

NATIONAL BANKSHARES INC

Form 10-Q

May 09, 2012

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

FORM 10-Q

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

For the quarterly period ended March 31, 2012

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 0-15204

NATIONAL BANKSHARES, INC.  
(Exact name of registrant as specified in its charter)

Virginia  
(State or other jurisdiction of incorporation or organization)

54-1375874  
(I.R.S. Employer Identification No.)

101 Hubbard Street  
P. O. Box 90002  
Blacksburg, VA  
(Address of principal executive offices)

24062-9002  
(Zip Code)

(540) 951-6300  
(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).  Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company   
(Do not check if a 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

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Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class	Outstanding at May 1, 2012
Common Stock, \$1.25 Par Value	6,939,974

(This report contains 46 pages)

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## NATIONAL BANKSHARES, INC. AND SUBSIDIARIES

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## Part I

## Item 1. Financial Statements

## Financial Information

National Bankshares, Inc. and Subsidiaries  
Consolidated Balance Sheets

\$ in thousands, except per share data	(Unaudited) March 31, 2012	December 31, 2011
<b>Assets</b>		
Cash and due from banks	\$ 12,241	\$ 11,897
Interest-bearing deposits	101,301	98,355
Securities available for sale, at fair value	198,346	174,918
Securities held to maturity (fair value approximates \$147,509 at March 31, 2012 and \$151,429 at December 31, 2011)	139,367	143,995
Mortgage loans held for sale	1,371	2,623
<b>Loans:</b>		
Loans, net of unearned income and deferred fees	584,564	588,470
Less allowance for loan losses	(8,063)	(8,068)
Loans, net	576,501	580,402
Premises and equipment, net	10,563	10,393
Accrued interest receivable	6,175	6,304
Other real estate owned, net	940	1,489
Intangible assets and goodwill	10,189	10,460
Bank-owned life insurance	19,991	19,812
Other assets	6,857	6,454
<b>Total assets</b>	<b>\$ 1,083,842</b>	<b>\$ 1,067,102</b>
<b>Liabilities and Stockholders' Equity</b>		
Noninterest-bearing demand deposits	\$ 145,070	\$ 142,163
Interest-bearing demand deposits	415,352	404,801
Savings deposits	65,322	61,298
Time deposits	306,048	311,071
<b>Total deposits</b>	<b>931,792</b>	<b>919,333</b>
Accrued interest payable	191	206
Other liabilities	7,067	6,264
<b>Total liabilities</b>	<b>939,050</b>	<b>925,803</b>
Commitments and contingencies	---	---
<b>Stockholders' Equity</b>		
Preferred stock, no par value, 5,000,000 shares authorized; none issued and outstanding	---	---
Common stock of \$1.25 par value. Authorized 10,000,000 shares; issued and outstanding 6,939,974 shares at March 31, 2012 and 6,939,974 shares at December 31, 2011	8,675	8,675
Retained earnings	138,374	133,945
Accumulated other comprehensive loss, net	(2,257)	(1,321)
<b>Total stockholders' equity</b>	<b>144,792</b>	<b>141,299</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$ 1,083,842</b>	<b>\$ 1,067,102</b>

See accompanying notes to consolidated financial statements.



National Bankshares, Inc. and Subsidiaries  
Consolidated Statements of Income  
Three Months Ended March 31, 2012 and 2011  
(Unaudited)

\$ in thousands, except per share data	March 31, 2012	March 31, 2011
<b>Interest Income</b>		
Interest and fees on loans	\$ 8,878	\$ 9,095
Interest on interest-bearing deposits	71	32
Interest on securities – taxable	1,589	1,662
Interest on securities – nontaxable	1,576	1,676
Total interest income	12,114	12,465
<b>Interest Expense</b>		
Interest on time deposits of \$100,000 or more	425	561
Interest on other deposits	1,692	1,818
Total interest expense	2,117	2,379
Net interest income	9,997	10,086
Provision for loan losses	672	800
Net interest income after provision for loan losses	9,325	9,286
<b>Noninterest Income</b>		
Service charges on deposit accounts	631	612
Other service charges and fees	49	58
Credit card fees	794	733
Trust income	326	246
BOLI income	200	184
Other income	99	91
Realized securities gains, net	53	10
Total noninterest income	2,152	1,934
<b>Noninterest Expense</b>		
Salaries and employee benefits	2,956	2,904
Occupancy and furniture and fixtures	397	423
Data processing and ATM	392	444
FDIC assessment	109	346
Credit card processing	572	586
Intangible assets amortization	271	271
Net costs of other real estate owned	48	134
Franchise taxes	162	242
Other operating expenses	804	734
Total noninterest expense	5,711	6,084
Income before income taxes	5,766	5,136
Income tax expense	1,337	1,112
Net Income	\$ 4,429	\$ 4,024





Basic net income per share	\$	0.64	\$	0.58
Fully diluted net income per share	\$	0.64	\$	0.58
Weighted average number of common shares outstanding – basic		6,939,974		6,933,780
Weighted average number of common shares outstanding – diluted		6,954,637		6,957,450
Dividends declared per share	\$	---	\$	---

See accompanying notes to consolidated financial statements.

National Bankshares, Inc. and Subsidiaries  
 Consolidated Statements of Comprehensive Income  
 Three Months Ended March 31, 2012 and 2011  
 (Unaudited)

\$ in thousands	March 31, 2012	March 31, 2011
Net Income	\$ 4,429	\$ 4,024
Other Comprehensive Income, Net of Tax		
Unrealized holding gains (losses) on available for sale securities net of taxes of (\$489) and \$228 for the periods ended March 31, 2012 and 2011, respectively	(907)	423
Reclassification adjustment, net of taxes of (\$15) and (\$3) for the periods ended March 31, 2012 and 2011, respectively	(29)	(5)
Other comprehensive income (loss), net of taxes of (\$504) and \$225 for the periods ended March 31, 2012 and 2011, respectively	(936)	418
Total Comprehensive Income	\$ 3,493	\$ 4,442

See accompanying notes to consolidated financial statements.

National Bankshares, Inc. and Subsidiaries  
Consolidated Statements of Changes in Stockholders' Equity  
Three Months Ended March 31, 2012 and 2011  
(Unaudited)

\$ in thousands	Common Stock	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balances at December 31, 2010	\$8,667	\$123,161	\$ (2,641 )	\$129,187
Net income	---	4,024	---	4,024
Stock options exercised	3	33	---	36
Other comprehensive income, net of tax \$225	---	---	418	418
Balances at March 31, 2011	\$8,670	\$127,218	\$ (2,223 )	\$133,665
Balances at December 31, 2011	\$8,675	\$133,945	\$ (1,321 )	\$141,299
Net income	---	4,429	---	4,429
Other comprehensive loss, net of tax (\$504)	---	---	(936 )	(936 )
Balances at March 31, 2012	\$8,675	\$138,374	\$ (2,257 )	\$144,792

See accompanying notes to consolidated financial statements.

National Bankshares, Inc. and Subsidiaries  
Consolidated Statements of Cash Flows  
Three Months Ended March 31, 2012 and 2011  
(Unaudited)

\$ in thousands	March 31, 2012	March 31, 2011
<b>Cash Flows from Operating Activities</b>		
Net income	\$4,429	\$4,024
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	672	800
Depreciation of bank premises and equipment	192	209
Amortization of intangibles	271	271
Amortization of premiums and accretion of discounts, net	56	61
Losses on sales and calls of securities available for sale, net	(44 )	(8 )
Gains on calls of securities held to maturity, net	(9 )	(2 )
Losses and write-downs on other real estate owned	(24 )	100
Net change in:		
Mortgage loans held for sale	1,252	2,460
Accrued interest receivable	129	(498 )
Other assets	(55 )	228
Accrued interest payable	(15 )	3
Other liabilities	803	(1,368 )
Net cash provided by operating activities	7,657	6,280
<b>Cash Flows from Investing Activities</b>		
Net change interest-bearing deposits	(2,946 )	13,726
Proceeds from calls, principal payments, sales and maturities of securities available for sale	41,168	10,659
Proceeds from calls, principal payments and maturities of securities held to maturity	13,846	5,449
Purchases of securities available for sale	(66,041 )	(16,000 )
Purchases of securities held to maturity	(9,239 )	(7,138 )
Collections of loan participations	90	25
Loan originations and principal collections, net	3,116	(12,622 )
Proceeds from disposal of other real estate owned	573	295
Recoveries on loans charged off	23	25
Additions to bank premises and equipment	(362 )	(105 )
Net cash used in investing activities	(19,772 )	(5,686 )
<b>Cash Flows from Financing Activities</b>		
Net change in time deposits	(5,023 )	(13,820 )
Net change in other deposits	17,482	15,132
Stock options exercised	---	36
Net cash provided by financing activities	12,459	1,348
Net change in cash and due from banks	344	1,942
Cash and due from banks at beginning of period	11,897	9,858
Cash and due from banks at end of period	\$12,241	\$11,800



Supplemental Disclosures of Cash Flow Information

Interest paid on deposits and borrowed funds	\$2,132	\$2,376
Income taxes paid	196	---

Supplemental Disclosure of Noncash Activities

Loans charged against the allowance for loan losses	\$700	\$243
Loans transferred to other real estate owned	---	894
Unrealized gains (losses) on securities available for sale	(1,440 )	643

See accompanying notes to consolidated financial statements.

National Bankshares, Inc. and Subsidiaries  
Notes to Consolidated Financial Statements  
March 31, 2012  
(Unaudited)

\$ in thousands, except per share data

Note 1: General

The consolidated financial statements of National Bankshares, Inc. (“NBI”) and its wholly-owned subsidiaries, The National Bank of Blacksburg (“NBB”) and National Bankshares Financial Services, Inc. (“NBFS”) (collectively, the “Company”), conform to accounting principles generally accepted in the United States of America and to general practices within the banking industry. The accompanying interim period consolidated financial statements are unaudited; however, in the opinion of management, all adjustments consisting of normal recurring adjustments, which are necessary for a fair presentation of the consolidated financial statements, have been included. The results of operations for the three months ended March 31, 2012 are not necessarily indicative of results of operations for the full year or any other interim period. The interim period consolidated financial statements and financial information included in this Form 10-Q should be read in conjunction with the notes to consolidated financial statements included in the Company’s 2011 Form 10-K. The Company posts all reports required to be filed under the Securities and Exchange Act of 1934 on its web site at [www.nationalbankshares.com](http://www.nationalbankshares.com).

Subsequent events have been considered through the date when the Form 10-Q was issued.

Note 2: Stock-Based Compensation

The Company had a stock option plan, the 1999 Stock Option Plan, that was adopted in 1999 and that was terminated on March 9, 2009. Incentive stock options were granted annually to key employees of NBI and its subsidiaries from 1999 to 2005 and none have been granted since 2005. All of the stock options are vested.

Options	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding at January 1, 2012	77,000	\$22.82		
Exercised	---	---		
Forfeited or expired	---	---		
Outstanding March 31, 2012	77,000	\$22.82	4.37	\$560
Exercisable at March 31, 2012	77,000	\$22.82	4.37	\$560

There were no stock options exercised during the three months ended March 31, 2012. There were 2,500 shares with an intrinsic value of \$35 exercised during the first quarter of 2011.

Note 3: Loan Portfolio

The loan portfolio, excluding loans held for sale, was comprised of the following:

March 31, 2012	December 31, 2011
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Real Estate Construction	\$48,266	\$48,528
Consumer Real Estate	147,312	149,750
Commercial Real Estate	301,911	303,192
Commercial Non Real Estate	39,998	38,849
Public Sector and IDA	15,263	15,407
Consumer Non Real Estate	31,814	32,744
Total	\$584,564	\$588,470

## Note 4: Allowance for Loan Losses, Nonperforming Assets and Impaired Loans

The allowance for loan losses methodology incorporates individual evaluation of impaired loans and collective evaluation of groups of non-impaired loans. The Company performs ongoing analysis of the loan portfolio to determine credit quality and to identify impaired loans. Credit quality is rated based on the loan's payment history, the borrower's current financial situation and value of the underlying collateral.

Impaired loans are those loans that have been modified in a troubled debt restructure ("TDR" or "restructure") and larger, non-homogeneous loans that are in nonaccrual or exhibit payment history or financial status that indicate the probability that collection will not occur according to the loan's terms. Generally, impaired loans are risk rated "classified" or "other assets especially mentioned." Impaired loans are measured at the lower of the invested amount or the fair market value. Impaired loans with an impairment loss are designated nonaccrual. Please refer to Note 1 of the Company's 2011 Form 10-K, "Summary of Significant Accounting Policies" for additional information on evaluation of impaired loans and associated specific reserves, and policies regarding nonaccruals, past due status and charge-offs.

Troubled debt restructurings impact the estimation of the appropriate level of the allowance for loan losses. If the restructuring included forgiveness of a portion of principal or accrued interest, the charge-off is included in the historical charge-off rates applied to the collective evaluation methodology. Further, restructured loans are individually evaluated for impairment, with amounts below fair value accrued in the allowance for loan losses. TDRs that experience a payment default are examined to determine whether the default indicates collateral dependency or cash flows below those that were included in the fair value measurement. TDRs, as well as all impaired loans, that are determined to be collateral dependent or for which decreased cash flows indicate a decline in fair value are charged down to fair value.

The Company evaluated characteristics in the loan portfolio and determined major segments and smaller classes within each segment for application of the allowance for loan losses methodology. These characteristics include collateral type, repayment sources, and (if applicable) the borrower's business model.

## Change in Portfolio Segments and Classes

During the first quarter of 2012, the Company revised its basis for determining segments and classes for the allowance for loan losses. In previous periods, the loan portfolio was segmented primarily by repayment source, whereas beginning with the first quarter of 2012 disaggregation is based primarily upon collateral type for secured loans and borrower type or repayment terms for unsecured loans. This aligns the allowance categories with those used for financial statements and other notes, providing greater uniformity and comparability. Consistent with accounting guidance, prior periods have not been restated and are shown as originally published using the segments and classes in effect for the period. These changes had an insignificant effect on the calculation of the balance in the allowance for loan losses.

The segments and classes used in determining the allowance for loan losses, beginning with the first quarter of 2012 are as follows.

Real Estate Construction	Commercial Non Real Estate
Construction, residential	Commercial and Industrial
Construction, other	
	Public Sector and IDA
Consumer Real Estate	Public sector and IDA
Equity lines	
Residential closed-end first liens	Consumer Non Real Estate
Residential closed-end junior liens	Credit cards
	Automobile
Commercial Real Estate	Other consumer loans
Multifamily real estate	

Commercial real estate, owner occupied

Commercial real estate, other

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Prior to the first quarter of 2012, the Company's segments and classes were as follows:

Consumer Real Estate	Commercial Real Estate
Equity lines	College housing
Closed-end consumer real estate	Office/Retail space
Consumer construction	Nursing homes
	Hotels
Consumer, Non Real Estate	Municipalities
Credit cards	Medical professionals
Consumer, general	Religious organizations
Consumer overdraft	Convenience stores
	Entertainment and sports
Commercial & Industrial	Nonprofits
Commercial & industrial	Restaurants
	General contractors
Construction, Development and Land	Other commercial real estate
Residential	
Commercial	

Risk factors are analyzed for each class to estimate collective reserves. Factors include allocations for the historical charge-off percentage and changes in national and local economic and business conditions, in the nature and volume of the portfolio, in loan officers' experience and in loan quality. Increased allocations for the risk factors applied to each class are made for special mention and classified loans. The Company allocates additional reserves for "high risk" loans, determined to be junior lien mortgages, high loan-to-value loans and interest-only loans.

A detailed analysis showing the allowance roll-forward by portfolio segment and related loan balance by segment follows:

Activity in the Allowance for Loan Losses for the three months ended March 31, 2012

	Real Estate Construction	Consumer Real Estate	Commercial Real Estate	Commercial Non Real Estate	Public Sector and IDA	Consumer Non Real Estate	Unallocated	Total
Balance, December 31, 2011	\$ 1,079	\$ 1,245	\$ 3,515	\$ 1,473	\$ 232	\$ 403	\$ 121	\$ 8,068
Charge-offs	---	(95)	(537)	---	---	(68)	---	(700)
Recoveries	---	---	---	---	---	23	---	23
Provision for loan losses	(405)	1,102	242	(347)	(147)	124	103	672
Balance, March 31, 2012	\$ 674	\$ 2,252	\$ 3,220	\$ 1,126	\$ 85	\$ 482	\$ 224	\$ 8,063

Activity in the Allowance for Loan Losses for the three months ended March 31, 2011

Consumer Real	Consumer Non Real	Commercial Real	Commercial &	Construction, Development	Unallocated	Total
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	Estate	Estate	Estate	Industrial	& Other Land		
Balance, December 31, 2010	\$ 1,059	\$ 586	\$ 4,033	\$ 1,108	\$ 749	\$ 129	\$ 7,664
Charge-offs	(36 )	(90 )	(118 )	---	---	---	(244 )
Recoveries	7	18	---	---	---	---	25
Provision for loan losses	72	(50 )	740	113	(59 )	(16 )	800
Balance, March 31, 2011	\$ 1,102	\$ 464	\$ 4,655	\$ 1,221	\$ 690	\$ 113	\$ 8,245

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Allowance for Loan Losses as of March 31, 2012								
	Real Estate Construction	Consumer Real Estate	Commercial Real Estate	Commercial Non Real Estate	Public Sector and IDA	Consumer Non Real Estate	Unallocated	Total
Individually evaluated for impairment	\$ 13	\$ 169	\$ 42	\$ 361	\$ ---	\$ 8	\$ ---	\$ 593
Collectively evaluated for impairment	661	2,083	3,178	765	85	474	224	7,470
Total	\$ 674	\$ 2,252	\$ 3,220	\$ 1,126	\$ 85	\$ 482	\$ 224	\$ 8,063

Allowance for Loan Losses as of December 31, 2011							
	Consumer Real Estate	Consumer Non Real Estate	Commercial Real Estate	Commercial & Industrial	Construction, Development & Other Land	Unallocated	Total
Individually evaluated for impairment	\$ ---	\$ ---	\$ 1,014	\$ 62	\$ 47	\$ ---	\$ 1,123
Collectively evaluated for impairment	1,052	401	3,497	973	901	121	6,945
Total	\$ 1,052	\$ 401	\$ 4,511	\$ 1,035	\$ 948	\$ 121	\$ 8,068

Loans as of March 31, 2012								
	Real Estate Construction	Consumer Real Estate	Commercial Real Estate	Commercial Non Real Estate	Public Sector and IDA	Consumer Non Real Estate	Unallocated	Total
Individually evaluated for impairment	\$ 6,367	\$ 1,055	\$ 4,849	\$ 649	\$ ---	\$ 67	\$ ---	\$ 12,987
Collectively evaluated for impairment	41,899	146,257	297,062	39,349	15,263	31,747	---	571,577
Total	\$ 48,266	\$ 147,312	\$ 301,911	\$ 39,998	\$ 15,263	\$ 31,814	\$ ---	\$ 584,564

Loans as of December 31, 2011							
	Consumer Real Estate	Consumer Non Real Estate	Commercial Real Estate	Commercial & Industrial	Construction, Development & Other Land	Unallocated	Total
Individually evaluated for impairment	\$238	\$---	\$9,067	\$139	\$3,152	\$---	\$12,596
Collectively evaluated for impairment	109,843	29,707	357,507	37,584	41,233	---	575,874

Total	\$110,081	\$29,707	\$366,574	\$37,723	\$44,385	\$---	\$588,470
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A summary of ratios for the allowance for loan losses follows:

	2012	Three Months ended March 31, 2011	Year ended December 31, 2011
Ratio of allowance for loan losses to the end of period loans, net of unearned income and deferred fees		1.38%	1.37%
Ratio of net charge-offs to average loans, net of unearned income and deferred fees(1)		0.46%	0.43%

(1) Net charge-offs are on an annualized basis.

A summary of nonperforming assets follows:

	2012	March 31, 2011	December 31, 2011
Nonperforming assets:			
Nonaccrual loans	\$ 1,789	\$ 2,339	\$ 1,398
Restructured loans in nonaccrual	3,539	5,314	3,806
Total nonperforming loans	5,328	7,653	5,204
Other real estate owned, net	940	2,222	1,489
Total nonperforming assets	\$ 6,268	\$ 9,875	\$ 6,693
Ratio of nonperforming assets to loans, net of unearned income and deferred fees, plus other real estate owned	1.07 %	1.67 %	1.13 %
Ratio of allowance for loan losses to nonperforming loans(1)	151.33 %	107.74 %	155.03 %

(1) The Company defines nonperforming loans as total nonaccrual and restructured loans that are nonaccrual. Loans 90 days past due and still accruing and accruing restructured loans are excluded.

A summary of loans past due 90 days or more and impaired loans follows:

	2012	March 31, 2011	December 31, 2011
Loans past due 90 days or more and still accruing	\$ 210	\$ 1,078	\$ 481
Ratio of loans past due 90 days or more and still accruing to loans, net of unearned income and deferred fees	0.04 %	0.18 %	0.08 %
Accruing restructured loans	\$ 3,742	\$ 884	\$ 3,756
Impaired loans:			
Impaired loans with no valuation allowance	\$ 9,933	\$ ---	\$ 5,505
Impaired loans with a valuation allowance	3,054	7,084	7,091
Total impaired loans	\$ 12,987	\$ 7,084	\$ 12,596
Valuation allowance	(593 )	(1,256 )	(1,123 )
Impaired loans, net of allowance	\$ 12,394	\$ 5,828	\$ 11,473
Average recorded investment in impaired loans(1)	\$ 14,555	\$ 7,690	\$ 8,734
Interest income recognized on impaired loans, after designation as impaired	\$ 24	\$ 20	\$ 141
Amount of income recognized on a cash basis	\$ ---	\$ ---	\$ ---



- (1) Recorded investment includes principal, accrued interest and net deferred fees.

Nonaccrual loans that meet the Company's balance thresholds are designated as impaired. No interest income was recognized on nonaccrual loans for the three months ended March 31, 2012 and March 31, 2011, respectively.

A detailed analysis of investment in impaired loans, associated reserves and interest income recognized, segregated by loan class follows:

	Impaired Loans as of March 31, 2012				
	Principal Balance	(A) Total Recorded Investment(1)	Recorded Investment(1) in (A) for Which There is No Related Allowance	Recorded Investment(1) in (A) for Which There is a Related Allowance	Related Allowance
Real Estate Construction					
Construction, residential	\$ 1,256	\$ 1,251	\$ 1,251	\$---	\$---
Construction, other	5,111	5,102	3,480	1,622	13
Consumer Real Estate					
Equity lines					
Residential closed-end first liens	798	800	525	275	60
Residential closed-end junior liens	257	258	110	148	109
Commercial Real Estate					
Multifamily real estate	529	529	529	---	---
Commercial real estate, owner occupied	4,320	4,334	3,909	425	42
Commercial real estate, other	---	---	---	---	---
Commercial Non Real Estate					
Commercial and industrial	649	649	121	528	361
Public Sector and IDA					
Public sector and IDA	---	---	---	---	---
Consumer Non Real Estate					
Credit cards					
Automobile	---	---	---	---	---
Other consumer loans	67	67	---	67	8
Total	\$ 12,987	\$ 12,990	\$ 9,925	\$ 3,065	\$ 593

(1) Recorded investment includes the unpaid principal balance and any accrued interest and net deferred fees.

	Impaired Loans as of December 31, 2011				
	Unpaid Principal Balance	(A) Total Recorded Investment(1)	Recorded Investment(1) in (A) for Which There is No Related Allowance	Recorded Investment(1) in (A) for Which There is a Related Allowance	Related Allowance
Consumer Real Estate(2)					
Closed-end Consumer Real Estate	\$237	\$ 237	\$237	\$---	\$---
Commercial Real Estate(2)					
College Housing	366	366	366	---	---
Office & Retail	3,500	3,500	---	3,500	57
Hotel	3,319	3,320	2,794	526	16
Medical Professionals	66	67	---	67	66
General Contractors	703	703	176	527	402
Other commercial real estate	1,113	1,112	425	687	474
Commercial & Industrial(2)					
Commercial & Industrial	139	139	---	139	62
Construction, Development and Land(2)					
Residential	2,901	2,912	1,256	1,656	46
Commercial	252	252	252	---	---
Total	\$12,596	\$ 12,608	\$5,506	\$7,102	\$1,123

- (1) Recorded investment includes the unpaid principal balance and any accrued interest and net deferred fees.  
(2) Only classes with impaired loans are shown.

The following tables show the average investment and interest income recognized for impaired loans.

	For the Three Months Ended March 31, 2012	
	Average Recorded Investment(1)	Interest Income Recognized
Real Estate Construction		
Construction, residential	\$1,514	\$ ---
Construction, other	5,891	10
Consumer Real Estate		
Equity lines	997	---
Residential closed-end first liens	258	---
Residential closed-end junior liens	---	---
Commercial Real Estate		
Multifamily real estate	529	---
Commercial real estate, owner occupied	4,627	14
Commercial real estate, other	---	---
Commercial Non Real Estate		
Commercial and industrial	671	---
Public Sector and IDA		
Public sector and IDA	---	---
Consumer Non Real Estate		
Credit cards	---	---
Automobile	---	---
Other consumer	68	---
Total	\$14,555	\$24

(1) Recorded investment includes the unpaid principal balance and any accrued interest and net deferred fees.

