

Guidance Software, Inc.
Form SC TO-T/A
September 01, 2017

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

SCHEDULE TO
(RULE 14d-100)
Tender Offer Statement Pursuant to Section 14(d)(1) or 13(e)(1)
of the Securities Exchange Act of 1934
(Amendment No. 5)

Guidance Software, Inc.
(Name of Subject Company)

Galileo Acquisition Sub Inc.
(Offeror)

Open Text Corporation
(Parent of Offeror)

(Names of Filing Persons)

COMMON STOCK, PAR VALUE \$0.001 PER SHARE

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(Title of Class of Securities)

401692108

(CUSIP Number of Class of Securities)

Gordon A. Davies

Open Text Corporation

Executive Vice President, Chief Legal Officer and Corporate Development

275 Frank Tompa Drive, Waterloo, Ontario, Canada N2L 0A1

519-888-7111

(Name, Address and Telephone Number of Person Authorized to Receive Notices and Communications on Behalf of Filing Persons)

Copies to:

Aaron J. Meyers, Esq.

Cleary Gottlieb Steen & Hamilton LLP

One Liberty Plaza

New York, New York 10006

212-225-2000

CALCULATION OF FILING FEE

Transaction Valuation*
\$237,305,991

Amount of Filing Fee*
\$27,504

*Estimated solely for purposes of calculating the filing fee pursuant to Rule 0-11(d) under the Securities Exchange Act of 1934, as amended (the **Exchange Act**). The Transaction Valuation was calculated on the basis of the sum of (a) the product of (x) 33,431,155 shares of common stock issued and outstanding, minus 457,335 shares owned by Open Text Corporation as of August 3, 2017 and (y) the offer price of \$7.10 per share and (b) the product of (x) 449,559 shares (using the treasury stock method) issuable upon the exercise of outstanding options with an exercise price less than the offer price of \$7.10 per share and (y) the offer price of \$7.10 per share.

**The filing fee was calculated in accordance with Rule 0-11 under the Exchange Act and Fee Rate Advisory #1 for fiscal year 2017, issued August 31, 2016, by multiplying the transaction value by 0.0001159.

Check box if any part of the fee is offset as provided by Rule 0-11(a)(2) and identify the filing with which the offsetting fee was previously paid. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

Amount Previously Paid: \$27,504

Filing Party: Galileo Acquisition Sub Inc.

Form or Registration No.: Schedule TO

**And Open Text Corporation
Date Filed: August 8, 2017**

Check the box if the filing relates solely to preliminary communications made before the commencement of a tender offer.

Check the appropriate boxes below to designate any transactions to which the statement relates:

third-party tender offer subject to Rule 14d-1.

issuer tender offer subject to Rule 13e-4.

going-private transaction subject to Rule 13e-3.

amendment to Schedule 13D under Rule 13d-2.

Check the following box if the filing is a final amendment reporting the results of the tender offer.

If applicable, check the appropriate box(es) below to designate the appropriate rule provision(s) relied upon:

Rule 13e-4(i) (Cross-Border Issuer Tender Offer)

Rule 14d-1(d) (Cross-Border Third-Party Tender Offer)

This Amendment No. 5 (this Amendment) amends and supplements the Tender Offer Statement on Schedule TO, as amended and supplemented by Amendment No. 1 filed on August 15, 2017, Amendment No. 2 filed on August 21, 2017, Amendment No. 3 filed on August 22, 2017 and Amendment No. 4 filed on August 29, 2017, filed by Galileo Acquisition Sub Inc., a Delaware corporation (Purchaser) and a wholly-owned subsidiary of Open Text Corporation, a corporation incorporated under the federal laws of Canada (OpenText), with the Securities and Exchange Commission on August 8, 2017 (together with any subsequent amendments and supplements thereto, including this Amendment, the Schedule TO). The Schedule TO relates to the tender offer by Purchaser for all of the outstanding shares of common stock, par value \$0.001 per share (Shares), of Guidance Software, Inc., a Delaware corporation (Guidance), at a price of \$7.10 per Share in cash, without interest and net of applicable withholding of taxes, upon the terms and subject to the conditions set forth in the Offer to Purchase, dated August 8, 2017 (the Offer to Purchase), a copy of which is attached to the Schedule TO as Exhibit (a)(1)(A), and in the related letter of transmittal (the Letter of Transmittal), a copy of which is attached to the Schedule TO as Exhibit (a)(1)(B) (and which, together with the Offer to Purchase and other related materials, as each may be amended or supplemented from time to time, collectively constitute the Offer).

All capitalized terms used but not defined in this Amendment No. 5 shall have the meanings assigned to such terms in the Schedule TO.

The items of the Schedule TO set forth below are hereby amended and supplemented as follows:

Item 11. Additional Information.

The Offer to Purchase and Item 11 of the Schedule TO, to the extent such Item incorporates by reference the information contained in the Offer to Purchase, are hereby amended and supplemented as set forth below.

The subsection of Section 15 of the Offer to Purchase titled *Litigation* is hereby amended and supplemented by replacing the first paragraph thereof to read as follows:

Five purported class action complaints related to the Offer and the Merger have been filed in the United States District Court for the Central District of California on behalf of putative classes of Guidance's stockholders. Two of the complaints, captioned *Robert Berg v. Guidance Software, Inc., et al.* and *Bryan Lazzaro v. Guidance Software, Inc., et al.*, were filed on August 14, 2017. The third complaint, captioned *Enrique Hernandez v. Guidance Software, Inc., et al.*, was filed on August 18, 2017. The fourth complaint, captioned *Patricia Mayer v. Guidance Software, Inc., et al.*, was filed on August 21, 2017. The fifth complaint, captioned *Aniket Schneider v. Guidance Software, Inc., et al.*, was filed on August 31, 2017. All five complaints name as defendants Guidance and its directors. The complaints generally allege that Guidance and its directors violated federal securities laws by failing to disclose certain material information in the Schedule 14D-9. The *Mayer* complaint also alleges that the Guidance directors breached their fiduciary duties of due care, loyalty, and good faith to Guidance by entering into the Merger. In addition, three of the complaints (*Berg*, *Lazzaro* and *Mayer*) also name OpenText and Purchaser as defendants and allege that the omissions in the Schedule 14D-9 constitute violations of federal securities laws by OpenText and Purchaser. The complaints seek, among other things, injunctive relief preventing the consummation of the transactions contemplated by the Merger Agreement; rescission of the transactions contemplated by the Merger Agreement or an award of rescissory damages in the event they are consummated; and an award of plaintiffs' expenses including reasonable attorneys' and experts' fees. The defendants believe that the claims respectively asserted against them are without merit.

The subsection of Section 15 of the Offer to Purchase titled *Litigation* is hereby further amended and supplemented by adding the following paragraph to the end of the subsection:

On September 1, 2017, Guidance disclosed certain additional information (the Supplemental Disclosures) in an amendment to the Schedule 14D-9 in response to the first four of the five class action complaints and solely for the

purpose of mooted the allegations contained therein. OpenText believes that the Schedule 14D-9 disclosed all material information, and denies that the Supplemental Disclosures are material, or are otherwise required.

SIGNATURE

After due inquiry and to the best of my knowledge and belief, I certify that the information set forth in this statement is true, complete and correct.

Dated: September 1, 2017

OPEN TEXT CORPORATION

By: /s/ Gordon A. Davies
Name: Gordon A. Davies
Title: EVP, CLO and Corporate
Development

GALILEO ACQUISITION SUB INC.

