

PIONEER NATURAL RESOURCES CO

Form 10-Q

November 01, 2010

[Table of Contents](#)

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 September 30, 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)

Edgar Filing: PIONEER NATURAL RESOURCES CO - Form 10-Q

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 (Former name, former address and former fiscal year, if changed since last report)	75-2702753 (I.R.S. Employer Identification No.) 75039 (Zip Code)
--	---

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 October 27, 2010	116,096,190
---	-------------

Table of Contents

PIONEER NATURAL RESOURCES COMPANY

TABLE OF CONTENTS

	Page
<u>Cautionary Statement Concerning Forward-Looking Statements</u>	3
<u>Definitions of Certain Terms and Conventions Used Herein</u>	4
<u>PART I. FINANCIAL INFORMATION</u>	
Item 1. <u>Financial Statements</u>	
<u>Consolidated Balance Sheets as of September 30, 2010 and December 31, 2009</u>	5
<u>Consolidated Statements of Operations for the three and nine months ended September 30, 2010 and 2009</u>	7
<u>Consolidated Statement of Stockholders' Equity for the nine months ended September 30, 2010</u>	8
<u>Consolidated Statements of Cash Flows for the nine months ended September 30, 2010 and 2009</u>	9
<u>Consolidated Statements of Comprehensive Income (Loss) for the three and nine months ended September 30, 2010 and 2009</u>	10
<u>Notes to Consolidated Financial Statements</u>	11
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	39
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	53
Item 4. <u>Controls and Procedures</u>	56
<u>PART II. OTHER INFORMATION</u>	
Item 1. <u>Legal Proceedings</u>	57
Item 1A. <u>Risk Factors</u>	57
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	57
Item 6. <u>Exhibits</u>	58
<u>Signatures</u>	59
<u>Exhibit Index</u>	60

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, 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, international operations and associated international political and economic instability, 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 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 2. Management's Discussion and Analysis of Financial Condition and Results of Operations and 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.

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.

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.

MMBOE means one million BOEs.

Edgar Filing: PIONEER NATURAL RESOURCES CO - Form 10-Q

MMBtu means one million Btus.

MMcf means one million cubic feet.

MMcfd 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.

Edgar Filing: PIONEER NATURAL RESOURCES CO - Form 10-Q

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.

Table of Contents**PART I. FINANCIAL INFORMATION****Item 1. Financial Statements****PIONEER NATURAL RESOURCES COMPANY****CONSOLIDATED BALANCE SHEETS****(in thousands)**

	September 30, 2010 (Unaudited)	December 31, 2009
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 78,165	\$ 27,368
Accounts receivable:		
Trade, net of allowance for doubtful accounts of \$2,294 and \$1,310 as of September 30, 2010 and December 31, 2009, respectively	211,066	330,711
Due from affiliates	650	1,037
Income taxes receivable	8,333	25,022
Inventories	182,238	139,177
Prepaid expenses	17,868	9,011
Deferred income taxes		26,857
Other current assets:		
Derivatives	189,635	48,713
Other, net of allowance for doubtful accounts of \$0 and \$5,689 as of September 30, 2010 and December 31, 2009, respectively	1,521	8,222
Total current assets	689,476	616,118
Property, plant and equipment, at cost:		
Oil and gas properties, using the successful efforts method of accounting:		
Proved properties	10,794,371	10,276,244
Unproved properties	184,837	236,660
Accumulated depletion, depreciation and amortization	(3,312,709)	(2,946,048)
Total property, plant and equipment	7,666,499	7,566,856
Deferred income taxes	15,045	387
Goodwill	298,413	309,259
Other property and equipment, net	257,413	154,830
Other assets:		
Derivatives	210,823	43,631
Other, net of allowance for doubtful accounts of \$11,157 and \$7,300 as of September 30, 2010 and December 31, 2009, respectively	159,451	176,184
	\$ 9,297,120	\$ 8,867,265

Edgar Filing: PIONEER NATURAL RESOURCES CO - Form 10-Q

The financial information included as of September 30, 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

Table of Contents

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

	September 30, 2010 (Unaudited)	December 31, 2009
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable:		
Trade	\$ 321,256	\$ 221,359
Due to affiliates	42,538	32,224
Interest payable	33,798	47,009
Income taxes payable	18,718	17,411
Deferred income taxes	52,043	128
Other current liabilities:		
Derivatives	34,730	116,015
Deferred revenue	56,097	90,215
Other	37,041	46,830
Total current liabilities	596,221	571,191
Long-term debt	2,539,416	2,761,011
Derivatives	31,477	133,645
Deferred income taxes	1,694,575	1,470,899
Deferred revenue	53,400	87,021
Other liabilities	224,193	200,467
Stockholders' equity:		
Common stock, \$.01 par value; 500,000,000 shares authorized; 126,193,615 and 125,203,502 shares issued at September 30, 2010 and December 31, 2009, respectively	1,262	1,252
Additional paid-in capital	3,015,986	2,981,450
Treasury stock, at cost: 10,929,778 and 10,828,171 at September 30, 2010 and December 31, 2009, respectively	(422,107)	(415,211)
Retained earnings	1,430,566	917,688
Accumulated other comprehensive income - deferred hedge gains, net of tax	17,675	51,009
Total stockholders' equity attributable to common stockholders	4,043,382	3,536,188
Noncontrolling interests in consolidating subsidiaries	114,456	106,843
Total stockholders' equity	4,157,838	3,643,031
Commitments and contingencies		
	\$ 9,297,120	\$ 8,867,265

The financial information included as of September 30, 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.

Table of Contents

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,	
	2010	2009	2010	2009
Revenues and other income:				
Oil and gas	\$ 471,372	\$ 409,969	\$ 1,441,310	\$ 1,148,512
Interest and other	11,864	503	51,930	99,761
Derivative gains (losses), net	127,581	(15,222)	570,585	(85,583)
Gain (loss) on disposition of assets, net	2,383	(385)	26,971	(447)
Hurricane activity, net	3,452	(1,830)	5,678	(18,280)
	616,652	393,035	2,096,474	1,143,963
Costs and expenses:				
Oil and gas production	104,339	90,394	291,348	285,617
Production and ad valorem taxes	33,045	28,089	85,444	79,503
Depletion, depreciation and amortization	152,838	162,605	453,920	509,422
Impairment of oil and gas properties				21,091
Exploration and abandonments	22,963	25,073	70,883	77,861
General and administrative	44,759	34,799	128,081	102,728
Accretion of discount on asset retirement obligations	2,626	2,754	8,218	8,259
Interest	45,002	43,438	137,893	128,051
Other	20,927	21,363	52,228	89,467
	426,499	408,515	1,228,015	1,301,999
Income (loss) from continuing operations before income taxes	190,153	(15,480)	868,459	(158,036)
Income tax benefit (provision)	(76,661)	5,206	(331,828)	47,671
Income (loss) from continuing operations	113,492	(10,274)	536,631	(110,365)
Income from discontinued operations, net of tax	1,082	12,107	27,238	13,868
Net income (loss)	114,574	1,833	563,869	(96,497)
Net income attributable to the noncontrolling interests	(2,538)	(8,998)	(39,003)	(12,269)
Net income (loss) attributable to common stockholders	\$ 112,036	\$ (7,165)	\$ 524,866	\$ (108,766)
Basic earnings per share:				
Income (loss) from continuing operations attributable to common stockholders	\$ 0.94	\$ (0.17)	\$ 4.23	\$ (1.07)
Income from discontinued operations attributable to common stockholders	0.01	0.11	0.23	0.12
Net income (loss) attributable to common stockholders	\$ 0.95	\$ (0.06)	\$ 4.46	\$ (0.95)
Diluted earnings per share:				
Income (loss) from continuing operations attributable to common stockholders	\$ 0.93	\$ (0.17)	\$ 4.20	\$ (1.07)
Income from discontinued operations attributable to common stockholders	0.01	0.11	0.23	0.12

Edgar Filing: PIONEER NATURAL RESOURCES CO - Form 10-Q

Net income (loss) attributable to common stockholders	\$ 0.94	\$ (0.06)	\$ 4.43	\$ (0.95)
Weighted average shares outstanding:				
Basic	115,191	114,123	114,985	114,118
Diluted	116,021	114,123	115,832	114,118
Dividends declared per share	\$ 0.04	\$ 0.04	\$ 0.08	\$ 0.08
Amounts attributable to common stockholders:				
Income (loss) from continuing operations	\$ 110,954	\$ (19,272)	\$ 497,628	\$ (122,634)
Income from discontinued operations, net of tax	1,082	12,107	27,238	13,868
Net income (loss)	\$ 112,036	\$ (7,165)	\$ 524,866	\$ (108,766)

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 Contents**PIONEER NATURAL RESOURCES COMPANY****CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY**

(in thousands, except dividends per share)

(Unaudited)

	Stockholders' Equity Attributable To Common Stockholders							
	Shares Outstanding	Common Stock	Additional Paid-in Capital	Treasury Stock	Retained Earnings	Accumulated Other Comprehensive Income	Noncontrolling Interests	Total Stockholders' Equity
Balance as of December 31, 2009	114,375	\$ 1,252	\$ 2,981,450	\$ (415,211)	\$ 917,688	\$ 51,009	\$ 106,843	\$ 3,643,031
Dividends declared (\$0.08 per share)					(9,469)			(9,469)
Exercise of long-term incentive plan stock options and employee stock purchases	236	1	2,577	6,677	(2,519)			6,736
Treasury stock purchases	(275)			(13,573)			(203)	(13,776)
Tax benefit related to stock-based compensation			4,032					4,032
Compensation costs:								
Vested compensation awards, net	928	9	(8)					1
Compensation costs included in net income			27,935				964	28,899
Cash contributions from noncontrolling interests							1,151	1,151
Cash distributions to noncontrolling interests							(20,160)	(20,160)
Net income					524,866		39,003	563,869
Other comprehensive loss:								
Deferred hedging activity, net of tax:								
Net hedge gains included in continuing operations						(33,334)	(13,142)	(46,476)
Balance as of September 30, 2010	115,264	\$ 1,262	\$ 3,015,986	\$ (422,107)	\$ 1,430,566	\$ 17,675	\$ 114,456	\$ 4,157,838

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 Contents

PIONEER NATURAL RESOURCES COMPANY
CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

(Unaudited)

	Nine Months Ended September 30,	
	2010	2009
Cash flows from operating activities:		
Net income (loss)	\$ 563,869	\$ (96,497)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depletion, depreciation and amortization	453,920	509,422
Impairment of oil and gas properties		21,091
Exploration expenses, including dry holes	16,771	40,699
Hurricane activity, net	3,500	16,200
Deferred income taxes	300,303	(67,397)
(Gain) loss on disposition of assets, net	(26,971)	447
Accretion of discount on asset retirement obligations	8,218	8,259
Discontinued operations	8,626	(5,373)
Interest expense	22,567	20,694
Derivative related activity	(549,387)	48,305
Amortization of stock-based compensation	28,631	29,319
Amortization of deferred revenue	(67,739)	(110,901)
Other noncash items	9,620	30,664
Change in operating assets and liabilities		
Accounts receivable, net	97,873	71,074
Income taxes receivable	16,689	44,762
Inventories	(6,459)	(52,069)
Prepaid expenses	(8,975)	(6,900)
Other current assets	2,162	98,532
Accounts payable	62,349	(94,238)
Interest payable	(13,211)	(14,766)
Income taxes payable	1,307	9,127
Other current liabilities	(21,941)	(89,629)
Net cash provided by operating activities	901,722	410,825
Cash flows from investing activities:		
Proceeds from disposition of assets	297,742	24,247
Additions to oil and gas properties	(714,014)	(319,928)
Additions to other assets and other property and equipment, net	(147,930)	(17,310)
Net cash used in investing activities	(564,202)	(312,991)
Cash flows from financing activities:		
Borrowings under long-term debt	199,784	386,269
Principal payments on long-term debt	(438,894)	(434,269)
Contributions from noncontrolling interests	1,151	150
Distributions to noncontrolling interests	(20,160)	(15,042)
Payments of other liabilities	(20,668)	(1,069)
Exercise of long-term incentive plan stock options	6,736	7,955

Edgar Filing: PIONEER NATURAL RESOURCES CO - Form 10-Q

Purchases of treasury stock	(13,776)	(21,813)
Excess tax (costs) benefits from share-based payment arrangements	4,032	(3,583)
Payment of financing fees	(145)	(4,475)
Dividends paid	(4,783)	(4,679)
Net cash used in financing activities	(286,723)	(90,556)
Net increase in cash and cash equivalents	50,797	7,278
Cash and cash equivalents, beginning of period	27,368	48,337
Cash and cash equivalents, end of period	\$ 78,165	\$ 55,615

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 Contents**PIONEER NATURAL RESOURCES COMPANY****CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)****(in thousands)****(Unaudited)**

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Net income (loss)	\$ 114,574	\$ 1,833	\$ 563,869	\$ (96,497)
Other comprehensive loss:				
Hedge fair value changes, net				12,974
Net hedge gains included in continuing operations	(21,913)	(24,640)	(63,536)	(90,280)
Income tax provision	5,988	6,025	17,060	38,999
Other comprehensive loss	(15,925)	(18,615)	(46,476)	(38,307)
Comprehensive income (loss)	98,649	(16,782)	517,393	(134,804)
Comprehensive (income) loss attributable to noncontrolling interest	1,898	(3,417)	(25,860)	853
Comprehensive income (loss) attributable to common stockholders	\$ 100,547	\$ (20,199)	\$ 491,533	\$ (133,951)

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 Contents

PIONEER NATURAL RESOURCES COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2010

(Unaudited)

NOTE A. Organization and Nature of Operations

Pioneer Natural Resources Company (Pioneer or the Company) is a Delaware corporation whose common stock is listed and traded on the New York Stock Exchange. The Company is a large independent oil and gas exploration and production company with continuing operations in the United States, South Africa and Tunisia.

NOTE B. Basis of Presentation

Presentation. In the opinion of management, the consolidated financial statements of the Company as of September 30, 2010 and for the three and nine months ended September 30, 2010 and 2009 include all adjustments and accruals, consisting only of normal recurring accrual adjustments, which are necessary for a fair presentation of the results for the interim periods. These interim results are not necessarily indicative of results for a full year.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles in the United States (GAAP) have been condensed or omitted in this Report pursuant to the rules and regulations of the United States Securities and Exchange Commission (the SEC). These consolidated financial statements should be read in connection with the consolidated financial statements and notes thereto included in the Company s Annual Report on Form 10-K for the year ended December 31, 2009.

Discontinued operations. During June and August 2009, the Company sold its oil and gas properties in Mississippi and substantially all of its shelf properties in the Gulf of Mexico, respectively. In accordance with GAAP, the Company classified the results of operations of the Mississippi and shelf properties in the Gulf of Mexico as discontinued in its accompanying consolidated statements of operations for the three and nine months ended September 30, 2009.

During the fourth quarter of 2009, the Company recorded a \$119.3 million receivable from the United States Department of Interior Minerals Management Service (the MMS, now the Bureau of Ocean Energy Management, Regulation, and Enforcement) for the recovery of excess royalties paid by the Company on qualifying deepwater leases in the Gulf of Mexico. During the nine months ended September 30, 2010, the MMS paid the Company the \$119.3 million receivable plus an additional \$35.3 million of associated interest on the excess royalty payments. The properties that were the source of these royalty and interest recoveries were sold by the Company during 2006. Accordingly, the interest income was recorded as a component of income from discontinued operations, net of tax in the accompanying consolidated statement of operations for the nine months ended September 30, 2010. See Note S for additional information about discontinued operations.

Allowances for doubtful accounts. As of September 30, 2010 and December 31, 2009, the Company s allowances for doubtful accounts totaled \$13.5 million and \$14.3 million, respectively. Changes in the Company s allowance for doubtful accounts during the three and nine months ended September 30, 2010 are summarized in the following table:

	Three Months Ended September 30, 2010	Nine Months Ended September 30, 2010
	(in thousands)	
Beginning allowance for doubtful accounts balance	\$ 13,104	\$ 14,299
Amount recorded in other expense for bad debt expense	358	328
Other net decreases	(11)	(1,176)

Edgar Filing: PIONEER NATURAL RESOURCES CO - Form 10-Q

Ending allowance for doubtful accounts balance	\$ 13,451	\$	13,451
--	-----------	----	--------

Inventories. Inventories consisted of \$205.9 million and \$205.6 million of materials and supplies and \$3.9 million and \$3.2 million of commodities as of September 30, 2010 and December 31, 2009, respectively. As of September 30, 2010 and December 31, 2009, the Company's materials and supplies inventory was net of \$7.1 million and \$5.2 million, respectively, of valuation reserve allowances. As of September 30, 2010 and December 31, 2009, the Company estimated that \$27.6 million and \$69.6 million, respectively, of its materials and supplies inventory would not be utilized or sold within one year. Accordingly, those inventory values have been classified as other noncurrent assets in the accompanying consolidated balance sheets.

Table of Contents

PIONEER NATURAL RESOURCES COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2010

(Unaudited)

Derivatives and hedging. Changes in the fair values of derivative instruments are recognized as gains or losses in the earnings of the period in which they occur. Effective February 1, 2009, the Company discontinued hedge accounting on all of its then-existing hedge contracts. Changes in the fair value of effective cash flow hedges prior to the Company's discontinuance of hedge accounting were recorded as a component of accumulated other comprehensive income—deferred hedge gains, net of tax (AOCI—Hedging), in the stockholders' equity section of the accompanying consolidated balance sheets, and are being transferred to earnings during the same periods in which the hedged transactions are recognized in the Company's earnings. Since February 1, 2009, the Company has recognized all changes in the fair values of its derivative contracts as gains or losses in the earnings of the periods in which they occur.

The Company classifies the fair value amounts of derivative assets and liabilities executed under master netting arrangements as net current or noncurrent derivative assets or net current or noncurrent derivative liabilities, whichever the case may be, by commodity and master netting counterparty. Net derivative asset values are determined, in part, by utilization of the derivative counterparties' credit-adjusted risk-free rate curves and net derivative liabilities are determined, in part, by utilization of the Company's and Pioneer Southwest Energy Partners L.P.'s (Pioneer Southwest, a majority-owned and consolidated subsidiary) credit-adjusted risk-free rate curves. The credit-adjusted risk-free rate curves for the Company and the counterparties are based on their independent market-quoted credit default swap rate curves plus the United States Treasury Bill yield curve as of the valuation date. Pioneer Southwest's credit-adjusted risk-free rate curve is based on independent market-quoted forward London Interbank Offered Rate (LIBOR) curves plus 250 basis points, representing Pioneer Southwest's estimated borrowing rate.

Goodwill. During June 2010, the Company sold 45 percent of its interests in South Texas Eagle Ford Shale oil and gas properties and substantially all of its oil and gas properties in the Uinta/Piceance area. Associated therewith, the Company reduced its goodwill attributable to the sold properties by \$10.7 million. Tax benefits associated with the exercise of fully-vested stock options assumed in conjunction with the business combination for which the goodwill is attributable also reduced its carrying value by \$222 thousand during 2010. Goodwill is assessed for impairment whenever events or circumstances indicate that impairment of the carrying value of goodwill is likely, but no less often than annually. If the carrying value of goodwill is determined to be impaired, it is reduced for the impaired value with a corresponding charge to pretax earnings in the period in which it is determined to be impaired. During the third quarter of 2010, the Company performed its annual assessment of goodwill impairment and determined that there was no impairment.

