PIONEER NATURAL RESOURCES CO
Form 10-Q
November 06, 2013
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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 September 30, 2013
or

¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from ________ to ________
Commission File Number: 1-13245

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

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

(972) 444-9001
(Registrant's telephone number, including area code)
Not applicable
(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Yes ý 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 ý 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	ý	Accelerated filer	¨
Non-accelerated filer	o (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 ý

Number of shares of Common Stock outstanding as of November 4, 2013 138,667,689

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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," "forecasts," "intends," "continue," "may," "will," "could," "should," "future," "potential," "estimate" or the negative of such terms and similar expressions as they relate to Pioneer Natural Resources Company ("Pioneer" or the "Company") are intended to identify forward-looking statements. The forward-looking statements are based on the Company's current expectations, assumptions, estimates and projections about the Company and the industry in which the Company operates. Although the Company believes that the expectations and assumptions reflected in the forward-looking statements are reasonable as and when made, they involve risks and uncertainties that are difficult to predict and, in many cases, beyond the Company's control.

These risks and uncertainties include, among other things, volatility of commodity prices, product supply and demand, competition, the ability to obtain environmental and other permits and the timing thereof, other government regulation or action, the ability to obtain approvals from third parties and negotiate agreements with third parties on mutually acceptable terms, satisfaction of the conditions to the closing of the Company's agreement to sell its Alaska subsidiary, litigation, the costs and results of drilling and operations, availability of equipment, services, resources and personnel required to complete the Company's operating activities, access to and availability of transportation, processing, fractionation and refining facilities, Pioneer's ability to replace reserves, implement its business plans or complete its development activities as scheduled, access to and cost of capital, the financial strength of counterparties to Pioneer's credit facility and derivative contracts and the purchasers of Pioneer's oil, NGL and gas production, uncertainties about estimates of reserves and the ability to add proved reserves in the future, the assumptions underlying production forecasts, quality of technical data, environmental and weather risks, including the possible impacts of climate change, the risks associated with the ownership and operation of the Company's industrial sand mining and oilfield services businesses, the risks associated with the proposed merger transaction with Pioneer Southwest Energy Partners L.P. ("Pioneer Southwest"), which is described in more detail in this Report, pursuant to which Pioneer Southwest would become a wholly-owned subsidiary of the Company, including the risks that the merger transaction will not be consummated and the anticipated benefits from the merger transaction cannot be fully realized, and acts of war or terrorism. These and other risks are described in the Company's Annual Report on Form 10-K, this and other Quarterly Reports on Form 10-Q and other filings with the United States Securities and Exchange Commission. In addition, the Company may be subject to currently unforeseen risks that may have a materially adverse effect on it. Accordingly, no assurances can be given that the actual events and results will not be materially different than the anticipated results described in the forward-looking statements. See "Part I, Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations," "Part 1, Item 3. Quantitative and Qualitative Disclosures About Market Risk" and "Part II, Item 1A. Risk Factors" in this Report and "Part I, Item 1. Business — Competition, Markets and Regulations," "Part I, Item 1A. Risk Factors," "Part II, Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Part II, Item 7A. Quantitative and Qualitative Disclosures About Market Risk" in the Company's Annual Report on Form 10-K for the year ended December 31, 2012 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.

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PIONEER NATURAL RESOURCES COMPANY

Definitions of Certain Terms and Conventions Used Herein

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

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

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

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

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

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

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

- "U.S." means United States.
- With respect to information on the working interest in wells, drilling locations and acreage, "net" wells, drilling locations and acres are determined by multiplying "gross" wells, drilling locations and acres by the Company's working interest in such wells, drilling locations or acres. Unless otherwise specified, wells, drilling locations and acreage statistics quoted herein represent gross wells, drilling locations or acres.
- Unless otherwise indicated, all currency amounts are expressed in U.S. dollars.

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

	September 30, 2013 (Unaudited)	December 31, 2012
ASSETS		
Current assets:		
Cash and cash equivalents	$744,120	$229,396
Accounts receivable:		
Trade, net	408,240	316,854
Due from affiliates	5,212	3,299
Income taxes receivable	10,168	7,447
Inventories	226,438	197,056
Prepaid expenses	19,984	13,438
Other current assets:		
Derivatives	114,166	279,119
Other	4,933	3,746
Total current assets	1,533,261	1,050,355
Property, plant and equipment, at cost:		
Oil and gas properties, using the successful efforts method of accounting:		
Proved properties	15,924,526	14,259,708
Unproved properties	149,782	231,555
Accumulated depletion, depreciation and amortization	(5,086,258)	(4,412,913)
Total property, plant and equipment	10,988,050	10,078,350
Goodwill	279,687	298,142
Other property and equipment, net	1,258,627	1,217,694
Other assets:		
Investment in unconsolidated affiliate	235,631	204,129
Derivatives	86,574	55,257
Other, net	163,114	165,103
	$14,544,944	$13,069,030

The financial information included as of September 30, 2013 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)

	September 30, 2013 (Unaudited)	December 31, 2012
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable:		
Trade	$954,311	$729,942
Due to affiliates	106,073	96,935
Interest payable	36,509	68,083
Income taxes payable	129	208
Deferred income taxes	60,340	86,481
Other current liabilities:		
Derivatives	6,436	13,416
Other	51,013	39,725
Total current liabilities	1,214,811	1,034,790
Long-term debt	2,851,212	3,721,193
Derivatives	7,719	12,307
Deferred income taxes	2,415,663	2,140,416
Other liabilities	292,788	293,016
Equity:		
Common stock, $.01 par value; 500,000,000 shares authorized; 145,828,410 and 134,966,740 shares issued at September 30, 2013 and December 31, 2012, respectively	1,458	1,350
Additional paid-in capital	4,870,566	3,683,934
Treasury stock at cost: 7,161,364 and 11,611,093 at September 30, 2013 and December 31, 2012, respectively	(323,348)	(510,570)
Retained earnings	3,032,531	2,514,640
Total equity attributable to common stockholders	7,581,207	5,689,354
Noncontrolling interests in consolidating subsidiaries	181,544	177,954
Total equity	7,762,751	5,867,308
Commitments and contingencies		
	$14,544,944	$13,069,030

The financial information included as of September 30, 2013 has been prepared by management without audit by independent registered public accountants.
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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,	
	2013	2012	2013	2012
Revenues and other income:				
Oil and gas	$908,757	$716,327	$2,541,748	$2,077,020
Interest and other	21,087	10,256	41,561	31,450
Derivative gains (losses), net	(102,535)	(123,994)	(333)	243,568
Gain (loss) on disposition of assets, net	(487)	12,848	214,917	57,584
	826,822	615,437	2,797,893	2,409,622
Costs and expenses:				
Oil and gas production	181,340	179,687	529,968	461,549
Production and ad valorem taxes	53,946	49,779	162,080	140,070
Depletion, depreciation and amortization	256,260	207,398	736,613	589,737
Impairment of oil and gas properties	—	—	—	444,880
Exploration and abandonments	31,509	27,039	83,109	117,504
General and administrative	73,722	62,567	204,127	180,591
Accretion of discount on asset retirement obligations	3,180	2,497	9,499	7,371
Interest	45,138	54,441	138,678	150,307
Other	24,947	32,011	65,007	86,269
	670,042	615,419	1,929,081	2,178,278
Income from continuing operations before income taxes	156,780	18	868,812	231,344
Income tax provision	(58,233)	(10,614)	(309,591)	(83,231)
Income (loss) from continuing operations	98,547	(10,596)	559,221	148,113
Income (loss) from discontinued operations, net of tax	—	32,295	(465)	55,007
Net income	98,547	21,699	558,756	203,120
Net income attributable to noncontrolling interests	(7,422)	(2,475)	(29,705)	(39,669)
Net income attributable to common stockholders	$91,125	$19,224	$529,051	$163,451
Basic earnings per share:				
Income (loss) from continuing operations attributable to common stockholders	$0.65	$(0.11)	$3.87	$0.87
Income (loss) from discontinued operations attributable to common stockholders	—	0.26	—	0.44
Net income attributable to common stockholders	$0.65	$0.15	$3.87	$1.31
Diluted earnings per share:				
Income (loss) from continuing operations attributable to common stockholders	$0.65	$(0.11)	$3.82	$0.85
Income (loss) from discontinued operations attributable to common stockholders	—	0.26	—	0.43
Net income attributable to common stockholders	$0.65	$0.15	$3.82	$1.28
Weighted average shares outstanding:				
Basic	138,586	123,111	135,057	122,874
Diluted	138,946	123,111	136,835	126,111
Dividends declared per share	$0.04	$0.04	$0.08	$0.08

Amounts attributable to common stockholders:				
Income (loss) from continuing operations	$91,125	$(13,071)	$529,516	$108,444
Income (loss) from discontinued operations, net of tax	—	32,295	(465)	55,007
Net income	$91,125	$19,224	$529,051	$163,451

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.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Net income	$98,547	$21,699	$558,756	$203,120
Other comprehensive activity:				
Net hedge losses included in continuing operations	—	—	—	4,855
Income tax benefit	—	—	—	(1,725)
Other comprehensive activity	—	—	—	3,130
Comprehensive income	98,547	21,699	558,756	206,250
Comprehensive income attributable to the noncontrolling interests	(7,422)	(2,475)	(29,705)	(39,669)
Comprehensive income attributable to common stockholders	$91,125	$19,224	$529,051	$166,581

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PIONEER NATURAL RESOURCES COMPANY
CONSOLIDATED STATEMENT OF EQUITY
(in thousands, except dividends per share)
(Unaudited)

