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

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

FORM 10-Q

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

or

o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _______ to ________

Commission File Number: 1-13245

PIONEER NATURAL RESOURCES COMPANY
(Exact name of Registrant as specified in its charter)

Delaware	75-2702753
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
5205 N. O'Connor Blvd., Suite 200, Irving, Texas	75039
(Address of principal executive offices)	(Zip Code)

(972) 444-9001
(Registrant's telephone number, including area code)

Not applicable
(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Yes ý No o

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 ý No o
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	ý	Accelerated filer	o
Non-accelerated filer	o (Do not check if a smaller reporting company)	Smaller reporting company	o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes o No ý

Number of shares of Common Stock outstanding as of May 3, 2010	115,929,792

PIONEER NATURAL RESOURCES COMPANY

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PIONEER NATURAL RESOURCES COMPANY

Cautionary Statement Concerning Forward-Looking Statements

The information in this Quarterly Report on Form 10-Q (the "Report") contains forward-looking statements that involve risks and uncertainties. When used in this document, the words "believes," "plans," "expects," "anticipates," "intends," "continue," "may," "will," "could," "should," "future," "potential," "estimate," or the negative of such terms and similar expressions as they relate to Pioneer Natural Resources Company ("Pioneer" or the "Company") are intended to identify forward-looking statements. The forward-looking statements are based on the Company's current expectations, assumptions, estimates and projections about the Company and the industry in which the Company operates. Although the Company believes that the expectations and assumptions reflected in the forward-looking statements are reasonable, they involve risks and uncertainties that are difficult to predict and, in many cases, beyond the Company's control.

These risks and uncertainties include, among other things, volatility of commodity prices, product supply and demand, competition, the ability to obtain environmental and other permits and the timing thereof, other government regulation or action, the ability to obtain approvals from third parties and negotiate agreements (including joint venture agreements) with third parties on mutually acceptable terms, international operations and associated international political and economic instability, litigation, the costs and results of drilling and operations, access to and availability of drilling equipment and transportation, processing and refining facilities, Pioneer's ability to replace reserves, implement its business plans or complete its development activities as scheduled, access to and cost of capital, the financial strength of counterparties to Pioneer's credit facility and derivative contracts and the purchasers of Pioneer's oil, NGL and gas production, uncertainties about estimates of reserves and resource potential and the ability to add proved reserves in the future, the assumptions underlying production forecasts, quality of technical data, environmental and weather risks, including the possible impact of climate change, and acts of war or terrorism. These and other risks are described in the Company's Annual Report on Form 10-K, this and other Quarterly Reports on Form 10-Q and other filings with the Securities and Exchange Commission. In addition, the Company may be subject to currently unforeseen risks that may have a materially adverse effect on it. Accordingly, no assurances can be given that the actual events and results will not be materially different than the anticipated results described in the forward-looking statements. See "Part I, Item 3. Quantitative and Qualitative Disclosures About Market Risk" and "Part II, Item 1A. Risk Factors" in this Report and "Part I, Item 1. Business — Competition, Markets and Regulations", "Part I, Item 1A. Risk Factors", “Part II, Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations” and "Part II, Item 7A. Quantitative and Qualitative Disclosures About Market Risk" in the Company's Annual Report on Form 10-K for the year ended December 31, 2009 for a description of various factors that could materially affect the ability of Pioneer to achieve the anticipated results described in the forward-looking statements. Readers are cautioned not to place undue reliance on forward-looking statements, which speak only as of the date hereof. The Company undertakes no duty to publicly update these statements except as required by law.