Noncontrolling interest in consolidated subsidiaries. The Company owns a 0.1 percent general partner interest and a 61.9 percent limited partner interest in Pioneer Southwest. Pioneer Southwest owns interests in certain oil and gas properties previously owned by the Company in the Spraberry field in the Permian Basin of West Texas. The financial position, results of operations and cash flows of Pioneer Southwest are consolidated with those of the Company.

During January 2010, Pioneer Natural Resources USA, Inc. (PNR USA, a wholly-owned subsidiary of the Company) formed Sendero Drilling Company, LLC (Sendero). Sendero was formed to own and operate land-based drilling rigs in the United States. As of September 30, 2010, Sendero owns nine drilling rigs operating under contract to PNR USA in the Spraberry field in the West Texas Permian Basin. PNR USA is the majority owner of Sendero.

In addition to Pioneer Southwest and Sendero, the Company owns the majority interests in certain other subsidiaries with operations in the United States. Noncontrolling interest in the net assets of consolidated subsidiaries totaled \$114.5 million and \$106.8 million as of September 30, 2010 and December 31, 2009, respectively. The Company recorded net income attributable to the noncontrolling interests of \$2.5 million and \$39.0 million for the three and nine months ended September 30, 2010, respectively (principally related to Pioneer Southwest), compared to \$9.0 million and \$12.3 million for the three and nine months ended September 30, 2009, respectively.

Investment in unconsolidated affiliate. During the second quarter of 2010, the Company formed EFS Midstream LLC (EFS Midstream) to own and operate natural gas and liquids gathering, treating and transportation assets in the Eagle Ford Shale area of South Texas. During June 2010,

Edgar Filing: PIONEER NATURAL RESOURCES CO - Form 10-Q

the Company sold a 49.9 percent member interest in EFS Midstream to an unaffiliated third party for \$46.4 million of cash proceeds. Associated therewith, the Company recorded a \$46.3 million deferred gain that will be amortized as a reduction in production costs over a 20 year period, representing the term of a continuing commitment of Pioneer to deliver production volumes through EFS Midstream handling and gathering facilities. The deferred gain is included in other current and noncurrent liabilities in the Company's accompanying consolidated balance sheet as of September 30, 2010.

Table of Contents**PIONEER NATURAL RESOURCES COMPANY****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****September 30, 2010****(Unaudited)**

The Company does not have voting control of EFS Midstream. Consequently, the Company accounts for this investment under the equity method of accounting for investments in unconsolidated affiliates. Under the equity method, the Company's investment in unconsolidated affiliates is increased for investments made and the investor's share of the investee's net income, and decreased for distributions received, the carrying value of member interests sold and the investor's share of the investee's net losses. The Company's investment in unconsolidated affiliates is included in other noncurrent assets in the accompanying consolidated balance sheets.

Stock-based compensation. For stock-based compensation equity awards, compensation expense is being recognized in the Company's financial statements on a straight line basis over the awards' vesting periods based on their fair values on the dates of grant. The amount of compensation expense recognized at any date is at least equal to the portion of the grant-date value of the award that is vested at that date. The Company utilizes (i) the Black-Scholes option pricing model to measure the fair value of stock options, (ii) the prior day's closing stock price on the date of grant for the fair value of restricted stock awards, (iii) the Monte Carlo simulation method for the fair value of performance unit awards and (iv) a probabilistic forecasted fair value method for series B unit awards issued by Sendero.

Stock-based compensation liability awards are awards that are expected to be settled wholly or partially in cash on their vesting dates, rather than in equity shares or units. Stock-based liability awards are recorded as accounts payable—affiliates based on the vested portion of the fair value of the awards on the balance sheet date. The fair values of liability awards are updated at each balance sheet date and changes in the fair values of the vested portions of the awards are recorded as increases or decreases to compensation expense. During February and August of 2010, the Company issued 208,620 and 20,935 restricted stock awards, respectively, to employees that represent liability awards, of which 11,161 liability awards have been forfeited or lapsed since the award dates. As of September 30, 2010, account payable—affiliates includes \$2.6 million of liabilities attributable to the liability awards.

For the three and nine months ended September 30, 2010, the Company recorded \$11.0 million and \$31.6 million, respectively, of stock-based compensation costs for all plans, as compared to \$10.1 million and \$29.3 million for the same respective periods of 2009.

In accordance with GAAP, the Company's issued shares, as reflected in the consolidated balance sheets at September 30, 2010 and December 31, 2009, do not include 827,861 and 979,493 common shares, respectively, associated with unvested stock-based compensation awards that have voting rights.

The following table summarizes all Pioneer equity and liability stock-based awards, lapses, exercises and forfeitures that occurred during the nine months ended September 30, 2010:

	Restricted Stock Awards	Performance Units	Stock Options
Outstanding at December 31, 2009	2,999,370	347,031	596,033
Awards (a)	741,131	74,482	116,120
Lapsed restrictions	(827,229)		
Exercises			(173,441)
Forfeitures	(84,356)		(1,799)
Outstanding at September 30, 2010	2,828,916	421,513	536,913

- (a) Restricted stock awards include 218,394 of liability awards.

Table of Contents

PIONEER NATURAL RESOURCES COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2010

(Unaudited)

Subsidiary issuances of unit-based compensation. During the nine months ended September 30, 2010, Pioneer Natural Resources GP LLC (the General Partner), the general partner of Pioneer Southwest, awarded phantom units to certain members of management of the General Partner under Pioneer Southwest's long-term incentive plan (the Phantom Units). The Phantom Units entitle the recipients to receive 35,118 common units of Pioneer Southwest after a three-year vesting period. Associated therewith, Pioneer Southwest and the Company recorded \$147 thousand of compensation expense during the nine months ended September 30, 2010. During the nine months ended September 30, 2010, the General Partner awarded 8,744 Pioneer Southwest restricted common units to the independent directors of the General Partner and restrictions on 13,653 Pioneer Southwest common unit director awards lapsed. There were no forfeitures of Pioneer Southwest restricted common units during the nine months ended September 30, 2010.

During the nine months ended September 30, 2010, Sendero entered into Restricted Unit Agreements with two key employees, relating to series B units in Sendero. The series B unit awards vest over a five-year period and do not earn equity rights unless certain defined performance conditions are achieved by Sendero. Associated therewith, the Company recorded \$765 thousand of compensation expense during the nine months ended September 30, 2010.

As of September 30, 2010, there was \$62.6 million of unrecognized compensation expense related to unvested share- and unit-based compensation plan awards, including \$11.8 million attributable to liability awards. This compensation will be recognized over the remaining vesting periods of the awards, which on a weighted average basis is a period of less than three years.

New accounting pronouncements. Effective December 31, 2009, the Company adopted the SEC's final rule on Modernization of Oil and Gas Reporting (the Reserve Ruling) and the Financial Accounting Standards Board's (the FASB) Accounting Standards Update (ASU) 2010-03, which conforms ASC 932 to the Reserve Ruling. Among the items, the Reserve Ruling and ASU 2010-03 require companies to report oil and gas reserves using an average price based upon the prior 12-month period rather than a period-end price.

During February 2010, the FASB issued ASU No. 2010-09, Subsequent Events (Topic 855). ASU No. 2010-09 amends Accounting Standards Codification (ASC) Topic 855 to include the definition of SEC filer and alleviate the obligation of SEC filers to disclose the date through which subsequent events have been evaluated. ASU No. 2010-09 became effective during February 2010. See Note T for the Company's disclosure about subsequent events.

During January 2010, the FASB issued ASU No. 2010-06, Fair Value Measurements and Disclosures (Topic 820). ASU No. 2010-06 amends ASC Topic 820 to (i) require separate disclosure of significant transfers in and out of Level 1 and Level 2 fair value measurements and the reasons for the transfers, (ii) require separate disclosure of purchases, sales, issuances and settlements in the reconciliation for fair value measurements using significant unobservable inputs (Level 3), (iii) clarify the level of disaggregation for fair value measurements of assets and liabilities and (iv) clarify disclosures about inputs and valuation techniques used to measure fair values for both recurring and nonrecurring fair value measurements. The Company adopted the provisions of ASU No. 2010-06 on January 1, 2010, except for the disclosures about purchases, sales, issuances and settlements activity in Level 3 fair value measurements, which are effective for fiscal years beginning after December 15, 2010. See Note D for the Company's disclosures about fair value measurements.

During July 2010, the FASB issued ASU No. 2010-20, Receivables (Topic 310). ASU No. 2010-20 amends ASC Topic 310 to provide enhanced disclosures related to (i) the nature of credit risk inherent in an entity's portfolio of financing receivables, (ii) how that risk is analyzed and assessed in arriving at the allowance for credit losses and (iii) the changes and reasons for those changes in the allowance for credit losses. ASU No. 2010-20 is effective for interim and annual reporting periods ending on or after December 15, 2010. The Company is currently assessing the impact that adoption of ASU No. 2010-20 will have on its disclosures.

NOTE C. Exploratory Costs

Edgar Filing: PIONEER NATURAL RESOURCES CO - Form 10-Q

The Company capitalizes exploratory well and project costs until a determination is made that the well or project has either found proved reserves or is impaired. The Company's capitalized exploratory well and project costs are presented in proved properties in the consolidated balance sheets. If the exploratory well or project is determined to be impaired, the impaired costs are charged to exploration and abandonments expense.

Table of Contents

PIONEER NATURAL RESOURCES COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2010

(Unaudited)

The following table reflects the Company's capitalized exploratory well and project activity during the three and nine months ended September 30, 2010:

	Three Months Ended September 30, 2010	Nine Months Ended September 30, 2010
	(in thousands)	
Beginning capitalized exploratory costs	\$ 151,431	\$ 127,574
Additions to exploratory costs pending the determination of proved reserves	50,177	164,302
Reclassification due to determination of proved reserves	(57,321)	(132,063)
Disposition of assets sold		(15,526)
Ending capitalized exploratory costs	\$ 144,287	\$ 144,287

The following table provides an aging, as of September 30, 2010 and December 31, 2009 of capitalized exploratory costs and the number of projects for which exploratory costs have been capitalized for a period greater than one year, based on the date drilling was completed:

	September 30, 2010 (in thousands, except project counts)	December 31, 2009
Capitalized exploratory costs that have been suspended:		
One year or less	\$ 40,696	\$ 21,634
More than one year	103,591	105,940
	\$ 144,287	\$ 127,574
Number of projects with exploratory costs that have been suspended for a period greater than one year	4	8

The following table provides an aging of capitalized costs of exploration projects that have been suspended for more than one year as of September 30, 2010:

	Total	2010	2009	2008	2007	2006
	(in thousands)					
U.S. Cosmopolitan Unit	\$ 78,033	\$ 11,119	\$ 8,253	\$ 6,344	\$ 51,488	\$ 829
Tunisia	25,558	209	274	21,145	(15)	3,945

Total	\$ 103,591	\$ 11,328	\$ 8,527	\$ 27,489	\$ 51,473	\$ 4,774
-------	------------	-----------	----------	-----------	-----------	----------

Cosmopolitan Unit. The Company owns a 100 percent working interest in, and is the operator of, the Cosmopolitan Unit in the Cook Inlet of Alaska. The Company drilled a lateral sidetrack during 2007 from an existing wellbore on an onshore site to further appraise the resource potential of the unit. The initial unstimulated production test results were encouraging. The Company performed casing repair workover operations on the well during the fourth quarter of 2009, fracture-stimulated the well during the first quarter of 2010 and concluded flow testing during the second quarter of 2010. The Company will continue to conduct permitting activities and facilities planning and may drill another appraisal well during 2011.

Tunisia Cherouq. The Company has \$17.8 million of suspended well costs recorded for the Hayatt #1 well in the Company's Cherouq production concession area, which is operated by the Company. The Hayatt #1 well began drilling in April 2008 to test several targeted formations. Mechanical failures were encountered during the testing of the well that did not allow completion of the formation assessments. The Company has project personnel at appropriate levels committed to and actively participating in analyzing seismic and other data to determine the optimal plan forward for completing the well, which may utilize the existing wellbore or a new wellbore adjacent to the existing well. The Company expects to finalize its Hayatt #1 completion plans in early 2011 and execute the well completion during 2011.

Table of Contents

PIONEER NATURAL RESOURCES COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2010

(Unaudited)

Tunisia Borj El Khadra. The Company has \$7.8 million of suspended well costs attributable to the Nahkil #1 and Abir #1 wells in the Borj El Khadra exploration permit area, which is operated by a third-party. The Nahkil #1 well encountered oil-bearing sands and the Abir #1 well encountered gas-bearing sands. The third-party operator and the Company have project personnel at appropriate levels committed to and actively participating in infrastructure planning and assessment of the area. During the first nine months of 2010, a \$13.8 million 3-D seismic program was initiated and future plans include the drilling of an additional exploration well in the area during the fourth quarter of 2010. Additionally, project personnel are evaluating the feasibility of using production handling facilities on a nearby production concession to transport Abir #1 production to sales markets.

NOTE D. Disclosures About Fair Value Measurements

In accordance with GAAP, fair value measurements are based upon inputs that market participants use in pricing an asset or liability, which are classified into two categories: observable inputs and unobservable inputs. Observable inputs represent market data obtained from independent sources, whereas unobservable inputs reflect a company's own market assumptions, which are used if observable inputs are not reasonably available without undue cost and effort. These two types of inputs are further prioritized into the following fair value input hierarchy:

Level 1 quoted prices for identical assets or liabilities in active markets.

Level 2 quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability (e.g., interest rates) and inputs derived principally from or corroborated by observable market data by correlation or other means.

Level 3 unobservable inputs for the asset or liability.

Table of Contents**PIONEER NATURAL RESOURCES COMPANY****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****September 30, 2010****(Unaudited)**

The fair value input hierarchy level to which an asset or liability measurement in its entirety falls is determined based on the lowest level input that is significant to the measurement in its entirety. The following table presents the Company's assets and liabilities that are measured at fair value on a recurring basis as of September 30, 2010, for each of the fair value hierarchy levels:

	Fair Value Measurements at Reporting Date Using			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2) (in thousands)	Significant Unobservable Inputs (Level 3)	Fair Value at September 30, 2010
Assets:				
Trading securities	\$ 298	\$ 102	\$	\$ 400
Commodity derivatives		367,783	502	368,285
Interest rate derivatives		32,173		32,173
Deferred compensation plan assets	32,896			32,896
Total assets	\$ 33,194	\$ 400,058	\$ 502	\$ 433,754
Liabilities:				
Commodity derivatives	\$	\$ 59,665	\$ 4,835	\$ 64,500
Interest rate derivatives		1,707		1,707
Pioneer Southwest credit facility		71,019		71,019
5.875% senior notes due 2016	470,185			470,185
6.65% senior notes due 2017	511,781			511,781
6.875% senior notes due 2018	478,718			478,718
7.50% senior notes due 2020	496,687			496,687
7.20% senior notes due 2028	255,000			255,000
2.875% senior convertible notes due 2038 (a)	601,200			601,200
Total liabilities	\$ 2,813,571	\$ 132,391	\$ 4,835	\$ 2,950,797

(a) The fair value of the 2.875% senior convertible notes includes the fair value of the conversion privilege. On the issuance date, the conversion privilege was valued at \$81.1 million.

The following tables present the changes in the fair values of the Company's natural gas liquid (NGL) derivative liabilities classified as Level 3 in the fair value hierarchy:

Edgar Filing: PIONEER NATURAL RESOURCES CO - Form 10-Q

Fair Value Measurements Using Significant Unobservable Inputs (Level 3)

Three Months Ended September 30, 2010

		NGL Swap Contracts (in thousands)
Beginning asset balance	\$	4,639
Total gains and losses:		
Net unrealized losses included in earnings (a)		(7,131)
Net realized losses transferred to earnings (a)		(566)
Settlement receipts		(1,275)
Ending liability balance	\$	(4,333)

- (a) The hedge-effective portions of realized gains and losses on commodity derivatives in AOCI Hedging are included in oil and gas revenues, while non-hedge derivatives or ineffective portions of realized and unrealized hedge gains and losses are included in net derivative gains or losses in the accompanying consolidated statements of operations.

Table of Contents**PIONEER NATURAL RESOURCES COMPANY****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****September 30, 2010****(Unaudited)****Fair Value Measurements Using Significant Unobservable Inputs (Level 3)**

	Nine Months Ended September 30, 2010		
	NGL Swap Contracts	Notes Receivable (in thousands)	Total
Beginning asset (liability) balance	\$ (12,904)	\$ 4,727	\$ (8,177)
Total gains and losses:			
Net unrealized gains included in earnings (a)	14,073		14,073
Net realized losses transferred to earnings (a)	(4,417)		(4,417)
Notes receivable valuation allowance recoveries included in earnings (b)		187	187
Settlement receipts (c)	(1,085)	(4,914)	(5,999)
Ending asset balance	\$ (4,333)	\$	\$ (4,333)

- (a) The hedge-effective portions of realized gains and losses on commodity derivatives in AOCI Hedging are included in oil and gas revenues, while non-hedge derivatives or ineffective portions of realized and unrealized hedge gains and losses are included in net derivative gains or losses in the accompanying consolidated statements of operations.
- (b) The valuation allowance recoveries associated with the Company's notes receivable are included in other expense in the accompanying consolidated statements of operations.
- (c) During the first quarter of 2010, the Company took possession of a drilling rig that represented \$3.0 million of collateral value associated with its notes receivable.

The following table presents the carrying amounts and fair values of the Company's financial instruments as of September 30, 2010 and December 31, 2009:

	September 30, 2010		December 31, 2009	
	Carrying Value	Fair Value (in thousands)	Carrying Value	Fair Value
Assets:				
Commodity price derivatives	\$ 368,285	\$ 368,285	\$ 84,080	\$ 84,080
Interest rate derivatives	\$ 32,173	\$ 32,173	\$ 8,264	\$ 8,264
Trading securities	\$ 400	\$ 400	\$ 335	\$ 335
Deferred compensation plan assets	\$ 32,896	\$ 32,896	\$ 27,890	\$ 27,890
Notes receivable	\$	\$	\$ 4,727	\$ 4,727
Liabilities:				
Commodity price derivatives	\$ 64,500	\$ 64,500	\$ 223,555	\$ 223,555
Interest rate derivatives	\$ 1,707	\$ 1,707	\$ 26,105	\$ 26,105
Pioneer credit facility	\$	\$	\$ 240,000	\$ 259,461
Pioneer Southwest credit facility	\$ 74,000	\$ 71,019	\$ 67,000	\$ 61,718
5.875 % senior notes due 2012	\$	\$	\$ 6,168	\$ 6,154

Edgar Filing: PIONEER NATURAL RESOURCES CO - Form 10-Q

5.875 % senior notes due 2016	\$ 394,871	\$ 470,185	\$ 389,109	\$ 437,170
6.65 % senior notes due 2017	\$ 484,011	\$ 511,781	\$ 483,914	\$ 472,546
6.875 % senior notes due 2018	\$ 449,184	\$ 478,718	\$ 449,161	\$ 438,402
7.50 % senior notes due 2020	\$ 446,366	\$ 496,687	\$ 446,172	\$ 449,566
7.20 % senior notes due 2028	\$ 249,925	\$ 255,000	\$ 249,924	\$ 230,868
2.875% senior convertible notes due 2038 (a)	\$ 441,058	\$ 601,200	\$ 429,563	\$ 508,320

- (a) The fair value of the 2.875% senior convertible notes includes the fair value of the conversion privilege. On the issuance date, the conversion privilege was valued at \$81.1 million.