	Equity Attributable To Common Stockholders						
	Shares Outstanding	Common Stock	Additional Paid-in Capital	Treasury Stock	Retained Earnings	Noncontrolling Interests	Total Equity
Balance as of December 31, 2012	123,356	$1,350	$3,683,934	$(510,570)	$2,514,640	$ 177,954	$5,867,308
Issuance of common stock	10,350	103	1,280,813	—	—	—	1,280,916
Dividends declared ($0.08 per share)	—	—	—	—	(11,160)	—	(11,160)
Exercise of long-term incentive plan stock options and employee stock purchases	222	—	11	10,043	—	—	10,054
Treasury stock purchases	(154)	—	—	(20,053)	—	—	(20,053)
Conversion of 2.875% senior convertible notes	4,381	—	(197,240)	197,232	—	—	(8)
Tax benefit related to conversion of 2.875% senior convertible notes	—	—	38,415	—	—	—	38,415
Tax benefit related to stock-based compensation	—	—	12,612	—	—	—	12,612
Compensation costs:							
Vested compensation awards, net	512	5	(5)	—	—	—	—
Compensation costs included in net income	—	—	52,026	—	—	838	52,864
Cash distributions to noncontrolling interests	—	—	—	—	—	(26,953)	(26,953)
Net income	—	—	—	—	529,051	29,705	558,756
Balance as of September 30, 2013	138,667	$1,458	$4,870,566	$(323,348)	$3,032,531	$ 181,544	$7,762,751

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)

	Nine Months Ended September 30, 2013	2012
Cash flows from operating activities:		
Net income	$558,756	$203,120
Adjustments to reconcile net income to net cash provided by operating activities:		
Depletion, depreciation and amortization	736,613	589,737
Impairment of oil and gas properties	—	444,880
Exploration expenses, including dry holes	20,238	52,574
Deferred income taxes	300,312	76,180
Gain on disposition of assets, net	(214,917)	(57,584)
Accretion of discount on asset retirement obligations	9,499	7,371
Discontinued operations	(158)	(19,245)
Interest expense	13,039	26,812
Derivative related activity	122,068	93,088
Amortization of stock-based compensation	52,789	46,899
Amortization of deferred revenue	—	(31,494)
Other noncash items	559	(20,998)
Change in operating assets and liabilities, net of effects from acquisitions and dispositions:		
Accounts receivable, net	(88,993)	(7,946)
Income taxes receivable	(2,721)	(8,632)
Inventories	(28,015)	(6,347)
Prepaid expenses	(7,289)	(6,772)
Other current assets	1,778	7,898
Accounts payable	184,345	23,554
Interest payable	(31,574)	(16,302)
Income taxes payable	(98)	(9,566)
Other current liabilities	(21,963)	(29,757)
Net cash provided by operating activities	1,604,268	1,357,470
Cash flows from investing activities:		
Proceeds from disposition of assets	685,188	92,473
Payments for acquisition, net of cash acquired	—	(296,959)
Additions to oil and gas properties	(1,987,200)	(2,072,800)
Additions to other assets and other property and equipment, net	(159,896)	(238,803)
Net cash used in investing activities	(1,461,908)	(2,516,089)
Cash flows from financing activities:		
Borrowings under long-term debt	443,864	1,608,618
Principal payments on long-term debt	(1,322,771)	(596,000)
Proceeds from issuance of common stock, net of issuance costs	1,280,916	—
Distributions to noncontrolling interests	(26,953)	(26,970)
Borrowings (payments) of other liabilities	237	(894)
Exercise of long-term incentive plan stock options and employee stock purchases	10,054	7,072
Purchases of treasury stock	(20,053)	(56,677)
Excess tax benefits from share-based payment arrangements	12,612	31,330

Payments of financing fees	(8)	(6,430)
Dividends paid	(5,534)	(5,028)
Net cash provided by financing activities	372,364	955,021
Net increase (decrease) in cash and cash equivalents	514,724	(203,598)
Cash and cash equivalents, beginning of period	229,396	537,484
Cash and cash equivalents, end of period	$744,120	$333,886

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.

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 operating in the United States, with field operations in the Permian Basin in West Texas, the Eagle Ford Shale play in South Texas, the Barnett Shale Combo play in North Texas, the Raton field in southeastern Colorado, the Hugoton field in southwest Kansas, the West Panhandle field in the Texas Panhandle and Alaska.

NOTE B. Basis of Presentation

Presentation. In the opinion of management, the consolidated financial statements of the Company as of September 30, 2013 and for the three and nine months ended September 30, 2013 and 2012 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 in or omitted from 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 together 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, 2012.

Certain reclassifications have been made to the 2012 financial statement and footnote amounts in order to conform to the 2013 presentation, including classifying the results of the Company's Barnett Shale operations, previously recorded as discontinued operations for the three and nine months ended September 30, 2012, as income from continuing operations.

Issuance of common stock. In February 2013, the Company issued 10.35 million shares of its common stock and realized $1.3 billion of cash proceeds, net of associated underwriting and offering expenses.

Noncontrolling interest in consolidated subsidiaries. The Company owns a 0.1 percent general partner interest and a 52.4 percent limited partner interest in Pioneer Southwest Energy Partners L.P. ("Pioneer Southwest"). The Company owns and controls Pioneer Natural Resources GP LLC (the "General Partner"), which manages Pioneer Southwest. Pioneer Southwest owns interests in certain oil and gas properties 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. Noncontrolling interests in consolidated subsidiaries includes $167.9 million attributable to outstanding Pioneer Southwest common units held by unitholders other than Pioneer or its subsidiaries as of September 30, 2013. See Note C for discussion of a pending merger between the Company and Pioneer Southwest.

New accounting pronouncements. In July 2013, the Financial Accounting Standards Boards issued Accounting Standards Update ("ASU") 2013-11, "Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists," which provides guidance on the presentation of unrecognized tax benefits. ASU 2013-11 was adopted by the Company during the third quarter of 2013.

NOTE C. Acquisitions and Divestitures

Premier Silica Business Combination

On April 2, 2012, a wholly-owned subsidiary of the Company acquired an industrial sand mining business that is now named Premier Silica LLC ("Premier Silica"). Premier Silica's primary mine operations are in Brady, Texas. The Brady mine facilities primarily produce, process and provide sand to the Company for use as proppant in its fracture stimulation of oil and gas wells in Texas. Premier Silica's sand production that is in excess of the Company's sand needs for fracture stimulation and sand production that is not usable for fracture stimulation is primarily sold to third parties for industrial and recreational purposes. The aggregate purchase price of Premier Silica was $297.1 million, including closing adjustments.

Divestitures Recorded in Continuing Operations

Southern Wolfcamp. In January 2013, the Company signed an agreement with Sinochem Petroleum USA LLC ("Sinochem"), a U.S. subsidiary of the Sinochem Group, an unaffiliated third party, to sell 40 percent of Pioneer's interest in 207,000 net acres leased by the Company in the horizontal Wolfcamp Shale play in the southern portion of the Spraberry field in West Texas for total consideration of $1.8 billion, including normal closing adjustments. In May 2013, the Company completed the sale to Sinochem for net cash proceeds of $621.2 million, including normal closing adjustments, resulting in a pretax gain of $179.7 million. The Company reduced the carrying value of goodwill and the gain recognized associated with the sale by $18.5 million, reflecting the portion of the Company's goodwill that related to the horizontal Wolfcamp Shale assets that were sold. Sinochem is paying the remaining $1.2 billion of the transaction price by carrying 75 percent of Pioneer's portion of ongoing drilling and facilities costs attributable to the Company's joint operations with Sinochem in the horizontal Wolfcamp Shale play.

Sales of unproved oil and gas properties. For the nine months ended September 30, 2013, the Company's pretax gain on disposition of assets from continuing operations of $214.9 million was primarily associated with the Southern Wolfcamp transaction described above. Additionally, the Company sold (i) its interest in unproved oil and gas properties adjacent to the Company's West Panhandle field operations for net cash proceeds of $38.1 million, which resulted in a pretax gain of $22.4 million, and (ii) its interest in certain unproved oil and gas properties in the Barnett Shale for net cash proceeds of $11.6 million, which resulted in a pretax gain of $8.7 million.

For the three months ended September 30, 2012, the Company's pretax gain on disposition of assets was $12.8 million, primarily associated with the sale of the Company's interest in the Cosmopolitan Unit in the Cook Inlet of Alaska to unaffiliated third parties for cash proceeds of $10.1 million, which together with certain Company obligations assumed by the purchasers, resulted in a pretax gain of $12.6 million. Additionally, the Company's pretax gain on the disposition of assets for the nine months ended September 30, 2012 of $57.6 million includes a first quarter 2012 sale of a portion of its interest in an unproved oil and gas properties in the Eagle Ford Shale field for net cash proceeds of $54.7 million, which resulted in a pretax gain of $42.6 million.

Divestitures Recorded as Discontinued Operations

South Africa. During the first quarter of 2012, the Company agreed to sell its assets in South Africa ("Pioneer South Africa"), effective January 1, 2012, for $60.0 million of cash proceeds before normal closing and other adjustments, and the buyer's assumption of certain liabilities associated with the assets. In August 2012, the Company completed the sale of Pioneer South Africa for net cash proceeds of $15.9 million, including normal closing adjustments for cash revenues and costs and expenses from the effective date through the date of the sale, resulting in a third quarter 2012 pretax gain of $28.6 million. The Company classified Pioneer South Africa's results of operations as income from discontinued operations, net of tax, in the accompanying consolidated statements of operations.

