

PIONEER NATURAL RESOURCES CO  
Form 10-Q  
August 05, 2011  
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**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 June 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

(Registrant's telephone number, including area code)

Not applicable

75-2702753  
(I.R.S. Employer

Identification No.)

75039  
(Zip Code)

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(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 August 1, 2011

116,782,548

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**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 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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**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.

***Bcf*** means one billion cubic feet.

***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.

***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.

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**MMBOE** means one million BOEs.

**MMBtu** means one million Btus.

**MMcf** means one million cubic feet.

**MMcfpd** means one million cubic feet per day.

**Mont Belvieu posted-price** 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 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.

(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

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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)

	June 30, 2011 (Unaudited)	December 31, 2010
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 352,421	\$ 111,160
Accounts receivable:		
Trade, net of allowance for doubtful accounts of \$1,056 and \$1,155 as of June 30, 2011 and December 31, 2010, respectively	266,476	237,511
Due from affiliates	2,702	7,792
Income taxes receivable	3,674	30,901
Inventories	234,108	173,615
Prepaid expenses	21,342	11,441
Deferred income taxes	163	156,650
Discontinued operations held for sale		281,741
Other current assets:		
Derivatives	154,129	171,679
Other	36,092	14,693
<b>Total current assets</b>	<b>1,071,107</b>	<b>1,197,183</b>
Property, plant and equipment, at cost:		
Oil and gas properties, using the successful efforts method of accounting:		
Proved properties	11,541,101	10,739,114
Unproved properties	213,230	191,112
Accumulated depletion, depreciation and amortization	(3,637,605)	(3,366,440)
<b>Total property, plant and equipment</b>	<b>8,116,726</b>	<b>7,563,786</b>
Deferred income taxes	1,878	
Goodwill	298,177	298,182
Other property and equipment, net	431,214	283,542
Other assets:		
Investment in unconsolidated affiliate	155,701	72,045
Derivatives	142,361	151,011
Other, net of allowance for doubtful accounts of \$358 and \$2,519 as of June 30, 2011 and December 31, 2010, respectively	135,924	113,353
	<b>\$ 10,353,088</b>	<b>\$ 9,679,102</b>

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



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

	June 30, 2011 (Unaudited)	December 31, 2010
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
Current liabilities:		
Accounts payable:		
Trade	\$ 490,434	\$ 354,890
Due to affiliates	26,962	64,260
Interest payable	57,366	59,008
Income taxes payable	5,927	19,168
Deferred income taxes	19,588	1,144
Discontinued operations held for sale		108,592
Other current liabilities:		
Derivatives	76,008	80,997
Deferred revenue	43,580	44,951
Other	35,776	36,210
Total current liabilities	755,641	769,220
Long-term debt		
Derivatives	2,570,978	2,601,670
Deferred income taxes	108,075	56,574
Deferred revenue	1,844,503	1,751,310
Other liabilities	21,150	42,069
Other liabilities	236,777	232,234
Stockholders' equity:		
Common stock, \$.01 par value; 500,000,000 shares authorized; 127,554,683 and 126,212,256 shares issued at June 30, 2011 and December 31, 2010, respectively	1,276	1,262
Additional paid-in capital	3,070,827	3,022,768
Treasury stock, at cost: 11,311,097 and 10,903,743 at June 30, 2011 and December 31, 2010, respectively	(459,657)	(421,235)
Retained earnings	2,099,623	1,510,427
Accumulated other comprehensive income - net deferred hedge gains, net of tax	2,863	7,361
Total stockholders' equity attributable to common stockholders	4,714,932	4,120,583
Noncontrolling interests in consolidating subsidiaries	101,032	105,442
Total stockholders' equity	4,815,964	4,226,025
Commitments and contingencies		
	\$ 10,353,088	\$ 9,679,102

The financial information included as of June 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.



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**PIONEER NATURAL RESOURCES COMPANY**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**

(in thousands, except per share data)

(Unaudited)

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2011	2010	2011	2010
Revenues and other income:				
Oil and gas	\$ 583,931	\$ 422,042	\$ 1,081,061	\$ 894,087
Interest and other	18,454	16,952	51,141	34,960
Gain (loss) on disposition of assets, net	(296)	7,645	(2,487)	24,588
	602,089	446,639	1,129,715	953,635
Costs and expenses:				
Oil and gas production	102,455	94,012	202,386	180,112
Production and ad valorem taxes	35,864	25,338	69,160	52,399
Depletion, depreciation and amortization	153,898	144,309	294,271	288,737
Exploration and abandonments				