Table of Contents

PIONEER NATURAL RESOURCES COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2010

(Unaudited)

Trading securities and deferred compensation plan assets. The Company's trading securities represent securities that are both actively traded and not actively traded on major exchanges. The Company's deferred compensation plan assets represent investments in equity and mutual fund securities that are actively traded on major exchanges plus unallocated contributions as of the measurement date. As of September 30, 2010, all significant inputs to these asset exchange values represented Level 1 independent active exchange market price inputs except inputs for certain trading securities that are not actively traded on major exchanges, which were provided by broker quotes representing Level 2 inputs.

Interest rate derivatives. The Company's interest rate derivative assets and liabilities as of September 30, 2010 represent (i) swap contracts for \$189 million notional amount of debt, whereby the Company pays a fixed rate of interest and the counterparty pays a variable LIBOR-based rate and (ii) swap contracts for \$470 million notional amount of debt, whereby the Company pays a variable LIBOR-based rate and the counterparty pays a fixed rate of interest. The net derivative asset values attributable to the Company's interest rate derivative contracts as of September 30, 2010 are based on (i) the contracted notional amounts, (ii) LIBOR rate yield curves provided by counterparties and corroborated with forward active market-quoted LIBOR rate yield curves and (iii) the applicable credit-adjusted risk-free rate yield curve. The Company's interest rate derivative asset and liability measurements represent Level 2 inputs in the hierarchy priority.

Commodity derivatives. The Company's commodity derivatives represent oil, NGL and gas swap contracts, collar contracts and collar contracts with short puts (which are also known as three-way collar contracts). The Company's oil and gas swap, collar and three-way collar derivative contract asset and liability measurements represent Level 2 inputs in the hierarchy priority and NGL derivative contract asset and liability measurements represent Level 3 inputs in the hierarchy priority.

Oil derivatives. The Company's oil derivatives are swap, collar and three-way collar contracts for notional barrels (Bbls) of oil at fixed (in the case of swap contracts) or interval (in the case of collar and three-way collar contracts) New York Mercantile Exchange (NYMEX) West Texas Intermediate (WTI) oil prices and Dated Brent oil prices. The asset and liability values attributable to the Company's oil derivatives as of September 30, 2010 are based on (i) the contracted notional volumes, (ii) independent active NYMEX futures price quotes for WTI oil, (iii) independent active market-quoted futures Dated Brent price quotes, (iv) the applicable estimated credit-adjusted risk-free rate yield curve and (v) the implied rate of volatility inherent in the collar and three-way collar contracts. The implied rates of volatility inherent in the Company's collar contracts were determined based on average volatility factors provided by certain independent brokers who are active in buying and selling oil options and were corroborated by market-quoted volatility factors.

NGL derivatives. The Company's NGL derivatives include swap and collar contracts for notional blended Bbls of Mont Belvieu-posted-price NGLs or NGL component prices per Bbl. The asset and liability values attributable to the Company's NGL derivatives as of September 30, 2010 are based on (i) the contracted notional volumes, (ii) independent active market-quoted NGL component prices and (iii) the applicable credit-adjusted risk-free rate yield curve. The implied rates of volatility inherent in the Company's collar contracts were determined based on average volatility factors provided by certain independent brokers who are active in buying and selling NGL options and were corroborated by market-quoted volatility factors. As of December 31, 2009, the Company's NGL component price inputs were obtained from independent brokers active in buying and selling NGL derivative contracts.

Gas derivatives. The Company's gas derivatives are swap, collar and three-way collar contracts for notional volumes of gas (expressed in millions of British thermal units MMBtus) contracted at various posted price indexes, including NYMEX Henry Hub (HH) swap contracts coupled with basis swap contracts that convert the HH price index point to other price indexes. The asset and liability values attributable to the Company's gas derivative contracts as of September 30, 2010 are based on (i) the contracted notional volumes, (ii) independent active NYMEX futures price quotes for HH gas, (iii) independent market-quoted forward index prices, (iv) the applicable credit-adjusted risk-free rate yield curve and (v) the implied rate of volatility inherent in the collar and three-way collar contracts. The implied rates of volatility inherent in the Company's collar contracts and three-way collar contracts were determined based on average volatility factors provided by certain independent brokers who are active in buying and selling gas options and were corroborated by market-quoted volatility factors.

Table of Contents**PIONEER NATURAL RESOURCES COMPANY****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****September 30, 2010****(Unaudited)**

Credit facilities. The fair value of Pioneer Southwest's credit facility is based on (i) forecasted contractual interest and fee payments, (ii) forward active market-quoted LIBOR rate yield curves and (iii) the applicable credit-adjusted risk-free rate yield curve. Since there are no outstanding borrowings on Pioneer's credit facility, the fair value is nil at September 30, 2010.

Senior notes. The Company's senior notes represent debt securities that are actively traded on major exchanges. The fair values of the Company's senior notes are based on their periodic values as quoted on the major exchanges.

NOTE E. Income Taxes

The Company accounts for income taxes in accordance with the provisions of ASC Topic 740, which requires that the Company continually assess both positive and negative evidence to determine whether it is more likely than not that deferred tax assets can be realized prior to their expiration. Pioneer monitors Company-specific, oil and gas industry and worldwide economic factors to assess the likelihood that the Company's net operating loss carry forwards (NOLs) and other deferred tax attributes in the U.S., state, local and foreign tax jurisdictions will be utilized prior to their expiration. As of September 30, 2010 and December 31, 2009, the Company's valuation allowances (relating primarily to foreign tax jurisdictions) were \$38.9 million and \$44.2 million, respectively.

ASC 740 also clarifies the accounting for uncertainty in income taxes recognized and prescribes a recognition threshold and measurement methodology for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. As of September 30, 2010, the Company had no significant unrecognized tax benefits. The Company's policy is to account for interest charges with respect to income taxes as interest expense and any penalties, with respect to income taxes, as other expense in the consolidated statements of operations. The Company files income tax returns in the U.S. federal and various state and foreign jurisdictions. With few exceptions, the Company believes that it is no longer subject to examinations by tax authorities for years before 2004. As of September 30, 2010, no adjustments had been proposed in any jurisdiction that would have a significant effect on the Company's liquidity, future results of operations or financial position.

Income tax (provisions) benefits. The Company's income tax (provisions) benefits attributable to income from continuing operations consisted of the following for the three and nine months ended September 30, 2010 and 2009:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
	(in thousands)			
Current:				
U.S. federal	\$ (1,550)	\$ (1,335)	\$ (4,850)	\$ (934)
U.S. state	(1,520)	(2,206)	(4,644)	(9,142)
Foreign	(16,340)	(8,708)	(22,031)	(9,650)
	(19,410)	(12,249)	(31,525)	(19,726)

Deferred:

Edgar Filing: PIONEER NATURAL RESOURCES CO - Form 10-Q

U.S. federal	(66,125)	15,273	(268,921)	68,796
U.S. state	(6,854)	3,696	(23,354)	9,460
Foreign	15,728	(1,514)	(8,028)	(10,859)
	(57,251)	17,455	(300,303)	67,397
Income tax (provision) benefit	\$ (76,661)	\$ 5,206	\$ (331,828)	\$ 47,671

NOTE F. Long-term Debt

Senior notes redemption. On March 15, 2010, the Company redeemed for cash all of its outstanding 5.875% senior notes due 2012 for \$6.3 million, which represented the outstanding principal plus accrued and unpaid interest.

Table of Contents

PIONEER NATURAL RESOURCES COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2010

(Unaudited)

Credit facility repayment. During the second quarter of 2010, the Company repaid its outstanding borrowings under the Pioneer credit facility.

As of September 30, 2010, the Company and Pioneer Southwest were in compliance with all of their debt covenants.

NOTE G. Derivative Financial Instruments

The Company uses financial derivative contracts to manage exposures to commodity price, interest rate and foreign currency exchange rate fluctuations. The Company generally does not enter into derivative financial instruments for speculative or trading purposes. The Company may also enter into physical delivery contracts to effectively provide commodity price protection. Because these contracts are not expected to be net cash settled, they are considered to be normal sales contracts and not derivatives. Therefore, physical delivery contracts are not accounted for as derivative financial instruments in the financial statements.

All derivatives are recorded on the balance sheet at estimated fair value. Fair value is generally determined based on the credit-adjusted present value difference between the fixed contract price and the underlying market price at the determination date. The Company accounts for derivative instruments under mark-to-market accounting rules, which require that all changes in the fair values of the Company's derivative contracts be recognized as gains or losses in the earnings of the period in which they occur.

Changes in the fair value of effective cash flow hedges prior to the Company's February 1, 2009 discontinuance of hedge accounting were recorded as a component of AOCI. Hedging, which is being transferred to earnings when the hedged transaction is recognized in earnings. Any ineffective portion of changes in the fair value of hedge derivatives prior to February 1, 2009 was recorded in the earnings of the period of change. The ineffective portion was calculated as the difference between the change in fair value of the hedge derivative and the estimated change in cash flows from the item hedged.

Fair value derivatives. The Company monitors the debt capital markets and interest rate trends to identify opportunities to enter into and terminate interest rate derivative contracts, with the objective of reducing the Company's costs of capital. As of September 30, 2010 and December 31, 2009, the Company was not a party to any fair value hedges.

Cash flow derivatives. The Company utilizes commodity swap contracts, collar contracts and collar contracts with short puts to (i) reduce the effect of price volatility on the commodities the Company produces and sells, (ii) support the Company's annual capital budgeting and expenditure plans and (iii) reduce commodity price risk associated with certain capital projects. The Company also, from time to time, utilizes interest rate contracts to reduce the effect of interest rate volatility on the Company's indebtedness and forward currency exchange rate agreements to reduce the effect of exchange rate volatility.

Table of Contents**PIONEER NATURAL RESOURCES COMPANY****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****September 30, 2010****(Unaudited)**

Oil prices. All material physical sales contracts governing the Company's oil production are tied directly or indirectly to NYMEX WTI or Dated Brent oil prices. The following table sets forth the volumes in Bbls outstanding as of September 30, 2010 under the Company's oil derivative contracts and the weighted average NYMEX or Dated Brent prices per Bbl for those contracts:

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Outstanding Average
Average daily oil production derivatives (a):					
2010 Swap contracts					
Volume (Bbl)				2,500	2,500
Price per Bbl				\$ 93.34	\$ 93.34
2010 Collar contracts with short puts					
Volume (Bbl)				30,250	30,250
Price per Bbl:					
Ceiling				\$ 85.09	\$ 85.09
Floor				\$ 68.38	\$ 68.38
Short put				\$ 55.23	\$ 55.23
2011 Swap contracts					
Volume (Bbl)	750	750	750	750	750
Price per Bbl	\$ 77.25	\$ 77.25	\$ 77.25	\$ 77.25	\$ 77.25
2011 Collar contracts					
Volume (Bbl)	2,000	2,000	2,000	2,000	2,000
Price per Bbl:					
Ceiling	\$ 170.00	\$ 170.00	\$ 170.00	\$ 170.00	\$ 170.00
Floor	\$ 115.00	\$ 115.00	\$ 115.00	\$ 115.00	\$ 115.00
2011 Collar contracts with short puts					
Volume (Bbl)	32,000	32,000	32,000	32,000	32,000
Price per Bbl:					
Ceiling	\$ 99.33	\$ 99.33	\$ 99.33	\$ 99.33	\$ 99.33
Floor	\$ 73.75	\$ 73.75	\$ 73.75	\$ 73.75	\$ 73.75
Short put	\$ 59.31	\$ 59.31	\$ 59.31	\$ 59.31	\$ 59.31
2012 Swap contracts					
Volume (Bbl)	3,000	3,000	3,000	3,000	3,000
Price per Bbl	\$ 79.32	\$ 79.32	\$ 79.32	\$ 79.32	\$ 79.32
2012 Collar contracts with short puts					
Volume (Bbl)	31,000	31,000	31,000	31,000	31,000
Price per Bbl:					
Ceiling	\$ 119.70	\$ 119.70	\$ 119.70	\$ 119.70	\$ 119.70
Floor	\$ 80.48	\$ 80.48	\$ 80.48	\$ 80.48	\$ 80.48
Short put	\$ 65.00	\$ 65.00	\$ 65.00	\$ 65.00	\$ 65.00

Edgar Filing: PIONEER NATURAL RESOURCES CO - Form 10-Q

2013 Swap contracts

Volume (Bbl)	3,000	3,000	3,000	3,000	3,000
Price per Bbl	\$ 81.02	\$ 81.02	\$ 81.02	\$ 81.02	\$ 81.02

2013 Collar contracts with short puts

Volume (Bbl)	21,250	21,250	21,250	21,250	21,250
Price per Bbl:					
Ceiling	\$ 117.38	\$ 117.38	\$ 117.38	\$ 117.38	\$ 117.38
Floor	\$ 80.18	\$ 80.18	\$ 80.18	\$ 80.18	\$ 80.18
Short put	\$ 65.18	\$ 65.18	\$ 65.18	\$ 65.18	\$ 65.18

- (a) Subsequent to September 30, 2010, the Company entered into additional collar contracts with short puts for 6,000 Bbls per day of the Company's 2012 production with a ceiling price of \$111.33 per Bbl, a floor price of \$80.00 per Bbl and a short put price of \$65.00 per Bbl.

Table of Contents**PIONEER NATURAL RESOURCES COMPANY****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****September 30, 2010****(Unaudited)**

Natural gas liquids prices. All material physical sales contracts governing the Company's NGL production are tied directly or indirectly to either Mont Belvieu or Conway fractionation facilities' NGL product component prices. The following table sets forth the volumes in Bbls outstanding as of September 30, 2010 under the Company's NGL derivative contracts and the weighted average NGL prices per Bbl for those contracts:

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Outstanding Average
Average daily NGL production derivatives:					
2010 Swap contracts					
Volume (Bbl)				1,650	1,650
Price per Bbl				\$ 40.85	\$ 40.85
2010 Collar contracts					
Volume (Bbl)				2,000	2,000
Price per Bbl:					
Ceiling				\$ 49.98	\$ 49.98
Floor				\$ 41.58	\$ 41.58
2010 Collar contracts with short puts					
Volume (Bbl)				2,000	2,000
Price per Bbl:					
Ceiling				\$ 58.92	\$ 58.92
Floor				\$ 47.64	\$ 47.64
Short put				\$ 38.71	\$ 38.71
2011 Swap contracts					
Volume (Bbl)	750	750	750	750	750
Price per Bbl	\$ 34.65	\$ 34.65	\$ 34.65	\$ 34.65	\$ 34.65
2011 Collar contracts					
Volume (Bbl)	1,000	1,000	1,000	1,000	1,000
Price per Bbl:					
Ceiling	\$ 50.93	\$ 50.93	\$ 50.93	\$ 50.93	\$ 50.93
Floor	\$ 42.21	\$ 42.21	\$ 42.21	\$ 42.21	\$ 42.21
2012 Swap contracts					
Volume (Bbl)	750	750	750	750	750
Price per Bbl	\$ 35.03	\$ 35.03	\$ 35.03	\$ 35.03	\$ 35.03

Gas prices. All material physical sales contracts governing the Company's gas production are tied directly or indirectly to regional index prices where the gas is sold. The Company uses derivative contracts to manage gas price volatility and reduce basis risk between NYMEX Henry Hub prices and actual index prices upon which the gas is sold. The following table sets forth the volumes in MMBtus outstanding as of September 30, 2010 under the Company's gas derivative contracts and the weighted average index prices per MMBtu for those contracts:

Table of Contents**PIONEER NATURAL RESOURCES COMPANY****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****September 30, 2010****(Unaudited)**

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Outstanding Average
Average daily gas production derivatives:					
2010 Swap contracts					
Volume (MMBtu)				167,500	167,500
Price per MMBtu				\$ 6.26	\$ 6.26
2010 Collar contracts					
Volume (MMBtu)				40,000	40,000
Price per MMBtu:					
Ceiling				\$ 7.19	\$ 7.19
Floor				\$ 5.75	\$ 5.75
2010 Collar contracts with short puts					
Volume (MMBtu)				95,000	95,000
Price per MMBtu:					
Ceiling				\$ 7.94	\$ 7.94
Floor				\$ 6.00	\$ 6.00
Short put				\$ 5.00	\$ 5.00
2010 Basis swap contracts					
Volume (MMBtu)				245,109	245,109
Price per MMBtu				\$ (0.69)	\$ (0.69)
2011 Swap contracts					
Volume (MMBtu)	117,500	117,500	117,500	117,500	117,500
Price per MMBtu	\$ 6.13	\$ 6.13	\$ 6.13	\$ 6.13	\$ 6.13
2011 Collar contracts with short puts					
Volume (MMBtu)	200,000	200,000	200,000	200,000	200,000
Price per MMBtu:					
Ceiling	\$ 8.55	\$ 8.55	\$ 8.55	\$ 8.55	\$ 8.55
Floor	\$ 6.32	\$ 6.32	\$ 6.32	\$ 6.32	\$ 6.32
Short put	\$ 4.88	\$ 4.88	\$ 4.88	\$ 4.88	\$ 4.88
2011 Basis swap contracts					
Volume (MMBtu)	133,500	133,500	133,500	133,500	133,500
Price per MMBtu	\$ (0.58)	\$ (0.58)	\$ (0.58)	\$ (0.58)	\$ (0.58)
2012 Swap contracts					
Volume (MMBtu)	105,000	105,000	105,000	105,000	105,000
Price per MMBtu	\$ 5.82	\$ 5.82	\$ 5.82	\$ 5.82	\$ 5.82
2012 Collar contracts					
Volume (MMBtu)	65,000	65,000	65,000	65,000	65,000
Price per MMBtu:					
Ceiling	\$ 6.60	\$ 6.60	\$ 6.60	\$ 6.60	\$ 6.60
Floor	\$ 5.00	\$ 5.00	\$ 5.00	\$ 5.00	\$ 5.00

Edgar Filing: PIONEER NATURAL RESOURCES CO - Form 10-Q

2012 Collar contracts with short puts					
Volume (MMBtu)	190,000	190,000	190,000	190,000	190,000
Price per MMBtu:					
Ceiling	\$ 7.96	\$ 7.96	\$ 7.96	\$ 7.96	\$ 7.96
Floor	\$ 6.12	\$ 6.12	\$ 6.12	\$ 6.12	\$ 6.12
Short put	\$ 4.55	\$ 4.55	\$ 4.55	\$ 4.55	\$ 4.55
2012 Basis swap contracts					
Volume (MMBtu)	116,000	116,000	116,000	116,000	116,000
Price per MMBtu	\$ (0.37)	\$ (0.37)	\$ (0.37)	\$ (0.37)	\$ (0.37)
2013 Swap contracts					
Volume (MMBtu)	67,500	67,500	67,500	67,500	67,500
Price per MMBtu	\$ 6.11	\$ 6.11	\$ 6.11	\$ 6.11	\$ 6.11

Table of Contents**PIONEER NATURAL RESOURCES COMPANY****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****September 30, 2010****(Unaudited)**