For the three and nine months ended September 30, 2012, the Company recognized revenues and other income of $38.1 million and $77.9 million, respectively, and pretax earnings of $37.2 million and $71.2 million, respectively, associated with discontinued operations, principally related to the results of operations and gain from the sale of Pioneer South Africa prior to its divestiture in August 2012.

Pending Merger

On August 9, 2013, the Company entered into an Agreement and Plan of Merger with Pioneer Natural Resources USA, Inc., a wholly-owned subsidiary of the Company ("Pioneer USA"), PNR Acquisition Company, LLC, a wholly-owned subsidiary of the Company ("MergerCo"), Pioneer Southwest and the General Partner, which was amended on October 25, 2013 (as amended, the "Merger Agreement").

Pursuant to the Merger Agreement, MergerCo will merge with and into Pioneer Southwest with Pioneer Southwest surviving the merger (the "Merger"), such that following the Merger, the General Partner will remain a wholly-owned subsidiary of the Company and the sole general partner of Pioneer Southwest, and Pioneer USA will be the sole limited partner of Pioneer Southwest. Except for the common units owned by the Company, all of the common units outstanding as of the closing of the Merger will be cancelled and, except for the dissenting units (as defined in the next paragraph), converted into the right to receive 0.2325 of a share of common stock of the Company per common unit.

Pursuant to the terms and conditions of the Merger Agreement, common units that are owned by a unitholder (a) other than Pioneer Southwest or its subsidiaries or the Company or its subsidiaries, (b) who does not vote at the special meeting of Pioneer Southwest in favor of the proposal to approve the Merger Agreement and the transactions contemplated thereby, including the Merger, and (c) who is entitled to demand and properly demands appraisal of such common units (the "dissenting units") pursuant to, and who complies in all respects with, the provisions of the Merger Agreement regarding appraisal rights (the "dissenting unitholders") will not be converted into the right to receive the merger consideration, but instead will be entitled to payment of the fair value of such dissenting units pursuant to and in accordance with the provisions of the Merger Agreement, unless and until such dissenting unitholder shall have failed to perfect or shall have effectively withdrawn or lost the appraisal rights. If a dissenting unitholder fails to perfect or effectively withdraws or loses the appraisal rights, then, as of the occurrence of such event or the closing of the Merger, whichever occurs later, each of such dissenting unitholder's dissenting units will be converted into the right to receive 0.2325 of a share of common stock of the Company per common unit.

The Merger Agreement provides that regular quarterly distributions on the Pioneer Southwest's common units, not to exceed $0.52 per common unit per quarter (which $0.52 per common unit is equivalent to the most recent distribution declared for the quarter ended September 30, 2013), are to continue until the closing of the Merger. Regular distributions for a quarter are declared late in the first month following such quarter, and no distribution will be paid for a quarter if the Merger closes prior to the normal record date for such distribution. No fractional shares of the Company's common stock will be issued in the Merger. In lieu of receiving any fractional share of common stock to which any holder of the Pioneer Southwest's common units would otherwise have been entitled, after aggregating all fractions of shares to which such holder would be entitled, any fractional share will be rounded up to a whole share of common stock of the Company. The closing of the Merger is subject to certain closing conditions, including the approval of the Merger Agreement and the transactions contemplated thereby by the affirmative vote of holders of a majority of the outstanding common units entitled to vote at a special meeting of the unitholders of Pioneer Southwest. Pursuant to a voting agreement, the Company has agreed to cause the common units owned by it and its subsidiaries to be voted in favor of the Merger, which units represent 52.4 percent of Pioneer Southwest's outstanding common units and therefore constitute a sufficient number of common units to approve the Merger at the special meeting of the unitholders of Pioneer Southwest. The parties anticipate that the Merger will close in the fourth quarter of 2013, pending the satisfaction of certain conditions thereto. See Note J for a description of the litigation contingencies associated with the Merger.

NOTE D. Fair Value Measurements

Fair value is defined as the price that would be received to sell an asset or the price paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements are based upon inputs that market participants use in pricing an asset or liability, which are characterized according to a hierarchy that prioritizes those inputs based on the degree to which they are observable.

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. The three input levels of the fair value hierarchy are as follows:

- 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.

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Assets and liabilities measured at fair value on a recurring basis. 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 as of September 30, 2013:

	Fair Value Measurement at the End of the Reporting Period 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 September 30, 2013
	(in thousands)			
Recurring fair value measurements				
Assets:				
Trading securities	$ 149	$ 147	$ —	$ 296
Commodity derivatives	—	191,226	—	191,226
Interest rate derivatives	—	9,514	—	9,514
Deferred compensation plan assets	59,939	—	—	59,939
Total assets	60,088	200,887	—	260,975
Liabilities:				
Commodity derivatives	—	11,028	—	11,028
Interest rate derivatives	—	3,127	—	3,127
Total liabilities	—	14,155	—	14,155
Total recurring fair value measurements	$ 60,088	$ 186,732	$ —	$ 246,820

Trading securities and deferred compensation plan assets. The Company's trading securities are comprised of 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. These investments are measured based on observable prices on major exchanges. As of September 30, 2013, substantially all of the significant inputs to these asset exchange values represented Level 1 independent active exchange market price inputs. Inputs for certain trading securities that are not actively traded on major exchanges were classified as Level 2 inputs.

Commodity derivatives. The Company's commodity derivatives represent oil, natural gas liquids ("NGL") and gas swap contracts, collar contracts and collar contracts with short puts. The asset and liability measurements for the Company's commodity derivative contracts represent Level 2 inputs in the hierarchy. The Company utilizes discounted cash flow and option-pricing models for valuing its commodity derivatives.

The asset and liability values attributable to the Company's commodity derivatives were determined based on inputs that include (i) the contracted notional volumes, (ii) independent active market price quotes, (iii) the applicable estimated credit-adjusted risk-free rate yield curve and (iv) the implied rate of volatility inherent in the collar and collar contracts with short puts, which is based on active and independent market-quoted volatility factors.

Interest rate derivatives. The Company's interest rate derivative assets as of September 30, 2013 represent interest rate swap contracts. The Company utilizes discounted cash flow models for valuing its interest rate derivatives. The net derivative values attributable to the Company's interest rate derivative contracts as of September 30, 2013 are based on (i) the contracted notional amounts, (ii) active market-quoted London Interbank Offered Rate ("LIBOR") yield curves and (iii) the applicable credit-adjusted risk-free rate yield curve. The Company's interest rate derivative asset measurements represent Level 2 inputs in the hierarchy.

Assets and liabilities measured at fair value on a nonrecurring basis. The Company reviews its long-lived assets for impairment, including oil and gas properties, whenever events or circumstances indicate their carrying values may not be fully recoverable. During the six months ended June 30, 2012, reductions in management's longer-term commodity price outlooks ("Management's Price Outlooks") provided indications of possible impairment of the Company's dry gas properties in the Barnett

Shale field in North Texas. As a result of management's assessments, during the second quarter of 2012, the Company recognized a pretax noncash impairment charge of $444.9 million to reduce the carrying value of the Barnett Shale field to its estimated fair value. The Company calculated the estimated fair value of the Barnett Shale field as of June 30, 2012 using a discounted cash flow model. Significant Level 3 assumptions associated with the calculation of Barnett Shale field's discounted future cash flows as of June 30, 2012 included Management's Price Outlooks for (i) oil and gas prices of $87.09 per barrel ("BBL") for oil and $4.64 per million British thermal units ("MMBTU") for gas, (ii) production costs, (iii) capital expenditures, (iv) production and (v) estimated proved reserves and risk-adjusted probable reserves. Management's commodity price outlooks represent longer-term outlooks that are developed based on third-party futures price outlooks as of a measurement date. The expected future net cash flows were discounted using an annual rate of 10 percent to determine estimated fair value.

Financial instruments not carried at fair value. Carrying values and fair values of financial instruments that are not carried at fair value in the consolidated balance sheet as of September 30, 2013 and December 31, 2012 are as follows:

	September 30, 2013		December 31, 2012	
	Carrying Value	Fair Value	Carrying Value	Fair Value
	(in thousands)			
Long-term debt	$2,851,212	$3,247,459	$3,721,193	$4,555,770

Long-term debt includes the Company's credit facility, the Pioneer Southwest credit facility and the Company's senior notes. The fair value of debt is determined utilizing inputs that are Level 2 measurements in the fair value hierarchy.

Credit facilities. The fair values of the Company's and Pioneer Southwest's credit facilities are calculated using a discounted cash flow model based on (i) forecasted contractual interest and fee payments, (ii) forward active market-quoted United States Treasury Bill rates (in the case of the Company's credit facility) or LIBOR (in the case of the Pioneer Southwest credit facility) and (iii) the applicable credit-adjustments.

Senior notes. The Company's senior notes represent debt securities that are not 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.

The Company has other financial instruments consisting primarily of cash equivalents, receivables, prepaid expenses, payables and other current assets and liabilities that approximate fair value due to the nature of the instrument and their relatively short maturities. Non-financial assets and liabilities initially measured at fair value include certain assets acquired and liabilities assumed in a business combination, goodwill and asset retirement obligations.

NOTE E. Derivative Financial Instruments

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 or consumes, (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.

Oil production derivative activities. All material physical sales contracts governing the Company's oil production are tied directly to, or are highly correlated with, New York Mercantile Exchange ("NYMEX") West Texas Intermediate ("WTI") oil prices. The Company uses derivative contracts to manage oil price volatility and basis swap contracts to reduce basis risk between NYMEX prices and actual index prices at which the oil is sold.