PIONEER NATURAL RESOURCES COMPANY

Definitions of Certain Terms and Conventions Used Herein

Within this Report, the following terms and conventions have specific meanings:

- "Bbl" means a standard barrel containing 42 United States gallons.
- "Bcf" means one billion cubic feet.
- "BOE" means a barrel of oil equivalent and is a standard convention used to express oil and gas volumes on a comparable oil equivalent basis. Gas equivalents are determined under the relative energy content method by using the ratio of 6.0 Mcf of gas to 1.0 Bbl of oil or natural gas liquid.
- "BOEPD" means BOE per day.
- "Btu" means British thermal unit, which is a measure of the amount of energy required to raise the temperature of one pound of water one degree Fahrenheit.
- "CBM" means coal bed methane.
- "DD&A" means depletion, depreciation and amortization.
- "GAAP" means accounting principles that are generally accepted in the United States of America.
- "LIBOR" means London Interbank Offered Rate, which is a market rate of interest.
- "MBbl" means one thousand Bbls.
- "MBOE" means one thousand BOEs.
- "Mcf" means one thousand cubic feet and is a measure of natural gas volume.
- "MMBbl" means one million Bbls.
- "MMBOE" means one million BOEs.
- "MMBtu" means one million Btus.
- "MMcf" means one million cubic feet.
- "MMcfpd" means one million cubic feet per day.
- "Mont Belvieu–posted-price" means the daily average natural gas liquids components as priced in Oil Price Information Service ("OPIS") in the table "U.S. and Canada LP – Gas Weekly Averages" at Mont Belvieu, Texas.
- "NGL" means natural gas liquid.
- "NYMEX" means the New York Mercantile Exchange.
- "NYSE" means the New York Stock Exchange.
- "Pioneer" or the "Company" means Pioneer Natural Resources Company and its subsidiaries.
- "Pioneer Southwest" means Pioneer Southwest Energy Partners L.P. and its subsidiaries.
- "proved reserves" means the quantities of oil and gas, which, by analysis of geosciences and engineering data, can be estimated with reasonable certainty to be economically producible – from a given date forward, from known reservoirs, and under existing economic conditions, operating methods, and government regulations – prior to the time at which contracts providing the right to operate expire, unless evidence indicates that renewal is reasonably certain, regardless of whether deterministic or probabilistic methods are used for the estimation. The project to extract the hydrocarbons must have commenced or the operator must be reasonably certain that it will commence the project within a reasonable time.

(i) The area of the reservoir considered as proved includes: (A) The area identified by drilling and limited by fluid contacts, if any, and (B) Adjacent undrilled portions of the reservoir that can, with reasonable certainty, be judged to be continuous with it and to contain economically producible oil or gas on the basis of available geosciences and engineering data.

(ii) In the absence of data on fluid contacts, proved quantities in a reservoir are limited by the lowest known hydrocarbons as seen in a well penetration unless geoscience, engineering, or performance data and reliable technology establishes a lower contact with reasonable certainty.

(iii) Where direct observation from well penetrations has defined a highest known oil elevation and the potential exists for an associated gas cap, proved oil reserves may be assigned in the structurally higher portions of the reservoir only if geoscience, engineering, or performance data and reliable technology establish the higher contact with reasonable certainty.

(iv) Reserves which can be produced economically through application of improved recovery techniques (including, but not limited to, fluid injection) are included in the proved classification when: (A) Successful testing by a pilot project in an area of the reservoir with properties no more favorable than in the reservoir as a whole, the operation of an installed program in the reservoir or an analogous reservoir, or other evidence using reliable technology establishes the reasonable certainty of the engineering analysis on which the project or program is based; and (B) The project has been approved for development by all necessary parties and entities, including governmental entities.

(v) Existing conditions include prices and costs at which economic producibility from a reservoir is to be determined. The price shall be the average during the 12-month period prior to the ending date of the period covered by the report, determined as an unweighted arithmetic average of the first-day-of-the-month price for each month within such period, unless prices are defined by contractual arrangements, excluding escalations based upon future conditions.