	Average Investment and Interest Income of Impaired Loans For the Year Ended December 31, 2011	
	Average Recorded Investment(1)	Interest Income Recognized
Consumer Real Estate(2)		
Closed-end Consumer Real Estate	\$450	\$3
Commercial Real Estate(2)		
College Housing	281	7
Office & retail	292	---
Hotel	3,445	41
Medical Professionals	67	5
General Contractors	112	4
Other commercial real estate	1,139	24
Commercial & Industrial(2)		

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Commercial & Industrial	553	---
Construction, Development and Land(2)		
Residential	2,143	49
Commercial	252	8
Total	\$8,734	\$ 141

- (1) Recorded investment includes the unpaid principal balance and any accrued interest and net deferred fees.  
(2) Only classes with impaired loans are shown.

An analysis of past due and nonaccrual loans as of March 31, 2012 follows:

	30 – 89 Days Past Due	90 or More Days Past Due	90 Days Past Due and Still Accruing	Nonaccruals (Including Impaired Nonaccruals)
Real Estate Construction				
Construction, Residential	\$---	\$1,256	\$---	\$ 1,256
Construction, Other	---	---	---	---
Consumer Real Estate				
Equity Lines	200	---	---	---
Residential closed-end first liens	1,404	556	163	717
Residential closed-end junior liens	172	35	---	182
Commercial Real Estate				
Multifamily Real Estate	1,334	250	---	529
Commercial Real Estate, Owner Occupied	1,605	1,413	36	1,991
Commercial Real Estate, Other	---	---	---	---
Commercial Non Real Estate				
Commercial and Industrial	45	489	5	586
Public Sector and IDA				
Public Sector and IDA	---	---	---	---
Consumer Non Real Estate				
Credit Cards	3	1	1	---
Automobile	186	5	5	---
Other Consumer Loans	94	67	---	67
Total	\$5,043	\$4,072	\$210	\$ 5,328

December 31, 2011

	30 – 89 Days Past Due	90 or More Days Past Due	90 Days Past Due and Still Accruing	Nonaccruals (Including Impaired Nonaccruals)
Consumer Real Estate				
Equity Lines	\$---	\$---	\$---	\$---
Closed-ended Consumer Real Estate	1,735	658	346	313
Consumer Construction	---	---	---	---
Consumer Non-Real Estate				
Credit Cards	26	8	8	---
Consumer General	270	38	38	---
Consumer Overdraft	---	---	---	---
Commercial Real Estate				
College Housing	452	250	---	250
Office/Retail	---	---	---	---
Nursing Homes	---	---	---	---
Hotels	616	526	---	1,397
Municipalities	---	---	---	---
Medical Professionals	---	---	---	---
Religious Organizations	---	---	---	---
Convenience Stores	---	---	---	---
Entertainment and Sports	---	---	---	---
Nonprofits	---	---	---	---
Restaurants	---	---	---	---
General Contractors	103	---	---	703
Other Commercial Real Estate	815	488	63	1,112
Commercial and Industrial				
Commercial and Industrial Construction, Development and Land	31	26	26	139
Residential	---	1,290	---	1,290
Commercial	252	---	---	---
Total	\$4,300	\$3,284	\$481	\$ 5,204

The estimate of credit risk for non-impaired loans is obtained by applying allocations for internal and external factors. The allocations are increased for loans that exhibit greater credit quality risk.

Credit quality indicators, which the Company terms risk grades, are assigned through the Company's credit review function for larger loans and selective review of loans that fall below credit review thresholds. Loans that do not indicate heightened risk are graded as "pass." Loans that appear to have elevated credit risk because of frequent or persistent past due status, which is less than 75 days, or that show weakness in the borrower's financial condition are risk graded "special mention." Loans with frequent or persistent delinquency exceeding 75 days or that have a higher level of weakness in the borrower's financial condition are graded "classified." Classified loans have regulatory risk ratings of "substandard" and "doubtful." Allocations are increased by 50% and by 100% for loans with grades of "special mention" and "classified," respectively.

Determination of risk grades was completed for the portfolio as of March 31, 2012 and 2011 and December 31, 2011.





The following displays non-impaired loans by credit quality indicator:

March 31, 2012

	Pass	Special Mention	Classified (Excluding Impaired)
Real Estate Construction			
Construction, 1-4 Family Residential	\$12,763	\$---	\$---
Construction, Other	26,175	2,961	---
Consumer Real Estate			
Equity Lines	18,845	200	---
Closed-End First Liens	117,866	566	1,682
Closed-End, Junior Liens	6,813	5	279
Commercial Real Estate			
Multifamily Residential Real Estate	29,839	1,232	164
Commercial RE Owner-Occupied	167,227	---	1,510
Commercial RE Non Owner-Occupied	93,920	3,170	---
Commercial Non Real Estate			
C & I, Non Real Estate	39,182	16	152
Public Sector and IDA			
States & Political Subdivisions	15,263	---	---
Consumer Non Real Estate			
Credit Cards	6,319	---	---
Automobile	12,548	95	73
Other Consumer	12,669	9	34
Total	\$559,429	\$8,254	\$3,894

December 31, 2011

	Pass	Special Mention	Classified (Excluding Impaired)
Consumer Real Estate			
Equity Lines	\$17,971	\$ ---	\$14
Closed-ended Consumer Real Estate	87,882	595	1,332
Consumer Construction	2,050	---	---
Consumer Non-Real Estate			
Credit Cards	6,594	---	1
Consumer General	22,679	42	105
Consumer Overdraft	285	---	1
Commercial Real Estate			
College Housing	88,157	452	215
Office/Retail	73,106	420	267
Nursing Homes	16,173	---	---
Hotel	24,498	---	616
Municipalities	19,230	---	---
Medical Professionals	18,577	---	---
Religious Organizations	15,852	---	---
Convenience Stores	10,519	---	---
Entertainment and Sports	7,346	---	---
Nonprofit	3,265	4,031,133	
Performance Units (3)	\$- \$ 2,327,262	\$ 2,327,262	\$5,144,129
Stock options (2)	\$- \$ 896,460	\$ 896,460	\$1,153,439
Retention Award (2)	\$- \$ -	\$ -	\$2,937,205
Benefits & Perquisites:			
Severance Payment	\$- \$ 395,000	\$ 395,000	\$2,058,117
Prorated Bonus Payment (4)	\$- \$ 316,000	\$ 316,000	\$293,333
Medical Benefit Continuation (5)	\$- \$ 28,703	\$ -	\$47,975
Pay in lieu of 30-day Notice (6)	\$- \$ 32,917	\$ -	\$32,917
Total	\$- \$ 6,432,140	\$ 6,370,520	\$15,698,248

The benefits and payments quantified in the table do not contemplate the payments that the Company is obligated to make to the executive officer (i) if the Company terminates the executive officer without cause following a potential change in control or a change in control occurs within 12 months following the termination, or (ii) if the executive officer terminates employment following a change in control because he is required to relocate more than (1) 50 miles, in both cases as described in the summary of the change in control agreements set forth above.

Additionally, the benefits and payments quantified herein have been determined as of December 31, 2013, and therefore do not contemplate the effect on the long-term incentive compensation component resulting from the vesting in February 2014 of 6,735 shares of restricted stock and the grants of awards made in February 2014 under the Company's Long Term Incentive Plan.

(2) Unvested restricted stock, stock option and retention awards automatically vest upon a change in control, regardless of whether employment is subsequently terminated. In the case of a termination not for cause, a termination for good reason, or normal retirement, death or disability, vesting of the awards, other than retention awards, is accelerated pro rata to the end of the month of termination. Upon a termination as described in the preceding sentence prior to the third anniversary of the date of grant, the restricted shares or RSUs subject to the retention awards are forfeited to the Company. As a result, assuming a triggering event on December 31, 2013,

only a change of control would result in vesting with respect to the restricted shares or RSUs subject to the retention awards.

(3) Unvested performance unit awards automatically vest upon a change in control with the award of shares subject to performance measured on the date of the change in control, regardless of whether employment is subsequently terminated. Unvested performance unit awards also automatically vest pro rata to the end of the month with the award of shares subject to performance measured at the end of the three-year performance period upon a termination not for cause or a termination for good reason. In the case of normal retirement, performance unit awards vest pro rata to the end of the month with the award of shares subject to performance measured at the end of the three-year performance period. In the case of death or disability, unvested performance unit awards vest pro rata to the end of the month with shares paid at target (because the performance units would be measured at target and not based on assumed performance, the amount shown in the table for the estimated potential payments of the performance units would actually be \$931,275). Except in the case of a termination due to death or disability, the number of shares underlying performance units is calculated assuming the rankings specified in footnotes (10) and (11) of the 2013 Outstanding Equity Awards at Fiscal Year End table.

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- (4) Other than in connection with a change in control termination, payment of a bonus is subject to Compensation Committee discretion. This table assumes a bonus payment in the amount indicated. These amounts equal the cost of continued medical coverage for a period of 18 months in the event of a termination not for cause or a termination for good reason pursuant to the severance agreements. In the event of a termination in connection with a change in control, the change in control agreements provide continued coverage for a period of 36 months.
- (5) This amount is payable only if employment is terminated by the Company and the date of termination is less than 30 days after the date of notice of termination.

Timothy L. Dove. The following table shows, as of December 31, 2013, the estimated potential payments and benefits that would be received by Mr. Dove upon the termination of his employment in each of the circumstances indicated in the table.

Benefits and Payments Upon Termination (1)	Voluntary Termination or Termination for Cause	Termination Not for Cause or Termination for Good Reason	Normal Retirement or Death/Disability	Change in Control Termination
Long-Term Incentive Compensation:				
Restricted Stock (2)	\$ -	\$ 8,366,902	\$ 5,214,407	\$ 8,366,902
Performance Units (3)	\$ -	\$ 10,081,143	\$ 4,585,026	\$ 10,081,143
Stock options (2)	\$ -	\$ 2,486,348	\$ 1,962,244	\$ 2,486,348
Retention Award (2)	\$ -	\$ -	\$ -	\$ 5,874,594
Benefits & Perquisites:				
Severance Payment	\$ -	\$ 1,450,000	\$ 580,000	\$ 3,370,727
Prorated Bonus Payment (4)	\$ -	\$ 580,000	\$ 580,000	\$ 547,333
Medical Benefit Continuation (5)	\$ -	\$ 47,287	\$ -	\$ 248,573
Pay in lieu of 30-day Notice (6)	\$ -	\$ 48,333	\$ -	\$ 48,333
Total	\$ -	\$ 23,060,013	\$ 12,921,677	\$ 31,023,953

- The benefits and payments quantified in the table do not contemplate the payments that the Company is obligated to make to the executive officer (i) if the Company terminates the executive officer without cause following a potential change in control or a change in control occurs within 12 months following the termination, or (ii) if the executive officer terminates employment following a change in control because he is required to relocate more than 50 miles, in both cases as described in the summary of the change in control agreements set forth above. Additionally, the benefits and payments quantified herein have been determined as of December 31, 2013, and therefore do not contemplate the effect on the long-term incentive compensation component resulting from the vesting in February 2014 of 15,574 shares of restricted stock and the grants of awards made in February 2014 under the Company's Long Term Incentive Plan.
- Unvested restricted stock, stock option and retention awards automatically vest upon a change in control, regardless of whether employment is subsequently terminated. Unvested stock option and restricted stock awards, other than retention awards, also automatically vest (i) 100 percent in the event of a termination not for cause or a termination for good reason or (ii) pro rata to the end of the month of termination, in the event of normal retirement, death or disability. Upon a termination as described in the preceding sentence prior to the third anniversary of the date of grant, the RSUs subject to the retention awards are forfeited to the Company. As a result, assuming a triggering event on December 31, 2013, only a change of control would result in vesting with respect to the RSUs subject to the retention awards.
- (2) Unvested performance unit awards automatically vest upon a change in control with the award of shares subject to performance measured on the date of the change in control, regardless of whether employment is subsequently

terminated. Unvested performance unit awards also automatically vest with the award of shares subject to performance measured at the end of the three-year performance period upon a termination not for cause or a termination for good reason. In the case of normal retirement, performance unit awards vest pro rata to the end of the month with the award of shares subject to performance measured at the end of the three-year performance period. In the case of death or disability, unvested performance unit awards vest pro rata to the end of the month with shares paid at target (because the performance units would be measured at target and not based on assumed performance, the amount shown in the table for the estimated potential payments of the performance units would actually be \$1,834,744). Except in the case of a termination due to death or disability, the number of shares underlying performance units is calculated assuming the rankings specified in footnotes (10) and (11) of the 2013 Outstanding Equity Awards at Fiscal Year End table.

- (4) Other than in connection with a change in control termination, payment of a bonus is subject to Compensation Committee discretion. This table assumes a bonus payment in the amount indicated. These amounts equal the cost of continued medical coverage for a period of 30 months in the event of a termination not for cause or a termination for good reason. In the event of a termination in connection with a change in control, the change in control agreements provide continued coverage until Mr. Dove is eligible to receive Medicare benefits; thus, the period of continued coverage is eight years as of December 31, 2013.
- (5) This amount is payable only if employment is terminated by the Company and the date of termination is less than 30 days after the date of notice of termination.
- (6)

## COMPENSATION PROGRAMS AND RISK CONSIDERATIONS

The Company does not believe that its policies and practices of compensating its employees give rise to risks that are reasonably likely to have a material adverse effect on the Company. In making this determination, the Company considered the following:

The Board has adopted a clawback policy, and has established substantial stock ownership guidelines for the Company's directors and executive officers, as well as other officers of the Company and its subsidiaries.

As discussed in the Compensation Discussion and Analysis section, the Company's compensation program for its executive officers is weighted toward pay-for-performance; however, the Company believes the following aspects mitigate against its executive officers taking excessive risk:

The annual long-term incentive plan award component of the program, which is intended to be the largest component of each executive officer's overall compensation package, is divided into different types of awards, but all are weighted toward long-term achievement, with vesting periods of three years that are based on the value of the Company's stock and not on any particular metric, which could encourage risk-taking. To further enhance the long-term incentive component of the program, in February 2012, the Compensation Committee approved a special retention award of restricted shares with a longer vesting period than the Company's typical equity awards. These retention awards vest over a five-year period, with vesting not scheduled to commence until 2015, and then in equal one-third installments over the three-year period ending in 2017, subject to continuing employment.

Each executive officer's annual cash bonus incentive payment is based on a number of goals set for the Company as a whole, some of which counteract the potential for risk taking, such as goals for levels of indebtedness, and is ultimately subject to the Compensation Committee's discretion to reduce the amount of the payout so that the Committee can consider both the risks facing the Company and market conditions at the time of the decision.

With regard to the Company's overall compensation program, while the Company has organized itself into asset teams focused on the Company's significant oil and gas assets, the Company's compensation philosophy is focused on the Company's performance as a whole, and any variations in compensation based on achievements within any one asset team or employee group consist of relatively small adjustments to salary and bonus. The Company does not compensate any division or group of its employees significantly differently than any other. In addition, substantially all of the Company's employees receive grants of equity awards each year that vest over a period of three years in order to align their interests with the long-term performance of the Company.

## COMPENSATION AND MANAGEMENT DEVELOPMENT COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION

Messrs. Buchanan, Cates, Thompson and Ramsey and Ms. Methvin served on the Compensation Committee during fiscal year 2013, as did Messrs. Lundquist and Reiman, who resigned from the Board and the Compensation Committee in February 2013. None of the directors who served on the Compensation Committee during fiscal year 2013 has ever served as one of the Company's officers or employees. During fiscal year 2013, none of the Company's executive officers served as a director or member of the compensation committee (or other committee performing similar functions) of any other entity of which an executive officer served on the Board or the Compensation Committee.

## AUDIT COMMITTEE REPORT

The information contained in this Audit Committee Report and references in this Proxy Statement to the independence of the Audit Committee members shall not be deemed to be "soliciting material" or to be "filed" with the SEC, nor shall such information be incorporated by reference into any future filing under the Securities Act of 1933 or the Exchange Act, except to the extent that the Company specifically incorporates such information by reference in such filing.

The Audit Committee's purpose is to assist the Board in its oversight of the Company's internal controls, financial statements and the audit process. The Board, in its business judgment, has determined that all members of the Audit Committee meet the independence standards of the NYSE and the SEC applicable to members of the Audit Committee.

Management is responsible for the preparation, presentation and integrity of the Company's financial statements, accounting and financial reporting principles, and internal controls and procedures designed to assure compliance with accounting standards and applicable laws and regulations. The independent registered public accounting firm, Ernst & Young LLP, is responsible for performing an independent audit of the consolidated financial statements in accordance with generally accepted auditing standards and for auditing the Company's internal controls over financial reporting. While the Audit Committee has the responsibilities and powers set forth in its charter and management and the independent registered public accounting firm for the Company are accountable to the Audit Committee, it is not the duty of the Audit Committee to plan or conduct audits or to determine that the Company's consolidated financial statements are complete and accurate and are in accordance with generally accepted accounting principles.

In performing its oversight role, the Audit Committee has reviewed and discussed the audited financial statements as of and for the year ended December 31, 2013 with management and the independent registered public accounting firm. The Audit Committee has also discussed with the independent registered public accounting firm the matters required to be discussed by Statement on Auditing Standards No. 61, as amended (AICPA, Professional Standards, Vol. 1. AU section 380), as adopted by the Public Company Accounting Oversight in Rule 3200T, and any other applicable accounting and auditing standards. The Audit Committee has received the written disclosures and the letter from the independent registered public accounting firm required by applicable requirements of the Public Company Accounting Oversight Board regarding the independent registered public accounting firm's communications with the Audit Committee concerning independence, and has discussed with the independent registered public accounting firm the firm's independence.

Based on the reports and discussions described in this Audit Committee Report, and subject to the limitations on the roles and responsibilities of the Audit Committee referred to below and in the charter, the Audit Committee recommended to the Board that the audited financial statements be included in the Annual Report on Form 10-K for the year ended December 31, 2013, for filing with the SEC. The Audit Committee has also selected Ernst & Young

LLP as the Company's independent registered public accounting firm for 2014.

Although determined to be financially literate (as defined by the SEC rules), the members of the Audit Committee are not professionally engaged in the practice of auditing or accounting for the Company and are not experts in auditor independence standards or legal or regulatory matters. Members of the Audit Committee rely, without independent verification, on the information provided to them and on the representations made by management and the independent registered public accounting firm. Accordingly, the Audit Committee's oversight does not provide an independent basis to determine that management has maintained appropriate accounting and financial reporting principles or appropriate internal controls and procedures designed to assure compliance with accounting standards and applicable laws and regulations. Furthermore, the Audit Committee's considerations and discussions referred to above do not assure that the audit of the Company's financial

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statements has been carried out in accordance with generally accepted auditing standards, that the financial statements are presented in accordance with generally accepted accounting principles or that Ernst & Young LLP is in fact independent.

Respectfully submitted by the Audit Committee of the Board of Directors,

R. Hartwell Gardner, Chairman  
Thomas D. Arthur  
Larry R. Grillot  
Frank A. Risch  
Jim A. Watson  
Phoebe A. Wood

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## CORPORATE GOVERNANCE

### Corporate Governance Guidelines

The Board believes that sound governance practices and policies provide an important framework to assist it in fulfilling its duty to stockholders. The Company's Corporate Governance Guidelines cover the following principal subjects:

- Role and functions of the Board and its Lead Director
- Qualifications and independence of directors
- Size of the Board and director selection process
- Committee functions and independence of committee members
- Meetings of non-employee directors
- Self-evaluation
- Ethics and conflicts of interest (a copy of the current "Code of Business Conduct and Ethics" is posted on the Company's website at [www.pxd.com](http://www.pxd.com))
- Reporting of concerns to non-employee directors or the Audit Committee
- Compensation of the Board and stock ownership requirements
- Succession planning and annual compensation review of senior management
- Access to senior management and to independent advisors
- New director orientation
- Continuing director education
- Review and approval of related person transactions

The Company's Corporate Governance Guidelines are posted on the Company's website at [www.pxd.com/about/governance](http://www.pxd.com/about/governance). The Corporate Governance Guidelines are reviewed periodically and as necessary by the Company's Nominating and Corporate Governance Committee, and any proposed additions to or amendments of the Corporate Governance Guidelines are presented to the Board for its approval.

The NYSE has adopted rules that require listed companies to adopt governance guidelines covering certain matters. The Company believes that the Corporate Governance Guidelines comply with the NYSE rules.

### Board Leadership

Mr. Sheffield was first elected Chief Executive Officer of the Company in August 1997 and Chairman of the Board ("Chairman") of the Company in August 1999, and has been re-elected to those positions each year since 1999. Mr. Sheffield also served as the Chairman of the Board and Chief Executive Officer of Parker & Parsley, a predecessor of the Company, from January 1989 until the formation of the Company in August 1997.

The Board believes that at present the combined role of Chairman and CEO promotes unified leadership and direction for the Company, which allows for a single, clear focus for management to execute the Company's strategy and business plans. As CEO, Mr. Sheffield is best suited to ensure that critical business issues are brought before the Board, which enhances the Board's ability to develop and implement business strategies.

To maintain a strong and independent board, all directors of the Company, other than Messrs. Sheffield and Dove, are "independent" as described in more detail below. In addition, the Company's Corporate Governance Guidelines provide that if the Chairman is also the Chief Executive Officer, the Board shall have a Lead Director, who is to be



an independent director designated by the Nominating and Corporate Governance Committee, which is composed entirely of independent directors, from among its members, and who will serve as the chair of the Nominating and Corporate Governance Committee.

Mr. Ramsey has served as Lead Director of the Board since November 2002. In this capacity, Mr. Ramsey provides, in conjunction with the Chairman, leadership and guidance to the Board. He also:

- presides at all meetings of the Board at which the Chairman is not present, including the executive sessions of the independent directors, and has the authority to call such executive sessions;
- in consultation with the Chairman and Secretary, approves the agenda and meeting schedules for each meeting of the Board, taking into account suggestions of other directors;
- coordinates the nature, quality, quantity and timeliness of, and is authorized to approve, information sent to the Board in advance of meetings;
- serves as liaison between the Chairman and the independent directors, although all of the independent directors have complete and open access to the Chairman and all members of management; and
- serves as the Board's contact for direct employee and stockholder communications with the Board.

In addition, all directors are encouraged to suggest the inclusion of agenda items and meeting materials, and any director is free to raise at any Board meeting items that are not on the agenda for that meeting. All of these principles are set forth in the Company's Corporate Governance Guidelines.

The Board regularly meets in executive session without the presence of the CEO or other members of management. The Lead Director presides at these meetings and provides the Board's guidance and feedback to the Chairman and the Company's management team.

Given the strong leadership of the Company's Chairman and CEO, the effective counterbalancing role of the Lead Director and a Board comprised of strong and independent directors, the Board believes that, at the present time, the combined role of Chairman and CEO best serves the interests of the Company and its stockholders.

#### Director Independence

Each year, the Board assesses the independence of its directors. In making this assessment, the Board uses the independence standards of the NYSE corporate governance rules for determining whether directors are independent, and additionally considers the rules of the SEC and the NYSE in determining independence for Audit Committee and Compensation Committee members. A director cannot be considered independent unless the Board affirmatively determines that he or she does not have any relationship with management or the Company that may interfere with the exercise of his or her independent judgment, including any of the relationships that would disqualify the director from being independent under the rules of the NYSE and SEC.

The Board has assessed the independence of each director and each nominee for director under the independence standards of the NYSE and affirmatively determined that all of the Board's non-employee directors (Messrs. Arthur, Buchanan, Cates, Gardner, Ramsey, Risch, Thompson and Watson, Dr. Grillot and Ms. Methvin and Wood) are independent. The Board also determined that Messrs. Lundquist and Reiman, two non-employee directors who resigned from the Board in February 2013, were independent. In connection with its assessment of Mr. Thompson's independence, the Board reviewed the facts and circumstances of his role as an independent director of Alaska Air Group, Inc. and Tetra Tech, Inc., each of which is a vendor to the Company in the ordinary course of their business. The Board concluded that Mr. Thompson is an independent director because his role at each of the vendors is



limited to that of an independent director, each of the vendors is large public company, and the amount of business done between the Company and each of the vendors is immaterial to the Company and to each vendor (less than 0.1% of the vendor's gross revenues for 2012, the last full year prior to the assessment). In considering Dr. Grillot's independence, the Board reviewed the facts and circumstances of Dr. Grillot's role as dean of the Mewbourne College of Earth and Energy at the University of Oklahoma. The university is among several college institutions that were recipients of donations by the Company in 2013 of up to \$250,000, and the Company is a member of a research consortium associated with the engineering program at the university for which the Company pays a membership fee of \$400,000 per year. In addition, Mr. Cheatwood is a member of the Board of Visitors at the university, which is an advisory board composed of alumni, corporate leaders and scientists. The Board concluded that Dr. Grillot is an independent director because the contributions and membership fee were immaterial to the university (less than 0.1% of the university's gross revenues) and Mr. Cheatwood's role as one of about 30 members of the board, which serves only in an advisory capacity, does not provide him the ability to influence the university or Dr. Grillot.

In connection with its assessment of the independence of each non-employee director, the Board also determined that each member of the Audit Committee meets the additional independence standards of the NYSE and SEC applicable to members of the Audit Committee. Those standards require that the director not be an affiliate of the Company and that the director not receive from the Company, directly or indirectly, any consulting, advisory or other compensatory fees except for fees for services as a director.

In connection with its independence assessment, the Board also determined that each member of the Compensation Committee meets the additional independence standards of the NYSE and SEC applicable to members of the Compensation Committee. Those standards require that the Board consider all factors specifically relevant to determining whether a director has a relationship to the Company that is material to his or her ability to be independent from management of the Company in connection with the duties of a member of the Compensation Committee, including the source of his or her compensation and whether he or she is affiliated with the Company, a subsidiary of the Company or an affiliate of a subsidiary of the Company.