2013 Collar contracts					
Volume (MMBtu)	100,000	100,000	100,000	100,000	100,000
Price per MMBtu:					
Ceiling	\$ 6.50	\$ 6.50	\$ 6.50	\$ 6.50	\$ 6.50
Floor	\$ 5.00	\$ 5.00	\$ 5.00	\$ 5.00	\$ 5.00
2013 Collar contracts with short puts					
Volume (MMBtu)	45,000	45,000	45,000	45,000	45,000
Price per MMBtu:					
Ceiling	\$ 7.49	\$ 7.49	\$ 7.49	\$ 7.49	\$ 7.49
Floor	\$ 6.00	\$ 6.00	\$ 6.00	\$ 6.00	\$ 6.00
Short put	\$ 4.50	\$ 4.50	\$ 4.50	\$ 4.50	\$ 4.50
2013 Basis swap contracts					
Volume (MMBtu)	32,500	32,500	32,500	32,500	32,500
Price per MMBtu	\$ (0.34)	\$ (0.34)	\$ (0.34)	\$ (0.34)	\$ (0.34)
2014 Swap contracts					
Volume (MMBtu)	50,000	50,000	50,000	50,000	50,000
Price per MMBtu	\$ 6.05	\$ 6.05	\$ 6.05	\$ 6.05	\$ 6.05
2014 Collar contracts					
Volume (MMBtu)	20,000	20,000	20,000	20,000	20,000
Price per MMBtu:					
Ceiling	\$ 7.20	\$ 7.20	\$ 7.20	\$ 7.20	\$ 7.20
Floor	\$ 5.00	\$ 5.00	\$ 5.00	\$ 5.00	\$ 5.00
2014 Collar contracts with short puts					
Volume (MMBtu)	50,000	50,000	50,000	50,000	50,000
Price per MMBtu:					
Ceiling	\$ 8.08	\$ 8.08	\$ 8.08	\$ 8.08	\$ 8.08
Floor	\$ 6.00	\$ 6.00	\$ 6.00	\$ 6.00	\$ 6.00
Short put	\$ 4.50	\$ 4.50	\$ 4.50	\$ 4.50	\$ 4.50
2014 Basis swap contracts					
Volume (MMBtu)	10,000	10,000	10,000	10,000	10,000
Price per MMBtu	\$ (0.16)	\$ (0.16)	\$ (0.16)	\$ (0.16)	\$ (0.16)

Interest rates. The following table sets forth as of September 30, 2010 the notional amount of the Company's debt under outstanding variable-for-fixed and fixed-for-variable interest rate swap contracts, the weighted average fixed annual interest rate and termination date for those contracts:

Type	Notional Amount (in thousands)	Weighted Average Fixed Interest Rate	Termination Date
------	--------------------------------------	--	---------------------

Edgar Filing: PIONEER NATURAL RESOURCES CO - Form 10-Q

Variable-for-fixed	\$ 189,000	3.0 percent	February 2011
Fixed-for-variable	\$ 400,000	2.87 percent	July 2016
Fixed-for-variable	\$ 70,000	3.23 percent	March 2017

Tabular disclosure of derivative financial instruments. All of the Company's derivatives are accounted for as non-hedge derivatives as of September 30, 2010 and December 31, 2009, except for \$4.4 million and \$17.9 million of net obligations on terminated hedges, respectively. The following tables provide disclosure of the Company's derivative instruments:

Table of Contents

PIONEER NATURAL RESOURCES COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2010

(Unaudited)

Fair Value of Derivative Instruments as of September 30, 2010				
Type	Asset Derivatives (a)		Liability Derivatives (a)	
	Balance Sheet		Balance Sheet	
	Location	Fair Value (in thousands)	Location	Fair Value (in thousands)
Derivatives not designated as hedging instruments				
Commodity price derivatives	Derivatives - current	\$ 201,339	Derivatives - current	\$ 51,612
Interest rate derivatives	Derivatives - current	11,739	Derivatives - current	2,149
Commodity price derivatives	Derivatives - noncurrent	206,342	Derivatives - noncurrent	47,872
Interest rate derivatives	Derivatives - noncurrent	22,599	Derivatives - noncurrent	1,723
Total derivatives not designated as hedging instruments		442,019		103,356
Derivatives designated as hedging instruments (b)				
Commodity price derivatives	Derivatives - current	118	Derivatives - current	4,530
Total derivatives designated as hedging instruments		118		4,530
Total derivatives		\$ 442,137		\$ 107,886

Fair Value of Derivative Instruments as of December 31, 2009				
Type	Asset Derivatives (a)		Liability Derivatives (a)	
	Balance Sheet		Balance Sheet	
	Location	Fair Value (in thousands)	Location	Fair Value (in thousands)
Derivatives not designated as hedging instruments				
Commodity price derivatives	Derivatives - current	\$ 66,442	Derivatives - current	\$ 120,112
Interest rate derivatives	Derivatives - current	9,450	Derivatives - current	5,169
Commodity price derivatives	Derivatives - noncurrent	48,341	Derivatives - noncurrent	116,233
Interest rate derivatives	Derivatives - noncurrent	2,192	Derivatives - noncurrent	24,314
Total derivatives not designated as hedging instruments		126,425		265,828

Derivatives designated as hedging instruments			
(b)			
Commodity price derivatives	Derivatives - current	Derivatives - current	17,913
Total derivatives designated as hedging instruments			17,913
Total derivatives	\$ 126,425	\$ 283,741	

- (a) Derivative assets and liabilities shown in the tables above are presented as gross assets and liabilities, without regard to master netting arrangements which are considered in the presentations of derivative assets and liabilities in the accompanying consolidated balance sheets.
- (b) Represent derivative obligations under terminated hedge arrangements.

Derivatives in Cash Flow Hedging Relationships	Amount of Gain/(Loss) Recognized in AOCI on Effective Portion			
	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2010	2009	2010	2009
	(in thousands)			
Interest rate derivatives	\$	\$	\$	\$ (433)
Commodity price derivatives				13,407
Total	\$	\$	\$	\$ 12,974

Table of Contents

PIONEER NATURAL RESOURCES COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2010

(Unaudited)

	Location of Gain/(Loss) Reclassified from AOCI into Earnings	Amount of Gain/(Loss) Reclassified from AOCI into Earnings			
		Three Months Ended September 30,		Nine Months Ended September 30,	
Derivatives in Cash Flow Hedging Relationships		2010	2009	2010	2009
		(in thousands)			
Interest rate derivatives	Interest expense	\$ (63)	\$ (1,621)	\$ (1,633)	\$ (5,893)
Interest rate derivatives	Derivative gains (losses), net			(2,465)	
Commodity price derivatives	Oil and gas revenue	21,976	26,261	67,634	96,173
Total		\$ 21,913	\$ 24,640	\$ 63,536	\$ 90,280

	Location of Gain (Loss) Recognized in Earnings on Derivatives	Amount of Gain (Loss) Recognized in Earnings on Derivatives			
		Three Months Ended September 30,		Nine Months Ended September 30,	
Derivatives Not Designated as Hedging Instruments		2010	2009	2010	2009
		(in thousands)			
Interest rate derivatives	Derivative gains (losses), net	\$ 14,848	\$ 131	\$ 52,564	\$ (3,120)
Commodity price derivatives	Derivative gains (losses), net	112,733	(15,353)	520,486	(82,463)
Total		\$ 127,581	\$ (15,222)	\$ 573,050	\$ (85,583)

AOCI Hedging. As of September 30, 2010 and December 31, 2009, AOCI Hedging represented net deferred gains of \$17.7 million and \$51.0 million, respectively. The AOCI Hedging balance as of September 30, 2010 was comprised of \$51.2 million of net deferred gains on the effective portions of discontinued commodity hedges, \$2.0 million of net deferred losses on the effective portions of discontinued interest rate hedges and \$13.3 million of associated net deferred tax provisions, reduced by \$18.2 million of AOCI Hedging net deferred gains attributable to and classified as noncontrolling interests in consolidated subsidiaries.

During the twelve months ending September 30, 2011, the Company expects to reclassify \$46.0 million of AOCI Hedging net deferred gains to oil and gas revenues (including \$14.8 million related to noncontrolling interests) and \$203 thousand of AOCI Hedging net deferred losses to interest expense. The Company also expects to reclassify \$12.6 million of net deferred income tax provisions associated with hedge derivatives during the twelve months ending September 30, 2011 from AOCI Hedging to income tax expense. For the remaining three months of 2010 and the year ending December 31, 2011, the Company expects to reclassify deferred gains on discontinued commodity hedges of \$21.4 million and \$32.9 million, respectively, to oil and gas revenues. During 2012, the Company expects to reclassify deferred losses on commodity hedges of \$3.1 million to oil and gas revenues. The \$2.0 million of net deferred hedge losses on the effective portion of interest rate hedges will be transferred from AOCI-Hedging to interest expense ratably through April 2018.

NOTE H. Asset Retirement Obligations

Edgar Filing: PIONEER NATURAL RESOURCES CO - Form 10-Q

The Company's asset retirement obligations primarily relate to the future plugging and abandonment of wells and related facilities. Market risk premiums associated with asset retirement obligations are estimated to represent a component of the Company's credit-adjusted risk-free rate that is utilized in the calculations of asset retirement obligations. The Company has no assets that are legally restricted for purposes of settling asset retirement obligations.

Table of Contents**PIONEER NATURAL RESOURCES COMPANY****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****September 30, 2010****(Unaudited)**

The following table summarizes the Company's asset retirement obligation activity during the three and nine months ended September 30, 2010 and 2009:

	Three Months Ended September 30, 20102009		Nine Months Ended September 30, 20102009	
	(in thousands)			
Beginning asset retirement obligations	\$ 137,181	\$ 154,172	\$ 166,434	\$ 172,433
Liabilities assumed in acquisitions			6	
New wells placed on production and changes in estimates	2,356	1,202	7,000	16,568
Liabilities reclassified to discontinued operations held for sale				(1,756)
Disposition of wells	(131)	(491)	(29,671)	(13,334)
Liabilities settled	(6,141)	(15,587)	(16,096)	(40,562)
Accretion of discount from continuing operations	2,626	2,754	8,218	8,259
Accretion of discount from discontinued operations		88		530
Ending asset retirement obligations	\$ 135,891	\$ 142,138	\$ 135,891	\$ 142,138

The Company records the current and noncurrent portions of asset retirement obligations in other current liabilities and other liabilities, respectively, in the accompanying consolidated balance sheets. As of September 30, 2010 and December 31, 2009, the current portions of the Company's asset retirement obligations were \$6.5 million and \$13.9 million, respectively.

NOTE I. Postretirement Benefit Obligations

As of September 30, 2010 and December 31, 2009, the Company had \$8.7 million and \$9.1 million, respectively, of unfunded accumulated postretirement benefit obligations, the current and noncurrent portions of which are included in other current liabilities and other liabilities in the accompanying consolidated balance sheets. These obligations are comprised of five plans of which four relate to predecessor entities that the Company acquired in prior years. These plans had no assets as of September 30, 2010 or December 31, 2009. Other than participants in the Company's retirement plan, the participants of these plans are not current employees of the Company.

The following table reconciles changes in the Company's unfunded accumulated postretirement benefit obligations during the three and nine months ended September 30, 2010 and September 30, 2009:

	Three Months Ended September 30, 20102009		Nine Months Ended September 30, 20102009	
	(in thousands)			
Beginning accumulated postretirement benefit obligations	\$ 8,968	\$ 9,364	\$ 9,075	\$ 9,612

Edgar Filing: PIONEER NATURAL RESOURCES CO - Form 10-Q

Net benefit payments	(543)	(361)	(1,127)	(1,052)
Service costs	80	57	241	171
Net actuarial losses	100		200	
Accretion of interest	108	164	324	493

Ending accumulated postretirement benefit obligations	\$ 8,713	\$ 9,224	\$ 8,713	\$ 9,224
---	----------	----------	----------	----------

NOTE J. Commitments and Contingencies

Legal actions. In addition to the legal action described below, the Company is a party to other proceedings and claims incidental to its business. While many of these matters involve inherent uncertainty, the Company believes that the amount of the liability, if any, ultimately incurred with respect to such other proceedings and claims will not have a material adverse effect on the Company's consolidated financial position as a whole or on its liquidity, capital resources or future annual results of operations. The Company will continue to evaluate its litigation on a quarter-by-quarter basis and will establish and adjust any litigation reserves as appropriate to reflect its assessment of the then current status of litigation.

Table of Contents

PIONEER NATURAL RESOURCES COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2010

(Unaudited)

Colorado Notice of Violation. On May 13, 2008, the Company was served with a Notice of Violation/Cease and Desist Order by the State of Colorado Department of Public Health and Environmental Water Quality Control Division (the "Division"). The Notice alleges violations of stormwater discharge permits in the Company's Raton Basin and former Lay Creek operations, specifically deficiencies in the Company's stormwater management plans, failure to implement and maintain best management practices to protect stormwater runoff and failure to conduct inspections of the stormwater management system. The Company is in advanced discussions with the Division to resolve this matter and does not believe that the outcome of this proceeding will materially impact the Company's liquidity, financial position or future results of operations.

Investigation by the Alaska Oil and Gas Conservation Commission (the "AOGCC"). During the second quarter of 2010, the AOGCC commenced an investigation into allegations by a former Pioneer employee regarding the Company's Oooguruk facility on the North Slope of Alaska. Among the allegations are claims that the Company did not have authorization to inject certain non-hazardous substances into its enhanced oil recovery well, that the Company mishandled disposal of waste products and that the Company's operating practices are harmful to the project's oil reservoirs. Upon initially becoming aware of the allegations, the Company informed the AOGCC and other relevant federal, state and local agencies and commenced its own investigation, which confirmed injections of non-hazardous fluids into the Oooguruk enhanced oil recovery well without prior authorizations to do so. The results of the investigation have been reported to the agencies, and the Company is cooperating with the AOGCC's investigation. Although the investigation into the allegations is ongoing, based on the facts as known to date, the Company believes that the outcome of this investigation will not materially and negatively affect the Company's liquidity, financial position or future results of operations.

Obligations following divestitures. In April 2006, the Company provided the purchaser of its Argentine assets certain indemnifications. The Company remains responsible for certain contingent liabilities related to such indemnifications, subject to defined limitations. The Company does not believe that these obligations, which primarily pertain to matters of litigation, environmental contingencies, royalty obligations and income taxes, are probable of having a material impact on its liquidity, financial position or future results of operations.

The Company has also retained certain liabilities and indemnified buyers for certain matters in connection with other divestitures, including the sale in 2007 of its Canadian assets.

NOTE K. Net Income (Loss) Per Share Attributable To Common Stockholders

The Company's basic net income (loss) per share attributable to common stockholders is computed as (i) net income (loss) attributable to common stockholders, (ii) less participating share- and unit-based basic earnings (iii) divided by weighted average basic shares outstanding. The Company's diluted net income (loss) per share attributable to common stockholders is computed as (i) basic net income (loss) attributable to common stockholders, (ii) plus diluted adjustments to participating undistributed earnings (iii) divided by weighted average diluted shares outstanding. During periods in which the Company realizes a loss from continuing operations attributable to common stockholders, securities or other contracts to issue common stock would not be dilutive to loss per share and conversion into common stock is assumed not to occur.

Table of Contents**PIONEER NATURAL RESOURCES COMPANY****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****September 30, 2010****(Unaudited)**

The following table is a reconciliation of the Company's net income (loss) attributable to common stockholders to basic net income (loss) attributable to common stockholders and to diluted net income (loss) attributable to common stockholders for the three and nine months ended September 30, 2010 and 2009:

	Three Months Ended September 30, 2010		Nine Months Ended September 30, 2010	
	2010	2009	2010	2009
	(in thousands)			
Net income (loss) attributable to common stockholders	\$ 112,036	\$ (7,165)	\$ 524,866	\$ (108,766)
Participating basic distributed earnings (a)	(18)		(125)	(94)
Participating basic undistributed earnings (a)	(2,672)		(11,895)	
Basic net income (loss) attributable to common stockholders	109,346	(7,165)	512,846	(108,860)
Diluted adjustments to share- and unit-based earnings (a)	19		128	
Diluted net income (loss) attributable to common stockholders	\$ 109,365	\$ (7,165)	\$ 512,974	\$ (108,860)

- (a) In accordance with ASC 260, unvested restricted stock awards and Pioneer Southwest phantom unit awards represent participating securities because they participate in nonforfeitable dividends or distributions with the common equity owners of the Company or Pioneer Southwest, as applicable. Participating share- and unit-based earnings represent the distributed and undistributed earnings of the Company attributable to the participating securities. Unvested restricted stock awards and phantom unit awards do not participate in undistributed net losses as they are not contractually obligated to do so.

The following table is a reconciliation of basic weighted average common shares outstanding to diluted weighted average common shares outstanding for the three and nine months ended September 30, 2010 and 2009:

	Three Months Ended September 30, 2010		Nine Months Ended September 30, 2010	
	2010	2009	2010	2009
	(in thousands)			
Weighted average common shares outstanding (a):				
Basic	115,191	114,123	114,985	114,118
Dilutive common stock options (b)	168		218	
Contingently issuable - performance shares (b)	662		629	
Diluted	116,021	114,123	115,832	114,118

- (a) In 2007, the Company's board of directors (Board) approved a \$750 million share repurchase program of which \$355.8 million remained available for purchases as of September 30, 2010. During the first nine months of 2010, the Company did not purchase any common stock pursuant to the program. During the first nine months of 2009, the Company purchased \$16.3 million of common stock pursuant to the program.
- (b) Diluted earnings per share were calculated using the two-class method for the three and nine months ended September 30, 2010 and 2009. The following common stock equivalents were excluded from the diluted loss per share calculations for the three and nine months ended September 30, 2009 because they would have been anti-dilutive to the calculations: 1,194,518 and 768,049 unvested restricted shares or restricted stock units, respectively; 180,124 and 154,946 outstanding options to purchase the Company's common stock, respectively; and 203,835 and 126,091 performance units, respectively.

NOTE L. Geographic Operating Segment Information

The Company has reportable operations in only one industry segment, that being the oil and gas exploration and production industry; however, the Company is organizationally structured along geographic operating segments or regions. The Company has reportable continuing operations in the United States, South Africa and Tunisia.

Table of Contents**PIONEER NATURAL RESOURCES COMPANY****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****September 30, 2010****(Unaudited)**

The following tables provide the Company's geographic operating segment data for the three and nine months ended September 30, 2010 and 2009. Geographic operating segment income tax (provisions) benefits have been determined based on statutory rates existing in the various tax jurisdictions where the Company has oil and gas producing activities. The Headquarters table column includes income and expenses that are not routinely included in the earnings measures internally reported to management on a geographic operating segment basis.