- "SEC" means the United States Securities and Exchange Commission.
- "Standardized Measure" means the after-tax present value of estimated future net cash flows of proved reserves, determined in accordance with the rules and regulations of the SEC, using prices and costs employed in the determination of proved reserves and a ten percent discount rate.
- "U.S." means United States.
- "VPP" means volumetric production payment.
- With respect to information on the working interest in wells, drilling locations and acreage, "net" wells, drilling locations and acres are determined by multiplying "gross" wells, drilling locations and acres by the Company's working interest in such wells, drilling locations or acres. Unless otherwise specified, wells, drilling locations and acreage statistics quoted herein represent gross wells, drilling locations or acres.
- Unless otherwise indicated, all currency amounts are expressed in U.S. dollars.

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

PIONEER NATURAL RESOURCES COMPANY

CONSOLIDATED BALANCE SHEETS
(in thousands)

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

March 31, 2010 and December 31, 2009, respectively	$ 8,972,655	$ 8,867,265

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

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

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PIONEER NATURAL RESOURCES COMPANY

CONSOLIDATED BALANCE SHEETS (continued)
(in thousands, except share data)

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

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

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

PIONEER NATURAL RESOURCES COMPANY

CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except per share data)
(Unaudited)

	Three Months Ended March 31, 2010	Three Months Ended March 31, 2009
Revenues and other income:		
Oil and gas	$ 507,796	$ 367,851
Interest and other	19,803	10,660
Derivative gains, net	265,476	99,863
Gain (loss) on disposition of assets, net	16,943	(115)
Hurricane activity, net	7,410	(375)
	817,428	477,884
Costs and expenses:		
Oil and gas production	89,715	110,431
Production and ad valorem taxes	27,061	27,699
Depletion, depreciation and amortization	150,768	188,144
Impairment of oil and gas properties	-	21,091
Exploration and abandonments	20,797	31,170
General and administrative	40,948	34,654
Accretion of discount on asset retirement obligations	2,960	2,752
Interest	47,523	41,138
Other	16,576	31,389
	396,348	488,468
Income (loss) from continuing operations before income taxes	421,080	(10,584)
Income tax benefit (provision)	(160,474)	741
Income (loss) from continuing operations	260,606	(9,843)
Loss from discontinued operations, net of tax	-	(970)
Net income (loss)	260,606	(10,813)
Net income attributable to the noncontrolling interests	(15,352)	(3,793)
Net income (loss) attributable to common stockholders	$ 245,254	$ (14,606)
Basic earnings per share:		
Income (loss) from continuing operations attributable to common stockholders	$ 2.09	$ (0.12)
Loss from discontinued operations attributable to common stockholders	-	(0.01)
Net income (loss) attributable to common stockholders	$ 2.09	$ (0.13)
Diluted earnings per share:		
Income (loss) from continuing operations attributable to common stockholders	$ 2.08	$ (0.12)
Loss from discontinued operations attributable to common stockholders	-	(0.01)
Net income (loss) attributable to common stockholders	$ 2.08	$ (0.13)

Weighted average shares outstanding:		
Basic	114,655	114,242
Diluted	115,462	114,242
Dividends declared per share	$ 0.04	$ 0.04
Amounts attributable to common stockholders:		
Income (loss) from continuing operations	$ 245,254	$ (13,636)
Loss from discontinued operations	-	(970)
Net income (loss)	$ 245,254	$ (14,606)

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.

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 ($0.04 per share)	-	-	-	-	(4,736)	-	-	(4,736)
Exercise of long-term incentive plan stock options	110	-	-	4,211	(1,628)	-	-	2,583
Treasury stock purchases to satisfy employee tax withholding obligations	(265)	-	-	(12,978)	-	-	-	(12,978)
Tax benefit related to stock-based compensation	-	-	6,705	-	-	-	-	6,705
Compensation costs:								
Vested compensation awards, net	851	8	(8)	-	-	-	-	-
Compensation costs included	-	-	9,509	-	-	-	253	9,762

in net income								
Cash contributions from noncontrolling interests	-	-	-	-	-	-	1,151	1,151
Cash distributions to noncontrolling interests	-	-	-	-	-	-	(6,605)	(6,605)
Net income	-	-	-	-	245,254	-	15,352	260,606
Other comprehensive loss:								
Deferred hedging activity, net of tax:								
Net hedge gains included in continuing operations	-	-	-	-	-	(11,559)	(4,332)	(15,891)
Balance as of March 31, 2010	115,071	$ 1,260	$ 2,997,656	$ (423,978)	$ 1,156,578	$ 39,450	$ 112,662	$ 3,883,628

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.