#### Financial Literacy of Audit Committee and Designation of Financial Experts

In 2013 the Board evaluated the members of the Audit Committee for financial literacy and the attributes of a financial expert. The Board determined that each of the Audit Committee members is financially literate and that three of the Audit Committee members (Messrs. Gardner and Risch and Ms. Wood) are audit committee financial experts as defined by the SEC.

#### Oversight of Risk Management

Except as discussed below, the Board as a whole oversees the Company's assessment of major risks and the measures taken to manage such risks. For example:

the Board oversees the long-term strategic direction of the Company, and in doing so periodically reviews the Company's strategic plans, the principal issues and risks that the Company may face and management's efforts to monitor and mitigate those risks;

- the Board oversees management of the Company's commodity price risk through regular review with executive management of the Company's derivatives strategy, and the oversight of the Company's policy that limits the Company's authority to enter into derivative commodity price instruments to a specified level of production, above which management must seek Board approval;



the Board has established specific dollar limits on the commitment authority of members of senior management and requires Board approval of expenditures exceeding that authority and of other material contracts and transactions; and the Board reviews management's capital spending plans, approves the Company's capital budget and requires that management present for Board review significant departures from those plans.

The Audit Committee of the Board is responsible for overseeing the Company's assessment and management of financial reporting and internal controls risks, as well as other financial risks such as the credit risks associated with counterparty exposure. Management and the Company's external and internal auditors report regularly to the Audit Committee on those subjects.

The Health, Safety and Environment Committee of the Board provides oversight for the Company's health, safety and environmental ("HSE") practices and monitors management's efforts in creating a culture of safety. In addition, certain members of the Board periodically meet with the executives and employees of the Company responsible for overseeing the Company's proved reserves estimates to assist the Board in its oversight of the risks related to the Company's disclosure of proved reserves of oil and gas.

The administration of the Board's risk oversight role does not have a direct effect on the Board's leadership structure.

#### Attendance at Annual Meetings

The Board encourages all directors to attend the annual meetings of stockholders, if practicable. All of the then-serving directors attended the 2013 Annual Meeting of Stockholders held on May 23, 2013.

#### Procedure for Directly Contacting the Board and Whistleblower Policy

The means for stockholders and any other interested parties to contact the Board (including the Lead Director) directly has been established and is published on the Company's website at [www.pxd.com](http://www.pxd.com). Matters for which this contact may be used include allegations about actions of the Company or its directors, officers or employees involving (i) questionable accounting, internal controls and auditing matters; (ii) materially misleading statements or omissions in SEC reports, press releases, or other public statements or other forms of wire, mail or securities fraud; (iii) violations of law, Company policy or the Company's Code of Business Conduct and Ethics; or (iv) other concerns that should be brought to the attention of the Company's independent directors. All complaints and concerns will be received and processed by the Company's Corporate Secretary's Office. Complaints relating to the Company's accounting, internal accounting controls or auditing matters will be referred to the Audit Committee and other concerns will be referred to the Lead Director. Information may be submitted confidentially and anonymously, although the Company may be obligated by law to disclose the information or identity of the person (if known) providing the information in connection with government or private legal actions and in some other circumstances. The Company's policy is not to take any adverse action, and to not tolerate any retaliation against any person for asking questions or making good faith reports of possible violations of law, Company policy or the Code of Business Conduct and Ethics.



## SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth certain information regarding the beneficial ownership of common stock as of April 2, 2014, by (i) each person who is known by the Company to own beneficially more than five percent of the outstanding shares of the Company's common stock, (ii) each NEO of the Company, (iii) each current director of the Company and (iv) all current directors and executive officers as a group. Except as otherwise noted, the persons named in the table have sole voting and investment power with respect to all shares beneficially owned by them.

Name of Person or Identity of Group	Number of Shares	Percentage Of Class (1)
T. Rowe Price Associates, Inc. (3) 100 E. Pratt Street Baltimore, Maryland 21202	14,893,631	10.4
Capital World Investors (4) 333 South Hope Street Los Angeles, CA 90071	11,234,900	7.9
Wellington Management Company, LLP (5) 280 Congress Street Boston, MA 02210	8,236,609	5.8
BlackRock, Inc. (6) 40 East 52 <sup>nd</sup> Street New York, NY 10022	7,783,270	5.4
Scott D. Sheffield (7)(8)(9)(10)	647,133	(2)
Richard P. Dealy (7)(9)(11)(12)	201,790	(2)
Mark S. Berg (9)(11)(12)(13)	82,929	(2)
Chris J. Cheatwood (7)(8)(9)(11)(12)(14)	114,474	(2)
Timothy L. Dove (7)(9)(11)(12)	320,610	(2)
Thomas D. Arthur (12)(14)	25,068	(2)
Edison C. Buchanan (12)	25,370	(2)
Andrew F. Cates (7)(12)(14)	21,320	(2)
R. Hartwell Gardner (12)	21,527	(2)
Larry R. Grillot (9)(12)	1,625	(2)
Stacy P. Methvin (9)(12)	1,125	(2)
Charles E. Ramsey, Jr. (12)(14)	17,034	(2)
Frank A. Risch (12)	15,493	(2)
J. Kenneth Thompson (8)(9)(12)	6,856	(2)
Jim A. Watson (12)	7,427	(2)
Phoebe A. Wood (9)(12)	1,125	(2)
All directors and executive officers as a group (19 persons) (9)(11)(12)	1,638,110	1.1

(1)Based on 143,199,374 shares of common stock outstanding.

(2)Does not exceed one percent of class.

According to an Amendment to Schedule 13G filed with the SEC on February 11, 2014, T. Rowe Price Associates, (3)Inc. has sole voting power with regard to 4,781,242 shares, shared voting power with regard to 0 shares, sole dispositive power with regard to 14,893,631 shares, and shared dispositive power with regard to 0 shares.

According to an Amendment to Schedule 13G filed with the SEC on February 13, 2014, Capital World Investors (4)has sole voting power with regard to 11,234,900 shares, shared voting power with regard to 0 shares, sole dispositive power with regard to 11,234,900 shares, and shared dispositive power with regard to 0 shares.

(5)

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According to a Schedule 13G filed with the SEC on February 14, 2014, Wellington Management Company, LLP has sole voting power with regard to 0 shares, shared voting power with regard to 3,814,212 shares, sole dispositive power with regard to 0 shares, and shared dispositive power with regard to 8,236,609 shares.

According to an Amendment to Schedule 13G filed with the SEC on January 30, 2014, BlackRock Inc. has sole (6) voting power with regard to 6,566,476 shares, shared voting power with regard to 0 shares, sole dispositive power with regard to 7,783,270 shares, and shared dispositive power with regard to 0 shares.

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- (7) Includes the following number of shares held in each respective officer's or director's 401(k) Plan account: Mr. Sheffield, 22,012; Mr. Dealy, 310; Mr. Cheatwood, 129; Mr. Dove, 350; and Mr. Cates, 882.  
Includes the following number of shares held in each respective officer's investment retirement account: Mr. Cheatwood, 2,000; and Mr. Thompson, 100. Excludes 37,827 shares held for the benefit of Mr. Sheffield through Pioneer's non-qualified deferred compensation plan.  
Excludes the following number of RSUs that are unvested and will not vest within 60 days: Mr. Sheffield, 87,988; Mr. Dealy, 3,508; Mr. Dove, 41,492; Dr. Grillot, 1,000; Ms. Methvin, 1,000; Mr. Thompson, 588; and Ms. Wood, (9) 1,000; and all directors and executive officers as a group, 171,172. Also, excludes the performance units held by the executive officers that will vest if and to the extent predetermined performance targets are achieved assuming that performance targets are achieved.  
Includes (i) 20,000 shares owned by a trust whose beneficiaries are members of Mr. Sheffield's family and for (10) which he serves as trustee, but Mr. Sheffield has no beneficial interest in the trust, and (ii) 20,000 shares owned by a trust whose beneficiaries are members of Mr. Sheffield's family and for which Mr. Sheffield's spouse serves as trustee, but Mr. Sheffield has no beneficial interest in the trust.
- (11) Includes the following number of shares subject to exercisable stock options: Mr. Dealy, 4,213; Mr. Berg, 5,607; Mr. Cheatwood, 6,728; Mr. Dove, 79,238; and all directors and executive officers as a group, 112,224.  
Includes the following number of (i) unvested restricted shares or (ii) RSUs that will vest within 60 days: Mr. Dealy, 47,682; Mr. Berg, 29,877; Mr. Cheatwood, 36,017; Mr. Dove, 29,881; Mr. Arthur, 444; Mr. Buchanan, (12) 474; Mr. Cates, 444; Mr. Gardner, 474; Dr. Grillot, 375; Ms. Methvin, 375; Mr. Ramsey, 494; Mr. Risch, 444; Mr. Thompson, 444; Mr. Watson, 444; Ms. Wood, 375; and all directors and executive officers as a group, 174,997.
- (13) Includes 19,668 shares owned by a trust whose beneficiaries are members of Mr. Berg's family and for which Mr. Berg's spouse serves as trustee, but Mr. Berg has no beneficial interest in the trust.  
Includes the following number of shares held in the names of each respective officer's or director's children or in (14) trusts for the benefit of family members: Mr. Cheatwood, 3,750; Mr. Arthur, 22,124; Mr. Cates, 1,354; and Mr. Ramsey 16,540.

#### SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

The executive officers and directors of the Company are required to file reports with the SEC, disclosing the amount and nature of their beneficial ownership in the Company's common stock, as well as changes in that ownership. To the Company's knowledge, based solely on its review of these reports and written representations from these individuals that no other reports were required, all required reports were timely filed during 2013, except for (i) one Form 4 that was filed one day late on behalf of Timothy L. Dove, a Director and President and Chief Operating Officer, with respect to one transaction, and (ii) one Form 4 that was filed late on behalf of Richard P. Dealy, Executive Vice President and Chief Financial Officer, with respect to one transaction that was carried out in his brokerage account without his prior knowledge.

#### TRANSACTIONS WITH RELATED PERSONS

Employment of Family Members. Tom Sheffield, the brother of Scott D. Sheffield, is employed at a subsidiary of the Company as the Vice President, Rockies Asset Team. For 2013, Tom Sheffield was paid \$278,000 in base salary and \$242,744 in bonus and other benefits and received equity compensation awards under the Company's 2006 Long-Term Incentive Plan having a grant date fair value for financial statement purposes of \$440,000. Scott D. Sheffield disclaims any interest in Tom Sheffield's compensation. Ryan Pervier, the son-in-law of William F. Hannes, is employed at a subsidiary of the Company as a Senior Engineer. For 2013, Ryan Pervier was paid \$133,000 in base salary and \$66,246 in bonus and other benefits and received equity compensation awards under the Company's 2006 Long-Term Incentive Plan having a grant date fair value for financial statement purposes of \$48,000. William F. Hannes disclaims any interest in Ryan Pervier's compensation.

Well Operations Transaction. On August 1, 2008, Bryan Sheffield, the son of Scott D. Sheffield, obtained from his maternal grandfather ownership of Parsley Energy Operations LLC ("Parsley Energy"), a company that operates 115 Spraberry field wells in which the Company holds an average 33 percent working interest. For 2013, Parsley Energy received standard overhead and supervision fees for operating these wells in the amount of approximately \$1,610,000 (with the Company's net share being \$527,000). Scott D. Sheffield disclaims any interest in any compensation paid to Bryan Sheffield from the operation of these wells.

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#### Procedures for Review, Approval and Ratification of Related Person Transactions

The Company's Corporate Governance Guidelines provide that the Nominating and Corporate Governance Committee will periodically review all related person transactions that the rules of the SEC require be disclosed in the Company's Proxy Statement, and make a recommendation to the Board regarding the initial authorization or ratification of any such transaction. In the event that the Board considers ratification of a related person transaction and determines not to so ratify, the Corporate Governance Guidelines provide that management will make all reasonable efforts to cancel or annul the transaction. In February 2014, the Nominating and Corporate Governance Committee conducted its annual review of all such related person transactions.

The Corporate Governance Guidelines provide that in determining whether or not to recommend the initial approval or ratification of a related person transaction, the Nominating and Corporate Governance Committee should consider all of the relevant facts and circumstances available, including (if applicable) but not limited to: (i) whether there is an appropriate business justification for the transaction; (ii) the benefits that accrue to the Company as a result of the transaction; (iii) the terms available to unrelated third parties entering into similar transactions; (iv) the impact of the transaction on a director's independence (in the event the related person is a director, an immediate family member of a director or an entity in which a director is a partner, shareholder or executive officer); (v) the availability of other sources for comparable products or services; (vi) whether it is a single transaction or a series of ongoing, related transactions; and (vii) whether entering into the transaction would be consistent with the Company's Code of Business Conduct and Ethics.

There were no transactions since the beginning of 2013 that were required to be reported in "Transactions with Related Persons" where the procedures described above did not require review, approval or ratification or where these procedures were not followed.

#### ITEM TWO

##### RATIFICATION OF SELECTION OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Audit Committee of the Board has selected Ernst & Young LLP as the independent registered public accounting firm of the Company for 2014. Ernst & Young LLP has audited the Company's consolidated financial statements since 1998. The 2013 audit of the Company's annual consolidated financial statements and effectiveness of internal control over financial reporting was completed on February 13, 2014.

The Board is submitting the selection of Ernst & Young LLP for ratification at the Annual Meeting. The submission of this matter for approval by stockholders is not legally required, but the Board and the Audit Committee believe the submission provides an opportunity for stockholders through their vote to communicate with the Board and the Audit Committee about an important aspect of corporate governance. If the stockholders do not ratify the selection of Ernst & Young LLP, the Audit Committee will reconsider the selection of that firm as the Company's independent registered public accounting firm.

The Audit Committee has the sole authority and responsibility to retain, evaluate and replace the Company's independent registered public accounting firm. The stockholders' ratification of the selection of Ernst & Young LLP does not limit the authority of the Audit Committee to change independent registered public accounting firms at any time.



**Audit Fees.** The aggregate fees of Ernst & Young LLP for professional services rendered for the (i) audit of the Company's annual consolidated financial statements included in its Annual Report on Form 10-K; (ii) audit of the Company's internal control over financial reporting; (iii) reviews of the Company's quarterly financial statements included in its Quarterly Reports on Form 10-Q; (iv) services rendered to the Company's consolidated subsidiary, Pioneer Southwest, in connection with the audit of its annual consolidated financial statements for 2012 and review of its quarterly financial statements for 2012 and 2013; and (v) services in connection with the Company's and Pioneer Southwest's other filings with the SEC, including review and preparation of registration statements, comfort letters, consents and research necessary to comply with generally accepted auditing standards for the years ended December 31, 2013 and 2012, were \$2,928,388 and \$2,921,000, respectively.

**Audit-Related Fees.** The aggregate fees of Ernst & Young LLP for audit-related services provided to the Company totaled \$310,154 and \$352,000 during each of the years ended December 31, 2013 and 2012, respectively. Audit-related services comprised audits of the Company's 401(k) Plans and certain affiliated partnerships and subsidiaries, and related out-of-pocket expenses.

**Tax Fees.** The aggregate fees of Ernst & Young LLP for tax services provided to the Company totaled \$15,263 and \$51,000 during the years ended December 31, 2013 and 2012, respectively. Tax services primarily comprised tax return preparation and review services for the Company's international subsidiaries and consultation on various tax issues.

**All Other Fees.** The aggregate fees of Ernst & Young LLP for other services provided to the Company during each of the years ended December 31, 2013 and 2012 totaled \$1,995. The other services comprised access to Ernst & Young LLP's on-line research services.

The Charter of the Company's Audit Committee requires that the Audit Committee review the plan, scope and estimated fees of Ernst & Young LLP's audit, audit-related, tax and other services and pre-approve such services. The Audit Committee pre-approved 100 percent of the services described above under the captions "Audit Fees," "Audit-Related Fees," "Tax Fees" and "All Other Fees."

The Company expects that representatives of Ernst & Young LLP will be present at the Annual Meeting to respond to appropriate questions from stockholders and to make a statement if they desire to do so.

#### Recommendation

The Board unanimously recommends that stockholders vote FOR the ratification of the selection of Ernst & Young LLP as the independent registered public accounting firm of the Company for 2014.

#### ITEM THREE

##### ADVISORY VOTE TO APPROVE NAMED EXECUTIVE OFFICER COMPENSATION

Section 14A of the Exchange Act requires public companies to conduct a separate shareholder advisory vote to approve the compensation of executives, commonly known as a "say-on-pay" proposal. Accordingly, the Board is submitting for an advisory vote a proposal that the Company's stockholders approve the compensation of the NEOs.

The Board recommends that the Company's stockholders vote in favor of the following advisory resolution:

"Resolved, that the stockholders of Pioneer Natural Resources Company approve, on an advisory basis, the compensation paid to the Company's Named Executive Officers, as disclosed in the Proxy Statement for this Annual Meeting pursuant to Item 402 of Regulation S-K, including the Compensation Discussion and Analysis, compensation

tables and related narrative executive compensation disclosures included in the Proxy Statement for this Annual Meeting."

The vote on this resolution is not intended to address any specific element of compensation; rather the vote relates to the compensation of the NEOs, as described in this Proxy Statement in accordance with the compensation disclosure rules of the SEC. The vote is advisory, which means that the vote is not binding on the Company, the Board or the Compensation Committee. Although the vote is non-binding, the Board and the Compensation Committee value the opinions of the Company's stockholders, and will take into account the outcome of the vote when considering future executive compensation

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arrangements. In accordance with the vote of the Company's stockholders in 2011, the Board intends to hold this vote annually, and the next advisory vote to approve named executive officer compensation will occur in 2015.

#### Recommendation

The Board unanimously recommends that stockholders vote FOR the proposal to approve, on an advisory basis, the named executive officer compensation as described in this Proxy Statement.

#### ITEM FOUR

##### REAPPROVAL OF THE ELIGIBLE EMPLOYEES, BUSINESS CRITERIA AND MAXIMUM ANNUAL PER PERSON COMPENSATION LIMITS UNDER THE 2006 LONG-TERM INCENTIVE PLAN FOR PURPOSES OF COMPLYING WITH SECTION 162(M) OF THE CODE

#### Background

The Company's 2006 Long-Term Incentive Plan (the "2006 Plan") was originally established in 2006, and is designed in part so that awards may qualify for exemption from the deduction limitations of Section 162(m) of the Code ("Section 162(m)") by providing for "performance-based compensation" to "covered employees" within the meaning of Section 162(m). In order to qualify for this exemption, the regulations under Section 162(m) require, among other things, that the material terms of the 2006 Plan be periodically disclosed to and approved by the Company's stockholders. For purposes of Section 162(m), the material terms of the 2006 Plan are the eligible employees, business criteria and maximum amount of compensation that may be paid to any individual in a specified period.

The Company's stockholders initially approved the 2006 Plan at the Company's 2006 Annual Meeting of Stockholders and most recently approved the material terms of the plan at the Company's 2009 Annual Meeting of Stockholders. At this meeting, you are not being asked to approve any increase in the number of shares available for grant under the 2006 Plan or any other amendment to the 2006 Plan, nor are you being asked to reapprove the 2006 Plan itself. No changes are being made to the material terms of the 2006 Plan; you are simply being asked to reapprove the existing material terms contained in the 2006 Plan to allow the Company to grant awards under the 2006 Plan that may qualify as "performance-based compensation" under Section 162(m).

#### Reasons for the Proposal

The use of stock-based awards under the 2006 Plan continues to be a key component of the Company's compensation program. The 2006 Plan is a broad-based plan under which the Company grants awards to substantially all of its employees, including officers, and to its non-employee directors to provide such individuals incentive and reward opportunities designed to enhance the growth of the Company.

The Company is requesting that stockholders approve the material terms of the 2006 Plan so that awards under the 2006 Plan that are intended to qualify as "performance-based compensation" within the meaning of Section 162(m) ("162(m) Awards") may be deductible by the Company. Although the Company has not adopted a policy that all compensation paid to its executive officers must be tax-deductible and the Company expects that it may continue to pay compensation to its executives that is not fully deductible, the 2006 Plan is designed, in part, so that awards may qualify for exemption from the deduction limitations of Section 162(m) by providing "performance-based compensation" to Covered Employees (as defined below). Under Section 162(m), the federal income tax deductibility of compensation paid to the CEO and the Company's three other most highly compensated officers (other than the Company's principal financial officer) determined pursuant to the SEC's executive compensation disclosure rules ("Covered Employees") may be limited to the extent such compensation exceeds \$1,000,000 in any taxable year. However, the Company may deduct compensation paid to its Covered Employees in excess of that amount if it qualifies as "performance-based compensation" as defined in Section 162(m). In addition to certain other requirements, in order for 162(m) Awards to constitute "performance-based compensation," the material terms of the 2006 Plan must be disclosed to and approved by the Company's stockholders no later than the first stockholder meeting that occurs in the fifth year following the year in which stockholders previously approved the 2006 Plan.

For purposes of the Section 162(m) regulations, the material terms of the 2006 Plan are as follows:

the employees eligible to receive compensation under the 2006 Plan, as described below under "Persons Who May Participate in the 2006 Plan";

the business criteria on which performance goals are based, as described below under "Securities to be Offered - Awards - Performance Awards"; and

the maximum amount of compensation that may be paid to a participant under the 2006 Plan in any fiscal year, as described below under "Limitations on Awards under the 2006 Plan."

Failure of the stockholders to approve this proposal will mean that the tax deductibility of Awards granted to Covered Employees after the annual meeting will potentially be limited. As discussed above under "Compensation Discussion and Analysis--Elements of the Company's Compensation Program—Other Compensation—Deductibility of Executive Compensation," the Compensation Committee retains the ability to pay compensation even if some of it may be non-deductible.

The following is a summary of the 2006 Plan. For a more complete understanding of the 2006 Plan, please refer to the entire text of the 2006 Plan and its amendments, which are attached to this Proxy Statement as Appendix A.

#### General

The purpose of the 2006 Plan is to provide a means to enhance the growth of the Company by attracting and retaining employees, directors and consultants through affording such individuals a means to acquire and maintain stock ownership or awards, the value of which is tied to the performance of the Company. The 2006 Plan also provides additional incentives and reward opportunities designed to strengthen such individuals' concern for the welfare of the Company and their desire to remain in its employ.

The 2006 Plan is intended to achieve this purpose by permitting the grant of a number of different types of awards, including the grant of (i) incentive stock options ("Incentive Options") intended to comply with Section 422 of the Code, (ii) stock options that do not constitute incentive stock options ("Nonstatutory Options," and together with Incentive Options, "Options"), (iii) stock appreciation rights ("SARs"), (iv) restricted stock awards ("Restricted Stock Awards"), (v) RSUs, (vi) bonus stock, (vii) dividend equivalents, (viii) other awards related to the Company's



common stock (in terms of being valued, denominated, paid or otherwise defined by reference to common stock), (ix) awards, the grant, exercise, vesting or settlement of which are subject to one or more performance standards or (x) any combination of such awards (collectively referred to as "Awards"). See "- Securities To Be Offered."

The 2006 Plan, in part, is intended to qualify under the provisions of Section 422 of the Code. The 2006 Plan is not subject to the provisions of the Employee Retirement Income Security Act of 1974, as amended ("ERISA").

The Board has appointed the Compensation Committee to administer the 2006 Plan pursuant to its terms and all applicable state, federal, or other rules or laws, except in the event the Board chooses to take action under the 2006 Plan. Unless otherwise limited by the 2006 Plan, Rule 16b-3 of the Exchange Act, or any provisions of the Code, the Compensation Committee has broad discretion to administer the 2006 Plan, interpret its provisions, and adopt policies for implementing the 2006 Plan. This discretion includes the power to determine when and to whom Awards will be granted, determine the amount of such Awards (measured in shares of common stock, cash or as otherwise designated), prescribe and interpret the terms and provisions of each Award agreement (the terms of which may vary), delegate duties under the 2006 Plan, terminate, modify or amend the 2006 Plan, and execute all other responsibilities permitted or required under the 2006 Plan.

#### Persons Who May Participate in the 2006 Plan

Any individual who provides services to the Company or its subsidiaries, including non-employee directors of and consultants for the Company (an "Eligible Person"), and who is designated by the Compensation Committee to receive an Award under the 2006 Plan will be a "Participant." An employee on leave of absence may be considered still employed by the Company or a subsidiary for purposes of determining eligibility for participation under the 2006 Plan. Any individual granted an Award which remains outstanding under the 2006 Plan, including an individual who is no longer an Eligible Person, will continue to be a Participant for purposes of the 2006 Plan. The Company currently has 11 non-employee directors, 17 officers and approximately 3,940 other employees who are eligible to participate in the 2006 Plan.

#### Limitations on Awards under the 2006 Plan

A Participant under the 2006 Plan will be eligible to receive an Award pursuant to the terms of the 2006 Plan and subject to any limitations imposed by appropriate action of the Compensation Committee. No Award may be granted if the number of shares of common stock to be delivered in connection with the Award exceeds the number of shares which remain available under the 2006 Plan minus the number of shares issuable in settlement of or relating to outstanding Awards under the 2006 Plan. Additionally, in each fiscal year or 12-month period, as applicable, during any part of which the 2006 Plan is in effect, a Covered Employee may not be granted (i) Awards (other than Awards designated to be paid only in cash) relating to more than 400,000 shares of common stock, subject to adjustment in a manner consistent with the other provisions of the 2006 Plan, and (ii) Awards designated to be paid only in cash having a value determined on the date of grant in excess of \$4,000,000.

#### Securities to be Offered

#### Shares Subject to the 2006 Plan

The maximum aggregate number of shares of common stock that may be granted for any and all Awards under the 2006 Plan shall not exceed 9,100,000 shares (subject to any adjustment due to recapitalization or reorganization permitted under the 2006 Plan), and the total number of shares of common stock received and available for delivery



in connection with Incentive Options under the 2006 Plan will not exceed 9,100,000 shares. As of March 31, 2014, a total of 2,232,669 shares were available for future issuance under the 2006 Plan (assuming that all outstanding performance share awards will result in the issuance of the maximum number of shares possible).