By: /s/ Gordon A. Davies
Name: Gordon A. Davies
Title: President and Secretary

EXHIBIT INDEX

- (a)(1)(A) Offer to Purchase, dated August 8, 2017*
- (a)(1)(B) Form of Letter of Transmittal*
- (a)(1)(C) Form of Notice of Guaranteed Delivery*
- (a)(1)(D) Form of Letter to Brokers, Dealers, Commercial Banks, Trust Companies and Other Nominees*
- (a)(1)(E) Form of Letter to Clients for Use by Brokers, Dealers, Commercial Banks, Trust Companies and Other Nominees*
- (a)(5)(A) Press Release issued by Open Text Corporation on July 26, 2017 (incorporated by reference to the pre-commencement communication filing on Schedule TO filed by Open Text Corporation with the Securities and Exchange Commission on July 26, 2017)*
- (a)(5)(B) Press Release issued by Open Text Corporation on August 8, 2017*
- (a)(5)(C) Form of summary advertisement, published in *The New York Times* on August 8, 2017*
- (b)(1) Amended and Restated Credit Agreement among Open Text Corporation and certain of its subsidiaries, the Lenders, Barclays Bank PLC, Royal Bank of Canada, Barclays Capital and RBC Capital Markets, dated as of November 9, 2011, filed as Exhibit 99.1 to the Current Report on Form 8-K, filed on November 9, 2011 by Open Text Corporation and incorporated by reference herein.*
- (b)(2) First Amendment to Amended and Restated Credit Agreement and Amended and Restated Security and Pledge Agreement, dated as of December 16, 2013, between Open Text ULC, as term borrower, Open Text ULC, Open Text Inc. and Open Text Corporation, as revolving credit borrowers, the domestic guarantors party thereto, each of the lenders party thereto, Barclays Bank PLC, as sole administrative agent and collateral agent, and Royal Bank of Canada, as documentary credit lender, filed as Exhibit 10.1 to the Current Report on Form 8-K, filed on December 20, 2013 by Open Text Corporation and incorporated by reference herein.*
- (b)(3) Second Amendment to Amended and Restated Credit Agreement, dated as of December 22, 2014, between Open Text ULC, as term borrower, Open Text ULC, Open Text Holdings, Inc. and Open Text Corporation, as revolving credit borrowers, the domestic guarantors party thereto, each of the lenders party thereto, Barclays Bank PLC, as sole administrative agent and collateral agent, and Royal Bank of Canada, as documentary credit lender, filed as Exhibit 10.1 to the Current Report on Form 8-K, filed on December 23, 2014 by Open Text Corporation and incorporated by reference herein.*
- (b)(4) Amendment No. 3 to Second Amended and Restated Credit Agreement, dated as of May 5, 2017, among Open Text ULC, Open Text Holdings, Inc. and Open Text Corporation, as borrowers, the guarantors party thereto, each of the lenders party thereto, and Barclays Bank PLC, as sole administrative agent and collateral agent, filed as Exhibit 10.2 to the Quarterly Report on Form 10-Q, filed on May 8, 2017 by Open Text Corporation and incorporated by reference herein.*
- (b)(5) Agreement and Plan of Merger by and among Open Text Corporation, Galileo Acquisition Sub Inc. and Guidance Software, Inc., dated as of July 25, 2017, filed as Exhibit 2.1 to the Current Report on Form 8-K, filed on July 26, 2017 by Guidance Software, Inc. and incorporated by reference herein.*
- (d)(1) Agreement and Plan of Merger, dated as of July 25, 2017, by and among Open Text Corporation, Galileo Acquisition Sub Inc. and Guidance Software, Inc.*

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- (d)(2) Tender and Voting Agreement, dated as of July 25, 2017, by and among Open Text Corporation, Galileo Acquisition Sub Inc. and certain stockholders of Guidance Software, Inc. (incorporated by reference to Exhibit 6 to Schedule 13D filed by OpenText Corporation with the Securities and Exchange Commission on August 4, 2017).*
- (d)(3) Confidentiality Agreement, dated as of November 11, 2016, by and between Open Text Corporation and Guidance Software, Inc. (incorporated by reference to Exhibit 7 to Schedule 13D filed by Open Text Corporation with the Securities and Exchange Commission on August 4, 2017).*
- (d)(4) Exclusivity Agreement, dated as of June 26, 2017, by and between Open Text Corporation and Guidance Software, Inc.*

(g) Not applicable

(h) Not applicable

* Previously filed

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Alaskan Petroleum Production Tax credits (a)

\$

7,478

\$

11,163

Foreign currency remeasurement and exchange gains (b)

1,351

3,514

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Deferred compensation plan income

787

1,371

Other income

607

1,069

Interest income

437

484

Change in asset retirement estimate

-

4,391

Legal settlements

-

2,497

California emission credits

-

535

Total interest and other income

\$

10,660

\$

25,024

-
- (a) The Company earns Alaskan Petroleum Production Tax ("PPT") credits on qualifying capital expenditures. The Company recognizes income from PPT credits at the time they are realized through a cash refund or sale.
 - (b) The Company's operations in Africa periodically recognize monetary assets and liabilities in currencies other than their functional currencies. Associated therewith, the Company realizes foreign currency remeasurement and transaction gains and losses.

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PIONEER NATURAL RESOURCES COMPANY**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****March 31, 2009****(Unaudited)****NOTE P. Other Expense**

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

	Three Months Ended March 31	
	2009	2008
	(in thousands)	
Idle rig related costs (a)	\$ 20,286	\$ 7,861
Contingency and environmental accrual adjustments (see Note J)	5,598	444
Well servicing operations (b)	2,991	743
Inventory impairment (c)	1,170	-
Foreign currency remeasurement and exchange losses	1,325	373
Other charges	705	525
Bad debt (recoveries) expense	(686)	1,969
Total other expense	\$ 31,389	\$ 11,915

-
- (a) Represents stacked drilling rig costs under contractual drilling rig commitments and costs incurred to terminate contractual drilling rig commitments prior to their contractual maturities.
- (b) Represents idle well servicing costs.
- (c) Represents impairment charges to reduce the carrying value of excess lease and well equipment and supplies inventories to their estimated net realizable values.

NOTE Q. Insurance Claims

As a result of Hurricane Rita in September 2005, the Company's East Cameron facility, located in the Gulf of Mexico shelf, was destroyed. The Company currently estimates that it will cost approximately \$185 million to reclaim and abandon the East Cameron facility. The operations to reclaim and abandon the East Cameron facilities began in January 2007. The estimate to reclaim and abandon the East Cameron facility is based upon an analysis prepared by a third party engineering firm for a majority of the work, an estimate by the Company for the remaining work that was not covered by the third-party analysis and actual abandonment activity to date.

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The \$185 million estimate to reclaim and abandon the East Cameron facilities contains a number of assumptions that could cause the ultimate cost to be higher or lower as there are many uncertainties when working offshore and underwater with damaged equipment and wellbores. The Company currently believes costs could range from \$185 million to \$200 million. Currently, no better estimate within the range can be determined. Thus the Company has recorded the estimated provision of \$185 million, of which approximately \$161.4 million has been expended through March 31, 2009. The Company expects to incur the remaining \$23.6 million in 2009.

The Company filed a claim with its insurance providers regarding the loss at East Cameron. Under the Company's insurance policies, the East Cameron facility had the following coverages: (a) \$14 million of scheduled property value for the platform, which was received in 2005, (b) \$4 million of scheduled business interruption insurance after a deductible waiting period, which was received in 2006, (c) \$100 million of well restoration and safety, in total, for all assets per occurrence and (d) \$400 million for debris removal coverage for all assets per occurrence.

