

PIONEER NATURAL RESOURCES CO
Form 10-Q
May 06, 2010

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 31, 2010

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 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 May 3, 2010 115,929,792

PIONEER NATURAL RESOURCES COMPANY

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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," "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, international operations and associated international political and economic instability, litigation, the costs and results of drilling and operations, access to and availability of drilling equipment and 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 resource potential 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 impact of climate change, 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 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 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, 2009 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.

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.
- "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 6.0 Mcf of gas to 1.0 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.
- "CBM" means coal bed methane.
- "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 natural gas volume.
- "MMBbl" means one million Bbls.
- "MMBOE" means one million BOEs.
- "MMBtu" means one million Btus.
- "MMcfd" 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" means the quantities of oil and gas, which, by analysis of geosciences 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 geosciences and engineering data.
 - (ii) In the absence of data on fluid contacts, proved quantities in a reservoir are limited by the lowest known hydrocarbons 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 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 is based; and (B) The project has been approved for development by all necessary parties and entities, including governmental entities.

(v) Existing 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.

- "SEC" means the United States Securities and Exchange Commission.

"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.

- "VPP" means volumetric production payment.

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.

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

PIONEER NATURAL RESOURCES COMPANY

CONSOLIDATED BALANCE SHEETS
(in thousands)

	March 31, 2010 (Unaudited)	December 31, 2009
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 34,540	\$ 27,368
Accounts receivable:		
Trade, net of allowance for doubtful accounts of \$1,415 and \$1,310 as of March 31, 2010 and December 31, 2009, respectively	260,688	330,711
Due from affiliates	593	1,037
Income taxes receivable	3,758	25,022
Inventories	120,750	139,177
Prepaid expenses	8,551	9,011
Deferred income taxes	-	26,857
Other current assets:		
Derivatives	154,732	48,713
Other, net of allowance for doubtful accounts of \$2,137 and \$5,689 as of March 31, 2010 and December 31, 2009, respectively	3,414	8,222
Total current assets	587,026	616,118
Property, plant and equipment, at cost:		
Oil and gas properties, using the successful efforts method of accounting:		
Proved properties	10,388,312	10,276,244
Unproved properties	269,029	236,660
Accumulated depletion, depreciation and amortization	(3,059,087)	(2,946,048)
Total property, plant and equipment	7,598,254	7,566,856
Deferred income taxes	491	387
Goodwill	308,831	309,259
Other property and equipment, net	188,504	154,830
Other assets:		
Derivatives	118,318	43,631
Other, net of allowance for doubtful accounts of \$11,177 and \$7,300 as of	171,231	176,184

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March 31, 2010 and December 31, 2009,
respectively

\$ 8,972,655 \$ 8,867,265

The financial information included as of March 31, 2010 has been prepared by management
without audit by independent registered public accountants.

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

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

	March 31, 2010 (Unaudited)	December 31, 2009
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable:		
Trade	\$ 246,276	\$ 221,359
Due to affiliates	13,530	32,224
Interest payable	33,695	47,009
Income taxes payable	15,875	17,411
Deferred income taxes	-	128
Other current liabilities:		
Derivatives	90,753	116,015
Deferred revenue	78,816	90,215
Other	42,742	46,830
Total current liabilities	521,687	571,191
Long-term debt	2,647,604	2,761,011
Derivatives	76,819	133,645
Deferred income taxes	1,589,275	1,470,899
Deferred revenue	75,937	87,021
Other liabilities	177,705	200,467
Stockholders' equity:		
Common stock, \$.01 par value; 500,000,000 shares authorized; 126,055,152 and 125,203,502 shares issued at March 31, 2010 and December 31, 2009, respectively	1,260	1,252
Additional paid-in capital	2,997,656	2,981,450
Treasury stock, at cost: 10,983,758 and 10,828,171 at March 31, 2010 and December 31, 2009, respectively	(423,978)	(415,211)
Retained earnings	1,156,578	917,688
Accumulated other comprehensive income - deferred hedge gains, net of tax	39,450	51,009
Total stockholders' equity attributable to common stockholders	3,770,966	3,536,188
Noncontrolling interests in consolidated subsidiaries	112,662	106,843
Total stockholders' equity	3,883,628	3,643,031
Commitments and contingencies		
	\$ 8,972,655	\$ 8,867,265

The financial information included as of March 31, 2010 has been prepared by management without audit by independent registered public accountants.

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

PIONEER NATURAL RESOURCES COMPANY

CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except per share data)

(Unaudited)

	Three Months Ended March 31,	
	2010	2009
Revenues and other income:		
Oil and gas	\$ 507,796	\$ 367,851
Interest and other	19,803	10,660
Derivative gains, net	265,476	99,863
Gain (loss) on disposition of assets, net	16,943	(115)
Hurricane activity, net	7,410	(375)
	817,428	477,884
Costs and expenses:		
Oil and gas production	89,715	110,431
Production and ad valorem taxes	27,061	27,699
Depletion, depreciation and amortization	150,768	188,144
Impairment of oil and gas properties	-	21,091
Exploration and abandonments	20,797	31,170
General and administrative	40,948	34,654
Accretion of discount on asset retirement obligations	2,960	2,752
Interest	47,523	41,138
Other	16,576	31,389
	396,348	488,468
Income (loss) from continuing operations before income taxes	421,080	(10,584)
Income tax benefit (provision)	(160,474)	741
Income (loss) from continuing operations	260,606	(9,843)
Loss from discontinued operations, net of tax	-	(970)
Net income (loss)	260,606	(10,813)
Net income attributable to the noncontrolling interests	(15,352)	(3,793)
Net income (loss) attributable to common stockholders	\$ 245,254	\$ (14,606)