The following table sets forth the volumes per day in BBLs associated with the Company's outstanding oil derivative contracts as of September 30, 2013 and the weighted average oil prices per BBL for those contracts:

	Three Months Ending December 31,	Year Ending December 31,		
	2013	2014	2015	2016
Collar contracts with short puts:				
Volume (BBL)	69,000	69,000	85,000	25,000
Price per BBL:				
Ceiling	$120.55	$114.05	$98.98	$93.30
Floor	$91.39	$93.70	$88.06	$85.00
Short put	$74.22	$77.61	$73.06	$70.00
Swap contracts:				
Volume (BBL)	9,750	10,000	—	—
Price per BBL	$95.57	$93.87	$—	$—
Rollfactor swap contracts:				
Volume (BBL)	11,000	19,000	—	—
NYMEX roll price (a)	$0.85	$0.45	$—	$—
Basis swap contracts:				
Cushing to LLS index swap volume (BBL)	3,000	—	—	—
Price per BBL (b)	$8.53	$—	$—	$—

(a) Represents swaps that fix the difference between (i) each day's price per BBL of WTI for the first nearby month less (ii) the price per BBL of WTI for the second nearby NYMEX month, multiplied by .6667; plus (iii) each day's price per BBL of WTI for the first nearby month less (iv) the price per BBL of WTI for the third nearby NYMEX month, multiplied by .3333.

(b) Basis differential price between Cushing WTI and Louisiana Light Sweet crude ("LLS").

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NGL production derivative activities. 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 per day in BBLs associated with the Company's outstanding NGL derivative contracts as of September 30, 2013 and the weighted average NGL prices per BBL for those contracts:

	Three Months Ending December 31, 2013	Year Ending December 31, 2014
Collar contracts with short puts (a):		
Volume (BBL)	1,064	1,000
Price per BBL:		
Ceiling	$ 105.28	$ 109.50
Floor	$ 89.30	$ 95.00
Short put	$ 75.20	$ 80.00
Collar contracts (b):		
Volume (BBL)	2,500	3,000
Price per BBL:		
Ceiling	$ 12.68	$ 13.72
Floor	$ 10.50	$ 10.78

(a) Represent collar contracts with short puts that reduce the price volatility of natural gasoline forecasted for sale by the Company at Mont Belvieu, Texas-posted prices.

(b) Represent collar contracts that reduce the price volatility of ethane forecasted for sale by the Company at Mont Belvieu, Texas-posted prices.

Gas production derivative activities. All material physical sales contracts governing the Company's gas production are tied directly or indirectly to NYMEX Henry Hub ("HH") gas prices or regional index prices where the gas is sold. The Company uses derivative contracts to manage gas price volatility and basis swap contracts to reduce basis risk between HH prices and actual index prices at which the gas is sold.

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The following table sets forth the volumes per day in MMBTUs associated with the Company's outstanding gas derivative contracts as of September 30, 2013 and the weighted average gas prices per MMBTU for those contracts:

	Three Months Ending December 31,	Year Ending December 31,		
	2013	2014	2015	2016
Collar contracts with short puts:				
Volume (MMBTU)	—	115,000	285,000	20,000
Price per MMBTU:				
Ceiling	$—	$4.70	$5.07	$5.36
Floor	$—	$4.00	$4.00	$4.00
Short put	$—	$3.00	$3.00	$3.00
Collar contracts:				
Volume (MMBTU)	152,500	—	—	—
Price per MMBTU:				
Ceiling	$6.22	$—	$—	$—
Floor	$4.98	$—	$—	$—
Swap contracts:				
Volume (MMBTU)	165,870	175,000	20,000	—
Price per MMBTU	$5.10	$4.02	$4.31	$—
Basis swap contracts:				
Volume (MMBTU) (a)	162,500	75,082	30,000	—
Price per MMBTU	$(0.22)	$(0.19)	$(0.18)	$—

(a) Subsequent to September 30, 2013, the Company entered into additional basis swap contracts for 10,000 MMBTU per day of the Company's 2014 production with a negative price differential of $0.26 per MMBTU between the relevant index price and the NYMEX price.

Interest rate derivative activities. During the second quarter of 2013, the Company terminated its interest rate derivative contracts that locked in a fixed forward annual interest rate of 3.21 percent, for a 10-year period ending in December 2025, on a notional amount of $250 million and received cash proceeds of $482 thousand.

As of September 30, 2013, the Company was a party to interest rate derivative contracts whereby the Company will receive a fixed interest rate of 3.95 percent in exchange for paying a floating interest rate comprised of the three-month LIBOR plus an average rate of 1.11 percent on a notional amount of $400 million through July 15, 2022.

Tabular disclosure of derivative financial instruments. All of the Company's derivatives are accounted for as non-hedge derivatives as of September 30, 2013 and December 31, 2012 and therefore all changes in the fair values of its derivative contracts are recognized 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 as net current or noncurrent derivative assets or net current or noncurrent derivative liabilities, whichever the case may be, by commodity and counterparty. The Company enters into derivatives under master netting arrangements, which, in an event of default, allows the Company to offset payables to and receivables from the defaulting counterparty.

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The aggregate fair value of the Company's derivative instruments reported in the consolidated balance sheets by type and counterparty, including the classification between current and noncurrent assets and liabilities, consists of the following:

Fair Value of Derivative Instruments as of September 30, 2013

Type	Consolidated Balance Sheet Location	Fair Value	Gross Amounts Offset in the Consolidated Balance Sheet	Net Fair Value Presented in the Consolidated Balance Sheet
		(in thousands)		
Derivatives not designated as hedging instruments				
Asset Derivatives:				
Commodity price derivatives	Derivatives - current	$117,191	$(12,368)	$104,823
Interest rate derivatives	Derivatives - current	$9,342	$—	$9,342
Commodity price derivatives	Derivatives - noncurrent	$96,371	$(9,968)	86,403
Interest rate derivatives	Derivatives - noncurrent	$15,767	$(15,595)	$172
				$200,740
Liability Derivatives:				
Commodity price derivatives	Derivatives - current	$18,804	$(12,368)	$6,436
Commodity price derivatives	Derivatives - noncurrent	$14,560	$(9,968)	4,592
Interest rate derivatives	Derivatives - noncurrent	$18,722	$(15,595)	$3,127
				$14,155

Fair Value of Derivative Instruments as of December 31, 2012

Type	Consolidated Balance Sheet Location	Fair Value	Gross Amounts Offset in the Consolidated Balance Sheet	Net Fair Value Presented in the Consolidated Balance Sheet
		(in thousands)		
Derivatives not designated as hedging instruments				
Asset Derivatives:				
Commodity price derivatives	Derivatives - current	$286,805	$(7,686)	$279,119
Commodity price derivatives	Derivatives - noncurrent	$61,618	$(6,361)	55,257
				$334,376
Liability Derivatives:				
Commodity price derivatives	Derivatives - current	$21,102	$(7,686)	$13,416
Commodity price derivatives	Derivatives - noncurrent	$8,944	$(6,361)	2,583
Interest rate derivatives	Derivatives - noncurrent	$9,724	$—	9,724
				$25,723

The Company uses credit and other financial criteria to evaluate the credit standing of, and to select, counterparties to its derivative instruments. Although the Company does not obtain collateral or otherwise secure the fair value of its derivative instruments, associated credit risk is mitigated by the Company's credit risk policies and procedures.

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The following table details the location of gains and losses recognized on the Company's derivative contracts in the accompanying consolidated statements of operations:

Derivatives Not Designated as Hedging Instruments	Location of Gain / (Loss) Recognized in Earnings on Derivatives	Three Months Ended September 30, 2013	2012	Nine Months Ended September 30, 2013	2012
		(in thousands)			
Commodity price derivatives	Derivative gains (losses), net	$(108,922)	$(118,795)	$(16,926)	$267,806
Interest rate derivatives	Derivative gains (losses), net	6,387	(5,199)	16,593	(24,238)
Total		$(102,535)	$(123,994)	$(333)	$243,568

NOTE F. Exploratory Costs

The Company capitalizes exploratory well and project costs until a determination is made that the well or project has either found proved reserves, is impaired or is sold. After an exploratory well has been completed and found oil and gas reserves, a determination may be pending as to whether the oil and gas reserves can be classified as proved. In those circumstances, the Company continues to capitalize the well or project costs pending the determination of proved status if (i) the well has found a sufficient quantity of reserves to justify its completion as a producing well and (ii) the Company is making sufficient progress assessing the reserves and the economic and operating viability of the project. The Company's capitalized exploratory well and project costs are presented in proved properties in the accompanying consolidated balance sheets. If the exploratory well or project is determined to be impaired, the impaired costs are charged to exploration and abandonments expense.

The following table reflects the Company's capitalized exploratory well and project activity during the three and nine months ended September 30, 2013:

	Three Months Ended September 30, 2013	Nine Months Ended September 30, 2013
	(in thousands)	
Beginning capitalized exploratory costs	$255,001	$212,670
Additions to exploratory costs pending the determination of proved reserves	252,884	945,001
Reclassification due to determination of proved reserves	(168,299)	(720,338)
Disposition of assets	(5,251)	(92,955)
Exploratory well costs charged to exploration expense	433	(9,610)
Ending capitalized exploratory costs	$334,768	$334,768

The following table provides an aging, as of September 30, 2013 and December 31, 2012, 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, 2013	December 31, 2012
	(in thousands, except project counts)	
Capitalized exploratory costs that have been suspended:		
One year or less	$188,511	$190,678
More than one year	146,257	21,992
	$334,768	$212,670
Number of projects with exploratory costs that have been suspended for a period greater than one year	2	1

Alaska - Oooguruk. As of September 30, 2013 and December 31, 2012, the Company had $30.8 million and $22.0 million, respectively, of suspended well costs recorded for the K-13 well in the Alaska Oooguruk field. Drilling on the K-13 well was completed during September 2011. During well completion operations, subsurface damages were sustained. The Company performed repairs and recompleted the well during the third quarter of 2013. The well is currently undergoing production tests and may require additional stimulation work that, if required, is expected to be completed during the first quarter of 2014.