If common stock subject to any Award is not issued or transferred, or ceases to be issuable or transferable for any reason, including (but not exclusively) because an Award is forfeited, terminated, expires unexercised, is settled in cash in lieu of common stock or is otherwise terminated without a delivery of shares to a Participant, the shares of common stock that were subject to that Award will again be available for issue, transfer or exercise pursuant to Awards under the 2006 Plan to the extent allowable by law. The common stock subject to Awards pursuant to the 2006 Plan may be authorized but unissued shares, shares held by the Company in treasury, or shares that have been reacquired by the Company, including shares that have been bought on the market for the purposes of the 2006 Plan. The fair market value of the common stock on a given date will be the closing price of a share of common stock as reported by the NYSE on the most recent date on which shares of common stock were publicly-traded preceding the date with respect to which the fair market value determination is made. There are no fees, commissions or other charges applicable to a purchase of common stock under the 2006 Plan.

#### Awards

**Stock Options.** The Company may grant Options to Eligible Persons, including (i) Incentive Options (only to employees of the Company or its subsidiaries), which comply with Section 422 of the Code and (ii) Nonstatutory Options. The exercise price of each Option granted under the 2006 Plan will be stated in the Option agreement and may vary between individuals and between grants; provided, however, that the exercise price for an Option must not be less than the greater of (a) 100% of the fair market value per share of the common stock as of the date of grant of the Option or (b) the par value per share of common stock. With respect to a grant of an Incentive Option which complies with Section 422 of the Code, a Participant must be an employee of the Company and, immediately before the time the Incentive Option is granted, the Participant may not own stock possessing more than 10% of the total combined voting power or value of all classes of stock of the Company or a subsidiary unless, at the time the Incentive Option is granted, the exercise price of the Incentive Option is at least 110% of the fair market value of the common stock underlying the Incentive Option. Options may be exercised as the Compensation Committee determines, but not later than ten years from the date of grant. The Compensation Committee will determine the methods and form of payment for the exercise price of an Option (including, in the discretion of the Compensation Committee, payment in common stock, other Awards, or other property) and the methods and forms in which common stock (including common stock issuable pursuant to the Option) will be delivered to a Participant. The 2006 Plan prohibits the Company from repricing Options without the approval of the Company's stockholders.

**SARs.** An SAR is the right to receive an amount equal to the excess of the fair market value of one share of the common stock on the date of exercise over the grant price of the SAR, as determined by the Compensation Committee. SARs may be awarded in connection with or separate from an Option. SARs awarded in connection with an Option will entitle the holder, upon exercise, to surrender the related Option or portion thereof relating to the number of shares for which the SAR is exercised. The surrendered Option or portion thereof will then cease to be exercisable. However, an SAR awarded in connection with an Option is exercisable only to the extent that the related Option is exercisable. SARs granted independently of an Option will be exercisable as the Compensation Committee determines. The term of an SAR will be for a period determined by the Compensation Committee but will not exceed ten years. SARs may be paid in cash, stock or a combination of cash and stock, as the Compensation Committee provides in the Award agreement governing the SAR. The 2006 Plan prohibits the Company from repricing SARs without the approval of the Company's stockholders.



**Restricted Stock Awards.** A Restricted Stock Award is a grant of shares of common stock subject to a risk of forfeiture, restrictions on transferability, and any other restrictions imposed by the Compensation Committee in its discretion. Restrictions may lapse at such times and under such circumstances as determined by the Compensation Committee. Except as otherwise provided under the terms of the 2006 Plan or an Award agreement, the holder of a Restricted Stock Award will have rights as a stockholder, including the right to vote the common stock subject to the Restricted Stock Award or to receive dividends on the common stock subject to the Restricted Stock Award (and subject to any mandatory reinvestment or other requirements imposed by the Compensation Committee). As a condition of a Restricted Stock Award grant, the Compensation Committee may require or permit a Participant to elect that any cash dividends paid on a share of common stock subject to a Restricted Stock Award be automatically reinvested in additional Restricted Stock Awards or applied to the purchase of additional Awards under the 2006 Plan. Unless otherwise determined by the Compensation Committee, common stock distributed in connection with a stock split or stock dividend, and other property distributed as a dividend, will be subject to restrictions and a risk of forfeiture to the same extent as the Restricted Stock Award with respect to which such common stock or other property has been distributed. During the restricted period applicable to the Restricted Stock, the Restricted Stock may not be sold, transferred, pledged, hypothecated, margined or otherwise encumbered by the Participant.

**Restricted Stock Units.** RSUs are rights to receive common stock, cash, or a combination of both at the end of a specified period. The Compensation Committee may subject RSUs to restrictions (which may include a risk of forfeiture) to be specified in the Award agreement, and those restrictions may lapse at such times determined by the Compensation Committee. RSUs may be satisfied by delivery of common stock, cash equal to the fair market value of the specified number of shares of common stock covered by the RSUs, or any combination thereof determined by the Compensation Committee at the date of grant or thereafter. Dividend equivalents on the specified number of shares of common stock covered by RSUs will be either (i) paid with respect to such RSUs on the dividend payment date in cash or in shares of unrestricted common stock having a fair market value equal to the amount of such dividends, or (ii) automatically deemed reinvested in additional RSUs, other Awards, or other investment vehicles permitted by the Compensation Committee and elected by the Participant, unless otherwise determined by the Compensation Committee on the date of grant.

**Bonus Stock and Awards in Lieu of Company Obligations.** The Compensation Committee is authorized to grant common stock as a bonus, or to grant common stock or other Awards in lieu of obligations to pay cash or deliver other property under the 2006 Plan or under other plans or compensatory arrangements, subject to any applicable provision under Section 16 of the Exchange Act. The Compensation Committee will determine any terms and conditions applicable to grants of common stock or other Awards, including performance criteria associated with an Award. Any grant of common stock to an officer of the Company or a subsidiary in lieu of salary or other cash compensation will be reasonable, as determined by the Compensation Committee.

**Dividend Equivalents.** Dividend equivalents may be granted, entitling a Participant to receive cash, common stock, other Awards, or other property equal in value to dividends paid with respect to a specified number of shares of common stock, or other periodic payments at the discretion of the Compensation Committee. Dividend equivalents may be awarded on a freestanding basis or in connection with another Award. The Compensation Committee may provide that dividend equivalents will be payable or distributed when accrued or that they will be deemed reinvested in additional common stock, Awards, or other investment vehicles. The Compensation Committee will specify any restrictions on transferability and risks of forfeiture that are imposed upon dividend equivalents.

**Other Stock-Based Awards.** Participants may be granted, subject to applicable legal limitations and the terms of the 2006 Plan and its purposes, other Awards related to common stock (in terms of being valued, denominated,





paid or otherwise defined by reference to common stock). Such Awards may include, but are not limited to, convertible or exchangeable debt securities, other rights convertible or exchangeable into common stock, purchase rights for common stock, Awards with value and payment contingent upon performance of the Company or any other factors designated by the Compensation Committee, and Awards valued by reference to the book value of common stock or the value of securities of or the performance of specified subsidiaries. The Compensation Committee will determine the terms and conditions of all such Awards, including without limitation, method of delivery, consideration to be paid, the timing and methods of payment, and any performance criteria associated with an Award. Cash awards may be granted as an element of or a supplement to any Awards permitted under the 2006 Plan.

**Performance Awards.** The Compensation Committee may designate that certain Awards granted under the 2006 Plan constitute "performance" Awards ("Performance Awards") or may grant separate annual cash bonus incentive awards as Performance Awards. A Performance Award is any Award, the grant, exercise, vesting or settlement of which is subject to one or more performance standards. Additionally, a Performance Award may be an Award intended to qualify as "performance-based compensation" under Section 162(m) that is granted to a person designated by the Compensation Committee, at the time of grant of the Performance Award, as likely to be a Covered Employee for the fiscal year. One or more of the following business criteria for the Company, on a consolidated basis, and/or for specified subsidiaries or business or geographical units of the Company (except with respect to the total shareholder return and earnings per share criteria) shall be used by the Compensation Committee in establishing performance goals applicable to Performance Awards: (i) earnings per share; (ii) increase in revenues; (iii) increase in cash flow; (iv) increase in cash flow return; (v) return on net assets; (vi) return on assets and/or return on investment; (vii) return on capital; (viii) return on equity; (ix) economic value added; (x) operating margin; (xi) contribution margin; (xii) net income; (xiii) pretax earnings; (xiv) pretax earnings before interest, depreciation, amortization, exploration and abandonment costs; (xv) pretax operating earnings after interest expense and before incentives, service fees, and extraordinary or special items, or operating income; (xvi) total stockholder return; (xvii) debt reduction; (xviii) production growth; (xix) general and administrative expenses; (xx) reserve replacement; (xxi) finding and development costs; (xxii) net asset value; (xxiii) operating costs; and (xxiv) any of the above goals determined on an absolute or relative basis or as compared to the performance of a published or special index deemed applicable by the Compensation Committee including, but not limited to, the Standard & Poor's 500 Stock Index or a selected group of companies.

#### Other Provisions

**Tax Withholding.** At the discretion of the Compensation Committee and subject to conditions that the Compensation Committee may impose, a Participant's minimum statutory tax withholding with respect to an Award may be satisfied by such means as a cash payment, withholding from any payment related to an Award, by delivery of previously owned shares of common stock or by the withholding of shares of common stock issuable pursuant to the Award based on the fair market value of the shares.

**Merger or Recapitalization.** If any change is made to the Company's capitalization, such as a stock split, stock combination, stock dividend, exchange of shares or other recapitalization, merger or otherwise, appropriate adjustments will be made by the Compensation Committee, in its discretion in certain circumstances, as to the number and price of shares subject to an Award under the 2006 Plan, the securities covered by such Award, the aggregate number of shares of common stock available for the issuance of Awards under the 2006 Plan and the maximum annual per person compensation limit on share-based Awards.

**Change in Control.** Upon a Change in Control (as such term is defined in the 2006 Plan) (i) all outstanding SARs and Options will immediately become fully vested and exercisable in full; (ii) the restriction period of any Restricted Stock Award or RSU will immediately be accelerated and the restrictions will expire; and (iii) the



performance goals established under any Performance Award will be deemed to have been met for all performance periods and the holder will be paid a pro rata portion of all associated targeted performance goals. No Award shall become exercisable or payable, however, if such exercise or payment would occur in violation of Section 409A of the Code or the regulations accompanying such section of the Code, and such Awards will instead be settled at a time compliant with a change in control event as specified in Section 409A of the Code. In the event of certain mergers, consolidations, or sales of all or substantially all of the Company's assets that do not constitute a Change in Control for purposes of the 2006 Plan, the Compensation Committee may, in its discretion, take certain actions with respect to outstanding Awards, including accelerating the vesting or exercisability of Awards, providing for the assumption of such Awards by the surviving entity, or cancellation of such Awards in exchange or a cash payment.

**Effect of Termination of Employment or Director Service.** Except as otherwise provided in the 2006 Plan, the treatment of an Award upon a termination of employment or any other service relationship of a Participant with the Company will be specified in the Award agreement, the terms of which are subject to the discretion of the Compensation Committee. In the case of the Company's executive officers, the effects of the termination of employment of the executive officers on their Awards are described above in the section entitled "Executive Compensation Tables - Narrative Disclosure for the 2013 Grants of Plan Based Awards Table." In the case of the Company's nonemployee directors, the effects of the termination of service with the Company as a director on their Awards are described above in the section entitled "Compensation of Directors - General."

**Amendment.** Without stockholder or Participant approval, the Board of Directors may amend, alter, suspend, discontinue or terminate the 2006 Plan or the Compensation Committee's authority to grant Awards under the 2006 Plan, except that any amendment or alteration to the 2006 Plan, including any increase in any share limitation, shall be subject to the approval of the Company's stockholders not later than the next annual meeting if stockholder approval is required by any state or federal law or regulation or the rules of the NYSE. The Board of Directors may otherwise, in its discretion, determine to submit other such changes to the 2006 Plan to stockholders for approval. The Compensation Committee may waive any conditions or rights under, or amend, alter, suspend, discontinue or terminate any Award theretofore granted and any Award agreement relating thereto, except as otherwise provided in the 2006 Plan; provided, that without the consent of an affected Participant, no such Compensation Committee action may materially and adversely affect the rights of such Participant under such Award. The 2006 Plan prohibits the Company from repricing Options or SARs without the approval of the Company's stockholders.

**Transferability of Awards.** In accordance with any rules it may prescribe, the Compensation Committee may permit a person to transfer, in the form of a gift, Nonstatutory Options or SARs, or may authorize all or a portion of such Awards to be granted to an Eligible Person on terms which permit transfer by such Participant (i) to a child, stepchild, grandchild, parent, stepparent, grandparent, spouse, former spouse, sibling, niece, nephew, mother-in-law, father-in-law, son-in-law, daughter-in-law, brother-in-law, or sister-in-law (including adoptive relationships), and any person sharing the household of a holder of such Award ("Immediate Family Members"); (ii) to a trust in which Immediate Family Members have more than 50 percent of the beneficial interest; (iii) to a foundation in which Immediate Family Members control the management of assets; (iv) to any other entity in which Immediate Family Members own more than 50 percent of the voting interests; and (v) pursuant to a domestic relations order. Other than as described above, Awards will not be transferable other than by will or the laws of descent and distribution. Notwithstanding any provision to the contrary, Incentive Options will not be transferable other than by will or the laws of descent and distribution.

## Federal Tax Consequences

The following discussion is for general information only and is intended to summarize briefly the U.S. federal tax consequences to Participants arising from participation in the 2006 Plan. This description is based on current law, which is subject to change (possibly retroactively). The tax treatment of Participants in the 2006 Plan may vary depending on the particular situation and may, therefore, be subject to special rules not discussed below. No attempt has been made to discuss any potential foreign, state, or local tax consequences. Participants are advised to consult with a tax advisor concerning the specific tax consequences of participating in the 2006 Plan.

Incentive Options; Nonstatutory Options; SARs. Participants will not realize taxable income upon the grant of a Nonstatutory Option or an SAR. Upon the exercise of a Nonstatutory Option or SAR, a Participant will recognize ordinary compensation income (subject to withholding by the Company) in an amount equal to the excess of (i) the amount of cash and the fair market value of the common stock received over (ii) the exercise price (if any) paid therefor. A Participant will generally have a tax basis in any shares of common stock received pursuant to the exercise of an SAR, or pursuant to the cash exercise of a Nonstatutory Option, that equals the fair market value of such shares on the date of exercise. Subject to the discussion under "-Tax Code Limitations on Deductibility" below, the Company (or a subsidiary) will be entitled to a deduction for federal income tax purposes that corresponds as to timing and amount with the compensation income recognized by a Participant under the foregoing rules. When a Participant sells the common stock acquired as a result of the exercise of a Nonstatutory Option or SAR, any appreciation (or depreciation) in the value of the common stock after the exercise date is treated as long- or short-term capital gain (or loss) for federal income tax purposes, depending on the holding period. The common stock must be held for more than 12 months to qualify for long-term capital gain treatment.

Participants eligible to receive an Incentive Option will not recognize taxable income on the grant of an Incentive Option. Upon the exercise of an Incentive Option, a Participant will not recognize taxable income, although the excess of the fair market value of the shares of common stock received upon exercise of the Incentive Option ("ISO Stock") over the exercise price will increase the alternative minimum taxable income of the Participant, which may cause such Participant to incur alternative minimum tax. The payment of any alternative minimum tax attributable to the exercise of an Incentive Option would be allowed as a credit against the Participant's regular tax liability in a later year to the extent the Participant's regular tax liability is in excess of the alternative minimum tax for that year.

Upon the disposition of ISO Stock that has been held for the requisite holding period (generally, at least two years from the date of grant and one year from the date of exercise of the Incentive Option), a Participant will generally recognize capital gain (or loss) equal to the excess (or shortfall) of the amount received in the disposition over the exercise price paid by the Participant for the ISO Stock. However, if a Participant disposes of ISO Stock that has not been held for the requisite holding period (a "Disqualifying Disposition"), the Participant will recognize ordinary compensation income in the year of the Disqualifying Disposition in an amount equal to the amount by which the fair market value of the ISO Stock at the time of exercise of the Incentive Option (or, if less, the amount realized in the case of an arm's length disposition to an unrelated party) exceeds the exercise price paid by the Participant for such ISO Stock. A Participant would also recognize capital gain to the extent the amount realized in the Disqualifying Disposition exceeds the fair market value of the ISO Stock on the exercise date. If the exercise price paid for the ISO Stock exceeds the amount realized (in the case of an arm's-length disposition to an unrelated party), such excess would ordinarily constitute a capital loss.

The Company will generally not be entitled to any federal income tax deduction upon the grant or exercise of an Incentive Option, unless a Participant makes a Disqualifying Disposition of the ISO Stock. If a Participant makes a Disqualifying Disposition, the Company will then, subject to the discussion below under "- Tax Code Limitations on Deductibility," be entitled to a tax deduction that corresponds as to timing and amount with the compensation income recognized by a Participant under the rules described in the preceding paragraph.



Under current rulings, if a Participant transfers previously held shares of common stock (other than ISO Stock that has not been held for the requisite holding period) in satisfaction of part or all of the exercise price of a Nonstatutory Option or Incentive Option, no additional gain will be recognized on the transfer of such previously held shares in satisfaction of the Nonstatutory Option or Incentive Option exercise price (although a Participant would still recognize ordinary compensation income upon exercise of a Nonstatutory Option in the manner described above). Moreover, that number of shares of common stock received upon exercise which equals the number of shares of previously held common stock surrendered therefor in satisfaction of the Nonstatutory Option or Incentive Option exercise price will have a tax basis that equals, and a capital gains holding period that includes, the tax basis and capital gains holding period of the previously held shares of common stock surrendered in satisfaction of the Nonstatutory Option or Incentive Option exercise price. Any additional shares of common stock received upon exercise will have a tax basis that equals the amount of cash (if any) paid by the Participant, plus the amount of compensation income recognized by the Participant under the rules described above.

The 2006 Plan allows the Compensation Committee to permit the transfer of Nonstatutory Options and SARs in limited circumstances to Immediate Family Members or their related entities or pursuant to a domestic relations order. See "- Other Provisions - Transferability of Awards." For income and gift tax purposes, certain transfers of Nonstatutory Options generally should be treated as completed gifts, subject to gift taxation.

The Internal Revenue Service has not provided formal guidance on the income tax consequences of a transfer of Nonstatutory Options (other than in the context of divorce) or SARs. However, the Internal Revenue Service has informally indicated that after a transfer of stock options (other than in the context of divorce pursuant to a domestic relations order), the transferor will recognize income, which will be subject to withholding, and FICA/FUTA taxes will be collectible at the time the transferee exercises the stock options. If a Nonstatutory Option is transferred pursuant to a domestic relations order, the transferee will recognize ordinary income upon exercise by the transferee, which will be subject to withholding, and FICA/FUTA taxes (attributable to and reported with respect to the transferor) will be collectible from the transferee at such time.

In addition, if the Participant transfers a vested Nonstatutory Option to another person and retains no interest in or power over it, the transfer is treated as a completed gift. The amount of the transferor's gift (or generation-skipping transfer, if the gift is to a grandchild or later generation) equals the value of the Nonstatutory Option at the time of the gift. The value of the Nonstatutory Option may be affected by several factors, including the difference between the exercise price and the fair market value of the stock, the potential for future appreciation or depreciation of the stock, the time period of the Nonstatutory Option and the illiquidity of the Nonstatutory Option. The transferor will be subject to a federal gift tax, which will be limited by (i) the annual exclusion of \$14,000 per donee (for 2014, subject to adjustment in future years), (ii) the transferor's lifetime unified credit, or (iii) the marital or charitable deductions. The gifted Nonstatutory Option will not be included in the Participant's gross estate for purposes of the federal estate tax or the generation-skipping transfer tax.

This favorable tax treatment for vested Nonstatutory Options has not been extended to unvested Nonstatutory Options. Whether such consequences apply to unvested Nonstatutory Options or SARs is uncertain and the gift tax implications of such a transfer is a risk the transferor will bear upon such a disposition. The Internal Revenue Service has not specifically addressed the tax consequences of a transfer of SARs.

Restricted Stock Awards; Restricted Stock Units; Cash Awards. A Participant will recognize ordinary compensation income upon receipt of cash pursuant to a cash award or, if earlier, at the time the cash is otherwise made available for the Participant to draw upon. A Participant will not have taxable income at the time of grant of an RSU Award, but rather, will generally recognize ordinary compensation income at the time he receives cash or common stock in satisfaction of the RSUs, as applicable, in an amount equal to the cash or the fair market value of





the common stock received. The dividend equivalents, if any, received with respect to an RSU Award will be taxable as ordinary compensation income, not dividend income, when paid. In general, a Participant will recognize ordinary compensation income as a result of the receipt of common stock pursuant to a Restricted Stock Award or bonus stock Award in an amount equal to the fair market value of the common stock when such stock is received, reduced by any amount paid by the recipient; provided, however, that if the stock is not transferable and is subject to a substantial risk of forfeiture when received, a Participant will recognize ordinary compensation income in an amount equal to the fair market value of the common stock (i) when the common stock first becomes transferable or is no longer subject to a substantial risk of forfeiture, in cases where a Participant does not make a valid election under Section 83(b) of the Code or (ii) when the common stock is received, in cases where a Participant makes a valid election under Section 83(b) of the Code. If a Section 83(b) election is made and the shares are subsequently forfeited, the recipient will not be allowed to take a deduction for the value of the forfeited shares. If a Section 83(b) election has not been made, any dividends received with respect to Restricted Stock that is subject at that time to a risk of forfeiture or restrictions on transfer generally will be treated as compensation that is taxable as ordinary income to the recipient; otherwise the dividends will be treated as dividends.

A Participant who is an employee will be subject to withholding for federal, and generally for state and local, income taxes at the time he recognizes income under the rules described above with respect to common stock or cash received. The tax basis in the common stock received by a Participant will equal the amount recognized by him as compensation income under the rules described in the preceding paragraph, and the Participant's capital gains holding period in those shares will commence on the later of the date the shares are received or the restrictions lapse.

Subject to the discussion immediately below, the Company (or a subsidiary) will be entitled to a deduction for federal income tax purposes that corresponds as to timing and amount with the compensation income recognized by a Participant under the foregoing rules.

**Tax Code Limitations on Deductibility.** In order for the amounts described above to be deductible by the Company (or a subsidiary), such amounts must constitute reasonable compensation for services rendered or to be rendered and must be ordinary and necessary business expenses.

The ability of the Company (or one of its subsidiaries) to obtain a deduction for future payments under the 2006 Plan could also be limited by the golden parachute payment rules of Section 280G of the Code, which prevent the deductibility of certain excess parachute payments made in connection with a change in control of an employer-corporation.

Finally, the ability of the Company (or one of its subsidiaries) to obtain a deduction for amounts paid under the 2006 Plan could be limited by Section 162(m), which limits the deductibility, for federal income tax purposes, of compensation paid to certain executive officers of a publicly traded corporation to \$1,000,000 with respect to any such officer during any taxable year of the corporation. However, an exception applies to this limitation in the case of certain "performance-based compensation." In order to exempt "performance-based compensation" from the \$1,000,000 deductibility limitation, the grant, vesting, exercise or settlement of the Award must be based on the satisfaction of one or more performance goals as selected by the Compensation Committee and certain other requirements must be met, including stockholder approval requirements. To allow Awards to qualify as "performance-based compensation," the Company is asking stockholders at the Annual Meeting to reapprove the material terms of the 2006 Plan, including the maximum annual per person compensation limits under the 2006 Plan. Performance Awards intended to qualify as "performance-based compensation" under Section 162(m) may not



be granted in a given period if such Awards relate to a number of shares of common stock that exceeds a specified limitation or, alternatively, the Performance Awards may not result in cash compensation, for a Participant, in a given year that exceeds a specified limitation. Under the terms of the 2006 Plan, a Participant who receives an Award or Awards intended to satisfy the "performance-based compensation" exception to the \$1,000,000 deductibility limitation may not receive Performance Awards relating to more than (i) 400,000 shares of common stock (subject to adjustment in a manner consistent with the other provisions of the 2006 Plan) or, (ii) with respect to Awards not related to shares of common stock, \$4,000,000, in either case, in any given fiscal year. Although the 2006 Plan has been drafted to permit the grant of Awards intended to satisfy the requirements for the "performance-based compensation" exception, the Compensation Committee may determine that it is in the Company's best interests to award compensation that is not intended to satisfy the requirements for the exception. See "Deductibility of Executive Compensation" in the Compensation Discussion and Analysis section and "Awards - Performance Awards" above. Because of the uncertainties associated with the application and interpretation of Section 162(m) and the regulations issued thereunder, it is possible that compensation intended to satisfy the requirements for deductibility under Section 162(m) will in fact not be deductible.

THE FOREGOING IS ONLY A SUMMARY OF THE EFFECT OF U.S. FEDERAL INCOME TAXATION WITH RESPECT TO AWARDS UNDER THE 2006 PLAN. IT DOES NOT PURPORT TO BE COMPLETE, AND DOES NOT DISCUSS THE TAX CONSEQUENCES OF AN INDIVIDUAL'S DEATH OR THE PROVISIONS OF THE INCOME TAX LAWS OF ANY MUNICIPALITY, STATE OR FOREIGN COUNTRY IN WHICH ANY ELIGIBLE INDIVIDUAL MAY RESIDE.