In the first quarter of 2007, the Company received \$5 million from one of its insurance providers related to debris removal. At the present, no recoveries have been reflected related to certain costs associated with plugging and abandonment and the well restoration and safety coverages. In 2007, the Company commenced legal actions against its insurance carriers regarding policy coverage issues, primarily related to debris removal, certain costs associated with plugging and abandonment, and the well restoration and safety coverages. The Company continues to expect that a substantial portion of the loss will be recoverable from insurance. During the first quarter of 2009, the Company received \$10.2 million of insurance recoveries associated with East Cameron facilities that reduced the amount recorded as a receivable from insurance carriers during 2006.

PIONEER NATURAL RESOURCES COMPANY**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****March 31, 2009****(Unaudited)****NOTE R. Discontinued Operations**

In April 2006 and November 2007, the Company completed the sale of its Argentine assets and Canadian subsidiaries, respectively. Pursuant to SFAS 144, the Company has reflected the results of operations of these transactions as discontinued operations, rather than as a component of continuing operations. The Company did not have any discontinued operations activity during the three months ended March 31, 2009. The following table represents the components of the Company's discontinued operations for the three month periods ended 2008:

	Three Months Ended March 31, 2008 (in thousands)
Revenues and other income:	
Interest and other	\$ 1,903
Gain on disposition of assets, net (a)	66
	1,969
Costs and expenses:	
General and administrative	257
Other	45
	302
Income from discontinued operations before income taxes	1,667
Income tax benefit (provision):	
Current	(519)
Deferred (a)	792
Income (loss) from discontinued operations	\$ 1,940

(a) Represents the significant noncash components of discontinued operations.

NOTE S. Subsequent Events

Effective April 29, 2009, the Company and the lenders under the Company's Credit Facility amended the Credit Facility to provide the Company additional financial flexibility. The Credit Facility contains certain financial covenants, one of which required the Company to maintain a ratio of the net present value of the Company's oil and gas properties to total debt of at least 1.75 to 1.0 until the Company achieves an investment grade rating by Moody's Investors Service, Inc. or Standard & Poors Ratings Group, Inc. The amendment changed that ratio to 1.5 to 1.0 through the period ending March 31, 2011, after which time the ratio would revert to 1.75 to 1.0, and provides that the Company may include in the calculation of the present value of its oil and gas properties 75% of the market value of its ownership of common units of Pioneer Southwest. The amendment also adjusted certain borrowing rates and commitment fees, and changed certain provisions relating to the consequences if a

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lender under the Credit Facility defaults in its obligations under the agreement. The covenant requiring the Company to maintain a ratio of total debt to total capitalization of no more than 0.60 to 1.0 was not changed.

As of the date of the amendment, the Company was in compliance with all of its debt covenants under the Credit Facility, including the original covenant to maintain a ratio of the net present value of oil and gas properties to total debt of at least 1.75 to 1.0.

After taking into account the amendment, revolving loans bear interest, at the option of the Company, based on (a) a rate per annum equal to the higher of the prime rate announced from time to time by JPMorgan Chase Bank or the weighted average of the rates on overnight Federal funds transactions with members of the Federal Reserve System during the last preceding business day plus .5 percent plus a defined alternate base rate spread margin ("ABR Margin"), which is currently one percent based on the Company's debt rating or (b) a base Eurodollar rate, substantially equal to LIBOR, plus a margin (the "Applicable Margin"), which is currently two percent and is also determined by the Company's debt rating. Swing line loans bear interest at a rate per annum equal to the "ASK" rate for Federal funds periodically published by the Dow Jones Market Service plus the Applicable Margin. Letters of credit outstanding under the Credit Facility are subject to a per annum fee, representing the Applicable Margin plus .125 percent. The Company also pays commitment fees on undrawn amounts under the Credit Facility that are determined by the Company's debt rating (currently 0.375 percent).

PIONEER NATURAL RESOURCES COMPANY

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

Financial and Operating Performance

The Company's financial and operating performance for the first quarter of 2009 included the following highlights:

- Earnings attributable to common stockholders declined to a loss of \$14.6 million (\$0.13 per share), as compared to net income attributable to common stockholders of \$128.0 million (\$1.07 per diluted share) for the first quarter of 2008. The decrease in earnings attributable to common stockholders was primarily due to commodity price declines, associated negative reserve price revisions, which increased depreciation, depletion and amortization expense, and additional impairment of the Company's Uinta/Piceance oil and gas assets, partially offset by increases in commodity derivative hedge and non-hedge gains.
- Daily sales volumes increased on a per-BOE basis by 15 percent to 127,005 BOEPD during the first quarter of 2009, as compared to 110,298 BOEPD during the first quarter of 2008. The increase in daily sales volumes included approximately 2,502 BOEPD of NGL sales of inventory that was held in storage as of December 31, 2008 due to hurricane damage to third-party downstream processing facilities in September 2008.
- Oil and gas sales decreased by 33 percent to \$373.8 million for the first quarter of 2009, as compared to \$558.5 million for the first quarter of 2008. The decrease in oil and gas sales was primarily due to declines in commodity prices and the Company's change from derivative hedge accounting to the mark-to-market method of accounting for derivatives as of February 1, 2009, partially offset by the 15 percent increase in sales volumes and a \$122.0 million increase in commodity hedge results.
- Net cash provided by operating activities decreased by \$153.3 million to \$24.4 million for the first quarter of 2009, as compared to \$177.7 million in the comparable quarter of 2008. The decrease in net cash provided by operating activities was primarily due to the decrease in oil and gas revenue.
- Derivative gains, net increased by \$98.8 million to \$99.9 million for the first quarter of 2009, as compared to \$1.0 million for the first quarter of 2008. Derivative gains, net represent realized and unrealized non-hedge derivative gains. The derivative gains primarily resulted from declines in future commodity prices relative to the commodity prices contained in the Company's non-hedge derivative contracts.
- The purchase of 1.0 million shares of the Company's common stock at an aggregate cost of \$16.3 million under the Company's share repurchase program.

Recent Events

Financial markets. During the second half of 2008, worldwide financial markets experienced significant turmoil as concerns regarding a worldwide economic slowdown increased and the availability of liquidity provided by the financial markets declined. These concerns have continued into 2009. In response to these circumstances, governments worldwide have announced economic stimulus programs and taken steps to enhance confidence in and support the financial markets. The success of these actions and the duration of the uncertainty in financial markets cannot be predicted. The Company is closely monitoring the economic environment, the effects of which are mitigated, in part, by the Company's derivative price risk management activities. As a result, the Company does not expect that current market conditions will significantly impact its liquidity, results of operations or financial position in the near term. See "Item 3. Quantitative and Qualitative Disclosures About Market Risk" and Note G of Notes to Consolidated Financial Statements included in "Item 1. Financial Statements" for additional information about the Company's derivative contracts. Longer-term, depending on the severity and duration of the worldwide economic decline, these market conditions could negatively impact the Company's liquidity, financial position and future results of operations.

As of March 31, 2009, the Company had \$44.5 million of cash on hand and \$370.0 million of liquidity under its Credit Facility that matures in 2012. As of March 31, 2009, the Company was also a party to derivative financial instruments, of which approximately \$200.3 million represent assets. Management is closely monitoring the credit standings of its counterparties, including its banks, derivative counterparties and purchasers of the commodities the Company produces and sells.