Alaska - Nuna. The Company's Nuna project, which has $115.5 million of suspended project costs as of September 30, 2013, includes the Nuna-1 exploration well that was drilled during 2012 to test the Torok formation and a second appraisal well that was drilled and logged during the first quarter of 2013. The Company flow-tested the Nuna-1 well during the second quarter of 2012 and again in the first quarter of 2013. The second appraisal well encountered a mechanical problem and could not be flow-tested before the end of the winter drilling season. The results of the flow tests on the Nuna-1 well and the log data from the second Nuna well are both very encouraging. The Company is currently conducting a front-end engineering design ("FEED") study to evaluate the potential for onshore production facilities to support the project.

See Note O for information regarding the Company's October 2013 agreement to sell its Alaskan subsidiary.

NOTE G. Long-term Debt

The Company's long-term debt consists of senior notes and revolving credit facilities, including the effects of net deferred fair value hedge losses and issuance discounts. As of September 30, 2013, the Company and Pioneer Southwest were in compliance with all of their debt covenants.

Corporate credit facility. The Company maintains a corporate credit facility (the "Credit Facility") with a syndicate of financial institutions that has aggregate loan commitments of $1.5 billion that expires in December 2017. As of September 30, 2013, the Company had no outstanding borrowings under the Credit Facility.

Pioneer Southwest credit facility. Pioneer Southwest maintains a Credit Agreement (the "Pioneer Southwest Credit Facility") with a syndicate of financial institutions that has aggregate loan commitments of $300 million that expires in March 2017. As of September 30, 2013, Pioneer Southwest had outstanding borrowings of $201.0 million under the Pioneer Southwest Credit Facility. Pioneer Southwest's borrowing capacity under the Pioneer Southwest Credit Facility is subject to a covenant requiring that Pioneer Southwest maintain a specified ratio of the net present value of Pioneer Southwest's projected future cash flows from its oil and gas assets to total debt, with the variables on which the calculation of net present value is based (including assumed commodity prices and discount rates) being subject to adjustment by the lenders. The net present value covenant limits Pioneer Southwest's available borrowing capacity under the Pioneer Southwest Credit Facility to $68.6 million as of September 30, 2013.

Convertible senior notes. As of December 31, 2012, the Company had $479.9 million of 2.875% Convertible Senior Notes due 2038 ("Convertible Senior Notes") outstanding. During December 2012 and March 2013, the Company's stock price met the price threshold that caused the Convertible Senior Notes to be convertible during the six months ended June 30, 2013 at the option of the holders into a combination of cash and the Company's common stock based on a formula set forth in the indenture supplement pursuant to which the Convertible Senior Notes were issued. In addition, on April 15, 2013, the Company announced that it would exercise its option to redeem all Convertible Senior Notes that had not been converted by the holders before May 16, 2013. Associated therewith, during the six months ended June 30, 2013, holders of $479.1 million principal amount of the Convertible Senior Notes exercised their right to convert their Convertible Senior Notes into cash and shares of the Company's common stock. The Company paid the tendering holders $479.1 million of cash and issued to the tendering holders 4.4 million shares of the Company's common stock during the six months ended June 30, 2013, in accordance with the terms of the Convertible Senior Notes indenture agreement. On May 16, 2013, the Company paid $845 thousand in principal and interest to redeem all Convertible Senior Notes that remained outstanding.

NOTE H. Incentive Plans

Stock-based compensation

For the three and nine months ended September 30, 2013, the Company recorded $32.5 million and $85.3 million, respectively, of stock-based compensation expense for all plans, as compared to $22.8 million and $66.0 million, respectively, for the same periods of 2012. As of September 30, 2013, there was $178.1 million of unrecognized compensation expense related to unvested share- and unit-based compensation plan awards, including $56.6 million attributable to stock-based awards that are expected to be settled on their vesting date in cash, rather than in equity shares ("Liability Awards"). This compensation will be recognized over the remaining vesting periods of the awards, which is a period of less than three years on a weighted average basis. As of

September 30, 2013 and December 31, 2012, accounts payable – due to affiliates includes $24.5 million and $18.8 million, respectively, of liabilities attributable to Liability Awards.

The following table summarizes the activity that occurred during the nine months ended September 30, 2013, for each type of share-based incentive award issued by Pioneer or Pioneer Southwest:

	Restricted Stock Equity Awards	Restricted Stock Liability Awards	Performance Units	Stock Options	Pioneer Southwest LTIP Restricted Units	Pioneer Southwest LTIP Phantom Units
Outstanding as of December 31, 2012	1,512,762	405,916	91,370	467,486	7,496	102,644
Awards granted	433,311	250,641	94,917	—	—	32,242
Awards vested	(509,659)	(197,769)	—	—	(7,496)	(35,118)
Options exercised	—	—	—	(166,474)	—	—
Awards forfeited	(65,950)	(29,664)	(10,842)	(11,085)	—	—
Outstanding as of September 30, 2013	1,370,464	429,124	175,445	289,927	—	99,768

Postretirement Benefit Obligations

As of September 30, 2013 and December 31, 2012, the Company had $8.3 million and $9.7 million, respectively, of unfunded accumulated postretirement benefit obligations, the current and noncurrent portions of which are included in other current liabilities and other liabilities, respectively, in the accompanying consolidated balance sheets. These obligations are comprised of five unfunded plans, of which four relate to predecessor entities that the Company acquired in prior years, and one funded plan for which the Company assumed sponsorship in conjunction with the acquisition of Premier Silica.

The unfunded plans had no assets as of September 30, 2013 or December 31, 2012. The Company's funding policy for the Premier Silica plan is to contribute amounts sufficient to meet legal funding requirements, plus any additional amounts that the Company may determine to be appropriate considering the funded status of the plan, tax deductibility, the cash flow generated by the Company and other factors. The Company continually reassesses the amount and timing of any discretionary contributions and may elect to make such contributions in future periods.

NOTE I. Asset Retirement Obligations

The Company's asset retirement obligations primarily relate to the future plugging and abandonment of wells and facilities. The following table summarizes the Company's asset retirement obligation activity during the three and nine months ended September 30, 2013 and 2012:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
	(in thousands)			
Beginning asset retirement obligations	$ 191,129	$ 145,457	$ 197,754	$ 136,742
Liabilities assumed in acquisitions	—	—	—	8,515
New wells placed on production	1,234	1,251	3,682	3,662
Changes in estimates (a)	—	48	(5,597)	1,651
Dispositions	—	(2,536)	(4,310)	(2,536)
Liabilities settled	(4,721)	(4,507)	(10,218)	(13,249)
Accretion of discount	3,180	2,497	9,499	7,371
Accretion of discount from integrated services (b)	1	23	13	77
Ending asset retirement obligations	$ 190,823	$ 142,233	$ 190,823	$ 142,233

(a) The changes in estimates during the nine months ended September 30, 2013 are attributable to lengthening the economic lives of certain wells, which reduced the present values of the associated asset retirement obligations.

(b) Accretion of discount from integrated services includes Premier Silica accretion expense, which is recorded as a reduction in third-party income from vertical integration services in interest and other income in the Company's accompanying consolidated statements of operations. See Note K for more information about interest and other income.

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, 2013 and December 31, 2012, the current portions of the Company's asset retirement obligations were $13.4 million and $13.3 million, respectively.

NOTE J. Commitments and Contingencies

The Company is a party to 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 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 records reserves for contingencies when information available indicates that a loss is probable and the amount of the loss can be reasonably estimated.

Lawsuits filed in state and federal courts in Texas relating to the Merger. On May 15, 2013, David Flecker, a purported unitholder of Pioneer Southwest, filed a class action petition on behalf of Pioneer Southwest's unitholders and a derivative suit on behalf of Pioneer Southwest against the Company, Pioneer USA, the General Partner and the directors of the General Partner, in the 134th Judicial District of Dallas County, Texas (the "Flecker Lawsuit"). A similar class action petition and derivative suit was filed against the same defendants on May 20, 2013, in the 160th Judicial District of Dallas County, Texas, by purported unitholder Vipul Patel (the "Patel Lawsuit"). On August 27, 2013, the plaintiff in the Flecker Lawsuit filed an amended petition. On September 3, 2013, the court consolidated the Patel Lawsuit into the Flecker Lawsuit (as consolidated, the "Texas State Court Lawsuit"), and the plaintiffs filed a consolidated derivative and class action petition on September 5, 2013.

The Texas State Court Lawsuit alleges, among other things, that the consideration offered by the Company in the Merger is unfair and inadequate and that, by pursuing a transaction that is the result of an allegedly conflicted and unfair process, the defendants have breached their duties under Pioneer Southwest's partnership agreement as well as the implied covenant of good faith and fair dealing, and are engaging in self-dealing. Specifically, the lawsuit alleges that the director defendants: (i) engaged in self-dealing, failed to act in good faith toward Pioneer Southwest, and breached their duties owed to Pioneer Southwest; (ii) failed to properly value Pioneer Southwest and its various assets and operations and ignored or failed to protect against the numerous conflicts of interest arising out of the proposed transaction; and (iii) breached the implied covenant of good faith and fair dealing by engaging in a flawed merger process. The Texas State Court Lawsuit also alleges that the Company, Pioneer USA and the General Partner aided and abetted the director defendants in their purported breach of fiduciary duties.