#### New Plan Benefits

Because the grant of Awards under the 2006 Plan is discretionary, the Company cannot currently determine the number or type of Awards to be granted in the future to any particular person or group. Please see the 2013 Grants of Plan-Based Awards table and the 2013 Director Compensation table for information regarding Awards granted to the Company's NEOs and directors in 2013.

#### Previously Awarded Stock Options

The following table sets forth information with respect to Options granted under the 2006 Plan as of March 31, 2014, to the Company's NEOs and all executive officers as a group. The closing market price of the Company's common stock as of March 31, 2014 was \$187.14 per share as reported on the NYSE.

Name and Principal Position	Number of Shares Issued or Underlying Stock Options (1)
Scott D. Sheffield, Chairman of the Board and Chief Executive Officer	227,667
Richard P. Dealy, Executive Vice President and Chief Financial Officer	75,659
Mark S. Berg, Executive Vice President, Chief of Staff	44,099
Chris J. Cheatwood, Executive Vice President, Business Development and Geoscience	47,926
Timothy L. Dove, President and Chief Operating Officer	119,208
All current executive officers as a group	584,407
All employees, including all current officers who are not executive officers, as a group	662,863

(1)

The Company has not granted any Options under the 2006 Plan to any person who was not then an employee of the Company, including any director of the Company or nominee for director (other than Messrs. Sheffield and Dove) or any associate of any director, executive officer or nominee for director.

## Recommendation

The Board of Directors unanimously recommends that stockholders vote FOR the approval of the proposal to reapprove the eligible employees, business criteria and maximum annual per person compensation limits under the Company's 2006 Plan.

Because of the uncertainties associated with the application and interpretation of Section 162(m) and the regulations issued thereunder, the Company cannot assure that compensation intended to satisfy the requirements for deductibility under Section 162(m) will in fact be deductible.

## Securities Authorized for Issuance under Equity Compensation Plans

The following table summarizes information about the Company's equity compensation plans as of December 31, 2013:

	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in first column)
Equity compensation plans approved by security holders:			
Pioneer Natural Resources Company:			
2006 Long-Term Incentive Plan (b)(c)	115,290	\$26.74	2,593,429
Long-Term Incentive Plan	—	—	—
Employee Stock Purchase Plan (d)	—	—	515,028
Equity compensation plans not approved by security holders (e)	—	—	654,842
Total:	115,290	\$26.74	3,763,299

There are no outstanding warrants or equity rights awarded under the Company's equity compensation plans. The (a) securities listed do not include restricted stock awarded under the Company's previous Long-Term Incentive Plan and the Company's 2006 Plan.

In May 2006, the stockholders of the Company approved the 2006 Plan, which provided for the issuance of up to 9.1 million awards, as was supplementally approved by the stockholders of the Company during May 2009.

(b) Awards under the 2006 Plan can be in the form of stock options, stock appreciation rights, performance units, restricted stock and restricted stock units. No additional awards may be made under the prior Long-Term Incentive Plan.

(c) The number of securities remaining for future issuance has been reduced by the maximum number of shares that could be issued pursuant to outstanding grants of performance units at December 31, 2013.

The number of remaining securities available for future issuance under the Company's Employee Stock Purchase Plan is based on the original authorized issuance of 750,000 shares plus an additional 500,000 shares

(d) supplementally approved less 734,972 cumulative shares issued through December 31, 2013. See Note H of Notes to Consolidated Financial Statements included in "Item 8. Financial Statements and Supplementary Data" of the Company's Annual Report on Form 10-K for the year ended December 31, 2013, for a description of each of the Company's equity compensation plans.

(e) These represent awards available for issuance under the Pioneer Southwest 2008 Long-Term Incentive Plan, which was assumed by the Company as part of the Pioneer Southwest merger.

## STOCKHOLDER PROPOSALS; IDENTIFICATION OF DIRECTOR CANDIDATES

Stockholder Proposals for the 2015 Annual Meeting

Any stockholder of the Company who desires to submit a proposal for action at the 2015 annual meeting of stockholders and wishes to have the proposal ("Rule 14a-8 Proposal") included in the Company's proxy materials, must follow the procedures set forth in Rule 14-8 under the Exchange Act and must submit the Rule 14a-8 Proposal to the Company at its principal executive offices no later than December 18, 2014, unless the Company notifies the stockholders otherwise. Only those Rule 14a-8 Proposals that are timely received by the Company and proper for stockholder action (and otherwise proper) will be included in the Company's proxy materials.

In addition to the requirements of Rule 14a-8 of the Exchange Act, stockholders desiring to propose action at the 2015 annual meeting of stockholders must also comply with Article Nine of the Company's Certificate of Incorporation and the Company's Bylaws. In order to submit business to be considered at an annual meeting, a stockholder must submit written notice of the proposed business to the Company no later than 60 days before the annual meeting or, if later, ten days after the first public notice of the annual meeting is sent to stockholders. The stockholder must either be a stockholder of record both at the time the notice is delivered to the Company and at the time of the annual meeting or, if the proposal is made on behalf of a beneficial owner other than the stockholder of record, the beneficial owner must be the beneficial owner of common stock of the Company both at the time of giving of notice and at the time of the annual meeting. The written notice must set forth all of the information required by the Certificate of Incorporation and the Bylaws, including (i) the nature of the proposal with reasonable particularity, including the exact text of the proposal and the reasons for conducting that business at the annual meeting, (ii) the stockholder's name, business and residential addresses and telephone numbers, ownership of the Company's stock and other personal information, and (iii) any interest of the stockholder in the proposed business. The written notice must also set forth, as to the stockholder giving the notice and the beneficial owner, if any, on whose behalf the proposal is made, (i) the name, business address and telephone number and residence address and telephone number of such beneficial owner, (ii) the ownership of the Company's stock by such beneficial owner, if applicable, (iii) a description of any agreement or understanding with respect to the proposal between or among such stockholder and/or such beneficial owner, any of their affiliates, and any others acting in concert with any of them, (iv) a description of any agreement or understanding (including derivative positions or similar rights and borrowed or loaned shares) that has been entered into as of the date of the notice by, or on behalf of, such stockholder and such beneficial owner, the effect or intent of which is to mitigate loss to, manage risk of share price changes for, or increase or decrease the voting power of, such stockholder or such beneficial owner, with respect to securities of the Company, (v) a representation that such stockholder is a holder of record of stock entitled to vote at such meeting and intends to appear in person or by proxy at the meeting to propose such business, (vi) a representation as to whether such stockholder or such beneficial owner intends or is part of a group that intends (x) to deliver a proxy statement and/or form of proxy to stockholders and/or (y) otherwise to solicit proxies or votes from stockholders in support of the proposal, and (vii) any other information relating to such stockholder and such beneficial owner required to be disclosed in a proxy statement required by Section 14(a) of the Exchange Act. The person presiding at the annual meeting will determine whether business is properly brought before the meeting and will not permit the consideration of any business not properly brought before the meeting.

Under Rule 14a-4(c) of the Exchange Act, the Board may exercise discretionary voting authority under proxies solicited by it with respect to any matter properly presented by a stockholder at the 2015 annual meeting of stockholders that the stockholder does not seek to have included in the Company's proxy statement if (except as described in the following sentence) the proxy statement discloses the nature of the matter and how the Board intends to exercise its discretion to vote on the matter, unless the Company is notified of the proposal on or before March 3, 2015, and the stockholder satisfies the other requirements of Rule 14a-4(c)(2). If the Company first receives notice of the matter after March 3, 2015, and the matter nonetheless is permitted to be presented at the 2015 annual meeting of stockholders, the Board may exercise discretionary voting authority with respect to the matter without including any discussion of the matter in the proxy statement for the meeting. The Company reserves the right to reject, rule out of order or take other appropriate action with respect to any proposal that does not comply with the requirements described above and other applicable requirements. "Discretionary voting authority" is the ability to vote proxies that stockholders have executed and submitted to the Company, on matters not specifically reflected in the Company's proxy materials, and on which stockholders have not had an opportunity to vote by proxy.

Written requests for inclusion of any stockholder proposal should be addressed to the Secretary, Pioneer Natural Resources Company, 5205 North O'Connor Boulevard, Suite 200, Irving, Texas 75039. The Company suggests that stockholder proposals be sent by certified mail, return receipt requested.

#### Director Nominations

The Board has delegated to the Nominating and Corporate Governance Committee the responsibility to identify, evaluate and recommend to the Board nominees for election at the annual meeting of stockholders, as well as for filling vacancies or additions on the Board that may occur between annual meetings. In considering candidates for the Board, the Nominating and Corporate Governance Committee will consider the entirety of each candidate's credentials, including his or her experience, if applicable, as a current director of the Company. There is currently no set of specific minimum qualifications that must be met by a nominee recommended by the Nominating and Corporate Governance Committee, as different factors may assume greater or lesser significance at particular times and the needs of the Board may vary in light of its composition and the Nominating and Corporate Governance Committee's perceptions about future issues and needs. However, while the Nominating and Corporate Governance Committee does not maintain a formal list of qualifications, in making its evaluation and recommendation of candidates, the Nominating and Corporate Governance Committee endeavors to recommend only director candidates who possess the highest personal values and integrity; who have experience and have exhibited achievements in one or more of the key professional, business, financial, legal and other challenges that face a large U.S. independent oil and gas company; who exhibit sound judgment, intelligence, personal character, and the ability to make independent analytical inquiries; who demonstrate a willingness to devote adequate time to Board duties; and who are likely to be able to serve on the Board for a sustained period.

The Nominating and Corporate Governance Committee endeavors to achieve for the Board an overall balance of diversity of experience at policy-making levels with a complimentary mix of skills and professional experience in areas relevant to the Company's business, while also ensuring that the size of the Board is appropriate to function effectively and efficiently. The Nominating and Corporate Governance Committee believes it has achieved that balance through the representation on the Board of members having experience in the oil and gas industry, law, accounting and investment analysis, among other areas.

In identifying potential director candidates, the Nominating and Corporate Governance Committee relies on any source available for the identification and recommendation of candidates, including its directors, officers and stockholders. The Nominating and Corporate Governance Committee does not intend to alter the manner in which it evaluates candidates based on whether the candidate is recommended by a stockholder or not. However, in evaluating a candidate's relevant business experience, the Nominating and Corporate Governance Committee may consider previous experience as a member of a board of directors. The Nominating and Corporate Governance Committee will also consider such factors as diversity, including differences in viewpoints, background, education, gender and/or ethnicity, age, and other individual qualifications and attributes. In addition, the Nominating and Corporate Governance Committee from time to time may engage a third party search firm to identify or evaluate, or assist in identifying or evaluating potential candidates, for which the third party search firm will be paid a fee. The Company is committed to considering candidates for the Board regardless of gender, race, ethnicity and national origin.



Any stockholder desiring to nominate an individual for election to the Board must comply with Article Nine of the Certificate of Incorporation and the Bylaws, as described above with respect to stockholder proposals. To be considered at an annual meeting, a nomination must be submitted in writing to the Secretary, Pioneer Natural Resources Company, 5205 North O'Connor Boulevard, Suite 200, Irving, Texas 75039, no later than 60 days before the annual meeting or, if later, ten days after the first public notice of the annual meeting is sent to stockholders. In addition, the nominating stockholder's notice must set forth all of the information required by, and comply with, the Certificate of Incorporation and the Bylaws, including the following:

- the nominee's name, address and other personal information;
- the number of shares of each class and series of stock of the Company beneficially owned by such nominee;
- the nominating stockholder's name, business and residential addresses and telephone numbers, ownership of the Company's stock and other personal information; and
- all other information required to be disclosed pursuant to Regulation 14A of the Exchange Act.

Each submission must also include a statement of the qualifications of the nominee, a notarized consent signed by the nominee evidencing a willingness to serve as a director, if elected, and a commitment by the nominee to meet personally with members of the Nominating and Corporate Governance Committee and the Board. In addition, as a condition of nomination, each director nominee must deliver to the Company an irrevocable letter of resignation that becomes effective if the nominee does not receive a majority of the votes cast for his or her election and the Board decides to accept the resignation. The Company may require any proposed nominee to furnish such other information as the Company may reasonably require to determine the eligibility of the proposed nominee to serve as a director of the Company or that the Company believes could be material to a reasonable stockholder's understanding of the independence (both from management and from the stockholder or, if the proposal is made on behalf of a beneficial owner other than the stockholder of record, from such beneficial owner) or qualifications of such proposed nominee. The person presiding at the annual meeting will determine whether a nomination is properly brought before the meeting and will not permit the consideration of a nomination not properly brought before the meeting.

## SOLICITATION OF PROXIES

Solicitation of Proxies may be made via the internet, by mail, and by personal interview or telephone by officers, directors and regular employees of the Company. These directors, officers and employees will not be additionally compensated but may be reimbursed for reasonable out-of-pocket expenses in connection with such solicitation. The Company may also request banking institutions, brokerage firms, custodians, nominees and fiduciaries to forward solicitation material to the beneficial owners of the common stock that those companies or persons hold of record, and the Company will reimburse the forwarding expenses. In addition, the Company has retained D.F. King & Co., Inc. to assist in solicitation for a fee estimated not to exceed \$10,000. The Company will bear all costs of solicitation.

## STOCKHOLDER LIST

In accordance with the Delaware General Corporation Law, the Company will maintain at its corporate offices in Irving, Texas, a list of the stockholders entitled to vote at the Annual Meeting. The list will be open to the examination of any stockholder, for purposes germane to the Annual Meeting, during ordinary business hours for ten days before the Annual Meeting. The Company's principal executive offices are located at 5205 North O'Connor Boulevard, Suite 200, Irving, Texas 75039.



## ANNUAL REPORT AND OTHER INFORMATION

The Company's 2013 Annual Report to Stockholders, which includes the Company's Annual Report on Form 10-K for the year ended December 31, 2013, is being made available to stockholders concurrently with this Proxy Statement and does not form part of the proxy solicitation material.

The Company filed its Annual Report on Form 10-K for the fiscal year ended December 31, 2013 with the SEC. It is available free of charge at the SEC's web site at [www.sec.gov](http://www.sec.gov). Upon written request by a stockholder, the Company will mail, without charge, a copy of the Form 10-K, including the financial statements and financial statement schedules, but excluding exhibits to the Form 10-K. Exhibits to the Form 10-K are available upon payment of a reasonable fee, which is limited to the Company's expenses in furnishing the requested exhibit. Such requests may be made by writing to the Corporate Secretary, Pioneer Natural Resources Company, 5205 North O'Connor Boulevard, Suite 200, Irving, Texas 75039.

One copy of the Notice, this Proxy Statement and the 2013 Annual Report to Stockholders (the "Proxy Materials") will be sent to stockholders who share an address, unless they have notified the Company that they want to continue receiving multiple packages. This practice, known as "householding," is designed to reduce duplicate mailings and save significant printing and postage costs. If you received a househanded mailing this year and you would like to have additional copies of this Proxy Statement and 2013 Annual Report to Stockholders mailed to you or you would like to opt out of this practice for future mailings, the Company will promptly deliver such additional copies to you if you submit your request in writing to Corporate Secretary, Pioneer Natural Resources Company, 5205 North O'Connor Boulevard, Suite 200, Irving, Texas 75039, or call (972) 444-9001. You may also contact the Company in the same manner if you received multiple copies of the Annual Meeting materials and would prefer to receive a single copy in the future. The Proxy Materials are also available at [www.cstproxy.com/pioneer/2014](http://www.cstproxy.com/pioneer/2014).

INTERNET AND PHONE VOTING

For shares of stock that are registered in your name, you may vote by internet or phone using procedures provided by the Company's transfer agent, Continental Stock Transfer & Trust Company ("Continental"). Votes submitted by internet or phone must be received by 6:00 p.m., Central Time, on Tuesday, May 27, 2014. The giving of such a proxy will not affect your right to vote in person should you decide to attend the Annual Meeting.

The internet and phone voting procedures are designed to authenticate stockholder identities, to allow stockholders to give their voting instructions and to confirm that stockholders' instructions have been recorded properly. Stockholders voting by internet should remember that the stockholder must bear costs associated with electronic access, such as usage charges from internet access providers and telephone companies.

For shares of stock that are registered in a street name (the stockholder owns shares in the name of a bank, broker or other holder of record on the books of the Company's transfer agent), you will receive instructions with your proxy materials that you must follow in order to have your shares voted. Please review your Proxy or voting instruction card to determine whether you can vote by phone or electronically.

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IT IS IMPORTANT THAT PROXIES BE RETURNED PROMPTLY. WHETHER OR NOT YOU EXPECT TO ATTEND THE MEETING IN PERSON, YOU ARE URGED TO VOTE BY INTERNET, BY PHONE OR IF YOU HAVE RECEIVED PAPER COPIES OF THE PROXY MATERIAL, BY COMPLETING, SIGNING AND RETURNING THE PROXY IN THE ENCLOSED POSTAGE-PAID, ADDRESSED ENVELOPE.

By Order of the Board of Directors,

Mark H. Kleinman  
Senior Vice President, General Counsel and  
Secretary

Irving, Texas  
April 17, 2014

APPENDIX A  
PIONEER NATURAL RESOURCES COMPANY  
2006 LONG-TERM INCENTIVE PLAN  
AND ITS AMENDMENTS

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## PIONEER NATURAL RESOURCES COMPANY

### 2006 Long-Term Incentive Plan

1. Purpose. The purpose of the Pioneer Natural Resources Company 2006 Long-Term Incentive Plan (the “Plan”) is to provide a means through which Pioneer Natural Resources Company, a Delaware corporation (the “Company”), and its Subsidiaries may attract and retain able persons as employees, directors and consultants of the Company and to provide a means whereby those persons upon whom the responsibilities of the successful administration and management of the Company rest, and whose present and potential contributions to the welfare of the Company are of importance, can acquire and maintain stock ownership, or awards the value of which is tied to the performance of the Company, thereby strengthening their concern for the welfare of the Company and their desire to remain in its devoted employ. A further purpose of this Plan is to provide such employees and directors with additional incentive and reward opportunities designed to enhance the profitable growth of the Company. Accordingly, this Plan primarily provides for the granting of Incentive Stock Options, options which do not constitute Incentive Stock Options, Restricted Stock Awards, Restricted Stock Units, Stock Appreciation Rights or any combination of the foregoing, as is best suited to the circumstances of the particular individual as provided herein.

2. Definitions. For purposes of this Plan, the following terms shall be defined as set forth below, in addition to such terms defined in Section 1 hereof:

(a) “Annual Incentive Award” means a conditional right granted to a Participant under Section 8(c) hereof to receive a cash payment, Stock or other Award, unless otherwise determined by the Committee, after the end of a specified year.

(b) “Award” means any Option, SAR (including Limited SAR), Restricted Stock Award, Restricted Stock Unit, Dividend Equivalent, Other Stock-Based Award, Performance Award or Annual Incentive Award, together with any other right or interest granted to a Participant under this Plan.

(c) “Beneficiary” means one or more persons, trusts or other entities which have been designated by a Participant in his or her most recent written beneficiary designation filed with the Committee to receive the benefits specified under this Plan upon such Participant’s death or to which Awards or other rights are transferred if and to the extent permitted under Section 10(a) hereof. If, upon a Participant’s death, there is no designated Beneficiary or surviving designated Beneficiary, then the term Beneficiary means the persons, trusts or other entities entitled by will or the laws of descent and distribution to receive such benefits.

- (d) “Beneficial Owner” shall have the meaning ascribed to such term in Rule 13d-3 under the Exchange Act and any successor to such Rule.
- (e) “Board” means the Company’s Board of Directors.
- (f) “Business Day” means any day other than a Saturday, a Sunday, or a day on which banking institutions in the state of Texas are authorized or obligated by law or executive order to close.
- (g) “Change in Control” means the occurrence of any of the following events:
- (i) The acquisition by any individual, entity or group (within the meaning of Section 13(d)(3) or 14(d)(2) of the Exchange Act) (a “Person”) of beneficial ownership (within the meaning of Rule 13d-3 promulgated under the Exchange Act) of 40% or more of either (x) the then outstanding shares of Stock of the Company (the “Outstanding Company Stock”) or (y) the combined voting power of the then outstanding voting securities of the Company entitled to vote generally in the election of directors (the “Outstanding Company Voting Securities”); provided, however, that for purposes of this subsection (i), the following acquisitions shall not constitute a Change of Control: (A) any acquisition directly from the Company, (B) any acquisition by the Company, (C) any acquisition by any employee benefit plan (or related trust) sponsored or maintained by the Company or any corporation controlled by the Company or (D) any acquisition by any corporation pursuant to a transaction which complies with clauses (A), (B) and (C) of paragraph (iii) below; or
- (ii) A majority of the members of the Board is replaced during any 12-month period by directors whose appointment or election is not endorsed by a majority of the members constituting the Board prior to the date of the appointment or election; or
- (iii) Consummation of a reorganization, merger or consolidation or sale or other disposition of all or substantially all of the assets of the Company or an acquisition of assets of another corporation (a “Business Combination”), in each case, unless, following such Business Combination, (A) all or substantially all of the individuals and entities who were the beneficial owners, respectively, of the Outstanding Company Stock and Outstanding Company Voting Securities immediately prior to such Business Combination beneficially own, directly or indirectly, more than 50% of, respectively, the then outstanding shares of common stock and the combined voting power of the then outstanding voting securities entitled to vote generally in the election of directors, as the case may be, of the corporation resulting from such Business Combination (including, without limitation, a corporation which as a result of such transaction owns the Company or all or substantially all of the Company’s assets either directly or through one or more subsidiaries)



in substantially the same proportions as their ownership, immediately prior to such Business Combination of the Outstanding Company Stock and Outstanding Company Voting Securities, as the case may be, (B) no Person (excluding any employee benefit plan (or related trust) of the Company or the corporation resulting from such Business Combination) beneficially owns, directly or indirectly, 40% or more of, respectively, the then outstanding shares of common stock of the corporation resulting from such Business Combination or the combined voting power of the then outstanding voting securities of such corporation except to the extent that such ownership results solely from ownership of the Company that existed prior to the Business Combination and (C) at least a majority of the members of the board of directors of the corporation resulting from such Business Combination were members of the Incumbent Board at the time of the execution of the initial agreement, or of the action of the Board, providing for such Business Combination; or

(iv) Approval by the stockholders of the Company of a complete liquidation or dissolution of the Company.

(h) “Code” means the Internal Revenue Code of 1986, as amended from time to time, including regulations thereunder and successor provisions and regulations thereto.

(i) “Committee” means a committee of two or more directors designated by the Board to administer this Plan; provided, however, that, unless otherwise determined by the Board, the Committee shall consist solely of two or more directors, each of whom shall be (i) a “nonemployee director” within the meaning of Rule 16b-3 under the Exchange Act, and (ii) an “outside director” as defined under section 162(m) of the Code, unless administration of this Plan by “outside directors” is not then required in order to qualify for tax deductibility under section 162(m) of the Code.

(j) “Covered Employee” means an Eligible Person who is a Covered Employee as specified in Section 8(e) of this Plan.

(k) “Dividend Equivalent” means a right, granted to a Participant under Section 6(g), to receive cash, Stock, other Awards or other property equal in value to dividends paid with respect to a specified number of shares of Stock, or other periodic payments.

(l) “Effective Date” means May 3, 2006.

(m) “Eligible Person” means all officers and employees of the Company or of any Subsidiary, and other persons who provide services to the Company or any of its Subsidiaries, including directors of the Company. An employee on leave of absence may be considered as still in the employ of the Company or a Subsidiary for purposes of eligibility for participation in this Plan.

- (n) “Exchange Act” means the Securities Exchange Act of 1934, as amended from time to time, including rules thereunder and successor provisions and rules thereto.
- (o) “Executive Officer” means an executive officer of the Company as defined under the Exchange Act.
- (p) “Fair Market Value” means, for a particular day the value equal to the closing price of a share of Stock on the most recent date on which shares of Stock were publicly traded preceding the date with respect to which the Fair Market Valuation determination is made. In the event shares of Stock are not publicly traded at the time a determination of their value is required to be made hereunder, the determination of their Fair Market Value shall be made by the Committee in such manner it deems appropriate.
- (q) “Incentive Stock Option” or “ISO” means any Option intended to be and designated as an incentive stock option within the meaning of section 422 of the Code or any successor provision thereto.
- (r) “Incumbent Board” shall mean individuals who, as of the Effective Date, constitute the Board and any other individual who becomes a director of the Company after that date and whose election or appointment by the Board or nomination for election by the Company’s stockholders was approved by a vote of at least a majority of the directors then comprising the Incumbent Board.
- (s) “Non-Surviving Event” means an event of Restructure as described in either subsection (ii) or (iii) of Section 1(bb).
- (t) “Option” means a right, granted to a Participant under Section 6(b) hereof, to purchase Stock or other Awards at a specified price during specified time periods.
- (u) “Other Stock-Based Awards” means Awards granted to a Participant under Section 6(i) hereof.
- (v) “Participant” means a person who has been granted an Award under this Plan which remains outstanding, including a person who is no longer an Eligible Person.
- (w) “Performance Unit” means a right, granted to a Participant under Section 8 hereof, to receive Awards based upon performance criteria specified by the Committee.
- (x) “Person” means any person or entity of any nature whatsoever, specifically including an individual, a firm, a company, a corporation, a partnership, a limited liability company, a trust or other entity; a Person, together with that Person’s Affiliates and Associates (as those terms

are defined in Rule 12b-2 under the Exchange Act), and any Persons acting as a partnership, limited partnership, joint venture, association, syndicate or other group (whether or not formally organized), or otherwise acting jointly or in concert or in a coordinated or consciously parallel manner (whether or not pursuant to any express agreement), for the purpose of acquiring, holding, voting or disposing of securities of the Company with such Person, shall be deemed a single "Person."