PIONEER NATURAL RESOURCES COMPANY

CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)
(Unaudited)

	Three Months Ended March 31, 2010	Three Months Ended March 31, 2009
Cash flows from operating activities:		
Net income (loss)	$ 260,606	$ (10,813)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depletion, depreciation and amortization	150,768	188,144
Impairment of oil and gas properties	-	21,091
Exploration expenses, including dry holes	3,566	18,249
Deferred income taxes	158,456	(10,510)
(Gain) loss on disposition of assets, net	(16,943)	115
Accretion of discount on asset retirement obligations	2,960	2,752
Discontinued operations	-	4,373
Interest expense	7,408	6,609
Derivative related activity	(281,871)	(111,285)
Amortization of stock-based compensation	9,624	9,297
Amortization of deferred revenue	(22,483)	(36,720)
Other noncash items	(2,176)	10,694
Change in operating assets and liabilities		
Accounts receivable, net	48,080	42,221
Income taxes receivable	21,264	44,936
Inventories	17,429	(34,470)
Prepaid expenses	435	1,960
Other current assets	1,226	26,057
Accounts payable	(34,296)	(111,450)
Interest payable	(13,314)	(15,576)
Income taxes payable	(1,536)	8,541
Other current liabilities	(9,840)	(29,794)
Net cash provided by operating activities	299,363	24,421
Cash flows from investing activities:		
Proceeds from disposition of assets	34,985	200
Additions to oil and gas properties	(156,529)	(164,527)
Additions to other assets and other property and equipment, net	(44,999)	(6,736)
Net cash used in investing activities	(166,543)	(171,063)
Cash flows from financing activities:		
Borrowings under long-term debt	87,154	172,000
Principal payments on long-term debt	(206,264)	(1,000)
Contributions from noncontrolling interests	1,151	150
Distributions to noncontrolling interests	(6,605)	(4,990)
Borrowings (payments) of other liabilities	2,818	(335)
Exercise of long-term incentive plan stock options	2,583	954
Purchases of treasury stock	(12,978)	(20,119)

Excess tax (provisions) benefits from share-based payment arrangements	6,705	(3,879)
Payment of financing fees	(147)	-
Dividends paid	(65)	-
Net cash provided by (used in) financing activities	(125,648)	142,781
Net increase (decrease) in cash and cash equivalents	7,172	(3,861)
Cash and cash equivalents, beginning of period	27,368	48,337
Cash and cash equivalents, end of period	$ 34,540	$ 44,476

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.

PIONEER NATURAL RESOURCES COMPANY

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(in thousands)
(Unaudited)

	Three Months Ended March 31,	
	2010	2009
Net income (loss)	$ 260,606	$ (10,813)
Other comprehensive loss:		
Hedge fair value changes, net	-	12,974
Net hedge gains included in continuing operations	(20,926)	(39,168)
Income tax provision	5,035	9,534
Other comprehensive loss	(15,891)	(16,660)
Comprehensive income (loss)	244,715	(27,473)
Comprehensive income attributable to noncontrolling interest	(11,036)	(1,788)
Comprehensive income (loss) attributable to common stockholders	$ 233,679	$ (29,261)

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.

PIONEER NATURAL RESOURCES COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
March 31, 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 March 31, 2010 and for the three months ended March 31, 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 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 substantially all of its Mississippi assets and shelf properties in the Gulf of Mexico, respectively. Accordingly, the Company has recast its accompanying consolidated statements of operations and cash flows for the three months ended March 31, 2009 to reflect the results of operations of both of these asset groups as discontinued operations, rather than as components of continuing operations.