Based on these allegations, the plaintiffs in the Texas State Court Lawsuit seek to enjoin the defendants from proceeding with or consummating the proposed transaction. To the extent that the Merger is implemented before relief is granted, the plaintiffs seek to have the Merger rescinded. The plaintiffs also seek money damages and attorneys' fees. The defendants have filed a motion to dismiss the Texas State Court Lawsuit based on improper forum.

On August 21, 2013, Allan H. Beverly, a purported unitholder, filed a class action complaint against Pioneer Southwest, the Company, Pioneer USA, MergerCo and the directors of the General Partner in the United States District Court for the Northern District of Texas (the "Beverly Lawsuit"). The Beverly Lawsuit alleges that the defendants breached their fiduciary duties by agreeing to the Merger by means of an unfair process and for an unfair price. Specifically, the lawsuit alleges that the director defendants: (i) failed to maximize the value of Pioneer Southwest to its public unitholders and took steps to avoid competitive bidding; (ii) failed to properly value Pioneer Southwest; and (iii) ignored or failed to protect against the numerous conflicts of interest arising out of the proposed transaction. The Beverly Lawsuit also alleges that the Company, Pioneer USA and MergerCo aided and abetted the director defendants in their purported breach of fiduciary duties.

On September 13, 2013, Douglas Shelton, another purported unitholder, filed a class action complaint against the same defendants in the Beverly Lawsuit (as well as the General Partner) in the same court as the Beverly Lawsuit (the "Shelton Lawsuit"). The Shelton Lawsuit makes similar allegations to the Beverly Lawsuit, and also alleges that Section 7.9 of Pioneer Southwest's partnership agreement fails to alter or eliminate the defendants' common law fiduciary duties owed to unitholders in the context of the Merger. Specifically, the lawsuit alleges: (i) that the Company, as controlling unitholder, failed to fulfill its fiduciary duties in connection with the Merger because it purportedly cannot establish that the proposed Merger is the result of a fair process that will return a fair price to the unaffiliated unitholders of Pioneer Southwest; (ii) that the director defendants breached their fiduciary duties by failing to exercise due care and diligence in connection with the proposed Merger because the proposed Merger is purportedly not the result of a fair process that will return a fair price to the unaffiliated unitholders; and (iii) that the non-director defendants aided and abetted the director defendants in their purported breach of fiduciary duties. The plaintiffs in the Beverly Lawsuit and the Shelton Lawsuit (together, the "Federal Lawsuits") seek the same remedies as the plaintiffs in the Texas State Court Lawsuit.

On September 26, 2013, representatives of the plaintiffs in the Texas State Court Lawsuit and the Federal Lawsuits and representatives of the defendants in such lawsuits entered into a memorandum of understanding ("the memorandum of understanding") to settle the claims and allegations made in such lawsuits. The memorandum of understanding provides the plaintiffs with a period of confirmatory discovery during which the plaintiffs can confirm the fairness and reasonableness of the settlement contemplated by the memorandum of understanding. The parties agreed to use their reasonable best efforts to agree upon, execute and present to the Dallas County, Texas District Court a stipulation of settlement, which will provide for, among other things, a certification, for settlement purposes only, of the applicable class of unitholders to which the settlement will apply. Furthermore, the stipulation of settlement will provide for a full and complete discharge, dismissal with prejudice, settlement and release of all claims, suits and causes of action by the plaintiffs (other than appraisal rights under the Merger Agreement) against the defendants and their representatives arising out of or relating to the allegations made in the Texas State Court Lawsuit and the Federal Lawsuits, the Merger or any deliberations, negotiations, disclosures, omissions, press releases, statements or misstatements in connection therewith, any fiduciary or other obligations in respect of the Merger or any alternative transaction or under Pioneer Southwest's partnership agreement, or any costs and expenses associated with settlement other than as provided in the stipulation. All proceedings relating to the allegations made in the Texas State Court Lawsuit other than with respect to the settlement have been stayed. As part of the consideration for the settlement, the Merger Agreement was amended to provide for contractual appraisal rights for the unitholders.

The parties to the memorandum of understanding have agreed to use their reasonable best efforts to obtain the agreement of any plaintiffs filing similar lawsuits to the Texas State Court Lawsuit or the Federal Lawsuits (whether filed in any state or federal court) to become party to the memorandum of understanding and the related settlement, and it is a condition to the consummation of the final settlement that any such plaintiffs join the settlement or such similar lawsuits otherwise be dismissed with prejudice prior to the final approval of the settlement. On October 15, 2013, the plaintiffs in the Beverly Lawsuit voluntarily dismissed all claims in the lawsuit in accordance with the memorandum of understanding. On October 16, 2013, the plaintiffs in the Shelton Lawsuit likewise voluntarily dismissed all claims in the lawsuit in accordance with the memorandum of understanding. There can be no assurance that a final settlement will be consummated.

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Lawsuit filed in the Delaware Court of Chancery relating to the Merger. On September 23, 2013, Patrick Wilson, another purported unitholder, filed a class action petition on behalf of the unitholders against Pioneer USA, MergerCo, Pioneer Southwest, the General Partner and the directors of the General Partner in the Court of Chancery of the State of Delaware (the "Wilson Lawsuit"). The Wilson Lawsuit alleges that the director defendants breached their purported fiduciary obligations to the unitholders by engaging in a process that undervalued Pioneer Southwest and which allegedly constitutes gross negligence, recklessness, willful misconduct, bad faith or knowing violations of law. Additionally, the Wilson Lawsuit alleges that the non-director defendants aided and abetted the purported breaches of fiduciary duties of the director defendants. The Wilson Lawsuit seeks the same remedies as the plaintiffs in the Texas State Court Lawsuit and the Federal Lawsuits. As of the date of this Report, the plaintiffs in the Wilson Lawsuit have not joined the memorandum of understanding.

The Company cannot predict the outcome of these or any other lawsuits that might be filed subsequent to the date of the filing of this Report, nor can the Company predict the amount of time and expense that will be required to resolve these lawsuits. See Note C for a description of the Merger Agreement.

NOTE K. Interest and Other Income

The following table provides the components of the Company's interest and other income for the three and nine months ended September 30, 2013 and 2012:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
	(in thousands)			
Alaskan Petroleum Production Tax credits and refunds (a)	$ 12,864	$ 3,979	$ 38,633	$ 15,825
Equity interest in income of unconsolidated affiliate (b)	3,941	1,151	10,024	2,696
Other income	1,554	1,373	5,119	3,608
Deferred compensation plan income	381	204	2,363	1,727
Interest income	81	84	256	1,400
Income (loss) from vertical integration services (c)	2,266	3,465	(14,834)	6,194
Total interest and other income	$ 21,087	$ 10,256	$ 41,561	$ 31,450

(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 as reductions in production and ad valorem taxes if realizable as offsets to PPT expense.

(b) The Company, along with its joint venture partner, formed EFS Midstream LLC ("EFS Midstream") in 2010 to operate gathering facilities in the Eagle Ford Shale area. The Company accounts for its investment in EFS Midstream using the equity method. EFS Midstream is providing gathering, treating and transportation services for the Company during a 20-year contractual term.

(c) Income (loss) from vertical integration services represent net margins that result from Company-provided fracture stimulation, drilling and related service operations, which are ancillary to and supportive of the Company's oil and gas joint operating activities, and do not represent intercompany transactions. For the three and nine months ended September 30, 2013, these net margins include $103.1 million and $206.3 million of gross vertical integration revenues, respectively, and $100.8 million and $221.1 million of total vertical integration costs and expenses, respectively. For the same periods in 2012, these net margins include $61.9 million and $223.6 million of gross vertical integration revenues, respectively, and $58.4 million and $217.4 million of total vertical integration costs and expenses, respectively.

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NOTE L. Other Expense

The following table provides the components of the Company's other expense for the three and nine months ended September 30, 2013 and 2012:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
	(in thousands)			
Transportation commitment charge (a)	$13,482	$9,694	$31,228	$27,374
Other	2,825	2,586	11,138	12,709
Above market and idle drilling and well services equipment rates (b)	1,293	12,808	9,744	23,553
Contingency and environmental accrual adjustments	4,701	70	6,782	772
Inventory impairment (c)	2,646	46	5,096	6,093
Terminated drilling rig contract charges (d)	—	6,807	1,019	15,768
Total other expense	$24,947	$32,011	$65,007	$86,269

(a) Primarily represents firm transportation payments on excess pipeline capacity commitments.
(b) Primarily represents expenses attributable to the portion of Pioneer's contracted drilling rig rates that are above current market rates and idle drilling rig fees, neither of which are charged to joint operations.
(c) Represents valuation charges on excess or damaged materials and supplies inventories.
(d) Primarily represents charges to terminate drilling rig contracts that are not required to meet planned activities.

NOTE M. Income Taxes

The Company's income tax benefits or provisions attributable to income from continuing operations consisted of the following for the three and nine months ended September 30, 2013 and 2012:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
	(in thousands)			
Current	$8,341	$8,275	$(9,279)	$(7,051)
Deferred	(66,574)	(18,889)	(300,312)	(76,180)
Income tax provision	$(58,233)	$(10,614)	$(309,591)	$(83,231)

For the three and nine months ended September 30, 2013, the Company's effective tax rate, excluding income attributable to the noncontrolling interest, was 39 percent and 37 percent, respectively, as compared to effective rates of (432) percent and 43 percent for the same respective periods in 2012. The Company's effective tax rates differ from the U.S. statutory rate of 35 percent primarily due to state income tax apportionments and nondeductible expenses.

