

PIONEER NATURAL RESOURCES CO

Form 10-Q

August 06, 2014

Table of Contents

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 June 30, 2014

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 August 1, 2014

143,098,392

Table of Contents

PIONEER NATURAL RESOURCES COMPANY
TABLE OF CONTENTS

	Page
<u>Cautionary Statement Concerning Forward-Looking Statements</u>	<u>3</u>
<u>Definitions of Certain Terms and Conventions Used Herein</u>	<u>4</u>
 <u>PART I. FINANCIAL INFORMATION</u>	
Item 1. <u>Financial Statements</u>	
Consolidated Balance Sheets as of June 30, 2014 and December 31, 2013	<u>5</u>
Consolidated Statements of Operations for the three and six months ended June 30, 2014 and 2013	<u>7</u>
Consolidated Statement of Equity for the six months ended June 30, 2014	<u>8</u>
Consolidated Statements of Cash Flows for the six months ended June 30, 2014 and 2013	<u>9</u>
<u>Notes to Consolidated Financial Statements</u>	<u>10</u>
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>25</u>
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	<u>36</u>
Item 4. <u>Controls and Procedures</u>	<u>40</u>
 <u>PART II. OTHER INFORMATION</u>	
Item 1. <u>Legal Proceedings</u>	<u>41</u>
Item 1A. <u>Risk Factors</u>	<u>41</u>
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>41</u>
Item 4. <u>Mine Safety Disclosures</u>	<u>41</u>
Item 6. <u>Exhibits</u>	<u>42</u>
<u>Signatures</u>	<u>43</u>
<u>Exhibit Index</u>	<u>44</u>

Table of Contents

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 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, completion of planned divestitures, 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, 2013 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.

Table of Contents

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.

• "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.

Table of Contents

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

PIONEER NATURAL RESOURCES COMPANY

CONSOLIDATED BALANCE SHEETS

(in millions)

	June 30, 2014 (Unaudited)	December 31, 2013
ASSETS		
Current assets:		
Cash and cash equivalents	\$445	\$393
Accounts receivable:		
Trade, net	457	431
Due from affiliates	8	3
Income taxes receivable	7	5
Inventories	221	220
Prepaid expenses	11	16
Assets held for sale	193	584
Other current assets:		
Derivatives	1	76
Other	37	2
Total current assets	1,380	1,730
Property, plant and equipment, at cost:		
Oil and gas properties, using the successful efforts method of accounting:		
Proved properties	14,602	13,406
Unproved properties	151	123
Accumulated depletion, depreciation and amortization	(5,279	) (4,903
Total property, plant and equipment	9,474	8,626
Goodwill	274	274
Other property and equipment, net	1,230	1,224
Other assets:		
Investment in unconsolidated affiliate	229	225
Derivatives	10	91
Other, net	113	124
	\$12,710	\$12,294

The financial information included as of June 30, 2014 has been prepared by management without audit by independent registered public accountants.

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

Table of Contents

PIONEER NATURAL RESOURCES COMPANY
 CONSOLIDATED BALANCE SHEETS (continued)
 (in millions)

	June 30, 2014 (Unaudited)	December 31, 2013
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable:		
Trade	\$1,074	\$910
Due to affiliates	71	150
Interest payable	62	62
Income taxes payable	1	—
Deferred income taxes	36	19
Liabilities held for sale	45	39
Other current liabilities:		
Derivatives	98	12
Other	78	58
Total current liabilities	1,465	1,250
Long-term debt		
Derivatives	66	10
Deferred income taxes	1,475	1,473
Other liabilities	295	293
Equity:		
Common stock, \$.01 par value; 500 million shares authorized; 146 million shares issued as of June 30, 2014 and December 31, 2013, respectively	1	1
Additional paid-in capital	5,128	5,080
Treasury stock at cost: 3 million shares as of June 30, 2014 and December 31, 2013, respectively	(172)	(144)
Retained earnings	1,784	1,665
Total equity attributable to common stockholders	6,741	6,602
Noncontrolling interests in consolidating subsidiaries	9	13
Total equity	6,750	6,615
Commitments and contingencies		
	\$12,710	\$12,294

The financial information included as of June 30, 2014 has been prepared by management without audit by independent registered public accountants.