	United States	South Africa	Tunisia (in thousands)	Headquarters	Consolidated Total
Three Months Ended September 30, 2010					
Revenues and other income:					
Oil and gas	\$ 416,108	\$ 21,299	\$ 33,965	\$	\$ 471,372
Interest and other				11,864	11,864
Derivative gains, net				127,581	127,581
Gain (loss) on disposition of assets, net	2,429			(46)	2,383
Hurricane activity, net	3,452				3,452
	421,989	21,299	33,965	139,399	616,652
Costs and expenses:					
Oil and gas production	99,711	1,000	3,628		104,339
Production and ad valorem taxes	33,045				33,045
Depletion, depreciation and amortization	119,726	18,338	5,576	9,198	152,838
Exploration and abandonments	21,308	302	1,353		22,963
General and administrative				44,759	44,759
Accretion of discount on asset retirement obligations	1,899	622	105		2,626
Interest				45,002	45,002
Other	9,682			11,245	20,927
	285,371	20,262	10,662	110,204	426,499
Income from continuing operations before income taxes	136,618	1,037	23,303	29,195	190,153
Income tax provision	(50,549)	(290)	(12,101)	(13,721)	(76,661)
Income from continuing operations	\$ 86,069	\$ 747	\$ 11,202	\$ 15,474	\$ 113,492

Table of Contents**PIONEER NATURAL RESOURCES COMPANY****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****September 30, 2010****(Unaudited)**

	United States	South Africa	Tunisia (in thousands)	Headquarters	Consolidated Total
Three Months Ended September 30, 2009					
Revenues and other income:					
Oil and gas	\$ 350,034	\$ 20,836	\$ 39,099	\$	\$ 409,969
Interest and other				503	503
Derivative losses, net				(15,222)	(15,222)
Gain (loss) on disposition of assets, net	80			(465)	(385)
Hurricane activity, net	(1,830)				(1,830)
	348,284	20,836	39,099	(15,184)	393,035
Costs and expenses:					
Oil and gas production	84,083	822	5,489		90,394
Production and ad valorem taxes	28,089				28,089
Depletion, depreciation and amortization	128,954	20,813	5,639	7,199	162,605
Exploration and abandonments	19,908	114	4,910	141	25,073
General and administrative				34,799	34,799
Accretion of discount on asset retirement obligations	2,014	637	103		2,754
Interest				43,438	43,438
Other	9,702			11,661	21,363
	272,750	22,386	16,141	97,238	408,515
Income (loss) from continuing operations before income taxes	75,534	(1,550)	22,958	(112,422)	(15,480)
Income tax benefit (provision)	(27,948)	450	(12,227)	44,931	5,206
Income (loss) from continuing operations	\$ 47,586	\$ (1,100)	\$ 10,731	\$ (67,491)	\$ (10,274)

Table of Contents**PIONEER NATURAL RESOURCES COMPANY****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****September 30, 2010****(Unaudited)**

	United States	South Africa	Tunisia (in thousands)	Headquarters	Consolidated Total
Nine Months Ended September 30, 2010					
Revenues and other income:					
Oil and gas	\$ 1,264,315	\$ 67,182	\$ 109,813	\$	\$ 1,441,310
Interest and other				51,930	51,930
Derivative gains, net				570,585	570,585
Gain (loss) on disposition of assets, net	27,408			(437)	26,971
Hurricane activity, net	5,678				5,678
	1,297,401	67,182	109,813	622,078	2,096,474
Costs and expenses:					
Oil and gas production	278,154	2,672	10,522		291,348
Production and ad valorem taxes	85,444				85,444
Depletion, depreciation and amortization	353,090	58,677	17,593	24,560	453,920
Exploration and abandonments	60,773	428	9,354	328	70,883
General and administrative				128,081	128,081
Accretion of discount on asset retirement obligations	6,043	1,866	309		8,218
Interest				137,893	137,893
Other	30,233			21,995	52,228
	813,737	63,643	37,778	312,857	1,228,015
Income from continuing operations before income taxes	483,664	3,539	72,035	309,221	868,459
Income tax provision	(178,956)	(991)	(37,653)	(114,228)	(331,828)
Income from continuing operations	\$ 304,708	\$ 2,548	\$ 34,382	\$ 194,993	\$ 536,631

Table of Contents**PIONEER NATURAL RESOURCES COMPANY****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****September 30, 2010****(Unaudited)**

	United States	South Africa	Tunisia (in thousands)	Headquarters	Consolidated Total
Nine Months Ended September 30, 2009					
Revenues and other income:					
Oil and gas	\$ 991,849	\$ 50,801	\$ 105,862	\$	\$ 1,148,512
Interest and other				99,761	99,761
Derivative losses, net				(85,583)	(85,583)
Gain (loss) on disposition of assets, net	87			(534)	(447)
Hurricane activity, net	(18,280)				(18,280)
	973,656	50,801	105,862	13,644	1,143,963
Costs and expenses:					
Oil and gas production	257,580	4,763	23,274		285,617
Production and ad valorem taxes	79,503				79,503
Depletion, depreciation and amortization	414,135	57,812	15,706	21,769	509,422
Impairment of oil and gas properties	21,091				21,091
Exploration and abandonments	61,276	403	15,458	724	77,861
General and administrative				102,728	102,728
Accretion of discount on asset retirement obligations	6,038	1,912	309		8,259
Interest				128,051	128,051
Other	48,852		3,768	36,847	89,467
	888,475	64,890	58,515	290,119	1,301,999
Income (loss) from continuing operations before income taxes	85,181	(14,089)	47,347	(276,475)	(158,036)
Income tax benefit (provision)	(31,517)	4,086	(26,911)	102,013	47,671
Income (loss) from continuing operations	\$ 53,664	\$ (10,003)	\$ 20,436	\$ (174,462)	\$ (110,365)

NOTE M. Impairment of Oil and Gas Properties

During the first quarter of 2009, the Company recognized a noncash impairment charge of \$21.1 million to reduce the carrying value of its Uinta/Piceance area oil and gas properties. The impairment charge resulted from declines in commodity prices and well performance which reduced the Company's assessment of economically recoverable resource potential. The impairment charge reduced the Company's Uinta/Piceance area oil and gas property carrying values to their estimated fair value on that date based on the estimated discounted future cash flows attributable to the assets, which were derived from Level 3 fair value inputs.

The Company's primary assumptions of the estimated future cash flows attributable to oil and gas properties were based on (i) proved reserves and risk-adjusted probable and possible reserves and (ii) management's commodity price outlook, which were based in part on forward market quotes.

NOTE N. Volumetric Production Payments

The Company's VPPs represent limited-term overriding royalty interests in oil reserves that: (i) entitle the purchaser to receive production volumes over a period of time from specific lease interests, (ii) are free and clear of all associated future production costs and capital expenditures associated with the reserves, (iii) are nonrecourse to the Company (i.e., the purchaser's only recourse is to the reserves acquired), (iv) transfer title of the reserves to the purchaser and (v) allow the Company to retain the remaining reserves after the VPPs volumetric quantities have been delivered.

At the inception of the VPP agreements, the Company (i) removed the proved reserves associated with the VPPs, (ii) recognized VPP proceeds as deferred revenue which are being amortized on a unit-of-production basis to oil revenues over the remaining term of each VPP, (iii) retained responsibility for 100 percent of the production costs and capital costs related to VPP interests and (iv) no longer recognizes production associated with the VPP volumes.

Table of Contents**PIONEER NATURAL RESOURCES COMPANY****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****September 30, 2010****(Unaudited)**

The following table provides information about changes in the deferred revenue carrying values of the Company's VPPs for the nine months ended September 30, 2010 (in thousands):

Deferred revenue at December 31, 2009	\$ 177,236
Less: 2010 amortization	(67,739)
Deferred revenue at September 30, 2010	\$ 109,497

The remaining deferred revenue amounts will be recognized in oil revenues in the consolidated statements of operations as noted below, assuming the related VPP production volumes are delivered as scheduled (in thousands):

Remaining 2010	\$ 22,475
2011	44,951
2012	42,071
	\$ 109,497

NOTE O. Gain (Loss) on Disposition of Assets, Net

For the three and nine months ended September 30, 2010, the Company recorded \$2.4 million and \$27.0 million of net gains on disposition of assets, respectively, as compared to \$385 thousand and \$447 thousand of net losses for the three and nine months ended September 30, 2009, respectively.

During the three and nine months ended September 30, 2010, the Company recorded \$2.4 million and \$8.1 million of net gains, respectively, associated the sale of proved and unproved oil and gas properties associated with an Eagle Ford Shale joint venture transaction that was completed during June 2010. During June 2010, the Company entered into a purchase and sale agreement whereby it sold (i) 45 percent of its Eagle Ford Shale proved and unproved oil and gas properties to an unaffiliated third party for \$225.6 million of cash proceeds, including normal closing adjustments, and (ii) sold a 49.9 percent interest in EFS Midstream for \$46.4 million of cash proceeds (see Note B for additional information regarding EFS Midstream). The terms of the Eagle Ford Shale transaction also provide that the purchaser will pay 75 percent (up to \$886.8 million) of the Company's defined exploration, drilling and completion costs attributable to the Eagle Ford Shale assets during the six years ending on July 1, 2016, subject to extension. Associated with these transactions, the Company also recorded a deferred gain of \$46.3 million that will be amortized to earnings over a 20 year period.

During 2010, the Company also sold certain proved and unproved oil and gas properties in the Uinta/Piceance area for net proceeds of \$11.9 million, resulting in a net gain of \$17.4 million for the nine months ended September 30, 2010.

The Company's 2009 asset dispositions were primarily comprised sales of substantially all of its Mississippi assets and shelf properties in the Gulf of Mexico, which are reflected as discontinued operations in the accompanying statements of operations. See Note S for additional

information regarding the sale of these assets.

Table of Contents**PIONEER NATURAL RESOURCES COMPANY****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****September 30, 2010****(Unaudited)****NOTE P. Interest and Other Income**

The following table provides the components of the Company's interest and other income:

	Three Months Ended September 30, 2010		Nine Months Ended September 30, 2010	
	2010	2009	2010	2009
	(in thousands)			
Alaskan Petroleum Production Tax credits (a)	\$ 12,129	\$	\$ 39,990	\$ 94,989
Interest income	3,113	108	3,594	1,289
Foreign currency remeasurement and exchange gains (losses)(b)	(4,107)	174	1,871	790
Contract drilling margin	268		1,776	
Insurance claim recovery			1,665	
Other income	255	169	1,160	1,780
Sales and other tax refunds			984	
Deferred compensation plan income	206	52	890	913
Total interest and other income	\$ 11,864	\$ 503	\$ 51,930	\$ 99,761

(a) The Company earns Alaskan Petroleum Production Tax (PPT) credits on qualifying capital expenditures. The Company recognizes income from PPT credits when they are realized through cash refunds or sales.

(b) The Company's operations in Africa periodically recognize monetary assets and liabilities in currencies other than their functional currencies. Associated therewith, the Company realizes foreign currency remeasurement and transaction gains and losses.

NOTE Q. Other Expense

The following table provides the components of the Company's other expense:

	Three Months Ended September 30, 2010		Nine Months Ended September 30, 2010	
	2010	2009	2010	2009
	(in thousands)			
Excess and terminated rig related costs (a)	\$ 9,682	\$ 9,702	\$ 30,233	\$ 52,620
Inventory impairment (b)	5,660	291	7,230	1,894
Well servicing operations (c)	2,305	5,169	6,965	10,551
Other	822	2,025	3,950	3,370
Foreign currency remeasurement and exchange losses (d)	1,571	1,249	2,746	5,982

Edgar Filing: PIONEER NATURAL RESOURCES CO - Form 10-Q

Contingency and environmental accrual adjustments	260	913	507	6,998
Bad debt expense	358	1,985	328	1,241
Equity interest in losses of unconsolidated affiliate	269		269	
Transportation commitment charge		29		6,811
Total other expense	\$ 20,927	\$ 21,363	\$ 52,228	\$ 89,467

- (a) Represents above market drilling rig costs, idle rig costs and costs incurred to terminate contractual drilling rig commitments prior to their contractual maturities.
- (b) Represents impairment charges to reduce the carrying value of excess lease and well equipment and supplies inventories to their estimated net realizable values.
- (c) Represents idle well servicing costs.
- (d) The Company's operations in Africa periodically recognize monetary assets and liabilities in currencies other than their functional currencies. Associated therewith, the Company realizes foreign currency remeasurement and transaction gains and losses.

Table of Contents

PIONEER NATURAL RESOURCES COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2010

(Unaudited)

NOTE R. Insurance Claims

As a result of Hurricane Rita in September 2005, the Company's East Cameron facility, located in the Gulf of Mexico shelf, was destroyed. The operations to reclaim and abandon the East Cameron facilities began in January 2007. As of September 30, 2010, the Company estimates that it will cost an additional \$1.8 million to complete the reclamation and abandonment of the East Cameron facility.

The remaining estimated cost to reclaim and abandon the East Cameron facilities contains a number of assumptions that could cause the ultimate cost to be higher or lower than the estimate, as there are many uncertainties when working offshore and underwater with low visibility. The Company has expended \$206.5 million on the reclamation and abandonment of the East Cameron facility through September 30, 2010.

During the three and nine months ended September 30, 2010, the Company received \$5.8 million and \$13.5 million from its insurance providers, respectively, related to debris removal, which was credited to Hurricane activity, net in the accompanying consolidated statement of operations. Since operations began to reclaim and abandon the East Cameron facility, the Company has recovered from its insurance providers (i) \$59.7 million attributable to reclamation and abandonment costs incurred, (ii) \$18.0 million related to business interruption and property damage losses and (iii) \$3.0 million of reimbursed interest costs.

In 2007, the Company commenced legal actions against its insurance carriers regarding policy coverage issues, primarily related to debris removal, certain costs associated with plugging and abandonment, and the well restoration and safety coverages. Subsequent to September 30, 2010, the Company and the insurance carriers agreed to settle the insurance policy dispute, as a result of which the insurance carriers are expected to pay the Company an incremental \$140 million plus certain court costs during the fourth quarter of 2010.

NOTE S. Discontinued Operations

The Company sold substantially all of its Mississippi assets and shelf properties in the Gulf of Mexico during June and August 2009, respectively. The Company has reflected the results of operations of these properties and the 2009 gains on the disposition of these assets as discontinued operations, rather than as a component of continuing operations, in the accompanying consolidated statements of operations.

During the fourth quarter of 2009, the Company recorded a \$119.3 million receivable from the MMS for the recovery of excess royalties paid by the Company on qualifying deepwater leases in the Gulf of Mexico. During the nine months ended September 30, 2010, the MMS paid the Company the \$119.3 million receivable plus an additional \$35.3 million of associated interest on the excess royalty payments. The properties that were the source of these royalty and interest recoveries were sold by the Company during 2006. Accordingly, the interest income recorded during the second quarter of 2010 has been classified as a component of income from discontinued operations, net of tax in the accompanying consolidated statements of operations.

Table of Contents**PIONEER NATURAL RESOURCES COMPANY****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****September 30, 2010****(Unaudited)**

The following table represents the components of the Company's discontinued operations for the three and nine months ended September 30, 2010 and 2009:

	Three Months Ended September 30, 2010		Nine Months Ended September 30, 2010	
	2009		2009	
	(in thousands)			
Revenues and other income:				
Oil and gas	\$	\$ 2,000	\$	\$ 13,722
Interest and other (a)	3,603		42,911	
Gain on disposition of assets, net (b)		17,823		18,129
	3,603	19,823	42,911	31,851
Costs and expenses:				
Oil and gas production		477		5,126
Production and ad valorem taxes		(155)		(37)
Depletion, depreciation and amortization (b)		1		3,863
Exploration and abandonments (b)	1,500	7	1,500	290
General and administrative		144		108
Accretion of discount on asset retirement obligations (b)		89		531
	1,500	563	1,500	9,881
Income from discontinued operations before income taxes	2,103	19,260	41,411	21,970
Income tax provision (b)	(1,021)	(7,153)	(14,173)	(8,102)
Income from discontinued operations	\$ 1,082	\$ 12,107	\$ 27,238	\$ 13,868

- (a) Primarily comprised of (i) \$35.3 million of interest paid to the Company during the three months ended June 30, 2010 by the MMS on excess royalty payments and \$2.8 million of legal settlements paid to the Company during the three months ended September 30, 2010 on Gulf of Mexico discontinued operations sold during 2006, (ii) \$2.1 million of Canadian sales tax refunds paid to the Company during the three months ended June 30, 2010 attributable to Canadian discontinued operations sold during 2007 and (iii) an \$856 thousand receivable recovery and \$1.9 million of Argentine value added tax contingency charge reversals recorded during the three months ended September 30 and June 30, 2010, respectively, on Argentine discontinued operations sold during 2006.

- (b) Represents the significant noncash components of discontinued operations. Deferred income taxes for the nine months ended September 30, 2010 and 2009 were \$9.0 million and \$8.1 million, respectively.

NOTE T. Subsequent Events

Edgar Filing: PIONEER NATURAL RESOURCES CO - Form 10-Q

The Company has evaluated subsequent events through the date of issuance of its unaudited consolidated financial statements. The Company is not aware of any reportable subsequent events other than the subsequent event disclosed in Note R.

Table of Contents

PIONEER NATURAL RESOURCES COMPANY

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations
Financial and Operating Performance

The Company's financial and operating performance for the third quarter of 2010 included the following highlights:

Earnings attributable to common stockholders was \$112.0 million (\$0.94 per diluted share), as compared to net loss attributable to common stockholders of \$7.2 million (\$0.06 per diluted share) for the third quarter of 2009. The increase in earnings attributable to common stockholders is primarily due to \$127.6 million of mark-to-market derivative gains during the third quarter of 2010 as compared to \$15.2 million of mark-to-market derivative losses during the third quarter of 2009 and a \$61.4 million increase in oil and gas revenues.

Net cash provided by operating activities increased to \$901.7 million for the nine months ended September 30, 2010, as compared to \$410.8 million for the nine months ended September 30, 2009. The \$490.9 million increase in net cash provided by operating activities was primarily due to increases in oil and gas revenues and changes in working capital.

Net debt to book capitalization decreased to 37 percent at September 30, 2010, as compared to 43 percent at December 31, 2009, principally due to debt repayments from the proceeds of the Eagle Ford Shale joint venture transaction and earnings attributable to mark-to-market gains on derivative contracts.

Average reported oil, NGL and gas prices increased during the third quarter of 2010 to \$84.71 per Bbl, \$34.46 per Bbl and \$4.31 per Mcf, respectively, as compared to respective prices of \$78.20 per Bbl, \$33.13 per Bbl and \$3.64 per Mcf during the third quarter of 2009.

Daily sales volumes increased by two percent to 114,550 BOEPD during the third quarter of 2010, as compared to 112,623 BOEPD during the third quarter of 2009. The increase in third quarter 2010 sales volumes, as compared to the third quarter of 2009, was primarily due to increased drilling activities and workover expenditures during 2010 as compared to 2009.

Average per-BOE oil and gas production costs increased during the third quarter of 2010 to \$9.89, as compared to \$8.72 per BOE during the third quarter of 2009, primarily as a result of inflation of well servicing costs and increased workover expenditures.

Fourth Quarter 2010 Outlook

Based on current estimates, the Company expects that fourth quarter 2010 production will average 115,000 to 120,000 BOEPD. The range reflects the planned oil export schedule for Tunisia. Tunisian production that is not sold in the domestic Tunisian markets is not recorded as sales until it is exported and title to the production transfers.

Fourth quarter production costs (including production and ad valorem taxes and transportation costs) are expected to average \$11.75 to \$13.75 per BOE based on current NYMEX strip prices for oil, NGLs and gas. Depletion, depreciation and amortization (DD&A) expense is expected to average \$14.25 to \$15.50 per BOE.

Total exploration and abandonment expense for the quarter is expected to be \$35 million to \$45 million, primarily related to exploration wells being drilled in Tunisia, the Eagle Ford Shale and the Barnett Shale oil plays, and a 2006 drilling commitment well that is being drilled in Utah targeting an oil prospect near existing discoveries, plus related acreage costs, and seismic and personnel costs. General and administrative expense is expected to be \$43 million to \$47 million. Interest expense is expected to be \$44 million to \$47 million, and other expense is expected to be \$15 million to \$20 million. Accretion of discount on asset retirement obligations is expected to be \$2 million to \$4 million.

Edgar Filing: PIONEER NATURAL RESOURCES CO - Form 10-Q

Noncontrolling interest in consolidated subsidiaries' net income, excluding noncash mark-to-market adjustments, is expected to be \$9 million to \$12 million, primarily reflecting the public ownership in Pioneer Southwest.

The Company's fourth quarter effective income tax rate is expected to range from 40 percent to 50 percent, assuming current capital spending plans, higher tax rates in certain foreign jurisdictions and no significant mark-to-market changes in the Company's derivative position. Cash income taxes are expected to range from \$15 million to \$25 million, principally related to South African and Tunisian income taxes.