At September 30, 2013, the Company had unrecognized tax benefits of $21.2 million resulting from net operating loss carryovers and alternative minimum tax credits obtained from the acquisition of Premier Silica. The unrecognized tax benefit is recorded as a reduction of the associated deferred tax asset and, if recognized, would affect the annual effective tax rate. The Company expects to resolve uncertainties regarding the unrecognized tax benefit within twelve months of September 30, 2013. There were no unrecognized tax benefits as of December 31, 2012.

The Company files income tax returns in the U.S. federal and various state and foreign jurisdictions. The Internal Revenue Service has closed examinations of the 2011 and prior tax years and, with few exceptions, the Company believes that it is no longer subject to examinations by state and foreign tax authorities for years before 2008. As of September 30, 2013, 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.

NOTE N. Net Income Per Share

The Company uses the two-class method of calculating net income per share because certain of the Company's and its consolidated subsidiaries' unvested share-based awards qualify as participating securities. Participating securities participate in the Company's dividend or partnership distributions and are assumed to participate in the Company's undistributed income proportionate to their share of the weighted average outstanding common shares, but are not assumed to participate in the Company's net losses because they are not contractually obligated to do so. Accordingly, allocations of earnings to participating securities are included in the Company's calculations of basic and diluted earnings per share from continuing operations, discontinued operations and net income attributable to common stockholders.

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 be dilutive to loss per share from continuing operations; therefore, conversion into common stock is assumed not to occur.

The following tables reconcile the Company's net income (loss) attributable to common stockholders to basic net income (loss) attributable to common stockholders and diluted net income (loss) attributable to common stockholders for the three and nine months ended September 30, 2013 and 2012:

	Three Months Ended September 30, 2013			Nine Months Ended September 30, 2013		
	Continuing Operations (in thousands)	Discontinued Operations	Total	Continuing Operations	Discontinued Operations	Total
Net income (loss) attributable to common stockholders	$91,125	$—	$91,125	$529,516	$(465)	$529,051
Participating basic earnings	(1,239)	—	(1,239)	(6,729)	—	(6,729)
Basic net income (loss) attributable to common stockholders	89,886	—	89,886	522,787	(465)	522,322
Reallocation of participating earnings	3	—	3	102	—	102
Diluted income (loss) attributable to common stockholders	$89,889	$—	$89,889	$522,889	$(465)	$522,424

	Three Months Ended September 30, 2012			Nine Months Ended September 30, 2012		
	Continuing Operations (in thousands)	Discontinued Operations	Total	Continuing Operations	Discontinued Operations	Total
Net income (loss) attributable to common stockholders	$(13,071)	$32,295	$19,224	$108,444	$55,007	$163,451
Participating basic earnings	—	(357)	(357)	(1,658)	(841)	(2,499)
Basic net income (loss) attributable to common stockholders	(13,071)	31,938	18,867	106,786	54,166	160,952
Reallocation of participating earnings	—	—	—	89	45	134
Diluted income (loss) attributable to common	$(13,071)	$31,938	$18,867	$106,875	$54,211	$161,086

stockholders

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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, 2013 and 2012:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
	(in thousands)			
Weighted average common shares outstanding:				
Basic	138,586	123,111	135,057	122,874
Dilutive common stock options (a)	128	—	141	196
Convertible Senior Notes dilution (a)	—	—	1,453	2,866
Contingently issuable performance unit shares (a)	232	—	184	175
Diluted	138,946	123,111	136,835	126,111

(a) The following common share equivalents were excluded from the weighted average diluted shares for the three months ended September 30, 2012 because they would have been anti-dilutive to the loss recorded for the period: 179,449 outstanding options to purchase the Company's common stock, 184,545 common shares attributable to unvested performance units and 3,311,845 common shares issuable if holders of the Company's 2.875% Convertible Senior Notes had exercised their conversion rights (see Note G). Options to purchase 185,722 shares of the Company's common stock were excluded from the diluted income per share calculations for the nine months ended September 30, 2012 because they would have been anti-dilutive to the calculation. For the nine months ended September 30, 2013, options to purchase 34,842 shares of the Company's common stock were excluded from the diluted income per share calculation because they would have been anti-dilutive to the calculation.

NOTE O. Subsequent Events

Distribution declaration. In October 2013, Pioneer Southwest declared a cash distribution of $0.52 per common unit for the period from July 1 to September 30, 2013. The distribution is payable on November 12, 2013 to unitholders of record at the close of business on November 4, 2013. Associated therewith, Pioneer Southwest expects to pay $18.6 million of aggregate distributions.

Merger Agreement. On October 25, 2013, the Company entered into an amendment to the Agreement and Plan of Merger with Pioneer USA, MergerCo, Pioneer Southwest and the General Partner dated August 9, 2013. Pursuant to the Merger Agreement, MergerCo will merge with and into Pioneer Southwest, with Pioneer Southwest surviving the Merger, such that following the Merger, the General Partner will remain a wholly-owned subsidiary of Pioneer and the sole general partner of Pioneer Southwest, and Pioneer USA will be the sole limited partner of Pioneer Southwest. Except for the common units owned by the Company, all of the common units outstanding as of the closing of the Merger will be cancelled and, except for the dissenting units, converted into the right to receive 0.2325 of a share of common stock of the Company per common unit. The closing of the Merger is subject to the satisfaction of certain closing conditions. See Note C for a description of the Merger Agreement.

Divestiture. In October 2013, the Company announced that it entered into a purchase and sale agreement with an unaffiliated third party to sell 100 percent of the equity in Pioneer's Alaska subsidiary, representing all of the Company's net assets in Alaska ("Pioneer Alaska"), for cash proceeds of $550.0 million, before normal closing adjustments. Closing of the transaction is expected to occur during the fourth quarter of 2013 or the first quarter of 2014 and is subject to certain conditions, including governmental approvals, buyer's arrangement of financing and other customary closing conditions. Associated with the sale of Pioneer Alaska, the Company expects to record a pretax noncash loss of approximately $350 million during the three months ended December 31, 2013. The financial and operating results of Pioneer Alaska's activities are expected to be reflected as discontinued operations for the quarter ending December 31, 2013 and for all prior periods that will be presented in the Company's annual report on Form 10-K for the year ended December 31, 2013. No impairment of Pioneer Alaska's net assets was recorded as of September 30, 2013 due to (i) the probability-weighted undiscounted cash flows of Pioneer Alaska net assets exceeding their carrying value at September 30, 2013 and (ii) the uncertainty regarding the willingness of third parties to purchase Pioneer Alaska on terms and at a price acceptable to the Company, which precluded held for sale criteria as of September 30, 2013. No assurance can be given that the closing conditions will be satisfied or that the sale will occur in accordance with the terms described above.

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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 2013 included the following highlights:

- Net income attributable to common stockholders for the third quarter of 2013 was $91.1 million ($0.65 per diluted share), as compared to net income of $19.2 million ($0.15 per diluted share) for the third quarter of 2012. The increase in net income attributable to common stockholders is comprised of a $109.1 million increase in income from continuing operations, partially offset by a $4.9 million increase in net income attributable to noncontrolling interests and a $32.3 million decline in income from discontinued operations, net of tax, as a result of completing the sale of Pioneer South Africa during the third quarter of 2012. The primary components of the increase in net income from continuing operations include:
  - a $192.4 million increase in oil and gas revenues as a result of an eight percent increase in total sales volumes and an 18 percent increase in the average commodity prices received per BOE; and
  - a $21.5 million decrease in net derivative losses, primarily as a result of changes in forward commodity prices and changes in the Company's portfolio of derivatives;
  - a $9.3 million decrease in interest expense, primarily due to a decline in outstanding borrowings; partially offset by
  - a $48.9 million increase in DD&A expense, primarily due to increased sales volumes and an increase in the carrying value of proved oil and gas properties;
  - a $47.6 million increase in the Company's income tax provision as a result of the Company's increased profitability; and
  - an $11.2 million increase in general and administrative expense, primarily due to growth in employee headcount in support of the Company's capital expansion initiatives, performance-related compensation expense and higher stock-based compensation expense associated with Liability Awards as a result of increases in the market value of the Company's common stock (see Note H of Notes to Consolidated Financial Statements included in "Item 1. Financial Statements" for more information about the Company's Liability Awards).

- During the third quarter of 2013, average daily sales volumes from continuing operations increased by eight percent to 172,611 BOEPD, as compared to 159,894 BOEPD during the third quarter of 2012. The increase in third quarter 2013 average daily sales volumes, as compared to the third quarter of 2012, was primarily due to the Company's successful drilling program.
- Average oil and gas prices increased during the third quarter of 2013 to $101.83 per BBL and $3.32 per MCF, respectively, as compared to $89.88 per BBL and $2.62 per MCF, respectively, in the third quarter of 2012. Average NGL prices decreased during the third quarter of 2013 to $30.17 per BBL, as compared to $30.96 per BBL in the third quarter of 2012.
- Average oil and gas production costs per BOE decreased to $11.41 for the third quarter of 2013, as compared to $12.23 for the third quarter of 2012, primarily due to a decline in lease operating expenses as a result of lower saltwater disposal, electricity and repairs and maintenance costs and lower net natural gas plant charges resulting from increased gathering and processing revenues from processing third-party gas in Company-owned facilities.
- Net cash provided by operating activities increased to $668.4 million for the three months ended September 30, 2013, as compared to $432.1 million for the three months ended September 30, 2012. The $236.3 million increase in net cash provided by operating activities is primarily due to an increase in oil and gas sales, partially offset by a decrease in realized derivative gains.
- As of September 30, 2013, the Company's net debt to book capitalization declined to 21 percent, as compared to 37 percent as of December 31, 2012, principally reflective of an increase in cash and cash equivalents of $514.7 million, a decrease in long-term debt of $870.0 million and net income of $558.8 million for the nine months ended September 30, 2013. The changes in the Company's cash and cash equivalents and long-term debt primarily resulted from the application of net cash proceeds from the February 2013 sale of 10.35 million shares of common stock and the May 2013 completion of the Wolfcamp joint venture with Sinochem. See Notes B and C of Notes to Consolidated Financial Statements included in "Item 1. Financial Statements" for more information about the Company's common

stock issuance and joint venture with Sinochem.