The Company's Credit Facility is subject to certain covenants, including the maintenance of a ratio of the net present value of the Company's oil and gas properties to total debt (the "PV Ratio"). Effective April 29, 2009, the Company and its lenders amended the Credit Facility to provide the Company additional financial flexibility if longer-term commodity prices were to significantly deteriorate from current levels. The amendment reduced the required PV

PIONEER NATURAL RESOURCES COMPANY

Ratio from 1.75 to 1.0 to 1.5 to 1.0 through the period ending March 31, 2011, after which time the ratio reverts to 1.75 to 1.0, and provides that the Company may include in the PV Ratio calculation 75 percent of the market value of its ownership of common units of Pioneer Southwest. As of March 31, 2009, the Company was in compliance with all of its debt covenants.

Commodity prices. The reduced liquidity provided by the worldwide financial markets and other factors have resulted in an economic slowdown in the United States and other industrialized countries, which has further resulted in significant reductions in worldwide energy demand. At the same time, North American gas supply has increased as a result of the rise in domestic gas production. The combination of lower demand due to the economic slowdown and higher North American gas supply has resulted in significant declines in oil, NGL and gas prices from their highs in mid-2008. Although the Company has entered into derivative contracts on portions of its production volumes through 2011, a sustained lower commodity price environment would result in lower realized prices for unprotected volumes and reduce the prices at which the Company could enter into derivative contracts on additional volumes in the future. As a result, the Company's internal cash flows would be reduced for affected periods. The duration and magnitude of the commodity price declines cannot be predicted. A sustained decline in commodity prices could result in a shortfall in expected cash flows.

Cost reduction initiatives. During the first quarter of 2009, the Company implemented initiatives to reduce capital spending, operating costs and administrative expenses to support its goal of delivering net cash flow from operating activities in excess of capital requirements in 2009 and to enhance financial flexibility. This plan includes minimizing drilling activities until margins improve as a result of (i) commodity prices increasing, (ii) gas price differentials in the areas where the Company produces gas narrowing relative to NYMEX quoted prices and/or (iii) well cost reductions. As a result, the Company has significantly reduced its rig activity and continues to pursue reductions in operating expenses and well costs to align costs with the lower commodity price environment that currently exists. Rigs have been terminated or stacked in the Spraberry, Raton, Edwards Trend and Barnett Shale areas and in Tunisia. During the first quarter of 2009, the Company has also achieved lease operating expense reductions and anticipates additional operating cost savings in future periods. Since the third quarter of 2008, when drilling and completion costs peaked, the Company has achieved an average reduction of approximately 25 percent in the cost of drilling and completing a well and is targeting an additional five to ten percent reduction. The Company's asset teams are also implementing initiatives to reduce 2009 lease operating expense by at least 15 percent compared to 2008. The Company is targeting cost reductions in electricity, water disposal and compression rental costs while expanding its use of integrated services.

The Company's 2009 capital budget is limited to approximately \$300 million (excluding acquisitions, effects of asset retirement obligations, capitalized interest and geological and geophysical administrative costs), representing a 76 percent decrease from actual 2008 annual capital costs. During the first quarter of 2009, the Company's capital costs (excluding acquisitions, effects of asset retirement obligations, capitalized interest and geological and geophysical administrative costs) were \$108.1 million, as compared to \$305.9 million during the first quarter of 2008, representing a 65 percent decrease. The first quarter 2009 capital expenditures were front-end loaded as the Company completed wells in progress at year end 2008, finished previously scheduled drilling in Tunisia and further curtailed drilling activity in response to declining commodity prices during the quarter.

SemGroup receivables. The Company was a creditor in the bankruptcy of SemGroup, L.P. and certain of its subsidiaries (collectively, "SemGroup"), which filed petitions for reorganization under Chapter 11 of the U.S. Bankruptcy Code on July 22, 2008 in the U.S. Bankruptcy Court for the District of Delaware. SemGroup purchased condensate from the Company and, at the time of the bankruptcy filings, was indebted to the Company for \$29.6 million. The Company believed that it was probable that the collection of the pre-petition claims would not occur for a protracted period of time and that some of its claims may become uncollectible. Consequently, the Company recorded a bad debt expense of \$19.6 million during the second half of 2008, which reduced the carrying value of the claims to \$10.0 million.

In April 2009, the Company sold all of its pre-petition claims against SemGroup to a third party for approximately \$10.1 million, pursuant to a purchase agreement that contains customary representations, warranties and other provisions. If a portion of the claims become impaired due to circumstances arising from a breach of such representations and warranties, then the Company may be required to repurchase such impaired portion of the claims.

PIONEER NATURAL RESOURCES COMPANY

Second Quarter 2009 Outlook

Based on current estimates, the Company expects that second quarter 2009 production will average 117,000 to 122,000 BOEPD. The range reflects the typical variability in the timing of oil cargo shipments in Tunisia.

Second quarter production costs (including production and ad valorem taxes and transportation costs) are expected to average \$12.00 to \$13.00 per BOE based on NYMEX strip prices for oil, NGLs and gas at the time of the estimate. Depletion, depreciation and amortization ("DD&A") expense is expected to average \$16.00 to \$17.00 per BOE.

Total exploration and abandonment expense for the quarter is expected to be \$15 million to \$25 million, primarily related to exploration wells in progress, including related acreage costs, and seismic and personnel costs. General and administrative expense is expected to be \$33 million to \$37 million. Interest expense is expected to be \$42 million to \$45 million, reflecting the higher borrowing costs associated with the Company's April 2009 amendment to the Credit Facility. Accretion of discount on asset retirement obligations is expected to be \$2 million to \$4 million.

Noncontrolling interest in consolidated subsidiaries' net income is expected to be \$4 million to \$7 million, primarily reflecting the public ownership in Pioneer Southwest.

The Company also expects to recognize \$15 million to \$20 million of charges in other expense associated with certain drilling rigs being stacked as a result of the Company's low price environment initiatives.

The Company's second quarter effective income tax rate is expected to range from 40 percent to 50 percent based on current capital spending plans and higher tax rates in certain foreign jurisdictions. Cash income taxes are expected to range from \$5 million to \$10 million, principally related to Tunisian income taxes.

Second quarter 2009 amortization of deferred gains on terminated oil and gas hedges is expected to be \$12 million.

Operations and Drilling Highlights

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The Company intends to limit 2009 capital expenditures, excluding acquisitions, effects of asset retirement obligations, capitalized interest and geological and geophysical administrative costs, to internally-generated operating cash flow. During the three month period ended March 31, 2009, the Company's capital expenditures, excluding acquisitions, effects of asset retirement obligations, capitalized interest and geological and geophysical administrative costs, were approximately \$108.1 million. If internal cash flows do not meet the Company's expectations, the Company may further reduce its level of capital expenditures, further reduce dividend payments, and/or fund a portion of its capital expenditures using borrowings under its Credit Facility, issuances of debt or equity securities or from other sources, such as asset sales.