Allowances for doubtful accounts. As of March 31, 2010 and December 31, 2009, the Company's allowances for doubtful accounts totaled $14.7 million and $14.3 million, respectively. Changes in the Company’s allowance for doubtful accounts during the three months ended March 31, 2010 are summarized in the following table:

	Three Months Ended March 31, 2010
Beginning allowance for doubtful accounts balance	$ 14,299
Amount recorded in other expense for bad debt expense	224
Other net increases	206
Ending allowance for doubtful accounts balance	$ 14,729

Inventories. Inventories consisted of $187.0 million and $205.6 million of materials and supplies and $4.0 million and $3.2 million of commodities as of March 31, 2010 and December 31, 2009, respectively. As of March 31, 2010 and

December 31, 2009, the Company's materials and supplies inventory was net of $1.6 million and $5.2 million, respectively, of valuation reserve allowances. As of March 31, 2010 and December 31, 2009, the Company estimated that $70.2 million and $69.6 million, respectively, of its materials and supplies inventory would not be utilized within one year. Accordingly, those inventory values have been classified as other noncurrent assets in the accompanying consolidated balance sheets.

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 on February 1, 2009 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.

PIONEER NATURAL RESOURCES COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2010
(Unaudited)

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 rates are based on an independent market-quoted credit default swap rate curve for the Company's or the counterparties' debt plus the United States Treasury Bill yield curve as of March 31, 2010. 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. 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 2009, the Company performed its annual assessment of goodwill impairment and determined that there was no impairment. During March 2010, the Company sold a portion of its oil and gas properties in the Uinta/Piceance area for $8.2 million of net proceeds, including customary closing adjustments. Associated therewith, the Company reduced its goodwill attributable to the Uinta/Piceance properties by $414 thousand.

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.

In addition to Pioneer Southwest, 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 $112.7 million and $106.8 million as of March 31, 2010 and December 31, 2009, respectively. The Company recorded net income attributable to the noncontrolling interests of $15.4 million for the three months ended March 31, 2010, (principally related to Pioneer Southwest) compared to $3.8 million for the three months ended March 31, 2009, respectively.

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 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 in the Company's majority-owned drilling subsidiary, Sendero Drilling Company, LLC ("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 periodic fair values of the vested portions of the awards are recorded as increases or decreases to compensation expense in the periods of change. During February 2010, the Company issued 208,620 restricted stock awards to employees that represent liability awards. As of March 31, 2010, accounts payable – affiliates includes $326 thousand of liabilities attributable to the liability awards.

For the three months ended March 31, 2010, the Company recorded $9.8 million of stock-based compensation costs for all plans, as compared to $9.3 million for the same period of 2009.

In accordance with GAAP, the Company's issued shares, as reflected in the consolidated balance sheets at March 31, 2010 and December 31, 2009, do not include 846,312 and 979,493 common shares, respectively, associated with unvested stock-based compensation awards that have voting rights.

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The following table summarizes all Pioneer equity and liability stock-based awards, lapses and forfeitures that occurred during the three months ended March 31, 2010:

	Restricted Stock Awards	Performance Units	Stock Options
Awards (a)	678,977	74,482	116,120
Lapsed restrictions	756,890	137,659	-
Exercises	-	-	109,595
Forfeitures	27,600	-	1,066

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(a) Restricted stock awards include 208,620 of liability awards.

Subsidiary issuances of unit-based compensation. During the three months ended March 31, 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 35,118 common units of Pioneer Southwest after a three-year vesting period. Associated therewith, Pioneer Southwest and the Company recorded $22 thousand of compensation expense during the three months ended March 31, 2010. During the three months ended March 31, 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 $184 thousand of compensation expense during the three months ended March 31, 2010.

