

PIONEER NATURAL RESOURCES CO  
Form 10-Q  
November 09, 2007  
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 September 30, 2007

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)

**75-2702753**

(I.R.S. Employer

Identification No.)

**75039**

(Zip Code)

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(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 **X** No **O**

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer **X**

Accelerated filer **O**

Non-accelerated filer **O**

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes **O** No **X**

Number of shares of Common Stock outstanding as of November 2, 2007

**119,485,277**

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PIONEER NATURAL RESOURCES COMPANY

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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," "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. 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 "Item 1. Business — Competition, Markets and Regulations", "Item 1A. Risk Factors" and "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, 2006 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. The Company undertakes no duty to publicly update these statements except as required by law.*

**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 and is a measure of natural gas volume.
  - **"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.
  - **"IPO"** means initial public offering.
  - **"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.
  - **"MMcfpd"** means one million cubic feet per day.
  - **"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 estimated quantities of crude oil, natural gas and natural gas liquids which geological and engineering data demonstrate with reasonable certainty to be recoverable in future years from known reservoirs under existing economic and operating conditions, *i.e.*, prices and costs as of the date the estimate is made. Prices include consideration of changes in existing prices provided only by contractual arrangements, but not on escalations based upon future conditions.
- (i) Reservoirs are considered proved if economic producibility is supported by either actual production or conclusive formation test. The area of a reservoir considered proved includes (A) that portion delineated by drilling and defined by gas-oil and/or oil-water contacts, if any; and (B) the immediately adjoining portions not yet drilled, but which can be reasonably judged as economically productive on the basis of available geological and engineering data. In the absence of information on fluid contacts, the lowest known structural occurrence of hydrocarbons controls the lower proved limit of the reservoir.
- (ii) Reserves which can be produced economically through application of improved recovery techniques (such as fluid injection) are included in the "proved" classification when successful testing by a pilot project, or the operation of an installed program in the reservoir, provides support for the engineering analysis on which the project or program was based.
- (iii) Estimates of proved reserves do not include the following: (A) oil that may become available from known reservoirs but is classified separately as "indicated additional reserves"; (B) crude oil, natural gas and natural gas liquids, the recovery of which is subject to reasonable doubt because of uncertainty as to geology, reservoir characteristics or economic factors; (C) crude oil, natural gas and natural gas liquids, that may occur in undrilled prospects; and (D) crude oil, natural gas and natural gas liquids, that may be recovered from oil shales, coal, gilsonite and other such sources.
- **"SEC"** means the United States Securities and Exchange Commission.

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- "VPP" means volumetric production payment.
- "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.

**PART I. FINANCIAL INFORMATION****Item 1.      Financial Statements****PIONEER NATURAL RESOURCES COMPANY****CONSOLIDATED BALANCE SHEETS**

(in thousands, except share data)

	<b>September 30, 2007 (Unaudited)</b>	<b>December 31, 2006</b>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 19,271	\$ 7,033
Accounts receivable:		
Trade, net of allowance for doubtful accounts of \$7,335 and \$6,999 as of September 30, 2007 and December 31, 2006, respectively	230,274	195,534
Due from affiliates, net of allowance for doubtful accounts of \$1,579 as of September 30, 2007	9,458	3,837
Income taxes receivable	88,302	24,693
Inventories	98,918	95,131
Prepaid expenses	11,004	11,509
Deferred income taxes	89,077	82,927
Discontinued operations held for sale	670,026	—
Other current assets:		
Derivatives	41,948	63,665
Other	48,847	52,229
Total current assets	1,307,125	536,558
Property, plant and equipment, at cost:		
Oil and gas properties, using the successful efforts method of accounting:		
Proved properties	8,449,226	7,967,708
Unproved properties	154,007	210,344
Accumulated depletion, depreciation and amortization	(1,940,595)	(1,895,408)
Total property, plant and equipment	6,662,638	6,282,644
Deferred income taxes	3,817	345
Goodwill	310,872	309,908
Other property and equipment, net	137,014	131,840
Other assets:		
Derivatives	5,609	4,333
Other, net of allowance for doubtful accounts of \$4,028 and \$4,405 as of September 30, 2007 and December 31, 2006, respectively	126,509	89,771

\$ 8,553,584

\$ 7,355,399

The financial information included as of September 30, 2007 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)

	September 30, 2007 (Unaudited)	December 31, 2006
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable:		
Trade	\$ 347,047	\$ 332,795
Due to affiliates	15,411	17,025
Interest payable	28,415	31,008
Income taxes payable	17,462	12,865
Discontinued operations held for sale	104,582	—
Other current liabilities:		
Derivatives	159,267	141,898
Deferred revenue	163,941	181,232
Other	167,347	170,156
Total current liabilities	1,003,472	886,979
Long-term debt	2,610,683	1,497,162
Derivatives	47,074	125,459
Deferred income taxes	1,289,401	1,172,507
Deferred revenue	364,636	483,279
Other liabilities and minority interests	173,592	205,342
Stockholders' equity:		
Common stock, \$.01 par value; 500,000,000 shares authorized; 123,266,123 and 122,686,073 shares issued at September 30, 2007 and December 31, 2006, respectively	1,233	1,227
Additional paid-in capital	2,683,575	2,654,047
Treasury stock, at cost: 5,713,120 and 1,183,090 shares at September 30, 2007 and December 31, 2006, respectively	(247,599)	(53,274)
Retained earnings	621,582	497,488
Accumulated other comprehensive income (loss):		
Net deferred hedge losses, net of tax	(125,343)	(167,220)
Cumulative translation adjustment	131,278	52,403
Total stockholders' equity	3,064,726	2,984,671
Commitments and contingencies		
	\$ 8,553,584	\$ 7,355,399

The financial information included as of September 30, 2007 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 September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
Revenues and other income:				
Oil and gas	\$ 458,898	\$ 384,112	\$ 1,232,272	\$ 1,108,634
Interest and other	30,991	14,017	71,051	33,576
Gain (loss) on disposition of assets, net	558	(436)	(860)	(3,990)
	490,447	397,693	1,302,463	1,138,220
Costs and expenses:				
Oil and gas production	113,554	88,687	308,380	264,741
Depletion, depreciation and amortization	113,879	82,562	280,927	233,269
Impairment of long-lived assets	(2,582)	—	15,309	—
Exploration and abandonments	34,498	41,006	170,143	158,671
General and administrative	32,330	29,262	94,304	88,466
Accretion of discount on asset retirement obligations	1,702	940	5,025	2,793
Interest	35,476	23,467	94,432	82,857
Hurricane activity, net	110	—	60,658	38,000
Other	7,513	14,001	23,478	31,208
	336,480	279,925		