PIONEER NATURAL RESOURCES COMPANY

The following table summarizes by geographic area the Company's finding and development costs incurred during the three month period ended March 31, 2009:

	Acquisition Costs		Exploration Costs	Development Costs	Asset	Total
	Proved	Unproved			Retirement Obligations	
(in thousands)						
United States:						
Permian Basin	\$1,385	\$1,682	\$2,241	\$46,663	\$-	\$51,971
Mid-Continent	-	-	209	150	-	359
Rocky Mountains	29	50	4,789	14,667	-	19,535
Barnett Shale	85	(449)	2,934	(40)	-	2,530
Gulf of Mexico	-	-	95	(23)	-	72
Onshore Gulf Coast	1,447	4,419	9,930	732	-	16,528
Alaska	-	(335)	1,159	22,916	38	23,778
	2,946	5,367	21,357	85,065	38	114,773
South Africa	-	-	94	911	-	1,005
Tunisia	-	-	7,936	4,968	-	12,904
Other	-	-	382	-	-	382
	-	-	8,412	5,879	-	14,291
Total Worldwide	\$2,946	\$5,367	\$29,769	\$90,944	\$38	\$129,064

The following table summarizes the Company's development and exploration/extension drilling activities for the three months ended March 31, 2009:

	Development Drilling				
	Beginning Wells in Progress	Wells Spud	Successful Wells	Unsuccessful Wells	Ending Wells in Progress
United States	7	16	18	-	5
	Exploration/Extension Drilling				
	Beginning Wells in Progress	Wells Spud	Successful Wells	Unsuccessful Wells	Ending Wells in Progress
United States	10	1	1	-	10
Tunisia	5	-	-	2	3
Total Worldwide	15	1	1	2	13

Permian Basin area. In the Spraberry field, first quarter 2009 daily production was up 23 percent compared to first quarter 2008 reflecting the success of the 2008 drilling program. First quarter 2009 production totaled 37 MBOEPD, of which approximately 2,500 Bbls per day was related to the sales of inventoried NGLs that were not able to be fractionated and sold in the fourth quarter as a result of hurricane damage to third-party fractionation facilities. The Company drilled 17 wells in the Spraberry field during the three months ended March 31, 2009. As a result of the Company's cost reduction initiatives, the Company does not currently have any rigs drilling in the field. Under a reduced drilling program for 2009, the Company expects to drill a total of 27 wells primarily to protect leasehold rights. The majority of these Spraberry wells are being drilled deeper to add the Wolfcamp formation, which provides incremental production and proved reserves. New oil price derivatives and forward market prices for oil exceeding \$60 per Bbl for 2010 and 2011 are supportive of the Company's plan to recommence drilling in early 2010.

During 2008, the Company initiated a program to test 20-acre well down spacing performance as part of its announced recovery improvement initiatives, which also include secondary recovery waterflood projects, shale/silt interval testing and horizontal well initiative opportunities in the Spraberry field. The Company continues to monitor

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the 20-acre pilot wells and their offsets with available data. The Company drilled a total of twenty 20-acre wells prior to 2009. With 19 wells on production, the results are encouraging.

The Company's Spraberry field waterflood project includes plans to convert a select number of wells to water injection wells and potentially drill additional injection wells in 2010, subject to improved commodity prices. The Company continues evaluating non-traditional shale/silt intervals in ten wells previously completed and added two additional wells in the first quarter of 2009.

The 20-acre well spacing and other initiatives described above are being performed to enhance the Spraberry field recovery percentage in those areas of the field that are expected to be conducive for these undertakings. However, the ultimate incremental recovery rates associated with these initiatives cannot be predicted at this time.

Mid-Continent area. The Company continues to maintain field production in both the Hugoton and West Panhandle fields through gathering system efficiencies and improved system surveillance.

In the Hugoton field, the Company has completed its testing of both re-completed and new drill wells that are commingled in the Chase and Council Grove formations. Future development plans will incorporate further expansion of this activity in the field. Additional gathering system analysis and improvements are planned to begin in late-2009.

In the West Panhandle field, the Company is not planning any 2009 development drilling in support of the Company's cost reduction initiatives. The Company is planning to maximize operating results in the field through well recompletions, fracture stimulations and continued replication of the successful lateral well cleanout program.

Rocky Mountains area. The Company's Raton Basin production volumes totaled 17.5 BCF during the first quarter of 2009, compared to 17.9 BCF during the same period in 2008, although no drilling or completion work was conducted in the first quarter of 2009. The Company was able to maintain relatively stable production through initiatives such as compressor upgrades and modifications made at the Company's compressor stations that occurred during the first quarter of 2009 and during 2008. In support of the Company's cost reduction initiatives, efforts are underway in the Rocky Mountains area to reduce operating costs, including improving operational methods. The detailed basin-wide evaluation of data obtained from 2008 Pierre Shale drilling operations continues in conjunction with further 2009 production and formation testing in preparation for future drilling operations once gas prices recover or drilling costs decline. State and federal permitting efforts continue on CBM and Pierre Shale locations.

Onshore Gulf Coast area. In South Texas, the Company's first quarter 2009 daily production rose 28 percent versus the prior year quarter as a result of a strong drilling program in 2008. The Company drilled its first horizontal well in the expanding Eagle Ford Shale play, where it holds a substantial acreage position within the targeted gas play. Current plans are to fracture stimulate the well during May 2009. A second well to test the Eagle Ford Shale is planned during the third quarter of 2009. The Eagle Ford Shale play is prospective over much of the 310,000 acres that the Company currently holds.

In the Edwards Trend, the Company logged over 200 feet of productive Edwards-formation gas-bearing sands in its Amberjack discovery well in DeWitt County during the first quarter of 2009. The discovery well is currently waiting for a lateral interval to be drilled. Additional Edwards-formation drilling plans designed to further exploit the Moray, Sawfish, Skipjack and Amberjack discoveries found from 2007 to 2009 have been temporarily suspended in support of the Company's cost reduction initiatives.

In order to accommodate its Edwards Trend growth, the Company has completed construction of, and is currently utilizing, additional gas gathering and processing infrastructure. The expansion includes over 28 miles of gathering system pipeline, three additional operated gas treatment plants and two additional non-operated gas treatment plants. The acquisition of 3-D seismic data has significantly enhanced field development in all areas of the Edwards Trend, allowing the Company to more accurately locate and orient the horizontal wells for optimal results. During 2008, the Company expanded its 3-D data coverage by adding 900 square miles of new data, including coverage of new discoveries and additional prospects. The Company continues to both renew and expand its leasehold position in South Texas.

Barnett Shale. During the first quarter of 2009, the Company focused its efforts on improving operational performance. Included in this effort were multiple successful well workovers and compressor maintenance projects. The Company may also acquire additional Barnett Shale area 3-D seismic for evaluation.

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Alaska area. During the first quarter of 2009, the Company continued drilling activities at Oooguruk. Net production from the project averaged 3,889 BOEPD during the first quarter of 2009. First quarter production was restricted due to a lack of injection water supply from a third party facility for waterflood operations. The Company anticipates that this problem will be resolved in the second quarter of 2009. The Company's Oooguruk development drilling program will continue throughout 2009. The Company plans to drill and fracture stimulate two Nuiqsut production wells this summer and forecasts 2009 net production to average 5,000 BPD, despite the current water injection constraints. As development drilling continues, net production is currently forecast to gradually increase to 10,000 Bbls of oil per day to 14,000 Bbls of oil per day in 2011. Well performance and the results of this summer's activities will be evaluated later this year to determine potential upside to the production forecast.

On the Cosmopolitan project, the Company drilled a lateral sidetrack during 2007 from an existing wellbore on an onshore site to further appraise the resource potential of the unit. The initial unstimulated production test results were encouraging. The Company will conduct permitting activities and facilities planning throughout 2009 and plans to drill another appraisal well in 2010.

South Africa. In South Africa, first quarter 2009 production was up 43 percent compared to the same quarter in 2008 reflecting the commencement of production from the most prolific well in Pioneer's South Coast Gas Project during fourth quarter 2008. First production from the Company's Sable gas well was initiated in mid-October 2008 and the other wells in the South Coast Gas project resumed production in late-October. First quarter 2009 production was curtailed slightly as a result of ongoing repairs to the operator's onshore condensate handling unit.