As of March 31, 2010, there was $79.1 million of unrecognized compensation expense related to unvested share- and unit-based compensation plan awards, including $11.4 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. During February 2010, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("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 S for the Company's disclosures of subsequent events.

Fair value measurements and disclosures. 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. ASU No. 2010-06 is effective for interim and annual reporting periods beginning after December 15, 2009, except for the disclosures about purchases, sales, issuances and settlements in the rollforward of activity in Level 3 fair value measurements. Those disclosures are effective for fiscal years beginning after December 15, 2010 and for interim periods within those fiscal years. The Company adopted the provisions of ASU No. 2010-06 on January 1, 2010. See Note D for the Company's disclosures about fair value measurements.

NOTE C. Exploratory Well Costs

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

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The following table reflects the Company's capitalized exploratory well activity during the three months ended March 31, 2010:

	Three Months Ended March 31, 2010
Beginning capitalized exploratory well costs	$ 127,574
Additions to exploratory well costs pending the determination of proved reserves	38,122
Reclassification due to determination of proved reserves	(28,245)
Exploratory well costs charged to exploration expense	130
Ending capitalized exploratory well costs	$ 137,581

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

	March 31, 2010	December 31, 2009
	(in thousands, except well counts)	
Capitalized exploratory well costs that have been suspended:		
One year or less	$ 22,848	$ 21,634
More than one year	114,733	105,940
	$ 137,581	$ 127,574
Number of projects with exploratory well costs that have been suspended for a period greater than one year	8	8

The following table provides an aging of capitalized costs of exploration projects that have been suspended for more than one year as of March 31, 2010:

	Total	2010	2009	2008	2007	2006
	(in thousands)					
United States:						

Cosmopolitan Unit	$ 75,219	$ 8,305	$ 8,253	$ 6,344	$ 51,488	$ 829
Other	5,918	294	797	4,827	-	-
Tunisia	33,596	194	466	29,006	(15)	3,945
Total	$ 114,733	$ 8,793	$ 9,516	$ 40,177	$ 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. During 2007, the Company drilled the Hansen #1A L1 well, a lateral sidetrack from an existing wellbore, to appraise the resource potential of the unit. The initial unstimulated production test results were encouraging. As a result, the Company began project permitting and facilities planning during 2008. During 2009, the Company continued progress on engineering studies and commenced a workover of the Hansen #1A-L1 well. During the three months ended March 31, 2010, the Company completed the Hansen #1A-L1 workover, fracture-stimulated the well and began flow testing the well. During 2010, the Company plans to evaluate the production flow rate information from the Hansen #1A-L1 well, progress project permitting and develop plans for a second well to further delineate the extent of the unit's resource potential.

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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 plans during 2010 or early 2011 and execute well completion plans during 2011.

Tunisia – Borj El Khadra. The Company has $7.7 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 Company does not record proved reserves associated with discoveries in exploration permit areas until a production concession is granted. 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 permit area. During the first quarter of 2010, a $13.8 million 3-D seismic program was initiated and plans include the drilling of an additional exploration well in the permit area during 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.

Tunisia – Anaguid. The Company has $8.1 million of suspended well costs attributable to the Durra #1 well on the Anaguid exploration permit. Project personnel at appropriate levels are committed to and actively participating in the assessment of the Durra #1 well and the Anaguid exploration permit area. During April 2010, the Company and other project participants formally submitted a plan of development for the conversion of the Durra #1 discovery into a concession agreement. Development activities are being formulated to commence production and drilling activities if the plan of development is approved.

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.

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.