Recent Developments

Pending Merger

On August 9, 2013, the Company entered into the Merger Agreement with Pioneer USA, MergerCo, Pioneer Southwest and the General Partner, which was amended on October 25, 2013.

Pursuant to the Merger Agreement, MergerCo will merge with and into Pioneer Southwest with Pioneer Southwest surviving the Merger, such that following the Merger, the General Partner will remain a wholly-owned subsidiary of the Company and the sole general partner of Pioneer Southwest, and the Company will be the sole limited partner of Pioneer Southwest. Except for the common units owned by the Company, all of the common units outstanding as of the closing of the Merger will be cancelled and, except for the dissenting units, converted into the right to receive 0.2325 of a share of common stock of the Company per common unit.

Pursuant to the terms and conditions of the Merger Agreement, dissenting units that are owned by dissenting unitholders will not be converted into the right to receive the merger consideration, but instead will be entitled to payment of the fair value of such dissenting units ("appraisal rights") pursuant to and in accordance with the provisions of the Merger Agreement, unless and until such dissenting unitholder shall have failed to perfect or shall have effectively withdrawn or lost their appraisal rights. If a dissenting unitholder fails to perfect or effectively withdraws or loses the appraisal rights, then, as of the occurrence of such event or the closing of the Merger, whichever occurs later, each of such dissenting unitholder's dissenting units will be converted into the right to receive 0.2325 of a share of common stock of the Company per common unit.

The Merger Agreement provides that regular quarterly distributions on Pioneer Southwest's common units, not to exceed $0.52 per common unit per quarter (which $0.52 per common unit is equivalent to the most recent distribution declared for the quarter ended September 30, 2013), are to continue until the closing of the Merger. Regular distributions for a quarter are declared late in the first month following such quarter, and no distribution will be paid for a quarter if the Merger closes prior to the normal record date for such distribution. No fractional shares of the Company's common stock will be issued in the Merger. In lieu of receiving any fractional share of common stock to which any holder of the Pioneer Southwest's common units would otherwise have been entitled, after aggregating all fractions of shares to which such holder would be entitled, any fractional share will be rounded up to a whole share of common stock of the Company. The closing of the Merger is subject to certain closing conditions, including the approval of the Merger Agreement and the transactions contemplated thereby by the affirmative vote of holders of a majority of the outstanding common units entitled to vote at a special meeting of the unitholders of Pioneer Southwest. Pursuant to a voting agreement, the Company has agreed to cause the common units owned by it and its subsidiaries to be voted in favor of the Merger, which units represent 52.4 percent of Pioneer Southwest's outstanding common units and therefore constitute a sufficient number of common units to approve the Merger at the special meeting of the unitholders of Pioneer Southwest. The parties anticipate that the Merger will close in the fourth quarter of 2013, pending the satisfaction of certain conditions thereto.

The consolidation of the properties of the Company and Pioneer Southwest in the Midland Basin in West Texas through this proposed transaction would facilitate the Company's plans to fully and optimally develop the area utilizing horizontal drilling and would provide organizational, operational and administrative efficiencies. The Company owns 100 percent of the General Partner and owns approximately 52.4 percent of the 35,713,700 outstanding common units of Pioneer Southwest. See Notes B, C and J of Notes to Consolidated Financial Statements included in "Item 1. Financial Statements" for more information about Pioneer Southwest and for descriptions of litigation contingencies associated with the Merger Agreement and "Part II, Item 1A. Risk Factors" for additional information about potential risks associated with the Merger.

Divestiture

During October 2013, the Company announced that it has entered into a purchase and sale agreement with an unaffiliated third party to sell Pioneer Alaska for cash proceeds of $550.0 million, before normal closing adjustments. Closing of the transaction is expected to occur during the fourth quarter of 2013 or the first quarter of 2014 and is subject to certain conditions, including governmental approvals, buyer's arrangement of financing and other customary closing conditions. Associated with the sale of Pioneer Alaska, the Company expects to record a pretax noncash loss of approximately $350 million during the three months ended December 31, 2013. The financial and operating results of Pioneer Alaska's activities are expected to be reflected as discontinued operations for the quarter ending December 31, 2013 and for all prior periods that will be presented in the Company's annual report on Form 10-K for the year ended December 31, 2013. See Note O of Notes to Consolidated Financial Statements included in "Item 1. Financial Statements" for more information about the sale of Pioneer Alaska. No assurance can be given that the closing conditions will be satisfied or that the sale will occur in accordance with the terms described above.

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Fourth Quarter 2013 Outlook
Based on current estimates (excluding Pioneer Alaska, which is expected to be reflected as discontinued operations), the Company expects the following operating and financial results for the quarter ending December 31, 2013:
Production is forecasted to average 179,000 to 184,000 BOEPD.
Production costs (including production and ad valorem taxes and transportation costs) are expected to average $14.00 to $16.00 per BOE based on current NYMEX strip commodity prices. DD&A expense is expected to average $15.50 to $17.50 per BOE.
Total exploration and abandonment expense is expected to be $25 million to $35 million. General and administrative expense is expected to be $70 million to $75 million. Interest expense is expected to be $44 million to $49 million, and other expense is expected to be $25 million to $35 million. Accretion of discount on asset retirement obligations is expected to be $3 million to $5 million.
Noncontrolling interest in consolidated subsidiaries' net income, excluding noncash mark-to-market adjustments, is expected to be $8 million to $11 million, primarily reflecting the public ownership in Pioneer Southwest.
The Company's effective income tax rate, excluding the effect of net income attributable to noncontrolling interest, is expected to range from 35 percent to 40 percent assuming current capital spending plans and no significant mark-to-market changes in the Company's derivative position. Cash income taxes are expected to range from $10 million to $15 million and are primarily attributable to federal alternative minimum tax and state taxes.
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, 2013:

	Oil (BBLs)	NGLs (BBLs)	Gas (MCF)	Total (BOE)
Permian Basin	52,456	14,728	71,435	79,090
South Texas - Eagle Ford Shale	13,001	10,141	81,136	36,665
Raton Basin	—	—	136,112	22,685
Mid-Continent	3,061	6,873	40,551	16,693
Barnett Shale	1,452	3,193	23,196	8,511
South Texas - Edwards and Austin Chalk	128	1	31,442	5,370
Alaska	4,217	—	—	4,217
Other	4	2	65	16
	74,319	34,938	383,937	173,247

During 2013 and 2012, the Company has focused its capital budgets and expenditures on oil and liquids-rich gas drilling activities due to low gas prices. As a result of these capital activities, the Company's total liquids production from continuing operations increased to 63 percent of total production, on a BOE basis, for the nine months ended September 30, 2013, as compared to 59 percent for the same period last year. Despite the increase in liquids production, the Company's liquids revenue, as a percent of total commodity sales, decreased to 86 percent for the nine months ended September 30, 2013, as compared to 88 percent for the same period last year, due to a 43 percent and one percent increase in the average gas and oil prices, respectively, and a decline of 15 percent in NGL prices, as compared to the nine months ended September 30, 2012.

The following table summarizes by geographic area the Company's finding and development costs incurred during the nine months ended September 30, 2013:

	Acquisition Costs		Exploration	Development	Asset Retirement	
	Proved	Unproved	Costs	Costs	Obligations	Total
	(in thousands)					
Permian Basin	$883	$43,874	$508,528	$788,872	$1,932	$1,344,089
South Texas - Eagle Ford Shale	35	1,264	286,515	131,137	1,076	420,027
Raton Basin	—	—	4,372	2,898	—	7,270
Mid-Continent	—	188	2,008	12,100	49	14,345
Barnett Shale	6,170	5,946	100,970	37,882	446	151,414
South Texas - Edwards and Austin Chalk	(32)	(16)	3,134	3,224	—	6,310
Alaska	—	—	68,070	114,393	(5,463)	177,000
Other	11	1,170	19,869	1	44	21,095
	$7,067	$52,426	$993,466	$1,090,507	$(1,916)	$2,141,550

The following table summarizes the Company's development and exploration/extension drilling activities for the nine months ended September 30, 2013:

	Development Drilling				
	Beginning Wells in Progress	Wells Spud	Successful Wells	Unsuccessful Wells	Ending Wells in Progress
Permian Basin	136	226	302	2	58
South Texas - Eagle Ford Shale	11	27	26	—	12
Mid-Continent	—	11	11	—	—
Barnett Shale	—	3	3	—	—
Alaska	4	2	3	—	3
	151	269	345	2	73

	Exploration/Extension Drilling				
	Beginning Wells in Progress	Wells Spud	Successful Wells	Unsuccessful Wells	Ending Wells in Progress
Permian Basin	17	94	71	—	40
South Texas - Eagle Ford Shale	21	75	59	—	37
South Texas - Edwards and Austin Chalk	—	1	1	—	—
Barnett Shale	9	36	29	6	10
Alaska	2	1	—	—	3
Other	—	5	—		