Tunisia. First quarter 2009 daily production in Tunisia was up 60 percent compared to the first quarter of 2008. In the Cherouq Concession, first sales occurred during the first quarter of 2008 and gross cumulative production exceeded 3.4 million barrels by the end of the first quarter 2009. During 2009, the Company plans to complete the processing of the 295 square kilometers of 3-D seismic data acquired in 2008. The geosciences work program will include the integration of existing geologic data sets into a comprehensive basin modeling project targeted at reducing uncertainty and high-grading prospective exploration and development locations. Additionally, the Company plans to upgrade its existing production facilities to install permanent equipment and enhance well performance.

During 2009, the Company plans to continue its exploratory and appraisal activities on the Adam Concession by drilling up to three wells and begin a 3-D seismic acquisition program on the Borj El Khadra Permit.

In the Anaguid permit during 2008, the Company acquired an additional 900 square kilometers of 3-D seismic data and drilled one successful exploration well. The Company plans to complete the processing and interpretation of the seismic data and drill an additional exploration well during 2010.

The El Hamra exploration permit covers approximately 4,000 square kilometers, of which the Company is operator with a 50 percent working interest during the exploration period. In 2008, the Company completed processing of 310 kilometers of seismic data and drilled one unsuccessful exploration well. The Company plans on further interpretation of the seismic data during 2009.

Results of Operations

Oil and gas revenues. Oil and gas revenues totaled \$373.8 million for the three months ended March 31, 2009, as compared to \$558.5 million for the first quarter of 2008.

The decrease in oil and gas revenues during the three months ended March 31, 2009, as compared to the first quarter of 2008, is reflective of decreases in revenues for all geographic operating segments. The decrease in revenues in the United States was due to decreases in average reported oil, NGL and gas prices, partially offset by sales volume increases resulting from successful 2008 drilling activity, sales of approximately 2,500 BOEPD of NGLs that were in storage as of December 31, 2008 and reductions in scheduled VPP deliveries. Revenues in Tunisia decreased due to decreases in average reported oil and gas prices, partially offset by oil and gas sales volume increases due to successful drilling programs. Revenues in South Africa decreased due to the completion of the planned shutdown of the Sable field oil production and initiation of gas production from the Sable field and decreases in average reported oil and gas prices, partially offset by a gas sales volume increase from the South Coast Gas project.

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The following table provides average daily sales volumes, by geographic area and in total, for the three months ended March 31, 2009 and 2008:

	Three Months Ended	
	March 31,	
	2009	2008
Oil (Bbls):		
United States	27,456	21,419
South Africa	245	2,823
Tunisia	6,349	3,903
Worldwide	34,050	28,145
NGLs (Bbls):		
United States	22,699	19,408
Gas (Mcf):		
United States	388,901	369,819
South Africa	30,283	5,073
Tunisia	2,346	1,578
Worldwide	421,530	376,470
Total (BOE):		
United States	114,973	102,463
South Africa	5,292	3,669
Tunisia	6,740	4,166
Worldwide	127,005	110,298

On a quarter-to-quarter BOE comparison, average daily sales volumes increased by 12 percent in the United States, by 44 percent in South Africa and by 62 percent in Tunisia.

During the three-month period ended March 31, 2009, as compared to the three-month period ended March 31, 2008, oil volumes delivered under the Company's VPPs decreased by 42 MBbl (6 percent), while gas volumes delivered under the Company's VPPs decreased by 255 MMcf (9 percent).

The oil, NGL and gas prices that the Company reports are based on the market price received for the commodities adjusted by the results of the Company's cash flow hedging activities prior to February 1, 2009, and the amortization of deferred VPP revenue and AOCI – Hedging gains for hedges that were discontinued on January 31, 2009.

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The following table provides average reported prices (including the results of hedging activities and the amortization of deferred VPP revenue) and average realized prices (excluding the results of hedging activities and the amortization of deferred VPP revenue) by geographic area and in total, for the three months ended March 31, 2009 and 2008:

	Three Months Ended	
	March 31,	
	2009	2008
Average reported prices:		
Oil (per Bbl):		
United States	\$ 54.15	\$ 70.23
South Africa	\$ 47.00	\$ 101.48
Tunisia	\$ 47.25	\$ 99.36
Worldwide	\$ 52.82	\$ 77.41
NGL (per Bbl):		
United States	\$ 22.97	\$ 53.89
Gas (per Mcf):		
United States	\$ 4.37	\$ 7.73
South Africa	\$ 3.95	\$ 7.61
Tunisia	\$ 5.96	\$ 10.90
Worldwide	\$ 4.35	\$ 7.74
Average realized prices:		
Oil (per Bbl):		
United States	\$ 35.18	\$ 97.64
South Africa	\$ 47.00	\$ 101.48
Tunisia	\$ 47.25	\$ 99.36
Worldwide	\$ 37.51	\$ 98.26
NGL (per Bbl):		
United States	\$ 21.82	\$ 54.28
Gas (per Mcf):		
United States	\$ 3.55	\$ 7.34
South Africa	\$ 3.95	\$ 7.61
Tunisia	\$ 5.96	\$ 10.90
Worldwide	\$ 3.59	\$ 7.36

Derivative activities. The Company utilizes commodity swap and collar contracts in order to (i) reduce the effect of price volatility on the commodities the Company produces and sells, (ii) support the Company's annual capital budgeting and expenditure plans and (iii) reduce commodity price risk associated with certain capital projects. Under hedge accounting, the effective portions of changes in the fair values of the Company's commodity price hedges are deferred as increases or decreases to AOCI – Hedging until the underlying hedged transaction occurs. Consequently, changes in the effective portions of commodity price hedges added volatility to the Company's reported stockholders' equity until the hedge derivative matured or was terminated. During the first quarter of 2009, the Company's commodity derivative hedges increased oil, NGL and gas revenues by \$41.4 million, as compared to having reduced oil, NGL and gas revenues by \$80.6 million during the first quarter of

2008.

Effective February 1, 2009, the Company discontinued hedge accounting on all existing derivative instruments and from that date forward accounted for derivative instruments using the mark-to-market accounting method.

Subsequent to March 31, 2009, the Company has continued to increase its 2010 and 2011 oil and gas derivatives positions to support the resumption of oil drilling in those years. Specifically, the Company has aggregate derivative positions covering approximately 30 percent and 70 percent of its 2010 forecasted oil and gas production, respectively, and approximately 25 percent of its forecasted 2011 oil production. See "Derivative gains, net" for additional information regarding the Company's commodity derivative activities.

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Deferred revenue. During the three-month periods ended March 31, 2009 and 2008, the Company's amortization of deferred VPP revenue increased oil and gas revenues by \$36.7 million and \$39.5 million, respectively. See Notes G and N of Notes to Consolidated Financial Statements included in "Item 1. Financial Statements" for specific information regarding the Company's VPPs.

Derivative gains, net. Effective February 1, 2009, the Company discontinued hedge accounting on all existing derivative instruments, and from that date forward has accounted for derivative instruments using the mark-to-market accounting method. Under the mark-to-market accounting method, the Company recognizes all changes in the fair values of its derivative contracts as gains or losses in the earnings of the period in which they occur. During the three months ended March 31, 2009, the Company's commodity price derivatives increased derivative gains, net by \$99.9 million, of which amount \$74.5 million represented unrealized gains subject to continuing market risk, and \$25.4 million represented realized gains.