Table of Contents**PIONEER NATURAL RESOURCES COMPANY****Operations and Drilling Highlights**

The following table summarizes the Company's average daily oil, NGL, gas and total production by asset area during the nine months ended September 30, 2010:

	Oil (Bbls)	NGLs (Bbls)	Gas (Mcf)	Total (BOE)
United States:				
Permian Basin	16,285	10,731	43,037	34,189
Mid-Continent	4,059	7,753	54,862	20,956
Rocky Mountains	14	13	172,764	28,821
Barnett Shale	92	965	9,137	2,580
South Texas	54		50,342	8,444
Eagle Ford Shale	318	187	5,744	1,463
Alaska	6,565			6,565
Other	1		74	12
	27,388	19,649	335,960	103,030
South Africa	730		30,304	5,781
Tunisia	4,845		2,711	5,297
Total Worldwide	32,963	19,649	368,975	114,108

The Company intends to limit 2010 capital expenditures, excluding the effects of asset retirement obligations, capitalized interest and geological and geophysical administrative costs, to internally-generated operating cash flow for the year. During the nine months ended September 30, 2010, cash flow from operating activities was \$901.7 million and the Company's capital expenditures, excluding the effects of asset retirement obligations, capitalized interest and geological and geophysical administrative costs, were \$789.0 million.

The following table summarizes by geographic area the Company's finding and development costs incurred during the nine months ended September 30, 2010:

	Acquisition Costs		Exploration Costs	Development Costs	Asset Retirement Obligations	Total
	Proved	Unproved	(in thousands)			
United States:						
Permian Basin	\$ 2,517	\$ 2,405	\$ 9,389	\$ 372,813	\$ 278	\$ 387,402
Mid-Continent		100	607	5,843	21	6,571
Rocky Mountains	(371)	567	8,782	8,668	7	17,653
Barnett Shale	(89)	28,855	20,934	145	21	49,866
South Texas	130	2,105	24,538	13,096	10	39,879
Eagle Ford Shale	2,527	107,486	82,289	344	72	192,718
Alaska			16,826	68,733	549	86,108
Other					1,500	1,500

Edgar Filing: PIONEER NATURAL RESOURCES CO - Form 10-Q

	4,714	141,518	163,365	469,642	2,458	781,697
South Africa			428	(53)	279	654
Tunisia			29,106	24,045	768	53,919
Other			329			329
Total Worldwide	\$ 4,714	\$ 141,518	\$ 193,228	\$ 493,634	\$ 3,505	\$ 836,599

Table of Contents**PIONEER NATURAL RESOURCES COMPANY**

The following table summarizes the Company's development and exploration/extension drilling activities for the nine months ended September 30, 2010:

	Beginning Wells in Progress	Wells Spud	Development Drilling		Ending Wells in Progress
			Successful Wells	Unsuccessful Wells	
United States	11	324	316	1	18
Tunisia		1	1		
Total Worldwide	11	325	317	1	18

	Beginning Wells in Progress	Wells Spud	Exploration/Extension Drilling			Ending Wells in Progress
			Successful Wells	Unsuccessful Wells	Sold Wells	
United States	8	34	20	1	1	20
Tunisia	5	3	5			3
Total Worldwide	13	37	25	1	1	23

Permian Basin area. During the first nine months of 2010, the Company drilled 303 wells in the Spraberry field. The Company is currently utilizing 25 rigs, and plans to drill approximately 440 wells during 2010. The Company intends to continue to expand its drilling program past 2010, with plans to increase its rig count to 40 rigs by 2012. The Company's drilling program continues to drill to the lower Wolfcamp formation and in certain areas down to the Strawn formation with positive production results. The Company acquired nine rigs during the first nine months of 2010 and has deposits on three additional rigs to be acquired during the fourth quarter of 2010. These Company-owned rigs will represent about 30 percent of the planned 40-rig drilling program in 2012.

During 2010, the Company commenced a Spraberry field waterflood project that is located on approximately 7,000 acres within an existing Spraberry unit. Drilling, conversion and facility work was completed during the first half of 2010 and the Company commenced water injection during the third quarter of 2010, with initial oil response expected during the first half of 2011.

During 2008, the Company initiated a program to test 20-acre infill drilling performance, as part of its announced recovery improvement initiatives. The Company drilled and completed eleven 20-acre wells in 2008 and completed nine additional 20-acre wells in 2009 with encouraging results. In the fourth quarter of 2010, the Company plans to drill approximately 25 additional 20-acre wells.

South Texas and Eagle Ford Shale area. The Company's drilling activities in the South Texas area during 2010 continue to be primarily focused on delineation and development of Pioneer's substantial acreage position in the Eagle Ford Shale play.

During June 2010, the Company entered into an Eagle Ford Shale joint venture transaction and associated therewith the Company received \$272.0 million of cash proceeds during the second quarter of 2010, including normal closing adjustments. Pursuant to the transaction, the Company entered into a purchase and sale agreement to sell 45 percent of its Eagle Ford Shale proved and unproved oil and gas properties to an unaffiliated third party for \$225.6 million of cash proceeds, including normal closing adjustments. The terms of the transaction also provide that the purchaser will pay 75 percent (up to \$886.8 million) of the Company's defined exploration, drilling and completion costs attributable to the Eagle Ford Shale assets during the six years ending on July 1, 2016, subject to extension.

Edgar Filing: PIONEER NATURAL RESOURCES CO - Form 10-Q

The Company also sold a 49.9 percent member interest in EFS Midstream to the purchaser for \$46.4 million of cash proceeds. The Company does not have voting control of EFS Midstream. The Company deconsolidated the financial statements of EFS Midstream and is accounting for its investment in the venture under the equity method.

EFS Midstream is obligated to construct midstream assets in the Eagle Ford Shale play that will provide gathering, treating and transportation services for the Eagle Ford Shale properties. As EFS Midstream constructs midstream assets, the Company will be responsible for funding 50.1 percent of EFS Midstream's cash requirements.

Table of Contents

PIONEER NATURAL RESOURCES COMPANY

Construction of the midstream assets is underway, with the majority of the construction expected to be completed by 2013. The first of 14 planned facilities was completed at the end of September 2010 and four more are expected to be in operation by mid-January 2011.

During October 2010, the Company announced that it executed a third-party gas processing, fractionation and transportation agreement for Eagle Ford Shale gas and oil production with Enterprise Product Partners L.P. The Company drilled 13 wells in the Eagle Ford Shale play during the first nine months of 2010. Production from certain of these wells is awaiting the construction of permanent production facilities, of which the first of 14 planned facilities was completed as of the end of the third quarter of 2010. The Company is currently running seven drilling rigs in the Eagle Ford Shale play.

Alaska. During the third quarter of 2010, the Company continued drilling activities at its Oooguruk development project. A dual lateral, horizontal production well in the Nuiqsut reservoir was drilled and completed during the third quarter of 2010 and drilling operations on another dual lateral, horizontal well are underway. The new dual lateral well produced at initial gross production rates averaging approximately 1,900 Bbls of oil per day. The Company continues to monitor and analyze production from the Moraine reservoir, which commenced production in the first quarter of 2010. Based on production performance to date, the Company is evaluating drilling additional wells in the Moraine reservoir.

On the Company's Cosmopolitan Unit project in the Cook Inlet, the Company drilled a lateral sidetrack during 2007 from an existing wellbore on an onshore site to further appraise the resource potential of the unit. The initial un-stimulated production test results were encouraging. The Company performed casing repair workover operations on the well during the fourth quarter of 2009, fracture-stimulated the well during the first quarter of 2010 and concluded flow testing during the second quarter of 2010. The Company will continue to conduct permitting activities and facilities planning and may drill another appraisal well during 2011.

Tunisia. Following an extensive geosciences work program during 2009, the Company recommenced its drilling program in 2010 in the Company-operated Cherouq concession with the successful drilling of a development well and an exploration well. Two additional wells are planned for the fourth quarter of 2010. Additionally, the Company is upgrading its existing production facilities by installing permanent processing equipment and artificial lift, which it intends to utilize to optimize production and reduce production costs.

During the third quarter of 2010, the Company placed the previously announced successful exploration well on production in the Adam Concession. On the Borj El Khadra Permit, the Company completed the acquisition of and began processing 1,185 square kilometers of 3-D seismic data in order to high-grade leads identified on existing 2-D seismic data. The Company expects that an exploration well will be drilled on the permit in the fourth quarter of 2010, following interpretation of the processed data.

In the Anaguid Permit, the Company successfully completed drilling of the Mona-1 exploration well. The company has submitted a modified plan of development to the government to allow the Company to add the Mona-1 well to the production concession that was originally submitted for only the area surrounding the Durra discovery. First production from the expanded production concession is expected during the first quarter of 2011.

Results of Operations

Oil and gas revenues. Oil and gas revenues totaled \$471.4 million and \$1.4 billion for the three and nine months ended September 30, 2010, respectively, as compared to \$410.0 million and \$1.1 billion for the same respective periods of 2009.

The increase in oil and gas revenues during the three months ended September 30, 2010, as compared to the same period of 2009, is reflective of increases in worldwide average reported commodity prices and United States oil and NGL sales volumes, partially offset by decreases in United States gas sales volumes and South Africa and Tunisia oil sales volumes. The increase in oil and gas revenues during the nine months ended September 30, 2010, as compared to the same period of 2009, is reflective of increases in worldwide average reported commodity prices and United States oil and Tunisia gas sales volumes, partially offset by decreases in United States NGL and gas sales volumes and South Africa gas sales volumes.

Table of Contents**PIONEER NATURAL RESOURCES COMPANY**

The following table provides average daily sales volumes from continuing operations, by geographic area and in total, for the three and nine months ended September 30, 2010 and 2009:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Oil (Bbls):				
United States	28,880	24,754	27,388	24,989
South Africa	445	575	730	401
Tunisia	4,409	6,334	4,845	6,612
Worldwide	33,734	31,663	32,963	32,002
NGLs (Bbls):				
United States	20,525	18,602	19,649	20,044
Gas (Mcf):				
United States	327,917	341,874	335,960	360,896
South Africa	31,069	31,372	30,304	31,637
Tunisia	2,760	904	2,711	1,662
Worldwide	361,746	374,150	368,975	394,195
Total (BOE):				
United States	104,058	100,335	103,030	105,182
South Africa	5,623	5,803	5,781	5,674
Tunisia	4,869	6,485	5,297	6,890
Worldwide	114,550	112,623	114,108	117,746

In the United States, average daily BOE sales volumes increased by four percent for the three months ended September 30, 2010 and decreased by two percent during the nine months ended September 30, 2010, as compared to the same respective periods of 2009. For the three and nine months ended September 30, 2010, average daily BOE sales volumes decreased by 25 percent and 23 percent, respectively, in Tunisia, while average daily BOE sales volumes decreased by three percent and increased by two percent, respectively, in South Africa, as compared to the same respective periods of 2009.

During the three and nine months ended September 30, 2010, as compared to the three and nine months ended September 30, 2009, oil volumes delivered under the Company's VPPs decreased by nine percent for each respective period. The Company satisfied its remaining VPP gas delivery obligations at the end of 2009.

The oil, NGL and gas prices that the Company reports are based on the market price received for the commodities adjusted for transfers of the Company's commodity hedge gains and losses from AOCI-Hedging and the amortization of deferred VPP revenue. See "Derivative activities" and "Deferred revenue" discussion below for additional information regarding the Company's cash flow hedging activities and the amortization of deferred VPP revenue.

Table of Contents**PIONEER NATURAL RESOURCES COMPANY**

The following table provides average reported prices (including transfers of deferred hedge gains and losses and the amortization of deferred VPP revenue) and average realized prices (excluding transfers of deferred hedge gains and losses and the amortization of deferred VPP revenue) by geographic area and in total, for the three and nine months ended September 30, 2010 and 2009:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Average reported prices:				
Oil (per Bbl):				
United States	\$ 86.06	\$ 81.57	\$ 89.08	\$ 70.13
South Africa	\$ 77.84	\$ 70.30	\$ 77.43	\$ 63.08
Tunisia	\$ 76.54	\$ 65.76	\$ 76.72	\$ 56.83
Worldwide	\$ 84.71	\$ 78.20	\$ 87.00	\$ 67.29
NGL (per Bbl):				
United States	\$ 34.46	\$ 33.13	\$ 36.80	\$ 27.33
Gas (per Mcf):				
United States	\$ 4.06	\$ 3.42	\$ 4.37	\$ 3.69
South Africa	\$ 6.34	\$ 5.93	\$ 6.26	\$ 5.08
Tunisia	\$ 11.50	\$ 9.35	\$ 11.27	\$ 7.22
Worldwide	\$ 4.31	\$ 3.64	\$ 4.58	\$ 3.82
Average realized prices:				
Oil (per Bbl):				
United States	\$ 70.30	\$ 61.19	\$ 72.07	\$ 49.33
South Africa	\$ 77.84	\$ 70.30	\$ 77.43	\$ 63.08
Tunisia	\$ 76.54	\$ 65.76	\$ 76.72	\$ 56.83
Worldwide	\$ 71.21	\$ 62.27	\$ 72.87	\$ 51.05
NGL (per Bbl):				
United States	\$ 33.49	\$ 31.75	\$ 35.78	\$ 26.04
Gas (per Mcf):				
United States	\$ 4.03	\$ 2.95	\$ 4.34	\$ 3.10
South Africa	\$ 6.34	\$ 5.93	\$ 6.26	\$ 5.08
Tunisia	\$ 11.50	\$ 9.35	\$ 11.27	\$ 7.22
Worldwide	\$ 4.28	\$ 3.22	\$ 4.55	\$ 3.28

Derivative activities. The Company utilizes commodity swap contracts, collar contracts and collar contracts with short puts (which are also known as three-way collar contracts) in order to (i) reduce the effect of price volatility on the commodities the Company produces and sells, (ii) support the Company's annual capital budgeting and expenditure plans and (iii) reduce commodity price risk associated with certain capital projects. See Note G of Notes to Consolidated Financial Statements included in Item 1. Financial Statements for the scheduled amortization of net deferred gains and losses on discontinued commodity hedges that will be recognized as increases or decreases to future oil and gas revenues.

The following table provides the transfers of deferred hedge gains from AOCI-Hedging associated with oil, NGL and gas price cash flow hedges to oil, NGL and gas revenue for the three and nine months ended September 30, 2010 and 2009:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
	(in thousands)			
Increase to oil revenue from AOCI-Hedging transfers	\$ 19,206	\$ 21,668	\$ 59,415	\$ 67,928

Edgar Filing: PIONEER NATURAL RESOURCES CO - Form 10-Q

Increase to NGL revenue from AOCI-Hedging transfers	1,839	2,364	5,458	7,042
Increase to gas revenue from AOCI-Hedging transfers	931	2,229	2,761	21,203
Total	\$ 21,976	\$ 26,261	\$ 67,634	\$ 96,173

Table of Contents

PIONEER NATURAL RESOURCES COMPANY

Deferred revenue. During the three and nine months ended September 30, 2010, the Company's amortization of deferred VPP revenue increased oil and gas revenues by \$22.7 million and \$67.7 million, respectively, as compared to increases of \$37.2 million and \$110.9 million during the same respective periods of 2009. See Note N of Notes to Consolidated Financial Statements included in Item 1. Financial Statements for specific information regarding the Company's VPPs.

Interest and other income. Interest and other income for the three and nine months ended September 30, 2010 was \$11.9 million and \$51.9 million, respectively, as compared to \$503 thousand and \$99.8 million for the same respective periods in 2009. The increase in interest and other income during the three months ended September 30, 2010, as compared to the same period in 2009, was primarily due to increases of \$12.1 million and \$3.0 million in Alaskan Petroleum Production tax credit recoveries and interest income, respectively, partially offset by a decrease of \$4.3 million in foreign currency remeasurement and exchange gains. The decrease in interest and other income during the nine months ended September 30, 2010, as compared to the same period in 2009, was primarily due to a \$55.0 million decrease in Alaskan Petroleum Production tax credit recoveries, partially offset by a \$2.3 million increase in interest income and a \$1.7 million increase in insurance claim recoveries. See Note P of Notes to Consolidated Financial Statements included in Item 1. Financial Statements for additional information regarding interest and other income.

Derivative gains, net. During the three and nine months ended September 30, 2010, the Company recorded \$127.6 million and \$570.6 million, respectively, of net derivative gains on commodity price and interest rate derivatives. For the three months ended September 30, 2010, \$93.7 million represented unrealized gains subject to continuing market risk and \$33.9 million represented realized gains. For the nine months ended September 30, 2010, \$506.9 million represented unrealized gains subject to continuing market risk and \$63.7 million represented realized gains. During the three and nine months ended September 30, 2009, the Company recorded \$15.2 million and \$85.6 million, respectively, of net derivative losses. Derivative gains and losses result from changes in the fair values of the Company's derivative contracts. See Notes D and G of Notes to Consolidated Financial Statements included in Item 1. Financial Statements and Item 3. Quantitative and Qualitative Disclosures About Market Risk for additional information regarding the Company's derivative activities and market risks associated with those activities.

Gain (loss) on disposition of assets, net. The Company recorded net gains on the disposition of assets of \$2.4 million and \$27.0 million during the three and nine months ended September 30, 2010, respectively, as compared to net losses on the disposition of assets of \$385 thousand and \$447 thousand for the three and nine months ended September 30, 2009, respectively. The increase in net gains is primarily associated with the first and second quarter 2010 sales of certain proved and unproved oil and gas properties in the Uinta/Piceance area and gains associated with the Eagle Ford Shale joint venture transaction. See Note O of Notes to Consolidated Financial Statements included in Item 1. Financial Statements for additional information regarding the Company's gains and losses on dispositions of assets.

Hurricane activity, net. The Company recorded net hurricane related recoveries of \$3.5 million and \$5.7 million during the three and nine months ended September 30, 2010, respectively, as compared to net hurricane related charges of \$1.8 million and \$18.3 million during the same respective periods of 2009. Hurricane activity, net is associated with the Company's East Cameron platform facility, located on the Gulf of Mexico shelf, which was destroyed during 2005 by Hurricane Rita.

The Company estimates that it will expend approximately \$1.8 million to complete the operations to reclaim and abandon the East Cameron platform facilities, which the Company expects to occur during the fourth quarter of 2010 and 2011. Since January 2007, the Company has expended approximately \$206.5 million on operations to reclaim and abandon the East Cameron platform facilities. The Company's remaining estimate to reclaim and abandon the East Cameron facilities is based upon an analysis prepared by the Company. Since operations began to reclaim and abandon the East Cameron facility, the Company has recovered from its insurance providers (i) \$59.7 million attributable to reclamation and abandonment costs incurred, (ii) \$18.0 million related to business interruption and property damage losses and (iii) \$3.0 million of reimbursed interest costs.

In 2007, the Company commenced legal actions against its insurance carriers regarding policy coverage issues. Subsequent to September 30, 2010, the Company and the insurance carriers agreed to settle the insurance policy dispute, as a result of which the insurance carriers are expected to pay the Company an incremental \$140 million plus certain court costs during the fourth quarter of 2010. See Note R of Notes to Consolidated Financial Statements included in Item 1. Financial Statements for specific information regarding the Company's East Cameron facility reclamation and abandonment.

Edgar Filing: PIONEER NATURAL RESOURCES CO - Form 10-Q

Oil and gas production costs. The Company recorded oil and gas production costs of \$104.3 million and \$291.3 million during the three and nine months ended September 30, 2010, respectively, as compared to \$90.4 million and \$285.6 million during the same respective periods of 2009. In general, lease operating expenses and workover expenses represent the components of oil and gas production costs over which the Company has management control, while third-party transportation charges represent the cost to transport volumes produced to a sales point. Net natural gas plant/gathering charges represent the net costs to gather and process the Company's gas, reduced by net revenues earned from gathering and processing of third party gas in Company-owned facilities.