(y) "Qualified Member" means a member of the Committee who is a "nonemployee Director" within the meaning of Rule 16b-3(b)(3) and an "outside director" within the meaning of Treasury Regulation 1.162-27 under section 162(m) of the Code.

(z) "Restricted Stock" means Stock granted to a Participant under Section 6(d) hereof, that is subject to certain restrictions and to a risk of forfeiture.

(aa) "Restricted Stock Unit" means a right, granted to a Participant under Section 6(e) hereof, to receive Stock, cash or a combination thereof at the end of a specified deferral period.

(bb) "Restructure" means the occurrence of any one or more of the following:

(i) The merger or consolidation of the Company with any Person, whether effected as a single transaction or a series of related transactions, with the Company remaining the continuing or surviving entity of that merger or consolidation and the Stock remaining outstanding and not changed into or exchanged for stock or other securities of any other Person or of the Company, cash, or other property;

(ii) The merger or consolidation of the Company with any Person, whether effected as a single transaction or a series of related transactions, with (A) the Company not being the continuing or surviving entity of that merger or consolidation or (B) the Company remaining the continuing or surviving entity of that merger or consolidation but all or a part of the outstanding shares of Stock are changed into or exchanged for stock or other securities of any other Person or the Company, cash, or other property; or

(iii) The transfer, directly or indirectly, of all or substantially all of the assets of the Company (whether by sale, merger, consolidation, liquidation or otherwise) to any Person whether effected as a single transaction or a series of related transactions.

(cc) "Rule 16b-3" means Rule 16b-3, promulgated by the Securities and Exchange Commission under section 16 of the Exchange Act, as from time to time in effect and applicable to this Plan and Participants.

(dd) “Securities Act” means the Securities Act of 1933 and the rules and regulations promulgated thereunder, or any successor law, as it may be amended from time to time.

(ee) “Stock” means the Company’s Common Stock, par value \$.01 per share, and such other securities as may be substituted (or resubstituted) for Stock pursuant to Section 9.

(ff) “Stock Appreciation Rights” or “SAR” means a right granted to a Participant under Section 6(c) hereof.

(gg) “Subsidiary” means with respect to any Person, any corporation or other entity of which a majority of the voting power of the voting equity securities or equity interest is owned, directly or indirectly, by that Person.

### 3. Administration.

(a) Authority of the Committee. This Plan shall be administered by the Committee except to the extent the Board elects to administer this Plan, in which case references herein to the “Committee” shall be deemed to include references to the “Board.” Subject to the express provisions of the Plan and Rule 16b-3, the Committee shall have the authority, in its sole and absolute discretion, to (i) adopt, amend, and rescind administrative and interpretive rules and regulations relating to the Plan; (ii) determine the Eligible Persons to whom, and the time or times at which, Awards shall be granted; (iii) determine the amount of cash and the number of shares of Stock, Stock Appreciation Rights, Restricted Stock Units or Restricted Stock Awards, or any combination thereof, that shall be the subject of each Award; (iv) determine the terms and provisions of each Award agreement (which need not be identical), including provisions defining or otherwise relating to (A) the term and the period or periods and extent of exercisability of the Options, (B) the extent to which the transferability of shares of Stock issued or transferred pursuant to any Award is restricted, (C) except as otherwise provided herein, the effect of termination of employment of a Participant on the Award, and (D) the effect of approved leaves of absence (consistent with any applicable regulations of the Internal Revenue Service); (v) accelerate the time of exercisability of any Award that has been granted; (vi) construe the respective Award agreements and the Plan; (vii) make determinations of the Fair Market Value of the Stock pursuant to the Plan; (viii) delegate its duties under the Plan to such agents as it may appoint from time to time, provided that the Committee may not delegate its duties with respect to making Awards to, or otherwise with respect to Awards granted to, Eligible Persons who are subject to section 16(b) of the Exchange Act or section 162(m) of the Code; (ix) terminate, modify or amend the Plan; and (x) make all other determinations, perform all other acts, and exercise all other powers and authority necessary or advisable for administering the Plan, including the delegation of those ministerial acts and responsibilities as the Committee deems appropriate. Subject to Rule 16b-3 and section 162(m) of the Code, the Committee

may correct any defect, supply any omission, or reconcile any inconsistency in the Plan, in any Award, or in any Award agreement in the manner and to the extent it deems necessary or desirable to carry the Plan into effect, and the Committee shall be the sole and final judge of that necessity or desirability. The determinations of the Committee on the matters referred to in this Section 3(a) shall be final and conclusive.

(b) Manner of Exercise of Committee Authority. At any time that a member of the Committee is not a Qualified Member, any action of the Committee relating to an Award granted or to be granted to a Participant who is then subject to section 16 of the Exchange Act in respect of the Company, or relating to an Award intended by the Committee to qualify as “performance-based compensation” within the meaning of section 162(m) of the Code and regulations thereunder, may be taken either (i) by a subcommittee, designated by the Committee, composed solely of two or more Qualified Members, or (ii) by the Committee but with each such member who is not a Qualified Member abstaining or recusing himself or herself from such action; provided, however, that, upon such abstention or recusal, the Committee remains composed solely of two or more Qualified Members. Such action, authorized by such a subcommittee or by the Committee upon the abstention or recusal of such non-Qualified Member(s), shall be the action of the Committee for purposes of this Plan. Any action of the Committee shall be final, conclusive and binding on all persons, including the Company, its Subsidiaries, stockholders, Participants, Beneficiaries, and transferees under Section 10(a) hereof or other persons claiming rights from or through a Participant. The express grant of any specific power to the Committee, and the taking of any action by the Committee, shall not be construed as limiting any power or authority of the Committee. The Committee may delegate to officers or managers of the Company or any Subsidiary, or committees thereof, the authority, subject to such terms as the Committee shall determine, to perform such functions, including administrative functions, as the Committee may determine, to the extent that such delegation will not result in the loss of an exemption under Rule 16b-3(d)(1) for Awards granted to Participants subject to section 16 of the Exchange Act in respect of the Company and will not cause Awards intended to qualify as “performance-based compensation” under section 162(m) of the Code to fail to so qualify. The Committee may appoint agents to assist it in administering this Plan.

(c) Limitation of Liability. The Committee and each member thereof shall be entitled to, in good faith, rely or act upon any report or other information furnished to him or her by any officer or employee of the Company or a Subsidiary, the Company’s legal counsel, independent auditors, consultants or any other agents assisting in the administration of this Plan. Members of the Committee and any officer or employee of the Company or a Subsidiary acting at the direction or on behalf of the Committee shall not be personally liable for any action or determination taken or made in good faith with respect to this Plan, and shall, to the fullest extent permitted by law, be indemnified and held harmless by the Company with respect to any such action or determination.

4. Stock Subject to Plan.

(a) Overall Number of Shares Available for Delivery. Subject to adjustment in a manner consistent with any adjustment made pursuant to Section 9, the total number of shares of Stock reserved and available for delivery in connection with Awards under this Plan shall not exceed 4,600,000 shares and the total number of shares of Stock received and available for delivery in connection with ISOs under this Plan shall not exceed 4,600,000 shares. No Award may be granted under the Plan on or after the 10 year anniversary of the Effective Date.

(b) Application of Limitation to Grants of Awards. No Award may be granted if the number of shares of Stock to be delivered in connection with such Award exceeds the number of shares of Stock remaining available under this Plan minus the number of shares of Stock issuable in settlement of or relating to then-outstanding Awards. The Committee may adopt reasonable counting procedures to ensure appropriate counting, avoid double counting (as, for example, in the case of tandem or substitute awards) and make adjustments if the number of shares of Stock actually delivered differs from the number of shares previously counted in connection with an Award.

(c) Availability of Shares Not Issued under Awards. Shares of Stock subject to an Award under this Plan that expire or are canceled, forfeited, settled in cash or otherwise terminated without an issuance of shares to the Participant, including (i) the number of shares withheld in payment of any exercise or purchase price of an Award or taxes relating to Awards, and (ii) the number of shares surrendered in payment of any exercise or purchase price of an Award or taxes relating to any Award, will again be available for Awards under this Plan, except that if any such shares could not again be available for Awards to a particular Participant under any applicable law or regulation, such shares shall be available exclusively for Awards to Participants who are not subject to such limitation.

(d) Stock Offered. The shares to be delivered under the Plan shall be made available from (i) authorized but unissued shares of Stock, (ii) Stock held in the treasury of the Company, or (iii) previously issued shares of Stock reacquired by the Company, including shares purchased on the open market.

5. Eligibility; Per Person Award Limitations. Awards may be granted under this Plan only to Persons who are Eligible Persons at the time of grant thereof or in connection with the severance or retirement of Eligible Individuals. In each fiscal year or 12-month period, as applicable, during any part of which this Plan is in effect, a Covered Employee may not be granted (a) Awards (other than Awards designated to be paid only in cash) relating to more than 250,000 shares of Stock, subject to adjustment in a manner consistent with any adjustment made pursuant to Section 9 and (b) Awards designated to be paid only in cash having a value determined on the date of grant in excess of \$4,000,000.

6. Specific Terms of Awards.

(a) General. Awards may be granted on the terms and conditions set forth in this Section 6. In addition, the Committee may impose on any Award or the exercise thereof, at the date of grant or thereafter (subject to Section 10(c)), such additional terms and conditions, not inconsistent with the provisions of this Plan, as the Committee shall determine, including terms requiring forfeiture of Awards in the event of termination of employment by the Participant and terms permitting a Participant to make elections relating to his or her Award. The Committee shall retain full power and discretion to accelerate, waive or modify, at any time, any term or condition of an Award that is not mandatory under this Plan; provided, however, that the Committee shall not have any discretion to accelerate, waive or modify any term or condition of an Award that is intended to qualify as “performance-based compensation” for purposes of section 162(m) of the Code if such discretion would cause the Award to not so qualify.

(b) Options. The Committee is authorized to grant Options to Participants on the following terms and conditions:

(i) Exercise Price. Each Option agreement shall state the exercise price per share of Stock (the “Exercise Price”); provided, however, that the Exercise Price per share of Stock subject to an ISO shall not be less than the greater of (D) the par value per share of the Stock or (E) 100% of the Fair Market Value per share of the Stock as of the date of grant of the Option (or in the case of an individual who owns stock possessing more than 10 percent of the total combined voting power of all classes of stock of the Corporation or its parent or any Subsidiary 110% of the Fair Market Value per share of the Stock on the date of grant). The exercise price per share of Stock subject to an Option other than an Incentive Stock Option shall not be less than the greater of (1) the par value per share of the Stock and (2) 100% of the Fair Market Value per share of the stock as of the date of grant of the Option.

(ii) Time and Method of Exercise. The Committee shall determine the time or times at which or the circumstances under which an Option may be exercised in whole or in part (including based on achievement of performance goals and/or future service requirements), the methods by which such exercise price may be paid or deemed to be paid,

the form of such payment, including without limitation cash, Stock, other Awards or awards granted under other plans of the Company or any Subsidiary, or other property (including notes or other contractual obligations of Participants to make payment on a deferred basis), and the methods by or forms in which Stock will be delivered or deemed to be delivered to Participants, including, but not limited to, the delivery of Restricted Stock subject to Section 6(d). In the case of an exercise whereby the Exercise Price is paid with Stock, such Stock shall be valued as of the date of exercise.

(iii) ISOs. The terms of any ISO granted under this Plan shall comply in all respects with the provisions of section 422 of the Code. Anything in this Plan to the contrary notwithstanding, no term of this Plan relating to ISOs (including any SAR in tandem therewith) shall be interpreted, amended or altered, nor shall any discretion or authority granted under this Plan be exercised, so as to disqualify either this Plan or any ISO under section 422 of the Code, unless the Participant has first requested the change that will result in such disqualification. ISOs shall not be granted more than ten years after the earlier of the adoption of this Plan or the approval of this Plan by the Company's stockholders. Notwithstanding the foregoing, the Fair Market Value of shares of Stock subject to an ISO and the aggregate Fair Market Value of shares of stock of any parent or Subsidiary corporation (within the meaning of sections 424(e) and (f) of the Code) subject to any other incentive stock option (within the meaning of section 422 of the Code) of the Company or a parent or Subsidiary corporation (within the meaning of sections 424(e) and (f) of the Code) that first becomes purchasable by a Participant in any calendar year may not (with respect to that Participant) exceed \$100,000, or such other amount as may be prescribed under section 422 of the Code or applicable regulations or rulings from time to time. As used in the previous sentence, Fair Market Value shall be determined as of the date the incentive stock options is granted. Failure to comply with this provision shall not impair the enforceability or exercisability of any Option, but shall cause the excess amount of shares to be reclassified in accordance with the Code.

(c) Stock Appreciation Rights. The Committee is authorized to grant SARs to Participants on the following terms and conditions:

(i) Right to Payment. An SAR shall confer on the Participant to whom it is granted a right to receive, upon exercise thereof, the excess of (A) the Fair Market Value of one share of Stock on the date of exercise over (B) the grant price of the SAR as determined by the Committee.

(ii) Rights Related to Options. A Stock Appreciation Right granted pursuant to an Option shall entitle a Participant, upon exercise, to surrender that Option or any portion thereof, to the extent unexercised, and to receive payment of an amount computed pursuant to Subsection 6(c)(ii)(B). That Option shall then cease to be exercisable to the extent surrendered. Stock Appreciation Rights granted in connection with an Option shall be subject to the terms of the Award agreement governing the Option, which shall comply with the following provisions in addition to those applicable to Options:



(A) A Stock Appreciation Right granted in connection with an Option shall be exercisable only at such time or times and only to the extent that the related Option is exercisable and shall not be transferable except to the extent that the related Option is transferable.

(B) Upon the exercise of a Stock Appreciation Right related to an Option, a Participant shall be entitled to receive payment from the Company of an amount determined by multiplying:

(1) the difference obtained by subtracting the exercise price of a share of Stock specified in the related Option from the Fair Market Value of a share of Stock on the date of exercise of the Stock Appreciation Right, by

(2) the number of shares as to which that Stock Appreciation Right has been exercised.

(iii) Right Without Option. A Stock Appreciation Right granted independent of an Option shall be exercisable as determined by the Committee and set forth in the Award agreement governing the Stock Appreciation Right, which Award agreement shall comply with the following provisions:

(A) Each Award agreement shall state the total number of shares of Stock to which the Stock Appreciation Right relates.

(B) Each Award agreement shall state the time or periods in which the right to exercise the Stock Appreciation Right or a portion thereof shall vest and the number of shares of Stock for which the right to exercise the Stock Appreciation Right shall vest at each such time or period.

(C) Each Award agreement shall state the date at which the Stock Appreciation Rights shall expire if not previously exercised.

(D) Each Stock Appreciation Right shall entitle a participant, upon exercise thereof, to receive payment of an amount determined by multiplying:

- (1) the difference obtained by subtracting the Fair Market Value of a share of Stock on the date of grant of the Stock Appreciation Right from the Fair Market Value of a share of Stock on the date of exercise of that Stock Appreciation Right, by
- (2) the number of shares as to which the Stock Appreciation Right has been exercised.
- (iv) Terms. Except as otherwise provided herein, the Committee shall determine at the date of grant or thereafter, the time or times at which and the circumstances under which an SAR may be exercised in whole or in part (including based on achievement of performance goals and/or future service requirements), the method of exercise, method of settlement, form of consideration payable in settlement, method by or forms in which Stock will be delivered or deemed to be delivered to Participants, whether or not an SAR shall be in tandem or in combination with any other Award, and any other terms and conditions of any SAR. SARs may be either freestanding or in tandem with other Awards.
- (d) Restricted Stock. The Committee is authorized to grant Restricted Stock to Participants on the following terms and conditions:
- (i) Grant and Restrictions. Restricted Stock shall be subject to such restrictions on transferability, risk of forfeiture and other restrictions, if any, as the Committee may impose, which restrictions may lapse separately or in combination at such times, under such circumstances (including based on achievement of performance goals and/or future service requirements), in such installments or otherwise, as the Committee may determine at the date of grant or thereafter. During the restricted period applicable to the Restricted Stock, the Restricted Stock may not be sold, transferred, pledged, hypothecated, margined or otherwise encumbered by the Participant.
- (ii) Certificates for Stock. Restricted Stock granted under this Plan may be evidenced in such manner as the Committee shall determine. If certificates representing Restricted Stock are registered in the name of the Participant, the Committee may require that such certificates bear an appropriate legend referring to the terms, conditions and restrictions applicable to such Restricted Stock, that the Company retain physical possession of the certificates, and that the Participant deliver a stock power to the Company, endorsed in blank, relating to the Restricted Stock.
- (iii) Dividends and Splits. As a condition to the grant of an Award of Restricted Stock, the Committee may require or permit a Participant to elect that any cash dividends paid on a share of Restricted Stock be automatically reinvested in additional shares of Restricted Stock or applied to the purchase of additional Awards under this Plan. Unless otherwise determined by the Committee, Stock distributed in connection with a Stock split or Stock dividend, and other property distributed as a dividend, shall be subject to restrictions and a risk of forfeiture to the same extent as the Restricted Stock with respect to which such Stock or other property has been distributed.

(e) Restricted Stock Units. The Committee is authorized to grant Restricted Stock Units to Participants, which are rights to receive Stock at the end of a specified deferral period, subject to the following terms and conditions:

(i) Award and Restrictions. Settlement of an Award of Restricted Stock Units shall occur upon expiration of the deferral period specified for such Restricted Stock Unit by the Committee (or, if permitted by the Committee, as elected by the Participant). In addition, Restricted Stock Units shall be subject to such restrictions (which may include a risk of forfeiture) as the Committee may impose, if any, which restrictions may lapse at the expiration of the deferral period or at earlier specified times (including based on achievement of performance goals and/or future service requirements), separately or in combination, in installments or otherwise, as the Committee may determine. Restricted Stock Units shall be satisfied by the delivery of cash or Stock in the amount equal to the Fair Market Value of the specified number of shares of Stock covered by the Restricted Stock Units, or a combination thereof, as determined by the Committee at the date of grant or thereafter.

(ii) Dividend Equivalents. Unless otherwise determined by the Committee at date of grant, Dividend Equivalents on the specified number of shares of Stock covered by an Award of Restricted Stock Units shall be either (A) paid with respect to such Restricted Stock Units on the dividend payment date in cash or in shares of unrestricted Stock having a Fair Market Value equal to the amount of such dividends, or (B) deferred with respect to such Restricted Stock Units and the amount or value thereof automatically deemed reinvested in additional Restricted Stock Units, other Awards or other investment vehicles, as the Committee shall determine or permit the Participant to elect.

(f) Bonus Stock and Awards in Lieu of Obligations. The Committee is authorized to grant Stock as a bonus, or to grant Stock or other Awards in lieu of obligations to pay cash or deliver other property under this Plan or under other plans or compensatory arrangements, provided that, in the case of Participants subject to section 16 of the Exchange Act, the amount of such grants remains within the discretion of the Committee to the extent necessary to ensure that acquisitions of Stock or other Awards are exempt from liability under section 16(b) of the Exchange Act. Stock or Awards granted hereunder shall be subject to such other terms as shall be determined by the Committee. In the case of any grant of Stock to an officer of the Company or a Subsidiary in lieu of salary or other cash compensation, the number of shares granted in place of such compensation shall be reasonable, as determined by the Committee.

(g) Dividend Equivalents. The Committee is authorized to grant Dividend Equivalents to a Participant, entitling the Participant to receive cash, Stock, other Awards, or other property equal in value to dividends paid with respect to a specified number of shares of Stock, or other periodic payments. Dividend Equivalents may be awarded on a free-standing basis or in connection with another Award. The Committee may provide that Dividend Equivalents shall be paid or distributed when accrued or shall be deemed to have been reinvested in additional Stock, Awards, or other investment vehicles, and subject to such restrictions on transferability and risks of forfeiture, as the Committee may specify.

(h) Other Stock-Based Awards. The Committee is authorized, subject to limitations under applicable law, to grant to Participants such other Awards that may be denominated or payable in, valued in whole or in part by reference to, or otherwise based on, or related to, Stock, as deemed by the Committee to be consistent with the purposes of this Plan, including without limitation convertible or exchangeable debt securities, other rights convertible or exchangeable into Stock, purchase rights for Stock, Awards with value and payment contingent upon performance of the Company or any other factors designated by the Committee, and Awards valued by reference to the book value of Stock or the value of securities of or the performance of specified Subsidiaries. The Committee shall determine the terms and conditions of such Awards. Stock delivered pursuant to an Award in the nature of a purchase right granted under this Section 6(h) shall be purchased for such consideration, paid for at such times, by such methods, and in such forms, including, without limitation, cash, Stock, other Awards, or other property, as the Committee shall determine. Cash awards, as an element of or supplement to any other Award under this Plan, may also be granted pursuant to this Section 6(h).

7. Certain Provisions Applicable to Awards.

(a) Termination of Employment. Except as provided herein, the treatment of an Award upon a termination of employment or any other service relationship by and between a Participant and any Company or Subsidiary shall be specified in the agreement controlling such Award.

(b) Stand-Alone, Additional, Tandem, and Substitute Awards. Awards granted under this Plan may, in the discretion of the Committee, be granted either alone or in addition to, in tandem with, or in substitution or exchange for, any other Award or any award granted under another plan of the Company, any Subsidiary, or any business entity to be acquired by the Company or a Subsidiary, or any other right of a Participant to receive payment from the Company or any Subsidiary. Such additional, tandem and substitute or exchange Awards may be granted at any time. If an Award is granted in substitution or exchange for another Award, the Committee shall require the surrender of such other Award in consideration for the grant of the new Award. In addition, Awards may be granted in lieu of cash compensation, including in lieu of cash amounts payable under other plans of the Company or any Subsidiary, in which the value of Stock subject to the

Award is equivalent in value to the cash compensation (for example, Restricted Stock Units or Restricted Stock), or in which the exercise price, grant price or purchase price of the Award in the nature of a right that may be exercised is equal to the Fair Market Value of the underlying Stock minus the value of the cash compensation surrendered (for example, Options granted with an exercise price “discounted” by the amount of the cash compensation surrendered).

(c) Term of Awards. The term of each Award shall be for such period as may be determined by the Committee; provided that in no event shall the term of any Option or SAR exceed a period of ten years (or such shorter term as may be required in respect of an ISO under section 422 of the Code).

(d) Form and Timing of Payment under Awards; Deferrals. Subject to the terms of this Plan and any applicable Award agreement, payments to be made by the Company or a Subsidiary upon the exercise of an Option or other Award or settlement of an Award may be made in such forms as the Committee shall determine, including without limitation cash, Stock, other Awards or other property, and may be made in a single payment or transfer, in installments, or on a deferred basis. Except as otherwise provided herein, the settlement of any Award may be accelerated, and cash paid in lieu of Stock in connection with such settlement, in the discretion of the Committee or upon occurrence of one or more specified events (in addition to a Change in Control). Installment or deferred payments may be required by the Committee (subject to Section 10(c) of this Plan, including the consent provisions thereof in the case of any deferral of an outstanding Award not provided for in the original Award agreement) or permitted at the election of the Participant on terms and conditions established by the Committee. Payments may include, without limitation, provisions for the payment or crediting of reasonable interest on installment or deferred payments or the grant or crediting of Dividend Equivalents or other amounts in respect of installment or deferred payments denominated in Stock. Any deferral shall only be allowed as is provided in a separate deferred compensation plan adopted by the Company. This Plan shall not constitute an “employee benefit plan” for purposes of section 3(3) of the Employee Retirement Income Security Act of 1974, as amended.

(e) Exemptions from Section 16(b) Liability. It is the intent of the Company that the grant of any Awards to or other transaction by a Participant who is subject to section 16 of the Exchange Act shall be exempt from such section pursuant to an applicable exemption (except for transactions acknowledged in writing to be non-exempt by such Participant). Accordingly, if any provision of this Plan or any Award agreement does not comply with the requirements of Rule 16b-3 as then applicable to any such transaction, such provision shall be construed or deemed amended to the extent necessary to conform to the applicable requirements of Rule 16b-3 so that such Participant shall avoid liability under section 16(b) of the Exchange Act.

(f) **Non-Competition Agreement.** Each Participant to whom an Award is granted under this Plan may be required to agree in writing as a condition to the granting of such Award not to engage in conduct in competition with the Company or any of its Subsidiaries for a period after the termination of such Participant's employment with the Company and its Subsidiaries as determined by the Committee.

8. **Performance and Annual Incentive Awards.**

(a) **Performance Conditions.** The right of a Participant to exercise or receive a grant or settlement of any Award, and the timing thereof, may be subject to such performance conditions as may be specified by the Committee. The Committee may use such business criteria and other measures of performance as it may deem appropriate in establishing any performance conditions, and may exercise its discretion to reduce or increase the amounts payable under any Award subject to performance conditions, except as limited under Sections 8(b) and 8(c) hereof in the case of a Performance Award or Annual Incentive Award intended to qualify under section 162(m) of the Code.

(b) **Performance Awards Granted to Designated Covered Employees.** If the Committee determines that a Performance Award to be granted to an Eligible Person who is designated by the Committee as likely to be a Covered Employee should qualify as "performance-based compensation" for purposes of section 162(m) of the Code, the grant, exercise and/or settlement of such Performance Award may be contingent upon achievement of preestablished performance goals and other terms set forth in this Section 8(b).

(i) **Performance Goals Generally.** The performance goals for such Performance Awards shall consist of one or more business criteria or individual performance criteria and a targeted level or levels of performance with respect to each of such criteria, as specified by the Committee consistent with this Section 8(b). Performance goals shall be objective and shall otherwise meet the requirements of section 162(m) of the Code and regulations thereunder (including Treasury Regulation §1.162-27 and successor regulations thereto), including the requirement that the level or levels of performance targeted by the Committee result in the achievement of performance goals being "substantially uncertain." The Committee may determine that such Performance Awards shall be granted, exercised, and/or settled upon achievement of any one performance goal or that two or more of the performance goals must be achieved as a condition to grant, exercise and/or settlement of such Performance Awards. Performance goals may differ for Performance Awards granted to any one Participant or to different Participants.