Interest and other income. Interest and other income from continuing operations for the three-month periods ended March 31, 2009 and 2008 was \$10.7 million and \$25.0 million, respectively. The \$14.3 million decrease in interest and other income from continuing operations during the three months ended March 31, 2009, as compared to the same period in 2008, was primarily due to (i) \$4.4 million of income associated with a decrease in asset retirement obligations in the first quarter of 2008, (ii) a \$3.7 million decrease in Alaskan petroleum production taxes, (iii) \$2.5 million of legal settlement gains recognized during the first quarter of 2008 and (iv) a \$2.2 million decrease in foreign exchange gains. See Note O of Notes to Consolidated Financial Statements included in "Item 1. Financial Statements" for additional information regarding interest and other income.

Oil and gas production costs. The Company recorded oil and gas production costs of \$113.0 million and \$94.6 million during the three-month periods ended March 31, 2009 and 2008, respectively. In general, lease operating expenses and workover expenses represent the components of oil and gas production costs over which the Company has management control, while third-party transportation charges are related to volumes produced. Net natural gas plant/gathering charges represent the net costs to gather and field process the Company's natural gas, reduced by net revenues earned from gathering and field processing third party gas in Company-owned facilities.

Total oil and gas production costs per BOE increased by five percent during the three-month period ended March 31, 2009, as compared to the same period in 2008, primarily due to general inflation of field service costs, electricity charges and water hauling fees.

During 2008, the Company's oil and gas production costs increased throughout the year, primarily due to inflation of well servicing expense, electricity expense and water hauling costs. As a result of the Company's cost reduction initiatives, Pioneer has realized significant production cost reductions during the first quarter of 2009 as compared to similar costs in the fourth quarter of 2008 and anticipates additional cost savings in future periods. The decrease in South Africa production costs is directly attributable to the shut in of the Sable oil field which had a high fixed-cost component of production costs as compared to the South Coast Gas project that has significantly lower production costs. The increase in Tunisia production costs is associated with the start-up of Cherouq production using rental facilities. Once permanent facilities are installed in 2009, the Tunisia production costs should decline.

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The following tables provide the components of the Company's oil and gas production costs per BOE and total production costs per BOE by geographic area for the three-month periods ended March 31, 2009 and 2008:

	Three Months Ended	
	March 31,	
	2009	2008
Lease operating expenses	\$ 7.87	\$ 7.56
Third-party transportation charges	0.93	0.99
Net natural gas plant/gathering charges	0.47	0.21
Workover costs	0.61	0.67
Total production costs	\$ 9.88	\$ 9.43

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	Three Months Ended	
	March 31,	
	2009	2008
United States	\$ 9.72	\$ 8.72
South Africa	\$ 7.34	\$ 29.90
Tunisia	\$ 14.55	\$ 8.54
Worldwide	\$ 9.88	\$ 9.43

Production and ad valorem taxes. The Company recorded production and ad valorem taxes of \$27.8 million and \$38.0 million during the three-month periods ended March 31, 2009 and 2008, respectively. In general, production taxes and ad valorem taxes are directly related to commodity price changes; however, ad valorem taxes are established in Texas based upon prior year commodity prices whereas production taxes are based upon current year commodity prices.

Total production and ad valorem taxes per BOE decreased by 36 percent during the three-month period ended March 31, 2009, as compared to the same period in 2008, primarily due to commodity price decreases.

The following table provides the Company's production and ad valorem taxes per BOE and total production and ad valorem taxes per BOE for the three-month periods ended March 31, 2009 and 2008:

	Three Months Ended	
	March 31,	
	2009	2008
Taxes:		
Ad valorem	\$ 1.41	\$ 1.30
Production	1.02	2.49
Total ad valorem and production taxes	\$ 2.43	\$ 3.79

Depletion, depreciation and amortization expense. The Company's total DD&A expense was \$192.6 million (\$16.85 per BOE) and \$109.6 million (\$10.92 per BOE) for the three-month periods ended March 31, 2009 and 2008, respectively. The increase of \$83.0 million during the three-month period ended March 31, 2009, as compared to the first quarter of 2008, is primarily comprised of an increase in depletion of oil and gas properties of \$82.9 million.

Depletion expense was \$16.21 per BOE during the three months ended March 31, 2009, as compared to \$10.19 per BOE during the first quarter of 2008. The 59 percent increase in per BOE depletion expense is primarily due to (i) incremental Raton area depletion as a result of a substantial portion of the Raton area's proved undeveloped reserves being uneconomical at quarter-end gas prices, (ii) losing end-of-life reserves that became uneconomic as a result of lower commodity prices, (iii) a generally increasing trend in the Company's oil and gas properties' cost bases per BOE of proved and proved developed reserves as a result of cost inflation in drilling rig rates and drilling supplies and (iv) the relatively higher depletion rate per BOE associated with production from the Oooguruk development, which began first production in June 2008, and South African South Coast Gas project, which became fully operational in October 2008.

Since the second half of 2008, the Company's proved reserves have been negatively impacted by commodity price declines. See "Recent Events" for additional information regarding commodity price declines.

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The following table provides depletion expense per BOE by geographic area for the three months ended March 31, 2009 and 2008:

	Three Months Ended	
	March 31, 2009	2008
United States	\$ 15.89	\$ 10.32
South Africa	\$ 34.76	\$ 13.16
Tunisia	\$ 7.12	\$ 4.54
Worldwide	\$ 16.21	\$ 10.19

Impairment of oil and gas properties and other assets. The Company reviews its long-lived assets to be held and used, including oil and gas properties, whenever events or circumstances indicate that the carrying value of those assets may not be recoverable. During the three months ended March 31, 2009, the Company recognized impairment charges of \$21.1 million to reduce the carrying value of the Company's oil and gas properties in the Uinta/Piceance areas. The continued declines in gas prices and downward adjustments to the economically recoverable resource potential during the first quarter of 2009 led to the impairment charge.

Commodity price declines during the second half of 2008 provided indications that the Company's \$310.6 million carrying value of goodwill may have been impaired as of December 31, 2008. The Company assessed the carrying value of goodwill for impairment as of December 31, 2008 and March 31, 2009 and concluded that it was not impaired. However, goodwill remains at risk for impairment in future periods if commodity prices decline further or if other impairment indicators were to erode. See Note M of Notes to Consolidated Financial Statements included in "Item 1. Financial Statements" for additional information regarding the Company's impairment assessments and the primary factors that impact the Company's assessments of goodwill and oil and gas properties for impairment.

Exploration and abandonments expense. The following tables provide the Company's geological and geophysical costs, exploratory dry holes expense and lease abandonments and other exploration expense by geographic area for the three months ended March 31, 2009 and 2008:

	United States	South Africa	Tunisia	Other	Total
Three Months Ended March 31, 2009:					
Geological and geophysical	\$9,978	\$94	\$2,290	\$382	\$12,744
Exploratory dry holes	(87)	-	5,014	-	4,927
Leasehold abandonments and other	13,760	-	-	-	13,760
	\$23,651	\$94	\$7,304	\$382	\$31,431

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Three Months Ended March 31, 2008:

Geological and geophysical	\$22,641	\$48	\$8,835	\$2,395	\$33,919
Exploratory dry holes	1,290	-	1,279	296	2,865
Leasehold abandonments and other	1,893	-	-	-	1,893
	\$25,824	\$48	\$10,114	\$2,691	\$38,677

The Company's exploration and abandonments expense during the three months ended March 31, 2009 is primarily attributable to continued seismic activity in the Company's Permian Basin, South Texas and Tunisian areas and dry hole expense and unproved property abandonments. During the three months ended March 31, 2009, the Company's exploration and abandonments expense included dry hole and leasehold abandonment and other exploration expenses of \$18.7 million, which is primarily comprised of \$13.6 million of U.S. unproved property abandonments and \$5.0 million of dry hole provisions in Tunisia.