Table of Contents**PIONEER NATURAL RESOURCES COMPANY**

Total oil and gas production costs per BOE from continuing operations increased by 13 percent and five percent during the three and nine months ended September 30, 2010, respectively, as compared to the same respective periods in 2009. The increase in United States production costs per BOE is primarily due to inflation in well servicing costs and increases in workover expenditures incurred to mitigate production declines, partially offset by a 43 percent reduction in VPP delivery commitments. South Africa production costs per BOE increased during the three months ended September 30, 2010 and decreased during the nine months ended September 30, 2010, as compared to the same respective periods of 2009 primarily due to the effects of sales volumes variations on the fixed components of South Africa production costs. The decrease in Tunisia production costs per BOE is primarily associated with Adam concession tariff recoveries, reduced utilization of leased operations support facilities and reduced workover activities.

The following tables provide the components of the Company's oil and gas production costs per BOE from continuing operations and total production costs per BOE from continuing operations by geographic area for the three and nine months ended September 30, 2010 and 2009:

	Three Months Ended September 30, 2010		September 30, 2009	
	2010	2009	2010	2009
Lease operating expenses	\$ 7.64	\$ 6.91	\$ 7.45	\$ 7.09
Third-party transportation charges	0.84	0.91	0.87	0.93
Net natural gas plant/gathering charges	0.37	0.27	0.14	0.29
Workover costs	1.04	0.63	0.89	0.58
Total production costs	\$ 9.89	\$ 8.72	\$ 9.35	\$ 8.89

	Three Months Ended September 30, 2010		September 30, 2009	
	2010	2009	2010	2009
United States	\$ 10.42	\$ 9.12	\$ 9.89	\$ 8.96
South Africa	\$ 1.93	\$ 1.54	\$ 1.69	\$ 3.08
Tunisia	\$ 8.10	\$ 9.20	\$ 7.28	\$ 12.38
Worldwide	\$ 9.89	\$ 8.72	\$ 9.35	\$ 8.89

Production and ad valorem taxes. The Company recorded production and ad valorem taxes of \$33.0 million and \$85.4 million during the three and nine months ended September 30, 2010, respectively, as compared to \$28.1 million and \$79.5 million for the same respective periods of 2009. In general, production and ad valorem taxes are directly related to commodity price changes; however, Texas ad valorem taxes are based upon prior year commodity prices, whereas production taxes are based upon current year commodity prices. Consequently, during the three and nine months ended September 30, 2010, the Company's production and ad valorem taxes per BOE have, in the aggregate, increased 16 percent and 11 percent, reflecting increasing commodity prices during the relevant periods.

Table of Contents**PIONEER NATURAL RESOURCES COMPANY**

The following table provides the Company's production and ad valorem taxes per BOE from continuing operations and total production and ad valorem taxes per BOE from continuing operations for the three and nine months ended September 30, 2010 and 2009:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Ad valorem taxes	\$ 1.60	\$ 1.40	\$ 1.50	\$ 1.42
Production taxes	1.54	1.31	1.24	1.05
Total ad valorem and production taxes	\$ 3.14	\$ 2.71	\$ 2.74	\$ 2.47

Depletion, depreciation and amortization expense. The Company's total DD&A expense was \$152.8 million (\$14.50 per BOE) and \$453.9 million (\$14.57 per BOE) for the three and nine months ended September 30, 2010, respectively, as compared to \$162.6 million (\$15.69 per BOE) and \$509.4 million (\$15.85 per BOE) during the same respective periods of 2009. The decrease in DD&A expense during the three and nine months ended September 30, 2010, as compared to the same respective periods of 2009, is primarily due to a decrease in depletion expense on oil and gas properties.

Depletion expense on oil and gas properties was \$13.63 per BOE and \$13.78 per BOE during the three and nine months ended September 30, 2010, respectively, as compared to \$15.00 per BOE and \$15.17 per BOE during the same respective periods of 2009. The nine percent decreases in per-BOE depletion expense during both the three and nine months ended September 30, 2010 are primarily due to increases in proved reserves as a result of higher commodity prices extending the economic lives of proved properties.

The following table provides depletion expense per BOE from continuing operations by geographic area for the three and nine months ended September 30, 2010 and 2009:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
United States	\$ 12.51	\$ 13.97	\$ 12.55	\$ 14.42
South Africa	\$ 35.45	\$ 38.98	\$ 37.18	\$ 37.33
Tunisia	\$ 12.45	\$ 9.45	\$ 12.17	\$ 8.35
Worldwide	\$ 13.63	\$ 15.00	\$ 13.78	\$ 15.17

Effective December 31, 2009, the Company adopted the SEC's final rule on Modernization of Oil and Gas Reporting (the Reserve Ruling) and the FASB's ASU 2010-03, which conforms ASC 932 to the Reserve Ruling. Among other items, the Reserve Ruling and ASU 2010-03 require companies to report oil and gas reserves using an average price based upon the prior 12-month period rather than a period-end price.

Impairment of oil and gas properties. The Company reviews its long-lived assets to be held and used, including oil and gas properties, whenever events or circumstances indicate that the carrying value of those assets may not be recoverable. The Company recognized an impairment charge of \$21.1 million to reduce the carrying value of the Company's oil and gas properties in the Uinta/Piceance areas during 2009. Declines in gas prices and downward adjustments to the economically recoverable resource potential of the Company's Uinta/Piceance oil and gas properties during the first quarter of 2009 led to the impairment charge.

See Note M of Notes to Consolidated Financial Statements included in Item 1. Financial Statements for additional information regarding the Company's impairment assessments and the primary factors that impact the Company's assessments of oil and gas properties for impairment.

Table of Contents**PIONEER NATURAL RESOURCES COMPANY**

Exploration and abandonments expense. The following tables provide the Company's geological and geophysical costs, exploratory dry holes expense and lease abandonments and other exploration expense by geographic area for the three and nine months ended September 30, 2010 and 2009 (in thousands):

	United States	South Africa	Tunisia	Other	Total
Three Months Ended September 30, 2010					
Geological and geophysical	\$ 12,547	\$ 302	\$ 1,322	\$	\$ 14,171
Exploratory dry holes	2,393		31		2,424
Leasehold abandonments and other	6,368				6,368
	\$ 21,308	\$ 302	\$ 1,353	\$	\$ 22,963

Three Months Ended September 30, 2009					
Geological and geophysical	\$ 9,766	\$ 114	\$ 2,160	\$ 141	\$ 12,181
Exploratory dry holes	4,048		2,750		6,798
Leasehold abandonments and other	6,094				6,094
	\$ 19,908	\$ 114	\$ 4,910	\$ 141	\$ 25,073

	United States	South Africa	Tunisia	Other	Total
Nine Months Ended September 30, 2010					
Geological and geophysical	\$ 43,664	\$ 428	\$ 9,238	\$ 329	\$ 53,659
Exploratory dry holes	2,159		115		2,274
Leasehold abandonments and other	14,950				14,950
	\$ 60,773	\$ 428	\$ 9,353	\$ 329	\$ 70,883

Nine Months Ended September 30, 2009					
Geological and geophysical	\$ 29,051	\$ 403	\$ 6,291	\$ 724	\$ 36,469
Exploratory dry holes	6,757		9,167		15,924
Leasehold abandonments and other	25,468				25,468
	\$ 61,276	\$ 403	\$ 15,458	\$ 724	\$ 77,861

The Company's exploration and abandonment expense during the three and nine months ended September 30, 2010 is primarily comprised of acquisitions of 3-D seismic in the U.S. and Tunisia, geological and geophysical personnel costs and unproved property abandonments in the United States.

During the nine months ended September 30, 2010, the Company drilled and evaluated 26 exploration/extension wells, 25 of which were successfully completed as discoveries. During the same period in 2009, the Company drilled and evaluated 13 exploration/extension wells, 8 of which were successfully completed as discoveries.

Edgar Filing: PIONEER NATURAL RESOURCES CO - Form 10-Q

General and administrative expense. General and administrative expense for the three and nine months ended September 30, 2010 was \$44.8 million and \$128.1 million, respectively, as compared to \$34.8 million and \$102.7 million during the same respective periods of 2009. The increase in general and administrative expense for the three and nine months ended September 30, 2010, as compared to the same respective periods of 2009, was primarily due to respective increases of (i) \$9.0 million and \$20.9 million in performance-related compensation expense and (ii) \$1.1 million and \$1.9 million in contract labor expense in support of the Company's increased activity level.

Accretion of discount on asset retirement obligations. Accretion of discount on asset retirement obligations was \$2.6 million and \$8.2 million for the three and nine months ended September 30, 2010, respectively, as compared to \$2.8 million and \$8.3 million during the same respective periods of 2009. See Note H of Notes to Consolidated Financial Statements in Item 1. Financial Statements for information regarding the Company's asset retirement obligations.

Table of Contents

PIONEER NATURAL RESOURCES COMPANY

Interest expense. Interest expense was \$45.0 million and \$137.9 million for the three and nine months ended September 30, 2010, respectively, as compared to \$43.4 million and \$128.1 million during the same respective periods of 2009. The weighted average interest rate on the Company's indebtedness for the three and nine months ended September 30, 2010, including the effects of interest rate derivatives and capitalized interest, was 7.3 percent and 7.0 percent as compared to 5.2 percent and 5.5 percent for the same respective periods of 2009.

The \$1.6 million and \$9.8 million increases in interest expense during the three and nine months ended September 30, 2010, as compared to the same periods of 2009, are primarily due to increases in the Company's effective interest rates, principally as a result of the Company's November 2009 issuance of \$450 million of 7.5% Senior Notes, partially offset by decreases in weighted average borrowings as a result of proceeds from divestitures and Gulf of Mexico royalty refunds (including interest) received during 2010.

Other expense. Other expense for the three and nine months ended September 30, 2010 was \$20.9 million and \$52.2 million, respectively, as compared to \$21.4 million and \$89.5 million for the same respective periods of 2009. The \$37.3 million decrease in other expense for the nine months ended September 30, 2010, as compared to the same period in 2009, is primarily attributable to a \$22.4 million decrease in excess and terminated rig related costs, a \$6.8 million decrease in transportation commitment charges, a \$6.5 million decrease in contingency and environmental accrual adjustments and a \$3.6 million decrease in idle well servicing costs, partially offset by a \$5.3 million increase to inventory impairment. See Note Q of Notes to Consolidated Financial Statements included in Item 1. Financial Statements for additional information.

Income tax provision. The Company recognized income tax provisions from continuing operations of \$76.7 million and \$331.8 million during the three and nine months ended September 30, 2010, respectively, as compared to income tax benefits of \$5.2 million and \$47.7 million during the same respective periods of 2009. The increase in the income tax provisions for the three and nine months ended September 30, 2010, as compared to the same periods of 2009, is primarily due to increases in income from continuing operations before income taxes, reflecting the significant increases in commodity sales and noncash derivative gains associated with mark-to-market accounting. The Company's effective tax rates of 41 percent and 40 percent, respectively, during the three and nine months ended September 30, 2010, excluding net income attributable to noncontrolling interests, differs from the combined United States federal and state statutory rate of approximately 37 percent primarily due to foreign tax rates and statutes in foreign jurisdictions that differ from those in the U.S., foreign valuation allowance adjustments and tax provisions on foreign repatriated earnings.

See Note E of Notes to Consolidated Financial Statements included in Item 1. Financial Statements for additional information regarding the Company's income taxes.

Income from discontinued operations, net of tax. The Company reported income from discontinued operations, net of tax of \$1.1 million and \$27.2 million for the three and nine months ended September 30, 2010, respectively, as compared to \$12.1 million and \$13.9 million for the same respective periods of 2009. See Note S of the Notes to Consolidated Financial Statements included in Item 1. Financial Statements for specific information regarding the Company's discontinued operations.

Net income attributable to noncontrolling interest. Net income attributable to noncontrolling interest for the three and nine months ended September 30, 2010 was \$2.5 million and \$39.0 million, respectively, as compared to net income attributable to noncontrolling interest of \$9.0 million and \$12.3 million for the same respective periods of 2009. The \$6.5 million decrease in net income attributable to noncontrolling interest for the three months ended September 30, 2010, as compared to the same period in 2009, is due to a decrease in Pioneer Southwest's net income that resulted from an increase in Pioneer Southwest's noncash mark-to-market derivative losses. The \$26.7 million increase in net income attributable to noncontrolling interest for the nine months ended September 30, 2010, as compared to the same period in 2009, is primarily due to an increase in Pioneer Southwest's net income that resulted from an increase in Pioneer Southwest's noncash mark-to-market derivative gains and an increase in noncontrolling ownership in Pioneer Southwest during the fourth quarter of 2009. See Note B of Notes to Consolidated Financial Statements included in Item 1. Financial Statements for additional information regarding Pioneer Southwest and the Company's noncontrolling interests.

Table of Contents

PIONEER NATURAL RESOURCES COMPANY

Capital Commitments, Capital Resources and Liquidity

Capital commitments. The Company's primary needs for cash are for capital expenditures and acquisition expenditures on oil and gas assets, payment of contractual obligations, including funding of EFS Midstream, dividends/distributions and working capital obligations. Funding for these cash needs, as well as funding for any stock or debt repurchases that the Company may undertake, may be provided by any combination of internally-generated cash flow, proceeds from the disposition of nonstrategic assets or external financing sources as discussed in "Capital resources" below. The Company expects that it will be able to fund its needs for cash (excluding acquisitions) with internally-generated cash flows and with its liquidity under its credit facility. Although the Company expects that internal operating cash flows will be adequate to fund capital expenditures and dividend/distribution payments, and that available borrowing capacity under the Company's credit facility will provide adequate liquidity to fund other needs, no assurances can be given that such funding sources will be adequate to meet the Company's future needs.

The Company intends to limit its capital expenditures to a level that allows the Company to deliver net cash flow from operating activities in excess of capital requirements in order to enhance and preserve financial flexibility. The Company expects its 2010 capital expenditures to be approximately \$1.1 billion (excluding effects of asset retirement obligations, capitalized interest, geological and geophysical administrative costs and EFS Midstream investments). During the first nine months of 2010, the Company's capital costs (excluding effects of asset retirement obligations, capitalized interest and geological and geophysical administrative costs) were \$789.0 million, as compared to \$274.2 million during the first nine months of 2009.

Investing activities. Investing activities used \$564.2 million of cash during the nine months ended September 30, 2010 as compared to \$313.0 million used during the nine months ended September 30, 2009. The \$251.2 million increase in net cash used in investing activities for the nine months ending September 30, 2010, as compared to the nine months ended September 30, 2009, is primarily due to a \$394.1 million increase in additions to oil and gas properties, due to the Company's increased drilling activities in 2010, and a \$130.6 million increase in additions to other assets and other property and equipment, primarily comprising purchases of drilling rigs, fracture stimulation equipment and well servicing equipment; partially offset by a \$273.5 million increase in proceeds from the Eagle Ford Shale joint venture and other asset dispositions. During the nine months ended September 30, 2010 and 2009, the Company's expenditures for additions to oil and gas properties were funded by net cash provided by operating activities.

Dividends/distributions. During February and August of both 2010 and 2009, the Company's board of directors (the Board) declared semiannual dividends of \$0.04 per common share. Associated therewith, the Company paid \$4.8 million of aggregate dividends during the nine months ended September 30, 2010 and 2009, respectively. Future dividends are at the discretion of the Board, and, if declared, the Board may change the current dividend amount based on the Company's liquidity and capital resources at the time.

During January, April and July of both 2010 and 2009, the Pioneer Southwest board of directors (the Pioneer Southwest Board) declared quarterly distributions of \$0.50 per limited partner unit. Associated therewith, Pioneer Southwest paid aggregate distributions to noncontrolling unitholders of \$18.9 million and \$14.2 million during the nine months ended September 30, 2010 and 2009, respectively. Future distributions are at the discretion of the Pioneer Southwest Board, and, if declared, the Pioneer Southwest Board may change the current distribution amount based on Pioneer Southwest's liquidity and capital resources at the time. During October 2010, Pioneer Southwest's board of directors declared a quarterly cash distribution of \$0.50 per limited unit for the period from July 1, 2010 to September 30, 2010. The distribution is payable on November 12, 2010 to unitholders of record at the close of business on November 4, 2010. Associated therewith, Pioneer Southwest will pay approximately \$6.3 million of distributions to noncontrolling unitholders.

Contractual obligations, including off-balance sheet obligations. The Company's contractual obligations include long-term debt, operating leases, drilling commitments, derivative obligations, other liabilities, transportation commitments, VPP obligations and midstream asset funding commitments. Additionally, the Company has entered into a gathering, treating and transportation agreement with EFS Midstream. Under the terms of the agreement, the Company is obligated to deliver to EFS Midstream, for gathering, treating and transportation services over a twenty year term, production from substantially all of the properties that the Company operates in the Eagle Ford Shale play, contingent upon EFS Midstream constructing the equipment necessary to perform the services. From time-to-time, the Company enters into off-balance sheet arrangements and transactions that can give rise to material off-balance sheet obligations of the Company. As of September 30, 2010, the material off-balance sheet arrangements and transactions that the Company has entered into included (i) undrawn letters of credit, (ii) operating

Edgar Filing: PIONEER NATURAL RESOURCES CO - Form 10-Q

lease agreements, (iii) drilling and transportation commitments, (iv) VPP obligations (to physically deliver volumes and pay related lease operating expenses in the future), (v) EFS Midstream capital funding commitments and (vi) contractual obligations for which the ultimate settlement amounts are not fixed and determinable, such as derivative contracts that are sensitive to future changes in commodity prices or interest rates and gathering, treating and transportation commitments on uncertain volumes of future throughput. Other than the off-balance sheet arrangements described above, the Company has no transactions, arrangements or other relationships with unconsolidated entities or other persons that are reasonably likely to materially affect the Company's liquidity or availability of or requirements for capital resources. Since December 31, 2009, the material changes in the Company's contractual obligations include (i) a commitment to pay certain minimum annual gathering, treating and transportation payments to EFS Midstream and to fund future EFS Midstream capital expenditures, (ii) a \$239.1 million decrease in outstanding long-term borrowings, (iii) a \$67.7 million decrease in the Company's VPP obligations, (iv) a \$183.5 million decrease in the Company's net derivative obligations, (v) an increase of \$58.1 million in the Company's open purchase commitments and (vi) an increase of \$348.8 million in the Company's contractual drilling rig commitments.

Table of Contents

PIONEER NATURAL RESOURCES COMPANY

In accordance with GAAP, the Company periodically measures and records certain assets and liabilities at fair value. The assets and liabilities that the Company periodically measures and records at fair value include trading securities, deferred compensation plan assets, commodity derivative contracts and interest rate derivative contracts. See Note D of Notes to Consolidated Financial Statements included in Item 1. Financial Statements for additional information regarding these assets and liabilities and the valuation techniques used to measure their fair values.

The Company's commodity and interest rate derivative contracts that are periodically measured and recorded at fair value represent those derivatives that continue to be subject to market or credit risk. As of September 30, 2010, these contracts represented net assets of \$334.3 million, including \$4.4 million of terminated hedge liabilities that are no longer subject to market risk. The ultimate liquidation value of the Company's commodity and interest rate derivatives that are subject to market risk will be dependent upon actual future commodity prices and interest rates, which may differ materially from the inputs used to determine the derivatives' fair values as of September 30, 2010. See Note G of Notes to Consolidated Financial Statements included in Item 1. Financial Statements and Item 3. Quantitative and Qualitative Disclosures About Market Risk for additional information about the Company's derivative instruments and market risk.

Capital resources. The Company's primary capital resources are net cash provided by operating activities, proceeds from sales of nonstrategic assets and proceeds from financing activities (principally borrowings under the Company's credit facility). If internal cash flows do not meet the Company's expectations, the Company may further reduce its level of capital expenditures, reduce dividend payments, and/or fund a portion of its capital expenditures using borrowings under its credit facility, issuances of debt or equity securities or from other sources, such as asset sales.