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The following table presents the Company's assets and liabilities that are measured at fair value on a recurring basis as of March 31, 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)	Significant Unobservable Inputs (Level 3)	Fair Value at March 31, 2010
	(in thousands)			
Assets:				
Trading securities	$ 268	$ 106	$ -	$ 374
Commodity derivatives	-	258,684	3,962	262,646
Interest rate derivatives	-	10,404	-	10,404
Deferred compensation plan assets	29,854	-	-	29,854
Notes receivable	-	-	1,529	1,529
Total assets	$ 30,122	$ 269,194	$ 5,491	$ 304,807
Liabilities:				
Commodity derivatives	$ -	$ 144,449	$ 5,285	$ 149,734
Interest rate derivatives	-	17,838	-	17,838
Pioneer credit facility	-	141,638	-	141,638
Pioneer Southwest credit facility	-	64,142	-	64,142
5.875% senior notes due 2016	447,416	-	-	447,416
6.65% senior notes due 2017	485,100	-	-	485,100
6.875% senior notes due 2018	450,624	-	-	450,624
7.50% senior notes due 2020	459,000	-	-	459,000
7.20% senior notes due 2028	232,650	-	-	232,650
2.875% senior convertible notes due 2038 (a)	551,256	-	-	551,256
Total liabilities	$ 2,626,046	$ 368,067	$ 5,285	$ 2,999,398

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

The following table presents the changes in the fair values of the Company's notes receivable and natural gas liquid ("NGL") derivative liabilities classified as Level 3 in the fair value hierarchy:

Fair Value Measurements Using Significant Unobservable Inputs (Level 3)	Three Months Ended March 31, 2010		
	NGL Swap Contracts	Notes Receivable	Total
		(in thousands)	
Beginning balance	$ (12,904)	$ 4,727	$ (8,177)
Total gains (losses):			
Net unrealized gains included in earnings (a)	13,421	-	13,421
Net realized losses transferred to earnings (a)	(3,080)	-	(3,080)
Notes receivable valuation allowance included in earnings (b)	-	(120)	(120)
Settlements (c)	1,240	(3,078)	(1,838)
Ending balance	$ (1,323)	$ 1,529	$ 206

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(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 derivative gains, net in the accompanying consolidated statements of operations.

(b) The valuation allowance associated with the Company's notes receivable is included in other expense in the accompanying consolidated statements of operations.

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(c) During the first quarter of 2010, the Company took possession of the 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 March 31, 2010 and December 31, 2009:

	March 31, 2010 Carrying Value	March 31, 2010 Fair Value	December 31, 2009 Carrying Value	December 31, 2009 Fair Value
	(in thousands)			
Assets:				
Commodity price derivatives	$ 262,646	$ 262,646	$ 84,080	$ 84,080
Interest rate derivatives	$ 10,404	$ 10,404	$ 8,264	$ 8,264
Trading securities	$ 374	$ 374	$ 335	$ 335
Deferred compensation plan assets	$ 29,854	$ 29,854	$ 27,890	$ 27,890
Notes receivable	$ 1,529	$ 1,529	$ 4,727	$ 4,727
Liabilities:				
Commodity price derivatives	$ 149,734	$ 149,734	$ 223,555	$ 223,555
Interest rate derivatives	$ 17,838	$ 17,838	$ 26,105	$ 26,105
Pioneer credit facility	$ 125,000	$ 141,638	$ 240,000	$ 259,461
Pioneer Southwest credit facility	$ 69,000	$ 64,142	$ 67,000	$ 61,718
5.875 % senior notes due 2012	$ -	$ -	$ 6,168	$ 6,154
5.875 % senior notes due 2016	$ 390,986	$ 447,416	$ 389,109	$ 437,170
6.65 % senior notes due 2017	$ 483,946	$ 485,100	$ 483,914	$ 472,546
6.875 % senior notes due 2018	$ 449,169	$ 450,624	$ 449,161	$ 438,402
7.50 % senior notes due 2020	$ 446,236	$ 459,000	$ 446,172	$ 449,566
7.20 % senior notes due 2028	$ 249,924	$ 232,650	$ 249,924	$ 230,868
2.875% senior convertible notes due 2038 (a)	$ 433,343	$ 551,256	$ 429,563	$ 508,320

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

Trading securities and deferred compensation plan assets. The Company's trading securities represent equity securities that are not actively traded on major exchanges and trading securities that are 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 March 31, 2010, all significant inputs to these asset exchange values represented Level 1 independent active exchange market price inputs except inputs for trading securities that are not actively traded on major exchanges, which were provided by broker quotes representing Level 2 inputs.