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Table of ContentsPIONEER NATURAL RESOURCES COMPANY
CONSOLIDATED STATEMENTS OF OPERATIONS

(in millions, except per share data)

(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Revenues and other income:				
Oil and gas	\$959	\$781	\$1,869	\$1,510
Sales of purchased oil and gas	205	56	353	112
Interest and other	3	(5	) 7	(5
Derivative gains (losses), net	(218	) 144	(322	) 102
Gain on disposition of assets, net	4	183	10	207
	953	1,159	1,917	1,926
Costs and expenses:				
Oil and gas production	173	153	338	303
Production and ad valorem taxes	59	51	116	103
Depletion, depreciation and amortization	248	225	469	437
Purchased oil and gas	198	55	341	111
Exploration and abandonments	29	18	60	36
General and administrative	82	66	163	128
Accretion of discount on asset retirement obligations	3	3	6	6
Interest	47	43	92	94
Other	22	22	38	42
	861	636	1,623	1,260
Income from continuing operations before income taxes	92	523	294	666
Income tax provision	(34	) (183	) (87	) (233
Income from continuing operations	58	340	207	433
Income (loss) from discontinued operations, net of tax	(57	) 11	(83	) 27
Net income	1	351	124	460
Net income attributable to noncontrolling interests	—	(14	) —	(22
Net income attributable to common stockholders	\$1	\$337	\$124	\$438
Basic earnings per share attributable to common stockholders:				
Income from continuing operations	\$0.41	\$2.37	\$1.44	\$3.03
Income (loss) from discontinued operations	(0.40	) 0.05	(0.58	) 0.21
Net income	\$0.01	\$2.42	\$0.86	\$3.24
Diluted earnings per share attributable to common stockholders:				
Income from continuing operations	\$0.41	\$2.35	\$1.44	\$2.95
Income (loss) from discontinued operations	(0.40	) 0.05	(0.58	) 0.24
Net income	\$0.01	\$2.40	\$0.86	\$3.19
Weighted average shares outstanding:				
Basic	143	138	143	133
Diluted	143	139	143	136
Dividends declared per share	\$—	\$—	\$0.04	\$0.04
Amounts attributable to common stockholders:				
Income from continuing operations	\$58	\$326	\$207	\$411
Income (loss) from discontinued operations, net of tax	(57) 11	(83) 27

Net income	\$1	\$337	\$124	\$438
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The financial information included herein has been prepared by management without audit by independent registered public accountants.

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7

Table of Contents

PIONEER NATURAL RESOURCES COMPANY
CONSOLIDATED STATEMENT OF EQUITY
(in millions, except 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		
Balance as of December 31, 2013	143	\$1	\$ 5,080	\$(144)	\$1,665	\$ 13	\$6,615	
Dividends declared (\$0.04 per share)	—	—	—	—	(5)	—	(5)	
Exercise of long-term incentive plan stock options	—	—	2	5	—	—	7	
Purchases of treasury stock	—	—	—	(33)	—	—	(33)	
Sendero divestiture	—	—	—	—	—	(4)	(4)	
Tax benefits related to stock-based compensation	—	—	4	—	—	—	4	
Pioneer Southwest merger transaction costs	—	—	(1)	—	—	—	(1)	
Compensation costs included in net income	—	—	43	—	—	—	43	
Net income	—	—	—	—	124	—	124	
Balance as of June 30, 2014	143	\$1	\$ 5,128	\$(172)	\$1,784	\$ 9	\$6,750	

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.

Table of ContentsPIONEER NATURAL RESOURCES COMPANY
CONSOLIDATED STATEMENTS OF CASH FLOWS

(in millions)

(Unaudited)

	Six Months Ended		
	June 30,		
	2014	2013	
Cash flows from operating activities:			
Net income	\$124	\$460	
Adjustments to reconcile net income to net cash provided by operating activities:			
Depletion, depreciation and amortization	469	437	
Impairment of inventory and other property and equipment	4	4	
Exploration expenses, including dry holes	10	1	
Deferred income taxes	69	219	
Gain on disposition of assets, net	(10) (207)
Accretion of discount on asset retirement obligations	6	6	
Discontinued operations	166	60	
Interest expense	9	9	
Derivative related activity	298	(14)
Amortization of stock-based compensation	43	34	
Other	28	(8)
Change in operating assets and liabilities:			
Accounts receivable, net	(59) (33)
Income taxes receivable	(2)	