(ii) **Business and Individual Performance Criteria**

(A) **Business Criteria.** One or more of the following business criteria for the Company, on a consolidated basis, and/or for specified Subsidiaries or business or geographical units of the Company (except with respect to the total stockholder return and earnings per share criteria), shall be used by the Committee in establishing performance goals for such Performance Awards: (1) earnings per share; (2) increase in revenues; (3) increase in cash flow; (4) increase in cash flow return; (5) return on net assets; (6) return on assets, return on investment; (7) return on capital; (8) return on equity; (9) economic value added; (10) operating margin; (11) contribution margin; (12) net income; (13) pretax earnings; (14) pretax earnings before interest, depreciation, amortization, exploration and abandonment costs; (15) pretax operating earnings after interest expense and before incentives, service fees, and extraordinary or special items; or operating income; (16) total stockholder return; (17) debt reduction; (18) production growth; (19) general and administrative expenses; (20) reserve replacement; (21) finding and development costs; (22) net asset value; (23) operating costs, and (24) any of the above goals determined on an absolute or relative basis or as compared to the performance of a published or special index deemed applicable by the Committee including, but not limited to, the Standard & Poor's 500 Stock Index or a group of comparable companies. One or more of the foregoing business criteria shall also be exclusively used in establishing performance goals for Annual Incentive Awards granted to a Covered Employee under Section 8(c) hereof.

(B) **Individual Performance Criteria.** The grant, exercise and/or settlement of Performance Awards may also be contingent upon individual performance goals established by the Committee. If required for compliance with section 162(m) of the Code, such criteria shall be approved by the stockholders of the Company.

(iii) **Performance Period; Timing for Establishing Performance Goals.** Achievement of performance goals in respect of such Performance Awards shall be measured over a performance period of up to ten years, as specified by the Committee. Performance goals shall be established not later than 90 days after the beginning of any performance period applicable to such Performance Awards, or at such other date as may be required or permitted for "performance-based compensation" under section 162(m) of the Code.

(iv) **Performance Award Pool.** The Committee may establish a Performance Award pool, which shall be an unfunded pool, for purposes of measuring performance of the Company in connection with Performance Awards. The amount of such Performance Award pool shall be based upon the achievement of a performance goal or goals based on one or more of the criteria set forth in Section 8(b)(ii) hereof during the given performance period, as specified by the Committee in accordance with Section 8(b)(iii) hereof. The Committee may specify the amount of the Performance Award pool as a percentage of any of such criteria, a percentage thereof in excess of a threshold amount, or as another amount which need not bear a strictly mathematical relationship to such criteria.

(v) Settlement of Performance Awards; Other Terms. After the end of each performance period, the Committee shall determine the amount, if any, of (A) the Performance Award pool, and the maximum amount of potential Performance Award payable to each Participant in the Performance Award pool, or (B) the amount of potential Performance Award otherwise payable to each Participant. Settlement of such Performance Awards shall be in cash, Stock, other Awards or other property, in the discretion of the Committee. The Committee may, in its discretion, reduce the amount of a settlement otherwise to be made in connection with such Performance Awards, but may not exercise discretion to increase any such amount payable to a Covered Employee in respect of a Performance Award subject to this Section 8(b). The Committee shall specify the circumstances in which such Performance Awards shall be paid or forfeited in the event of termination of employment by the Participant prior to the end of a performance period or settlement of Performance Awards.

(c) Annual Incentive Awards Granted to Designated Covered Employees. If the Committee determines that an Annual Incentive Award to be granted to an Eligible Person who is designated by the Committee as likely to be a Covered Employee should qualify as “performance-based compensation” for purposes of section 162(m) of the Code, the grant, exercise and/or settlement of such Annual Incentive Award shall be contingent upon achievement of preestablished performance goals and other terms set forth in this Section 8(c).

(i) Annual Incentive Award Pool. The Committee may establish an Annual Incentive Award pool, which shall be an unfunded pool, for purposes of measuring performance of the Company in connection with Annual Incentive Awards. The amount of such Annual Incentive Award pool shall be based upon the achievement of a performance goal or goals based on one or more of the business criteria set forth in Section 8(b)(ii) hereof during the given performance period, as specified by the Committee in accordance with Section 8(b)(iii) hereof. The Committee may specify the amount of the Annual Incentive Award pool as a percentage of any of such business criteria, a percentage thereof in excess of a threshold amount, or as another amount which need not bear a strictly mathematical relationship to such business criteria.

(ii) Potential Annual Incentive Awards. Not later than the end of the 90th day of each applicable year, or at such other date as may be required or permitted in the case of Awards intended to be “performance-based compensation” under section 162(m) of the Code, the Committee shall determine the Eligible Persons who will potentially receive Annual Incentive Awards, and the amounts potentially payable thereunder, for that fiscal year, either out of an Annual Incentive Award pool established by such date under Section 8(c)(i) hereof or as individual Annual Incentive Awards. In the case of individual Annual Incentive Awards intended to qualify under section 162(m) of the Code, the amount potentially payable shall be based upon the achievement of a performance goal or goals based on one or more of the business criteria set forth in Section 8(b)(ii) hereof in the given



performance year, as specified by the Committee; in situations not governed by section 162(m) of the Code, such amount shall be based on such criteria as shall be established by the Committee. In all cases, the maximum Annual Incentive Award of any Participant shall be subject to the limitation set forth in Section 5 hereof.

(iii) Payout of Annual Incentive Awards. After the end of each applicable year, the Committee shall determine the amount, if any, of (E) the Annual Incentive Award pool, and the maximum amount of potential Annual Incentive Award payable to each Participant in the Annual Incentive Award pool, or (F) the amount of potential Annual Incentive Award otherwise payable to each Participant. The Committee may, in its discretion, determine that the amount payable to any Participant as a final Annual Incentive Award shall be increased or reduced from the amount of his or her potential Annual Incentive Award, including a determination to make no final Award whatsoever, but may not exercise discretion to increase any such amount in the case of an Annual Incentive Award intended to qualify under section 162(m) of the Code. The Committee shall specify the circumstances in which an Annual Incentive Award shall be paid or forfeited in the event of termination of employment by the Participant prior to the end of the applicable year or settlement of such Annual Incentive Award.

(d) Written Determinations. All determinations by the Committee as to the establishment of performance goals, the amount of any Performance Award pool or potential individual Performance Awards and as to the achievement of performance goals relating to Performance Awards under Section 8(b), and the amount of any Annual Incentive Award pool or potential individual Annual Incentive Awards and the amount of final Annual Incentive Awards under Section 8(c), shall be made in writing in the case of any Award intended to qualify under section 162(m) of the Code. The Committee may not delegate any responsibility relating to such Performance Awards or Annual Incentive Awards.

(e) Status of Section 8(b) and Section 8(c) Awards under Section 162(m) of the Code. It is the intent of the Company that Performance Awards and Annual Incentive Awards under Sections 8(b) and 8(c) hereof granted to persons who are designated by the Committee as likely to be Covered Employees within the meaning of section 162(m) of the Code and regulations thereunder (including Treasury Regulation §1.162-27 and successor regulations thereto) shall, if so designated by the Committee, constitute “performance-based compensation” within the meaning of section 162(m) of the Code and regulations thereunder. Accordingly, the terms of Sections 8(b), (c), (d) and (e), including the definitions of Covered Employee and other terms used therein, shall be interpreted in a manner consistent with section 162(m) of the Code and regulations thereunder. The foregoing notwithstanding, because the Committee cannot determine with certainty whether a given Participant will be a Covered Employee with respect to a fiscal year that has not yet been completed, the term Covered Employee as used herein shall mean only a person designated by the Committee, at the time of grant of Performance Awards or an Annual Incentive Award, who is likely to be a Covered Employee with respect to that fiscal year. If any provision of this Plan as in effect on the date of adoption or any agreements relating to Performance Awards or Annual Incentive Awards that are designated as intended to comply with section 162(m) of the Code does not comply or is

inconsistent with the requirements of section 162(m) of the Code or regulations thereunder, such provision shall be construed or deemed amended to the extent necessary to conform to such requirements.

9. Recapitalization or Reorganization; Change in Control.

(a) Existence of Plans and Awards. The existence of this Plan and the Awards granted hereunder shall not affect in any way the right or power of the Board or the stockholders of the Company to make or authorize any adjustment, recapitalization, reorganization or other change in the Company's capital structure or its business, any merger or consolidation of the Company, any issue of debt or equity securities ahead of or affecting Stock or the rights thereof, the dissolution or liquidation of the Company or any sale, lease, exchange or other disposition of all or any part of its assets or business or any other corporate act or proceeding.

(b) Subdivision or Consolidation of Shares. The terms of an Award and the number of shares of Stock authorized pursuant to Section 4 for issuance under the Plan shall be subject to adjustment from time to time, in accordance with the following provisions:

(i) If at any time, or from time to time, the Company shall subdivide as a whole (by reclassification, by a Stock split, by the issuance of a distribution on Stock payable in Stock, or otherwise) the number of shares of Stock then outstanding into a greater number of shares of Stock, then (A) the maximum number of shares of Stock available for the Plan as provided in Section 4 shall be increased proportionately, and the kind of shares or other securities available for the Plan shall be appropriately adjusted, (B) the number of shares of Stock (or other kind of shares or securities) that may be acquired under any Award shall be increased proportionately, and (C) the price (including the exercise price) for each share of Stock (or other kind of shares or securities) subject to then outstanding Awards shall be reduced proportionately, without changing the aggregate purchase price or value as to which outstanding Awards remain exercisable or subject to restrictions.

(ii) If at any time, or from time to time, the Company shall consolidate as a whole (by reclassification, reverse Stock split, or otherwise) the number of shares of Stock then outstanding into a lesser number of shares of Stock, (A) the maximum number of shares of Stock available for the Plan as provided in Section 4 shall be decreased proportionately, and the kind of shares or other securities available for the Plan shall be appropriately adjusted, (B) the number of shares of Stock (or other kind of shares or securities) that may be acquired under any Award shall be decreased proportionately, and (C) the price (including the exercise price) for each share of Stock (or other kind of shares or securities) subject to then outstanding Awards shall be increased proportionately, without changing the aggregate purchase price or value as to which outstanding Awards remain exercisable or subject to restrictions.

(iii) Whenever the number of shares of Stock subject to outstanding Awards and the price for each share of Stock subject to outstanding Awards are required to be adjusted as provided in this Section 9(b), the Committee shall promptly prepare a notice setting forth, in reasonable detail, the event requiring adjustment, the amount of the adjustment, the method by which such adjustment was calculated, and the change in price and the number of shares of Stock, other securities, cash, or property purchasable subject to each Award after giving effect to the adjustments. The Committee shall promptly give each Participant such a notice.

(iv) Adjustments under Subsections 9(b)(i) and (ii) shall be made by the Committee, and its determination as to what adjustments shall be made and the extent thereof shall be final, binding, and conclusive. No fractional interest shall be issued under the Plan on account of any such adjustments.

(c) Corporate Recapitalization.

(i) If the Company recapitalizes, reclassifies its capital stock, or otherwise changes its capital structure (a “recapitalization”), the number and class of shares of Stock covered by an Option or an SAR theretofore granted shall be adjusted so that such Option or SAR shall thereafter cover the number and class of shares of stock and securities to which the holder would have been entitled pursuant to the terms of the recapitalization if, immediately prior to the recapitalization, the holder had been the holder of record of the number of shares of Stock then covered by such Option or SAR and the share limitations provided in Sections 4 and 5 shall be adjusted in a manner consistent with the recapitalization.

(ii) In the event of changes in the outstanding Stock by reason of recapitalization, reorganizations, mergers, consolidations, combinations, exchanges or other relevant changes in capitalization occurring after the date of the grant of any Award and not otherwise provided for by this Section 9, any outstanding Awards and any agreements evidencing such Awards shall be subject to adjustment by the Committee at its discretion as to the number and price of shares of Stock or other consideration subject to such Awards. In the event of any such change in the outstanding Stock, the aggregate number of shares available under this Plan may be appropriately adjusted by the Committee, whose determination shall be conclusive.

(d) Additional Issuances. Except as hereinbefore expressly provided, the issuance by the Company of shares of stock of any class or securities convertible into shares of stock of any class, for cash, property, labor or services, upon direct sale, upon the exercise of rights or warrants to subscribe therefor, or upon conversion of shares or obligations of the Company convertible into such shares or other securities, and in any case whether or not for fair value, shall not affect, and no adjustment by reason thereof shall be made with respect to, the number of shares of Stock subject to Awards theretofore granted or the purchase price per share, if applicable.

- (e) **Change in Control.** Upon the occurrence of a Change in Control, with respect only to Awards held by Participants who are employees or directors of the Company (and their permitted transferees pursuant to Section 10(a)) at the occurrence of the Change in Control, (i) all outstanding Stock Appreciation Rights and Options shall immediately become fully vested and exercisable in full, including that portion of any Stock Appreciation Right or Option that pursuant to the terms and provisions of the applicable Award Agreement had not yet become exercisable (the total number of shares of Stock as to which a Stock Appreciation Right or Option is exercisable upon the occurrence of a Change in Control is referred to herein as the “Total Shares”); (ii) the restriction period of any Restricted Stock Award and Restricted Stock Unit shall immediately be accelerated and the restrictions shall expire; and (iii) the performance goals established under the Performance Awards will be deemed to have been met for all performance periods upon the occurrence of a Change in Control and the holder will be paid a pro rata portion of all associated targeted performance goals (based on the number of complete and partial calendar months elapsed as of the occurrence of the Change in Control) in cash within thirty days following the Change in Control or in Stock effective as of the Change in Control, for cash and stock-based Performance Awards respectively. If a Change in Control involves a Restructure or occurs in connection with a series of related transactions involving a Restructure and if such Restructure is in the form of a Non-Surviving Event and as a part of such Restructure shares of stock, other securities, cash or property shall be issuable or deliverable in exchange for Stock, then the holder of an Award shall be entitled to purchase or receive (in lieu of the Total Shares that the holder would otherwise be entitled to purchase or receive), as appropriate for the form of Award, the number of shares of stock, other securities, cash or property to which that number of Total Shares would have been entitled in connection with such Restructure (and, for Options, at an aggregate exercise price equal to the Exercise Price that would have been payable if that number of Total Shares had been purchased on the exercise of the Option immediately before the consummation of the Restructure).
- (f) **Restructure and No Change in Control.** In the event a Restructure should occur at any time while there is any outstanding Option, SAR, Restricted Stock Award or Restricted Stock Unit hereunder and that Restructure does not occur in connection with a Change in Control or in connection with a series of related transactions involving a Change in Control, then:
- (i) no holder of an Option shall automatically be granted corresponding SARs;

- (ii) neither any outstanding SARs nor any outstanding Options shall immediately become fully vested and exercisable in full merely because of the occurrence of the Restructure;
- (iii) the restriction period of any Restricted Stock Award or Restricted Stock Unit shall not immediately be accelerated and the restrictions shall not expire merely because of the occurrence of the Restructure; and
- (iv) at the option of the Committee, the Company may (but shall not be required to) take any one or more of the following actions:
  - (A) grant each holder of an Option corresponding Stock or cash SARs;
  - (B) accelerate in whole or in part the time of the vesting and exercisability of any one or more of the outstanding SARs and Options so as to provide that those SARs and Options shall be exercisable before, upon, or after the consummation of the Restructure;
  - (C) accelerate in whole or in part the expiration of some or all of the restrictions on any Restricted Stock Award or Restricted Stock Unit so that the Stock subject to that Restricted Stock Award or Restricted Stock Unit shall be owned by the holder without restriction or risk of forfeiture;
  - (D) the performance goals established under the Performance Awards will not be deemed to have been fully met for all performance periods merely because of the occurrence of the Restructure;
  - (E) if the Restructure is in the form of a Non-Surviving Event, cause the surviving entity to assume in whole or in part any one or more of the outstanding Options, SARs, Restricted Stock Awards and Restricted Stock Units upon such terms and provisions as the Committee deems desirable; or
  - (F) redeem in whole or in part any one or more of the outstanding Options, SARs, Restricted Stock Awards and Restricted Stock Units (whether or not then exercisable) in consideration of a cash payment, as such payment may be reduced for tax withholding obligations as contemplated in the section governing the particular form of Award, in an amount equal to:

(1) for Options and SARs granted in connection with Options, the excess of a) the Fair Market Value, determined as of the date immediately preceding the consummation of the Restructure, of the aggregate number of shares of Stock subject to the Award and as to which the Award is being redeemed over b) the Exercise Price for that number of shares of Stock;

(2) for SARs not granted in connection with an Option, the excess of (a) the Fair Market Value, determined as of the date immediately preceding the consummation of the Restructure, of the aggregate number of shares of Stock subject to the Award and as to which the Award is being redeemed over (b) the Fair Market Value of the number of shares of Stock on the date of grant;

(3) for Restricted Stock Awards and Restricted Stock Units, the Fair Market Value, determined as of the date immediately preceding the consummation of the Restructure, of the aggregate number of shares of Stock subject to the Award and as to which the Award is being redeemed; and

(4) for Performance Awards, the amount per Performance Award as the Committee in its sole discretion may determine (which may be zero dollars).

The Company shall promptly notify each holder of an outstanding Option, SAR, Restricted Stock Award or Restricted Stock Unit of any election or action taken by the Company under this Section 9(f). In the event of any election or action taken by the Company pursuant to this Section 9(f) that requires the amendment or cancellation of any Award agreement as may be specified in any notice to the holder thereof, that holder shall promptly deliver that Award agreement to the Company in order for that amendment or cancellation to be implemented by the Company and the Committee. The failure of the holder to deliver any such Award agreement to the Company as provided in the preceding sentence shall not in any manner effect the validity or enforceability of any action taken by the Company and the Committee under this Section 9(f), including, without limitation, any redemption of an Option, SAR, Restricted Stock Award or Restricted Stock Unit as of the consummation of a Restructure. Any cash payment to be made by the Company pursuant to this Section 9(f) in connection with the redemption of any outstanding Options, SARs, Restricted Stock Awards or Restricted Stock Units shall be paid to the holder thereof currently with the delivery to the Company of the Award agreement evidencing that Award; provided, however, that any such redemption shall be effective upon the consummation of the Restructure notwithstanding that the payment of the redemption price may occur subsequent to the consummation. If all or any portion

of an outstanding Option, SAR, Restricted Stock Award or Restricted Stock Unit is to be exercised or accelerated upon or after the consummation of a Restructure that is in the form of a Non-Surviving Event and as a part of that Restructure shares of stock, other securities, cash or property shall be issuable or deliverable in exchange for Stock, then the holder of such Option, SAR, Restricted Stock Award or Restricted Stock Unit shall thereafter be entitled to purchase or receive (in lieu of the number of shares of Stock that the holder would otherwise be entitled to purchase or receive) the number of shares of stock, other securities, cash or property to which such number of shares of Stock would have been entitled in connection with the Restructure (and, for Options, at an aggregate exercise price equal to the Exercise Price that would have been payable if that number of Total Shares had been purchased on the exercise of the Option immediately before the consummation of the Restructure).

10. General Provisions.

(a) Transferability.

(i) Permitted Transferees. The Committee may, in its discretion, permit a Participant to transfer all or any portion of an Option or Stock Appreciation Right, or authorize all or a portion of such Awards to be granted to an Eligible Person to be on terms which permit transfer by such Participant; provided that, in either case the transferee or transferees must be any child, stepchild, grandchild, parent, stepparent, grandparent, spouse, former spouse, sibling, niece, nephew, mother-in-law, father-in-law, son-in-law, daughter-in-law, brother-in-law, or sister-in-law, including adoptive relationships, in each case with respect to the Participant, any person sharing the Participant's household (other than a tenant or employee of the Company), a trust in which these persons have more than fifty percent of the beneficial interest, a foundation in which these persons (or the Participant) control the management of assets, and any other entity in which these persons (or the Participant) own more than fifty percent of the voting interests (collectively, "Permitted Transferees"); provided further that, (X) there may be no consideration for any such transfer and (Y) subsequent transfers of Awards transferred as provided above shall be prohibited except subsequent transfers back to the original holder of the Award and transfers to other Permitted Transferees of the original holder.

Agreements evidencing Awards with respect to which such transferability is authorized at the time of grant must be approved by the Committee, and must expressly provide for transferability in a manner consistent with this Subsection 10(a)(i).

(ii) Qualified Domestic Relations Orders. An Option, Stock Appreciation Right, Restricted Stock Unit Award or Restricted Stock Award may be transferred, to a Permitted Transferee, pursuant to a domestic relations order entered or approved by a court of competent jurisdiction upon delivery to the Company of written notice of such transfer and a certified copy of such order.

- (iii) Other Transfers. Except as expressly permitted by Subsections 10(a)(i) and 10(a)(ii), Awards shall not be transferable other than by will or the laws of descent and distribution. Notwithstanding anything to the contrary in this Section 10, an Incentive Stock Option shall not be transferable other than by will or the laws of descent and distribution.
- (iv) Effect of Transfer. Following the transfer of any Award as contemplated by Subsections 10(a)(i), 10(a)(ii) and 10(a)(iii), (A) such Award shall continue to be subject to the same terms and conditions as were applicable immediately prior to transfer, provided that the term "Participant" shall be deemed to refer to the Permitted Transferee, the recipient under a qualified domestic relations order, the estate or heirs of a deceased Participant, or other transferee, as applicable, to the extent appropriate to enable the Participant to exercise the transferred Award in accordance with the terms of this Plan and applicable law and (B) the provisions of the Award relating to exercisability hereof shall continue to be applied with respect to the original Participant and, following the occurrence of any such events described therein the Awards shall be exercisable by the Permitted Transferee, the recipient under a qualified domestic relations order, the estate or heirs of a deceased Participant, or other transferee, as applicable, only to the extent and for the periods that would have been applicable in the absence of the transfer.
- (v) Procedures and Restrictions. Any Participant desiring to transfer an Award as permitted under Subsections 10(a)(i), 10(a)(ii) or 10(a)(iii) shall make application therefor in the manner and time specified by the Committee and shall comply with such other requirements as the Committee may require to assure compliance with all applicable securities laws. The Committee shall not give permission for such a transfer if (A) it would give rise to short-swing liability under section 16(b) of the Exchange Act or (B) it may not be made in compliance with all applicable federal, state and foreign securities laws.
- (vi) Registration. To the extent the issuance to any Permitted Transferee of any shares of Stock issuable pursuant to Awards transferred as permitted in this Section 10(a) is not registered pursuant to the effective registration statement of the Company generally covering the shares to be issued pursuant to this Plan to initial holders of Awards, the Company shall not have any obligation to register the issuance of any such shares of Stock to any such transferee.
- (b) Taxes. The Company and any Subsidiary is authorized to withhold from any Award granted, or any payment relating to an Award under this Plan, including from a distribution of Stock, amounts of withholding and other taxes due or potentially payable in connection with any transaction involving an Award, and to take such other action as the Committee may deem advisable to enable the Company and Participants to satisfy obligations for the payment of withholding taxes and other tax obligations relating to any Award. This authority shall include authority to withhold or receive Stock or other property and to make cash payments in respect thereof in satisfaction of a Participant's tax obligations, either on a mandatory or elective basis in the discretion of the Committee.



(c) Changes to this Plan and Awards. The Board may amend, alter, suspend, discontinue or terminate this Plan or the Committee's authority to grant Awards under this Plan without the consent of stockholders or Participants, except that any amendment or alteration to this Plan, including any increase in any share limitation, shall be subject to the approval of the Company's stockholders not later than the annual meeting next following such Board action if such stockholder approval is required by any federal or state law or regulation or the rules of any stock exchange or automated quotation system on which the Stock may then be listed or quoted, and the Board may otherwise, in its discretion, determine to submit other such changes to this Plan to stockholders for approval; provided that, without the consent of an affected Participant, no such Board action may materially and adversely affect the rights of such Participant under any previously granted and outstanding Award. The Committee may waive any conditions or rights under, or amend, alter, suspend, discontinue or terminate any Award theretofore granted and any Award agreement relating thereto, except as otherwise provided in this Plan; provided that, without the consent of an affected Participant, no such Committee action may materially and adversely affect the rights of such Participant under such Award.

(d) Limitation on Rights Conferred under Plan. Neither this Plan nor any action taken hereunder shall be construed as (iv) giving any Eligible Person or Participant the right to continue as an Eligible Person or Participant or in the employ or service of the Company or a Subsidiary, (v) interfering in any way with the right of the Company or a Subsidiary to terminate any Eligible Person's or Participant's employment or service at any time, (vi) giving an Eligible Person or Participant any claim to be granted any Award under this Plan or to be treated uniformly with other Participants and employees, or (vii) conferring on a Participant any of the rights of a stockholder of the Company unless and until the Participant is duly issued or transferred shares of Stock in accordance with the terms of an Award.

(e) Unfunded Status of Awards. This Plan is intended to constitute an "unfunded" plan for certain incentive awards.

(f) Nonexclusivity of this Plan. Neither the adoption of this Plan by the Board nor its submission to the stockholders of the Company for approval shall be construed as creating any limitations on the power of the Board or a committee thereof to adopt such other incentive arrangements as it may deem desirable, including incentive arrangements and awards which do not qualify under section 162(m) of the Code. Nothing contained in this Plan shall be construed to prevent the Company or any Subsidiary from taking any corporate action which is deemed by the Company or such Subsidiary to be appropriate or in its best interest, whether or not such action would have an adverse effect on this Plan or any Award made under this Plan. No employee, beneficiary or other person shall have any claim against the Company or any Subsidiary as a result of any such action.