Notes receivable. The fair value of the Company's notes receivable approximates the carrying values based on the adequacy of the collateral security and interest yields. The balance of the Company's notes receivable is included in other current assets in the accompanying consolidated balance sheets.

Interest rate derivatives. The Company’s interest rate derivative assets and liabilities as of March 31, 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 $460 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 liability values attributable to the Company’s interest rate derivative contracts as of March 31, 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.

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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 while 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. The asset and liability values attributable to the Company's oil derivatives as of March 31, 2010 are based on (i) the contracted notional volumes, (ii) independent active NYMEX futures price quotes for WTI oil, (iii) the applicable estimated credit-adjusted risk-free rate yield curve and (iv) 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 Company has also entered into NGL swaps under terms whereby the Company pays variable NGL component market prices and receives a percentage of NYMEX WTI market prices ("NGL Percentage of WTI Oil Prices"). The NGL Percentage of WTI Oil Prices contracts provide greater correlation between changes in certain components of the NGL stream and NYMEX WTI oil prices, including the effects of the derivatives. The asset and liability values attributable to the Company's NGL derivatives as of March 31, 2010 are based on (i) the contracted notional volumes, (ii) average forward Mont Belvieu-posted-price quotes and NGL component price quotes supplied by independent brokers who are active in buying and selling NGL derivative contracts, (iii) independent active NYMEX futures price quotes for WTI oil and (iv) 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.

Gas derivatives. The Company's gas derivatives are swap, collar and three-way collar contracts for notional MMBtus of gas 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 March 31, 2010 are based on (i) the contracted notional volumes, (ii) independent active NYMEX futures price quotes for HH gas, (iii) averages of forward posted price quotes supplied by independent brokers who are active in buying and selling gas derivatives at the indexes other than HH, which were corroborated by 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 factor quotes provided by independent brokers who are active buying and selling gas options and corroborated by market-quoted volatility quotes.

Credit facilities. The fair value of each credit facility is based on (i) contractual interest and fees, (ii) forward active market-quoted LIBOR rate yield curves and (iii) the applicable credit-adjusted risk-free rate yield curve.

Senior notes. The Company's senior notes represent debt securities that are actively traded on 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 carryforwards ("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 March 31, 2010 and December 31, 2009, the Company's valuation allowances (relating primarily to foreign tax jurisdictions) were $44.3 million and $44.2 million, respectively.

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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 March 31, 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 March 31, 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 months ended March 31, 2010 and 2009:

	Three Months Ended March 31, 2010	Three Months Ended March 31, 2009
	(in thousands)	
Current:		
U.S. federal	$ (1,101)	$ 1,070
U.S. state	(1,324)	(677)
Foreign	407	(10,162)
	(2,018)	(9,769)
Deferred:		
U.S. federal	(131,058)	3,008
U.S. state	(9,460)	243
Foreign	(17,938)	7,259
	(158,456)	10,510
Income tax (provision) benefit	$ (160,474)	$ 741

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.

As of March 31, 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 also may enter 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 using the mark-to-market accounting method. The Company recognizes all future changes in the fair values of its derivative contracts 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 discontinuance of hedge accounting on February 1, 2009 were recorded as a component of AOCI – Hedging, which has been or will be

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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 March 31, 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, collar contracts with short puts and NGL Percentage Contracts of WTI Oil Prices 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.

Oil prices. All material physical sales contracts governing the Company's oil production have been tied directly or indirectly to NYMEX oil prices. The following table sets forth as of March 31, 2010 the volumes in Bbls underlying the Company's outstanding oil derivative contracts and the weighted average NYMEX prices per Bbl for those contracts:

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Outstanding Average
Average daily oil production derivatives (a):					