Operating activities. Net cash provided by operating activities during the nine months ended September 30, 2010 was \$901.7 million as compared to \$410.8 million during the same period of 2009. The increase in net cash provided by operating activities for the nine months ended September 30, 2010, as compared to the nine months ended September 30, 2009, is primarily due to increases in average oil, NGL and gas prices and working capital changes, partially offset by decreases in NGL and gas sales volumes.

Asset divestitures. See Note O of Notes to Consolidated Financial Statements included in Item 1. Financial Statements and Eagle Ford Shale Joint Venture, above for information regarding the Company's joint venture and Uinta/Piceance divestitures. During the first quarter of 2010, the Company also received \$24.4 million from the Tunisian national oil company as contractual reimbursement of a portion of the Company's past capital costs incurred in Tunisia.

During June and August 2009, the Company sold its Mississippi assets and its shelf properties in the Gulf of Mexico, respectively, for a net gain of \$17.8 million. Also during August 2009, Pioneer USA sold certain of its properties in the Spraberry Field in West Texas to Pioneer Southwest for proceeds of \$171.2 million before normal closing adjustments. The transaction value also included the assignment of 2009 through 2013 commodity price derivative positions to Pioneer Southwest. Pioneer Southwest is a partially-owned and consolidated subsidiary of the Company. Consequently, the sale of the properties from Pioneer USA to Pioneer Southwest represented a transfer among entities under common control and did not reduce the Company's oil and gas properties' carrying values.

Financing activities. Net cash used in financing activities during the nine months ended September 30, 2010 and 2009 was \$286.7 million and \$90.6 million, respectively. The \$196.1 million increase in cash used in financing activities during the nine months ended September 30, 2010, as compared to the nine months ended September 30, 2009, is primarily due to a \$191.1 million decline in borrowings under long-term debt.

Table of Contents

PIONEER NATURAL RESOURCES COMPANY

On March 15, 2010, the Company redeemed for cash all of its outstanding 5.875% senior notes due 2012 for a price equal to the principal amount plus accrued and unpaid interest. Associated therewith, the Company paid \$6.3 million.

As the Company pursues its strategy, it may utilize various financing sources, including, to the extent available, fixed and floating rate debt, convertible securities, preferred stock or common stock. The Company may also issue securities in exchange for oil and gas properties, stock or other interests in other oil and gas companies or related assets. Additional securities may be of a class preferred to common stock with respect to such matters as dividends and liquidation rights and may also have other rights and preferences as determined by the Board.

Liquidity. The Company's principal sources of short-term liquidity are cash on hand and unused borrowing capacity under its credit facility. As of September 30, 2010, the Company had no outstanding borrowings under its credit facility and was in compliance with all of its debt covenants. After adjusting for \$65.1 million of undrawn and outstanding letters of credit under its credit facility, the Company had approximately \$1.4 billion of unused borrowing capacity as of September 30, 2010. If internal cash flows do not meet the Company's expectations, the Company may reduce its level of capital expenditures, reduce dividend payments, and/or fund a portion of its capital expenditures using borrowings under its credit facility, issuances of debt or equity securities or from other sources, such as asset sales. The Company cannot provide any assurance that needed short-term or long-term liquidity will be available on acceptable terms or at all. Although the Company expects that internal cash flows will be adequate to fund capital expenditures and dividend payments, and that available borrowing capacity under the Company's credit facility will provide adequate liquidity, no assurances can be given that such funding sources will be adequate to meet the Company's future needs. For instance, the amount that the Company may borrow under the credit facility in the future could be reduced as a result of lower oil, NGL or gas prices, among other items.

Debt ratings. The Company receives debt credit ratings from several of the major ratings agencies, which are subject to regular reviews. The Company believes that each of the rating agencies consider many factors in determining the Company's ratings including: production growth opportunities, liquidity, debt levels, asset composition and proved reserve mix. A reduction in the Company's debt ratings could negatively impact the Company's ability to obtain additional financing or the interest rate, fees and other terms associated with such additional financing.

Book capitalization and current ratio. The Company's net book capitalization at September 30, 2010 was \$6.6 billion, consisting of \$78.2 million of cash and cash equivalents, debt of \$2.5 billion and stockholders' equity of \$4.2 billion. The Company's net debt to net book capitalization was 37 percent and 43 percent at September 30, 2010 and December 31, 2009, respectively. The Company's ratio of current assets to current liabilities was 1.16 to 1.00 at September 30, 2010 as compared to 1.08 to 1.00 at December 31, 2009.

New accounting pronouncements. The effects of new accounting pronouncements are discussed in Note B of Notes to Consolidated Financial Statements included in Item 1. Financial Statements.

Table of Contents**PIONEER NATURAL RESOURCES COMPANY****Item 3. Quantitative and Qualitative Disclosures About Market Risk**

The following quantitative and qualitative disclosures about market risk are supplementary to the quantitative and qualitative disclosures provided in the Company's Annual Report on Form 10-K for the year ended December 31, 2009. As such, the information contained herein should be read in conjunction with the related disclosures in the Company's Annual Report on Form 10-K for the year ended December 31, 2009.

The primary objective of the following information is to provide forward-looking quantitative and qualitative information about the Company's potential exposure to market risks. The term "market risks," insofar as it relates to currently anticipated transactions of the Company, refers to the risk of loss arising from changes in commodity prices, foreign exchange rates and interest rates. These disclosures are not meant to be precise indicators of expected future losses, but rather indicators of reasonably possible losses. This forward-looking information provides indicators of how the Company views and manages ongoing market risk exposures. All of the Company's market risk sensitive instruments are entered into for purposes other than speculative.

The following table reconciles the changes that occurred in the fair values of the Company's open derivative contracts during the nine months ending 2010:

	Derivative Contract Net Assets (Liabilities) (a)		
	Commodities	Interest Rates (in thousands)	Total
Fair value of contracts outstanding as of December 31, 2009	\$ (121,562)	\$ (17,841)	\$ (139,403)
Changes in contract fair value (b)	520,486	51,551	572,307
Contract maturities	(90,727)	(3,244)	(93,971)
Fair value of contracts outstanding as of September 30, 2010	\$ 308,197	\$ 30,466	\$ 338,663

(a) Represents the fair values of open derivative contracts subject to market risk. The Company also had \$4.4 million and \$17.9 million of obligations under terminated derivatives as of September 30, 2010 and December 31, 2009, respectively, for which no market risk exists.

(b) At inception, new derivative contracts entered into by the Company had no intrinsic value.

Interest rate sensitivity. See Note F of Notes to Consolidated Financial Statements included in Item 1. Financial Statements and Capital Commitments, Capital Resources and Liquidity included in Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations for information regarding debt transactions.

Table of Contents**PIONEER NATURAL RESOURCES COMPANY**

The following table provides information about financial instruments to which the Company was a party as of September 30, 2010 and that are sensitive to changes in interest rates. For debt obligations, the table presents maturities by expected maturity dates, the weighted average interest rates expected to be paid on the debt given current contractual terms and market conditions and the debt's estimated fair value. For fixed rate debt, the weighted average interest rate represents the contractual fixed rates that the Company was obligated to periodically pay on the debt as of September 30, 2010. For variable rate debt, the average interest rate represents the average rates being paid on the debt projected forward proportionate to the forward yield curve for LIBOR on October 27, 2010.

	Three Months Ending December 31, 2010	2011	2012	2013	2014	Thereafter	Total	Asset (Liability) Fair Value at September 30, 2010
Year Ending December 31, (\$ in thousands)								
Total Debt:								
Fixed rate principal maturities (a)	\$	\$	\$	\$ 480,000	\$	\$ 2,089,985	\$ 2,569,985	\$ (2,813,571)
Weighted average interest rate	6.05%	6.05%	6.05%	6.75%	6.78%	7.07%		
Variable rate principal maturities:								
Pioneer Southwest credit facility	\$	\$	\$	\$ 74,000			\$ 74,000	\$ (71,019)
Weighted average interest rate	1.22%	1.38%	1.82%	2.58%				
Interest Rate Swaps:								
Credit facility:								
Notional debt amount (b)	\$ 189,000	\$ 23,625						\$ (2,150)
Fixed rate payable (%)	3.00%	3.00%						
Variable rate receivable (%)	0.34%	0.51%						
Notional debt amount (b)	\$ 470,000	\$ 470,000	\$ 470,000	\$ 470,000	\$ 470,000	\$ 470,000		\$ 32,616
Fixed rate receivable (%)	2.92%	2.92%	2.92%	2.92%	2.92%	2.92%		
Variable rate payable (%)	0.34%	0.51%	0.94%	1.71%	2.32%	2.61%		

(a) Represents maturities of principal amounts excluding debt issuance discounts and premiums and net deferred fair value hedge losses.

(b) Represents weighted average notional contract amounts of interest rate derivatives.

Commodity derivative instruments and price sensitivity. The following table provides information about the Company's oil, NGL and gas derivative financial instruments that were sensitive to changes in oil, NGL and gas prices as of September 30, 2010. Although mitigated by the Company's derivative activities, declines in commodity prices would reduce the Company's revenues and internally-generated cash flows.

The Company manages commodity price risk with derivative contracts, such as swap contracts, collar contracts and collar contracts with short put options. Swap contracts provide a fixed price for a notional amount of sales volumes. Collar contracts provide minimum (floor) and maximum (ceiling) prices on a notional amount of sales volumes, thereby allowing some price participation if the relevant index price closes above the floor price. Collar contracts with short put options differ from other collar contracts by virtue of the short put option price, below which the Company's realized price will exceed the variable market prices by the long put-to-short put price differential.

See Note G of Notes to Consolidated Financial Statements included in Item 1. Financial Statements for a description of the accounting procedures followed by the Company relative to its derivative financial instruments and for specific information regarding the terms of the

Company's derivative financial instruments that are sensitive to changes in oil, NGL or gas prices.

Table of Contents**PIONEER NATURAL RESOURCES COMPANY**

	Three Months Ending December 31, 2010	2011	Year Ending December 31,			Asset (Liability) Fair Value at September 30, 2010 (in thousands)
			2012	2013	2014	
Oil Derivatives (a):						
Average daily notional Bbl volumes:						
Swap contracts	2,500	750	3,000	3,000		\$ (14,627)
Weighted average fixed price per Bbl	\$ 93.34	\$ 77.25	\$ 79.32	\$ 81.02	\$	
Collar contracts		2,000				\$ 23,151
Weighted average ceiling price per Bbl	\$	\$ 170.00	\$	\$	\$	
Weighted average floor price per Bbl	\$	\$ 115.00	\$	\$	\$	
Collar contracts with short puts	30,250	32,000	31,000	21,250		\$ (21,538)
Weighted average ceiling price per Bbl	\$ 85.09	\$ 99.33	\$ 119.70	\$ 117.38	\$	
Weighted average floor price per Bbl	\$ 68.38	\$ 73.75	\$ 80.48	\$ 80.18	\$	
Weighted average short put price per Bbl	\$ 55.23	\$ 59.31	\$ 65.00	\$ 65.18	\$	
Average forward NYMEX oil prices (b)	\$ 82.53	\$ 85.34	\$ 87.42	\$ 88.09	\$	
NGL Derivatives:						
Average daily notional Bbl volumes:						
Swap contracts	1,650	750	750			\$ (3,442)
Weighted average fixed price per Bbl	\$ 40.85	\$ 34.65	\$ 35.03	\$	\$	
Collar contracts	2,000	1,000				\$ (688)
Weighted average ceiling price per Bbl	\$ 49.98	\$ 50.93	\$	\$	\$	
Weighted average floor price per Bbl	\$ 41.58	\$ 42.21	\$	\$	\$	
Collar contracts with short puts	2,000					\$ (203)
Weighted average ceiling price per Bbl	\$ 58.92	\$	\$	\$	\$	
Weighted average floor price per Bbl	\$ 47.64	\$	\$	\$	\$	
Weighted average short put price per Bbl	\$ 38.71	\$	\$	\$	\$	
Average forward Mont Belvieu NGL prices (c)	\$ 47.18	\$ 42.80	\$ 40.84	\$	\$	
Gas Derivatives (a):						
Average daily notional MMBtu volumes (b):						
Swap contracts	167,500	117,500	105,000	67,500	50,000	\$ 164,864
Weighted average fixed price per MMBtu	\$ 6.26	\$ 6.13	\$ 5.82	\$ 6.11	\$ 6.05	
Collar contracts	40,000		65,000	100,000	20,000	\$ 24,564
Weighted average ceiling price per MMBtu	\$ 7.19	\$	\$ 6.60	\$ 6.50	\$ 7.20	
Weighted average floor price per MMBtu	\$ 5.75	\$	\$ 5.00	\$ 5.00	\$ 5.00	
Collar contracts with short puts	95,000	200,000	190,000	45,000	50,000	\$ 166,616
Weighted average ceiling price per MMBtu	\$ 7.94	\$ 8.55	\$ 7.96	\$ 7.49	\$ 8.08	
Weighted average floor price per MMBtu	\$ 6.00	\$ 6.32	\$ 6.12	\$ 6.00	\$ 6.00	
Weighted average short put price per MMBtu	\$ 5.00	\$ 4.88	\$ 4.55	\$ 4.50	\$ 4.50	
Average forward NYMEX gas prices (b)	\$ 3.53	\$ 4.23	\$ 5.00	\$ 5.37	\$ 5.60	
Basis swap contracts	245,109	133,500	116,000	32,500	10,000	\$ (30,500)
Weighted average fixed price per MMBtu	\$ (0.69)	\$ (0.58)	\$ (0.37)	\$ (0.34)	\$ (0.16)	
Average forward basis differential prices (d)	\$ (0.20)	\$ (0.28)	\$ (0.27)	\$ (0.23)	\$ (0.13)	

- (a) Subsequent to September 30, 2010, the Company entered into additional oil collar contracts with short puts for 6,000 Bbls per day of the Company's 2012 production with a ceiling price of \$111.33 per Bbl, a floor price of \$80.00 per Bbl and a short put price of \$65.00 per Bbl.
- (b) The average forward NYMEX oil and gas prices are based on October 27, 2010 market quotes.
- (c) Forward Mont Belvieu NGL prices are derived from active-market NGL component price quotes.

Edgar Filing: PIONEER NATURAL RESOURCES CO - Form 10-Q

- (d) The average forward basis differential prices are based on October 27, 2010 market quotes for basis differentials between the relevant index prices and NYMEX-quoted forward prices.

Table of Contents

PIONEER NATURAL RESOURCES COMPANY

Item 4. Controls and Procedures

Evaluation of disclosure controls and procedures. The Company's management, under the supervision and with the participation of its principal executive officer and principal financial officer, have evaluated, as required by Rule 13a-15(b) under the Securities Exchange Act of 1934 (the Exchange Act), the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in Exchange Act Rule 13a-15(e)) as of the end of the period covered by this Report. Based on that evaluation, the principal executive officer and principal financial officer concluded that the disclosure controls and procedures are effective in ensuring that information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, including that such information is accumulated and communicated to the Company's management, including the principal executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required disclosure.

Changes in internal control over financial reporting. There have been no changes in the Company's internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) that occurred during the Company's last fiscal quarter that have materially affected or are reasonably likely to materially affect the Company's internal control over financial reporting.

Table of Contents**PIONEER NATURAL RESOURCES COMPANY****PART II. OTHER INFORMATION****Item 1. Legal Proceedings**

The Company is party to the legal proceeding that is described under Legal actions in Note J of Notes to Consolidated Financial Statements included in Item 1. Financial Statements. The Company is also party to other proceedings and claims incidental to its business. While many of these other matters involve inherent uncertainty, the Company believes that the amount of the liability, if any, ultimately incurred with respect to such other proceedings and claims will not have a material adverse effect on the Company's consolidated financial position as a whole or on its liquidity, capital resources or future annual results of operations.

Item 1A. Risk Factors

In addition to the other information set forth in this Report, you should carefully consider the risks discussed in the Company's Annual Report on Form 10-K under the headings Item 1. Business Competition, Markets and Regulations, Item 1A. Risk Factors and Item 7A. Quantitative and Qualitative Disclosures About Market Risk, as updated by the discussions in Part II of the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2010, which risks could materially affect the Company's business, financial condition or future results. There has been no material change in the Company's risk factors from those described in the Annual Report on Form 10-K, except as updated by the referenced Form 10-Q.

These risks are not the only risks facing the Company. Additional risks and uncertainties not currently known to the Company or that it currently deems to be immaterial also may materially adversely affect the Company's business, financial condition or future results.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds
Purchases of Equity Securities by the Issuer and Affiliated Purchasers

The following table summarizes the Company's purchases of treasury stock during the three months ended September 30, 2010:

Period	Total Number of Shares (or Units) Purchased (a)	Average Price Paid per Share (or Unit)	Total Number of Shares (or Units) Purchased As Part of Publicly Announced Plans or Programs	Approximate Dollar Amount of Shares that May Yet Be Purchased under Plans or Programs (b)
July 2010	171	\$ 61.56		
August 2010	6,247	\$ 57.74		
September 2010	46	\$ 65.25		
Total	6,464	\$ 57.89		\$ 355,789,018

(a) Consists of shares withheld to satisfy tax withholding on employees' share-based awards.

(b) During 2007, the Board approved a share repurchase program authorizing the purchase of up to \$750 million of the Company's common stock.

Table of Contents

PIONEER NATURAL RESOURCES COMPANY

Item 6. **Exhibits**
Exhibits

Exhibit Number	Description
31.1(a)	Chief Executive Officer certification under Section 302 of Sarbanes-Oxley Act of 2002.
31.2(a)	Chief Financial Officer certification under Section 302 of Sarbanes-Oxley Act of 2002.
32.1(b)	Chief Executive Officer certification under Section 906 of Sarbanes-Oxley Act of 2002.
32.2(b)	Chief Financial Officer certification under Section 906 of Sarbanes-Oxley Act of 2002.
101.INS(b)	XBRL Instance Document.
101.SCH(b)	XBRL Taxonomy Extension Schema.
101.CAL(b)	XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF(b)	XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB(b)	XBRL Taxonomy Extension Label Linkbase Document.
101.PRE(b)	XBRL Taxonomy Extension Presentation Linkbase Document.

- (a) Filed herewith.
- (b) Furnished herewith.

Table of Contents

PIONEER NATURAL RESOURCES COMPANY

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned hereto duly authorized.

PIONEER NATURAL RESOURCES COMPANY

Date: November 1, 2010

By: /s/ Richard P. Dealy
Richard P. Dealy
Executive Vice President and Chief
Financial Officer

Date: November 1, 2010

By: /s/ Frank W. Hall
Frank W. Hall
Vice President and Chief
Accounting Officer

Table of Contents

PIONEER NATURAL RESOURCES COMPANY

Exhibit Index

Exhibit Number	Description
31.1(a)	Chief Executive Officer certification under Section 302 of Sarbanes-Oxley Act of 2002.
31.2(a)	Chief Financial Officer certification under Section 302 of Sarbanes-Oxley Act of 2002.
32.1(b)	Chief Executive Officer certification under Section 906 of Sarbanes-Oxley Act of 2002.
32.2(b)	Chief Financial Officer certification under Section 906 of Sarbanes-Oxley Act of 2002.
101.INS(b)	XBRL Instance Document.
101.SCH(b)	XBRL Taxonomy Extension Schema.
101.CAL(b)	XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF(b)	XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB(b)	XBRL Taxonomy Extension Label Linkbase Document.
101.PRE(b)	XBRL Taxonomy Extension Presentation Linkbase Document.

- (a) Filed herewith.
(b) Furnished herewith.