(g) Severability. If any provision of this Plan is held to be illegal or invalid for any reason, the illegality or invalidity shall not affect the remaining provisions hereof, but such provision shall be fully severable and the Plan shall be construed and enforced as if the illegal or invalid provision had never been included herein. If any of the terms or provisions of this Plan or any Award agreement conflict with the requirements of Rule 16b-3 (as those terms or provisions are applied to Eligible Persons who are subject to section 16(b) of the Exchange Act) or section 422 of the Code (with respect to Incentive Stock Options), then those conflicting terms or provisions shall be deemed inoperative to the extent they so conflict with the requirements of Rule 16b-3 (unless the Board or the Committee, as appropriate, has expressly determined that the Plan or such Award should not comply with Rule 16b-3) or section 422 of the Code. With respect to Incentive Stock Options, if this Plan does not contain any provision required to be included herein under section 422 of the Code, that provision shall be deemed to be incorporated herein with the same force and effect as if that provision had been set out at length herein; provided, further, that, to the extent any Option that is intended to qualify as an Incentive Stock Option cannot so qualify, that Option (to that extent) shall be deemed an Option not subject to section 422 of the Code for all purposes of the Plan.

(h) Governing Law. All questions arising with respect to the provisions of the Plan and Awards shall be determined by application of the laws of the State of Delaware, without giving effect to any conflict of law provisions thereof, except to the extent Delaware law is preempted by federal law. The obligation of the Company to sell and deliver Stock hereunder is subject to applicable federal and state laws and to the approval of any governmental authority required in connection with the authorization, issuance, sale, or delivery of such Stock.

(i) Conditions to Delivery of Stock. Nothing herein or in any Award granted hereunder or any Award agreement shall require the Company to issue any shares with respect to any Award if that issuance would, in the opinion of counsel for the Company, constitute a violation of the Securities Act or any similar or superseding statute or statutes, any other applicable statute or regulation, or the rules of any applicable securities exchange or securities association, as then in effect. At the time of any exercise of an Option or Stock Appreciation Right, or at the time of any grant of a Restricted Stock Award or Restricted Stock Unit, the Company may, as a condition precedent to the exercise of such Option or Stock Appreciation Right or settlement of any Restricted Stock Award or Restricted Stock Unit, require from the Participant (or in the event of his death, his legal representatives, heirs, legatees, or distributees) such written representations, if any, concerning the holder's intentions with regard to the retention or disposition of the shares of Stock being acquired pursuant to the Award and such written covenants and agreements, if any, as to the manner of disposal of such shares as, in the opinion of counsel to the Company, may be necessary to ensure that any disposition by that holder (or in the event of the holder's death, his legal representatives, heirs, legatees, or distributees) will not involve a violation of the Securities Act or any similar or superseding statute or statutes, any other applicable state or federal statute or regulation, or any rule

of any applicable securities exchange or securities association, as then in effect. No Option or Stock Appreciation Right shall be exercisable and no settlement of any Restricted Stock Award or Restricted Stock Unit shall occur with respect to a Participant unless and until the holder thereof shall have paid cash or property to, or performed services for, the Company or any of its Subsidiaries that the Committee believes is equal to or greater in value than the par value of the Stock subject to such Award.

FIRST AMENDMENT TO THE  
PIONEER NATURAL RESOURCES COMPANY  
2006 LONG TERM INCENTIVE PLAN

THIS FIRST AMENDMENT (the "First Amendment") to the Pioneer Natural Resources Company 2006 Long Term Incentive Plan, as amended from time to time (the "Plan"), is effective November 20, 2008 (the "Effective Date"), and is made by Pioneer Natural Resources Company (the "Company").

WITNESSETH:

WHEREAS, the Company previously adopted the Plan, under which the Company is authorized to grant equity-based incentive awards to certain employees and service providers of the Company;

WHEREAS, Section 10(c) of the Plan provides that the Company's board of directors (the "Board") may amend the Plan in certain circumstances without the consent of stockholders or participants;

WHEREAS, Section 409A of the Internal Revenue Code of 1986, as amended ("Section 409A"), imposes certain limitations and restrictions on the time at which certain types of compensation, including certain equity-based awards, may be payable;

WHEREAS, all documents that may provide for the payment of compensation that may be subject to Section 409A must be brought into compliance with the requirements of Section 409A on or before December 31, 2008, or the service provider to whom such compensation is payable will be subjected to certain adverse tax consequences, including, but not limited to, having to pay an additional tax of at least 20% on such compensation; and

WHEREAS, the Board has determined that it is desirable to amend the Plan in accordance with the final regulations promulgated under Section 409A to ensure that, to the extent subject to Section 409A, awards granted under the Plan comply therewith and to avoid the imposition of any adverse tax consequences under Section 409A, and to make certain other clarifying changes to the Plan.

NOW, THEREFORE, the Plan shall be amended as of the Effective Date as set forth below.

1. Clause (i) of the definition of "Change in Control" in Section 2(g) of the Plan is hereby deleted and replaced in its entirety with the following:

(i) The acquisition by any individual, entity or group (within the meaning of Section 13(d)(3) or 14(d)(2) of the Exchange Act) (a "Person") of beneficial ownership (within the meaning of Rule 13d-3 promulgated under the Exchange Act) of securities of the Company that, together with securities held by such Person, constitutes 40% or more of either (x) the then outstanding shares of Stock of the Company (the "Outstanding Company Stock") or (y) the combined voting power of the then outstanding voting securities of the Company entitled to vote generally in the election of directors (the "Outstanding Company Voting Securities"); provided, however, that for purposes of this subsection (i), the following acquisitions shall not constitute a Change in Control: (A) any acquisition directly from the Company, (B) any acquisition by the Company, (C) any acquisition by any employee benefit plan (or related trust) sponsored or maintained by the Company or any corporation controlled by the Company or (D) any acquisition by any corporation pursuant to a transaction which complies with clauses (A), (B) and (C) of paragraph (iii) below; or

2. Section 7(a) of the Plan is hereby deleted and replaced in its entirety with the following:

(a) Termination of Employment. Except as provided herein, the treatment of an Award upon a termination of employment or any other service relationship by and between a Participant and any Company or Subsidiary shall be specified in the agreement controlling such Award. Notwithstanding anything to the contrary herein or in any such Award agreement, any Award that constitutes a "deferral of compensation" (within the meaning of Section 409A of the

Code and the regulations and other authoritative guidance promulgated thereunder (collectively, the “Nonqualified Deferred Compensation Rules”)), whether by design, due to a subsequent modification in the terms and conditions of such Award or as a result of a

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change in applicable law following the date of grant of such Award, and that is not exempt from Section 409A of the Code pursuant to an applicable exemption (any such Award, a “409A Award”) shall not become exercisable, be settled or otherwise trigger a payment or distribution upon a termination of employment or other service relationship with the Company pursuant to the Plan or the applicable Award agreement controlling such 409A Award in the event the Participant holding such 409A Award continues to provide or, in the 12 month period following such termination of employment, is expected to provide, sufficient services to the Company that, under the Company’s written and generally applicable policies regarding what constitutes a “separation from service” for purposes of Section 409A of the Code, such Participant does not incur a separation from service for purposes of Section 409A of the Code on the date of termination of the employment or service relationship; except that, to the extent permitted under the Nonqualified Deferred Compensation Rules, the time of exercise, payment or settlement of a 409A Award shall be accelerated, or payment shall be made under the Plan in respect of such Award, as determined by the Committee in its discretion, to the extent necessary to pay income, withholding, employment or other taxes imposed on such 409A Award. To the extent any 409A Award does not become exercisable or is not settled or otherwise payable upon a Participant’s termination of employment or other service relationship as a result of the limitations described in the preceding sentence, it shall become exercisable or be settled or payable upon the occurrence of an event that qualifies as a permissible time of distribution in respect of such 409A Award under the Nonqualified Deferred Compensation Rules, the Plan and the terms of the agreement governing such 409A Award.

3. The following paragraph shall be inserted at the end of Section 9(e) of the Plan:

Notwithstanding the foregoing, no 409A Award (as defined in Section 7(a) hereof) shall become exercisable, or be settled or otherwise paid or distributed, pursuant to the Plan or the applicable Award agreement governing such 409A Award as a result of a Change in Control unless the event constituting such Change in Control also constitutes a “change in the ownership or effective control” or “in the ownership of a substantial portion of the assets” of the Company within the meaning of the Nonqualified Deferred Compensation Rules (as defined in Section 7(a) hereof); except that, to the extent permitted under the Nonqualified Deferred Compensation Rules, the time of exercise, payment or settlement of a 409A Award shall be accelerated, or payment shall be made under the Plan in respect of such Award, upon the occurrence of a Change in Control, as determined by the Committee in its discretion, to the extent necessary to pay income, withholding, employment or other taxes imposed on such 409A Award. To the extent any 409A Award does not become exercisable or is not settled or otherwise payable upon a Change in Control as a result of the limitations described in the preceding sentence, it shall become exercisable or be settled or payable upon the occurrence of an event that qualifies as a permissible time of distribution in respect of such 409A Award under the Nonqualified Deferred Compensation Rules, the Plan and the terms of the agreement governing such 409A Award.

NOW, THEREFORE, be it further provided that, except as set forth above, the Plan shall continue to read in its current state.

IN WITNESS WHEREOF, the Company has caused the execution of this First Amendment by its duly authorized officer, effective as of the Effective Date.

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PIONEER NATURAL RESOURCES COMPANY

By: /s/ Larry N. Paulsen  
Larry N. Paulsen  
Vice President, Administration and Risk  
Management

Date: December 2, 2008

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SECOND AMENDMENT TO THE  
PIONEER NATURAL RESOURCES COMPANY  
2006 LONG TERM INCENTIVE PLAN

THIS SECOND AMENDMENT (the “Amendment”) to the Pioneer Natural Resources Company 2006 Long Term Incentive Plan, as amended from time to time (the “Plan”), is effective May 28, 2009 (the “Effective Date”), and is made by Pioneer Natural Resources Company (the “Company”).

W I T N E S S E T H:

WHEREAS, the Company previously adopted the Plan, under which the Company is authorized to grant equity-based incentive awards to certain employees and service providers of the Company;

WHEREAS, Section 10(c) of the Plan provides that the Company’s board of directors (the “Board”) may amend the Plan in certain circumstances without the approval of stockholders; and

WHEREAS, the Board has determined that it is desirable to amend the Plan in the manner contemplated hereby.

NOW, THEREFORE, the Plan shall be amended as of the Effective Date as set forth below.

1. Section 7(b) of the Plan is hereby deleted and replaced in its entirety with the following:

(b) Stand-Alone, Additional, Tandem and Substitute Awards. Awards granted under this Plan may, in the discretion of the Committee, be granted either alone or in addition to, in tandem with, or in substitution or exchange for, any other Award or any award granted under another plan of the Company, any Subsidiary or any business entity to be acquired by the Company or a Subsidiary, or any other right of a Participant to receive payment from the Company or any Subsidiary. Such additional, tandem and substitute or exchange Awards may be granted at any time. If an Award is granted in substitution or exchange for another Award, the Committee shall require the surrender of such other Award in consideration for the grant of a new Award. Notwithstanding the foregoing but subject to Section 9 of the Plan, without the approval of stockholders, the Committee will not (i) exchange or substitute previously granted Options or Stock Appreciation Rights in a transaction that constitutes a “repricing” as such term is used in Section 303A.08 of the Listed Company Manual of the New York Stock Exchange, as amended from time to time or (ii) cause the Company to offer to purchase or exchange for cash Options or Stock Appreciation Rights if, at the time of such offer, the Fair Market Value of a share of Stock is less than the Exercise Price of such Options or Stock Appreciation Rights. Awards under the Plan may be granted in lieu of cash compensation, including in lieu of cash amounts payable under other plans of the Company or any Subsidiary, in which the value of Stock subject to the Award is equivalent in value to the cash compensation (for example, Restricted Stock Units or Restricted Stock), or in which the exercise price, grant price or purchase price of the Award in the nature of a right that may be exercised is equal to the Fair Market Value of the underlying Stock minus the value of the cash compensation surrendered (for example, Options granted with an exercise price “discounted” by the amount of the cash compensation surrendered).

2. Except as set forth above, the Plan shall continue to read in its current state.



IN WITNESS WHEREOF, the Company has caused the execution of this Amendment by its duly authorized officer, effective as of the Effective Date.

PIONEER NATURAL RESOURCES COMPANY

By: /s/ Larry N. Paulsen  
Larry N. Paulsen  
Vice President, Administration and Risk  
Management

Date: May 28, 2009

THIRD AMENDMENT TO THE  
PIONEER NATURAL RESOURCES COMPANY  
2006 LONG TERM INCENTIVE PLAN

THIS THIRD AMENDMENT (the "Third Amendment") to the Pioneer Natural Resources Company 2006 Long Term Incentive Plan, as amended from time to time (the "Plan"), is effective January 1, 2009 (the "Effective Date"), and is made by Pioneer Natural Resources Company (the "Company").

W I T N E S S E T H:

WHEREAS, the Company previously adopted the Plan, under which the Company is authorized to grant equity-based incentive awards to certain employees and service providers of the Company;

WHEREAS, Section 10(c) of the Plan provides that the Company's board of directors (the "Board") may amend the Plan to increase the Plan's share limitation with the approval of the Company's stockholders not later than the annual meeting next following such Board action; and

WHEREAS, the Board has determined that it is desirable to amend the Plan in the manner contemplated hereby, subject to approval by the Company's stockholders at the Company's 2009 annual meeting.

NOW, THEREFORE, the Plan shall be amended as of the Effective Date as set forth below.

1. Section 4(a) of the Plan is hereby deleted and replaced in its entirety with the following:

(a) Overall Number of Shares Available for Delivery. Subject to adjustment in a manner consistent with any adjustment made pursuant to Section 9, the total number of shares of Stock reserved and available for delivery in connection with Awards under this Plan since its inception shall not exceed 9,100,000 shares and the total number of shares of Stock received and available for delivery in connection with ISOs under this Plan since its inception shall not exceed 9,100,000 shares. No Award may be granted under the Plan on or after the 10 year anniversary of the Effective Date.

2. Except as set forth above, the Plan shall continue to read in its current state.

IN WITNESS WHEREOF, the Company has caused the execution of this Third Amendment by its duly authorized officer, effective as of the Effective Date.

PIONEER NATURAL RESOURCES COMPANY

By: /s/ Larry N. Paulsen  
Larry N. Paulsen  
Vice President, Administration and Risk  
Management

Date: June 17, 2009



FOURTH AMENDMENT TO THE  
PIONEER NATURAL RESOURCES COMPANY  
2006 LONG TERM INCENTIVE PLAN

THIS FOURTH AMENDMENT (the "Fourth Amendment") to the Pioneer Natural Resources Company 2006 Long Term Incentive Plan, as amended from time to time (the "Plan"), is effective January 1, 2009 (the "Effective Date"), and is made by Pioneer Natural Resources Company (the "Company").

WITNESSETH:

WHEREAS, the Company previously adopted the Plan, under which the Company is authorized to grant equity-based incentive awards to certain employees and service providers of the Company;

WHEREAS, Section 10(c) of the Plan provides that the Company's board of directors (the "Board") may amend the Plan in certain circumstances with the approval of stockholders, if such approval by the Company's stockholders is required by any federal law or regulation, not later than the annual meeting next following such Board action; and

WHEREAS, in order to comply with section 162(m) of the Internal Revenue Code of 1986, as amended, the Board has determined that it is desirable to amend the Plan in the manner contemplated hereby, subject to approval by the Company's stockholders at the Company's 2009 annual meeting.

NOW, THEREFORE, the Plan shall be amended as of the Effective Date as set forth below.

1. Section 5 of the Plan is hereby deleted and replaced in its entirety with the following:

5. Eligibility; Per Person Award Limitations. Awards may be granted under this Plan only to Persons who are Eligible Persons at the time of grant thereof or in connection with the severance or retirement of Eligible Persons. In each fiscal year or 12-month period, as applicable, during any part of which this Plan is in effect, a Covered Employee may not be granted (a) Awards (other than Awards designated to be paid only in cash) relating to more than 400,000 shares of Stock, subject to adjustment in a manner consistent with any adjustment made pursuant to Section 9 and (b) Awards designated to be paid only in cash having a value determined on the date of grant in excess of \$4,000,000.

2. Except as set forth above, the Plan shall continue to read in its current state.

IN WITNESS WHEREOF, the Company has caused the execution of this Fourth Amendment by its duly authorized officer, effective as of the Effective Date.

PIONEER NATURAL RESOURCES COMPANY

By: /s/ Larry N. Paulsen  
Larry N. Paulsen  
Vice President, Administration and Risk  
Management

Date: June 17, 2009



FIFTH AMENDMENT TO THE  
PIONEER NATURAL RESOURCES COMPANY  
2006 LONG TERM INCENTIVE PLAN

THIS FIFTH AMENDMENT (the "Amendment") to the Pioneer Natural Resources Company 2006 Long Term Incentive Plan, as amended from time to time (the "Plan"), is effective August 20, 2012 (the "Effective Date"), and is made by Pioneer Natural Resources Company (the "Company").

W I T N E S S E T H:

WHEREAS, the Company previously adopted the Plan, under which the Company is authorized to grant equity-based incentive awards to certain employees and service providers of the Company;

WHEREAS, pursuant to Section 3(a) of the Plan, the Compensation and Management Development Committee ("Committee") of the Board of Directors of the Company has the authority, in its sole and absolute discretion, to terminate, modify or amend the Plan, subject to certain limitations set forth in the Plan; and

WHEREAS, the Committee has determined that it is desirable to amend the Plan in the manner contemplated hereby.

NOW, THEREFORE, the Plan shall be amended as of the Effective Date as set forth below.

1. Section 10(a)(ii) of the Plan is hereby deleted and replaced in its entirety with the following:

(ii) Qualified Domestic Relations Orders. Except as may be expressly provided in the applicable Award Agreement, an Option, Stock Appreciation Right, Restricted Stock Unit Award or Restricted Stock Award may be transferred, to a Permitted Transferee, pursuant to a domestic relations order entered or approved by a court of competent jurisdiction upon delivery to the Company of written notice of such transfer and a certified copy of such order.

2. Except as set forth above, the Plan shall continue to read in its current state.

IN WITNESS WHEREOF, the Company has caused the execution of this Amendment by its duly authorized officer, effective as of the Effective Date.

PIONEER NATURAL RESOURCES COMPANY

By: /s/ Larry N. Paulsen  
Larry N. Paulsen  
Vice President, Administration and Risk  
Management

Date: August 20, 2012

YOUR VOTE IS IMPORTANT. PLEASE VOTE TODAY.

Vote by Internet or Telephone - QUICK\*\*\*EASY\*\*\*IMMEDIATE  
24 Hours a Day, 7 Days a Week or by Mail

PIONEER NATURAL RESOURCES COMPANY  
PROXY SOLICITED FOR THE ANNUAL MEETING OF STOCKHOLDERS  
TO BE HELD MAY 28, 2014

TO VOTE BY INTERNET

www.cstproxyvote.com

Have this proxy card in hand when you access the above website. Follow the instructions on the screen to vote your shares until 6:00 p.m., Central Time, on May 27, 2014.

TO VOTE BY PHONE

Call toll-free (in the U.S.) 1-866-894-0537 to vote your shares until 6:00 p.m., Central Time, on May 27, 2014. Have this proxy card in hand when you call, and follow the instructions.

Your internet or phone vote works in the same manner as if you marked, signed and returned your proxy card by mail. If you vote by internet or phone, please do not return the card below.

TO VOTE BY MAIL

Mark, sign and date the proxy card below and return it in the postage-paid envelope provided.

FOLD HERE - DO NOT SEPARATE - INSERT IN ENVELOPE PROVIDED

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PROXY BY MAIL

THIS PROXY, WHEN PROPERLY EXECUTED, WILL BE VOTED AS DIRECTED, OR IF NO DIRECTION IS INDICATED, THE NAMED PROXIES WILL VOTE "FOR" THE PROPOSALS AS TO ITEMS 1, 2, 3 AND 4. THIS PROXY IS SOLICITED BY THE BOARD OF DIRECTORS. TO BE VALID, THIS PROXY MUST BE SIGNED AND DATED. Please mark your votes like this [ X ]

THE BOARD OF DIRECTORS RECOMMENDS A VOTE "FOR" ITEMS 1, 2, 3 AND 4.

ITEM 1 - ELECTION OF DIRECTORS

Timothy L. Dove

FOR  AGAINST  ABSTAIN

Stacy P. Methvin

FOR  AGAINST  ABSTAIN

Charles E. Ramsey, Jr.

FOR  AGAINST  ABSTAIN

Frank A. Risch

FOR  AGAINST  ABSTAIN

Edison C. Buchanan

FOR  AGAINST  ABSTAIN

Larry R. Grillot

FOR  AGAINST  ABSTAIN

J. Kenneth Thompson

FOR  AGAINST  ABSTAIN

ITEM 2 – RATIFICATION OF SELECTION OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

FOR  AGAINST  ABSTAIN

ITEM 3 - ADVISORY VOTE TO APPROVE EXECUTIVE OFFICER COMPENSATION

FOR  AGAINST  ABSTAIN

ITEM 4 - REAPPROVAL OF THE SECTION 162(M) MATERIAL TERMS UNDER THE 2006 LONG-TERM INCENTIVE PLAN

FOR  AGAINST  ABSTAIN

Jim A. Watson

FOR  AGAINST  ABSTAIN

IN THEIR DISCRETION, THE PROXIES MAY VOTE ON ANY OTHER MATTERS AS MAY PROPERLY COME BEFORE THE MEETING OR ANY ADJOURNMENT(S) THEREOF.

IF YOU WISH TO VOTE BY INTERNET OR PHONE, PLEASE READ THE INSTRUCTIONS ABOVE.

Signature \_\_\_\_\_ Signature \_\_\_\_\_ Date \_\_\_\_\_

Please sign exactly as name appears hereon. Joint owners should each sign. When signing as attorney, executor, administrator, trustee or guardian, please give full title as such. If a corporation or partnership, sign in full corporate or partnership name by duly authorized officer and give title.

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If you have received a paper copy of the proxy materials, you may elect to receive future proxy materials by email. Making this election will conserve both resources and the environmental impact of printing and mailing hard copies of proxy material, thus saving trees, energy used and solid waste.

If you choose to elect email delivery, please call Continental Stock Transfer at 1-888-509-5586 and provide your email address.

Access to Pioneer stockholder account information and other stockholder services are available on the internet!

Visit Continental Stock Transfer's website at  
[www.continentalstock.com](http://www.continentalstock.com)  
for their Internet Stockholder Service - ContinentaLink

Through this service, shareholders can change addresses, receive electronic forms and view account transaction history and dividend history.

To access this service, visit the website listed above. Choose "Shareholders" at the top of the home page, select "Shareholder Login." From there, you can either "View a Sample Account" or you can register (choose "First Time Visitor" then "New Member Sign-Up"). Guidance is provided on the website.

FOLD HERE - DO NOT SEPARATE - INSERT IN ENVELOPE PROVIDED  
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PROXY

THIS PROXY IS SOLICITED ON BEHALF OF THE BOARD OF DIRECTORS OF

PIONEER NATURAL RESOURCES COMPANY

The undersigned hereby appoints Richard P. Dealy and Mark S. Berg, and each of them, as attorneys in fact and proxies with full power of substitution and revocation as to each of them, to represent the undersigned and to vote, as designated on the reverse side of this form, all the shares of common stock of Pioneer Natural Resources Company that the undersigned is entitled to vote at the Annual Meeting of Stockholders to be held on May 28, 2014, and any adjournment or postponement thereof, upon the matters set forth on the reverse side.

(Continued, and to be marked, dated and signed, on the other side)

YOUR VOTE IS IMPORTANT. PLEASE VOTE TODAY.

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24 Hours a Day, 7 Days a Week or by Mail

PIONEER NATURAL RESOURCES COMPANY  
PROXY SOLICITED FOR THE ANNUAL MEETING OF STOCKHOLDERS  
TO BE HELD MAY 28, 2014

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IF YOU WISH TO VOTE BY INTERNET OR PHONE, PLEASE READ THE INSTRUCTIONS ABOVE.

Signature \_\_\_\_\_ Signature \_\_\_\_\_ Date \_\_\_\_\_

Please sign exactly as name appears hereon. Joint owners should each sign. When signing as attorney, executor, administrator, trustee or guardian, please give full title as such. If a corporation or partnership, sign in full corporate or partnership name by duly authorized officer and give title.

The Annual Meeting of Stockholders will be held on May 28, 2014. Your voting instruction must be received by 4:00 p.m. Central Time, on May 25, 2014 to allow Vanguard to vote according to your instruction.

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PROXY

PIONEER NATURAL RESOURCES USA, INC. 401(k) PLAN

TO: THE VANGUARD FIDUCIARY TRUST COMPANY, TRUSTEE FOR THE EMPLOYER MATCHING CONTRIBUTION (STOCK ACCOUNT) OF THE PIONEER NATURAL RESOURCES USA, INC. 401(k) AND MATCHING PLAN

In connection with the proxy materials I received relating to the Annual Meeting of Stockholders of Pioneer Natural Resources Company to be held on May 28, 2014, I direct you to execute a proxy with respect to all shares of common stock of Pioneer to which I have the right to give voting instructions under the 401(k) plan upon the matters set forth on the reverse side of this form, as designated on the reverse side. I understand you will hold these instructions strictly confidential.

(Continued, and to be marked, dated and signed, on the other side)