Depletion, depreciation and amortization	364	274	1,003	734
Purchased oil and gas	339	194	684	535
Impairment of oil and gas properties	72	—	210	—
Exploration and abandonments	25	22	79	80
General and administrative	81	81	246	244
Accretion of discount on asset retirement obligations	3	3	9	9
Interest	46	46	138	138
Other	60	20	170	55
	1,215	866	3,183	2,457
Income from continuing operations before income taxes	1,003	647	551	931
Income tax provision	(355	) (236	) (195	) (319
Income from continuing operations	648	411	356	612
Loss from discontinued operations, net of tax	(2	) (37	) (6	) (113
Net income attributable to common stockholders	\$646	\$374	\$350	\$499
Basic earnings per share attributable to common stockholders:				
Income from continuing operations	\$4.29	\$2.84	\$2.36	\$4.24
Loss from discontinued operations	(0.01	) (0.26	) (0.04	) (0.79
Net income	\$4.28	\$2.58	\$2.32	\$3.45
Diluted earnings per share attributable to common stockholders:				
Income from continuing operations	\$4.28	\$2.84	\$2.36	\$4.23
Loss from discontinued operations	(0.01	) (0.26	) (0.04	) (0.79
Net income	\$4.27	\$2.58	\$2.32	\$3.44
Weighted average shares outstanding:				
Basic	149	143	149	143
Diluted	150	143	149	143
Dividends declared per share	\$0.04	\$0.04	\$0.08	\$0.08

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
CONSOLIDATED STATEMENT OF EQUITY
(in millions, except share data and dividends per share)
(Unaudited)

	Equity Attributable To Common Stockholders						Total Equity
	Shares Outstanding	Common Stock	Additional Paid-in Capital	Treasury Stock	Retained Earnings	Noncontrolling Interests	
	(in thousands)						
Balance as of December 31, 2014	148,905	\$2	\$ 6,167	\$(171)	\$2,583	\$ 8	\$8,589
Dividends declared (\$0.08 per share)	—	—	—	—	(12)	—	(12)
Employee stock purchases	58	—	3	3	—	—	6
Purchases of treasury stock	(201)	—	—	(31)	—	—	(31)
Tax benefits related to stock-based compensation	—	—	10	—	—	—	10
Compensation costs:							
Vested compensation awards, net	616	—	—	—	—	—	—
Compensation costs included in net income	—	—	70	—	—	—	70
Cash distributions to noncontrolling interests	—	—	—	—	—	(1)	(1)
Net income	—	—	—	—	350	—	350
Balance as of September 30, 2015	149,378	\$2	\$ 6,250	\$(199)	\$2,921	\$ 7	\$8,981

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 millions)

(Unaudited)

	Nine Months Ended September 30,	
	2015	2014
Cash flows from operating activities:		
Net income	\$350	\$499
Adjustments to reconcile net income to net cash provided by operating activities:		
Depletion, depreciation and amortization	1,003	734
Impairment of oil and gas properties	210	—
Impairment of inventory and other property and equipment	21	7
Exploration expenses, including dry holes	22	11
Deferred income taxes	146	315
Gain on disposition of assets, net	(782	) (11
Accretion of discount on asset retirement obligations	9	9
Discontinued operations	(4	) 247
Interest expense	14	13
Derivative related activity	(22	) (39
Amortization of stock-based compensation	70	63
Other	13	42
Change in operating assets and liabilities:		
Accounts receivable, net	26	(77
Income taxes receivable	23	(17
Inventories	(29	) (27
Prepaid expenses	(3	) (11
Other current assets	(6	) (1
Accounts payable	(266	) 96
Interest payable	(4)