During the three months ended March 31, 2009, the Company drilled and evaluated three exploration/extension wells, one of which was successfully completed as a discovery. During the same period in 2008, the Company drilled

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and evaluated 16 exploration/extension wells, 15 of which were successfully completed as discoveries. The decline in the number of exploration/extension wells drilled by the Company is primarily due to the Company's significant reduction in its capital budget in support of its cost reduction initiatives.

General and administrative expense. General and administrative expense from continuing operations for the three-month periods ended March 31, 2009 and 2008 were \$34.6 million and \$36.5 million, respectively. The decrease in general and administrative expense from continuing operations was primarily due to a decline in accrued compensation costs, coupled with general cost savings associated with the Company's cost reduction initiatives. Partially offsetting the Company's cost reduction initiatives are increases in Pioneer Southwest administrative costs subsequent to its initial public offering on May 6, 2008.

Accretion of discount on asset retirement obligations. Accretion of discount on asset retirement obligations was \$3.0 million and \$2.1 million for the three-month periods ended March 31, 2009 and 2008, respectively. The increase in accretion of discount on asset retirement obligations during 2009 is primarily due to the accretion of larger asset retirement obligations due to proved reserve reductions associated with the decline in commodity prices as well as new wells placed on production since March 31, 2008. See Note H of Notes to Consolidated Financial Statements in "Item 1. Financial Statements" for information regarding the Company's asset retirement obligations.

Interest expense. Interest expense was \$41.1 million and \$40.3 million for the three-month periods ended March 31, 2009 and 2008, respectively. The weighted average interest rate on the Company's indebtedness for the three months ended March 31, 2009, including the effects of interest rate derivatives and capitalized interest, was 5.3 percent as compared to 5.6 percent for the first quarter of 2008. The \$860 thousand increase in interest expense from continuing operations during the three months ended March 31, 2009, as compared to the same period of 2008, was primarily due to (i) a \$3.3 million decrease in capitalized interest primarily related to declining capitalized interest on the Oooguruk project as development wells are placed on production, partially offset by (ii) a \$2.8 million decrease in cash interest expense on long-term borrowings.

Effective January 1, 2009, the Company adopted the provisions of FSP APB 14-1. The provisions of FSP APB 14-1 resulted in a retrospective adjustment to increase the Company's first quarter 2008 interest expense by \$2.8 million and increased the Company's first quarter 2009 interest expense by \$3.5 million. See Notes B and F of Notes to Consolidated Financial Statements included in "Item 1. Financial Statements" for additional information regarding the Company's adoption of FSP APB 14-1.

Hurricane activity, net. The Company recorded net hurricane related activity expenses of \$375 thousand and \$458 thousand during the three-month periods ended March 31, 2009 and 2008, respectively. Hurricane activity, net is associated with the Company's East Cameron platform facility, located on the Gulf of Mexico shelf, which was destroyed during 2005 by Hurricane Rita.

The Company estimates that it will cost approximately \$23.6 million to complete operations to reclaim and abandon the East Cameron platform facilities. Since January 2007, the Company has expended approximately \$161.4 million on operations to reclaim and abandon the East Cameron platform facilities. The Company's estimates to reclaim and abandon the East Cameron facilities are based upon an analysis prepared by a third

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party engineering firm for a majority of the work and an estimate by the Company for the remaining work that was not covered by the third-party analysis. During 2007, the Company commenced legal actions against its insurance carriers regarding certain policy coverage issues. The Company continues to expect that a substantial portion of the loss will be recoverable by insurance. During the first quarter of 2009, the Company received \$10.2 million of insurance recoveries associated with East Cameron facilities that reduced amounts recorded as a receivable from the insurance carriers during 2006. See Note Q of Notes to Consolidated Financial Statements included in "Item 1. Financial Statements" for specific information regarding the Company's East Cameron facility reclamation and abandonment.

Other expense. Other expense from continuing operations for the three months ended March 31, 2009 was \$31.4 million as compared to \$11.9 million for the first quarter of 2008. The \$19.5 million increase in other expenses during the first quarter of March 31, 2009, is primarily attributable to (i) a \$12.4 million increase in the cost of idle drilling equipment, (ii) a \$5.2 million increase in contingency and environmental accrual adjustments (iii) a \$2.2 million increase in idle well servicing operations and (iv) a \$1.2 million increase in impairment of excess lease and well equipment and supplies inventory, partially offset by (v) a \$2.7 million decrease in bad debt expense. See Note P of Notes to Consolidated Financial Statements included in "Item 1. Financial Statements" for additional information.

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Income tax provision. The Company recognized an income tax benefit from continuing operations of \$1.3 million during the three months ended March 31, 2009, as compared to an income tax provision of \$86.2 million during the first quarter of 2008. The \$87.5 million decrease in income tax provisions for the three months ended March 31, 2009, as compared to the same period of 2008, is primarily due to a \$225.1 million decrease in income from continuing operations before income taxes. The Company's effective tax rate on continuing operations of 10 percent for the three months ended March 31, 2009, differs from the combined United States federal and state statutory rate of approximately 37 percent primarily due to:

- foreign tax rates,
- statutes in foreign jurisdictions that differ from those in the U.S.,
- a U.S. loss being consolidated with income in high tax foreign jurisdictions and
- expenses in foreign locations where the Company does not expect to receive income tax benefits, principally attributable to well costs in Tunisia.

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

Net income attributable to noncontrolling interest. Net income attributable to noncontrolling interest for the three-month period ended March 31, 2009 was \$3.8 million as compared to \$738 thousand for the first quarter of 2008. The \$3.1 million increase in net income attributable to noncontrolling interest is primarily due to noncontrolling interests in the first quarter 2009 net income of Pioneer Southwest. See Note B of Notes to Consolidated Financial Statements included in "Item 1. Financial Statements" for additional information regarding Pioneer Southwest and the Company's noncontrolling interest in consolidated subsidiaries' net income (loss).

Capital Commitments, Capital Resources and Liquidity

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

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The worldwide economic slowdown has negatively impacted the demand for energy and as a result, commodity prices have declined significantly since their highs in mid-2008. As a result of the significant decline in commodity prices, the Company has implemented cost reduction initiatives to reduce capital spending, operating costs and general and administrative expenses to enhance and preserve financial flexibility. Specifically, the Company implemented plans to minimize drilling activities until margins improve as a result of (i) commodity prices increasing, (ii) gas price differentials in the areas where the Company produces gas narrowing relative to NYMEX quoted gas prices and/or (iii) well cost reductions. As a result, the Company has significantly reduced its rig activity and continues to pursue further reductions in well costs and lease operating expenses to better align costs with the lower commodity price environment that currently exists. Rigs have been terminated or stacked in the Spraberry, Raton, Edwards Trend and Barnett Shale areas and in Tunisia. The Company has reduced its drilling rig activity from 29 rigs in the third quarter of 2008 to one rig operating in Alaska during May 2009.

The Company's 2009 capital budget is limited to approximately \$300 million (excluding acquisitions, effects of asset retirement obligations, capitalized interest and geological and geophysical administrative costs), representing a 76 percent decrease from actual 2008 annual capital costs. During the first quarter of 2009, the Company's capital costs (excluding acquisitions, effects of asset retirement obligations, capitalized interest and geological and geophysical administrative costs) were \$108.1 million, as compared to \$305.9 million during the first quarter of 2008, representing a 65 percent decrease. The first quarter 2009 capital expenditures were front-end loaded as the Company completed wells in progress at year end 2008, finished previously scheduled drilling in Tunisia and further curtailed drilling activity in response to declining commodity prices during the quarter.

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Oil and gas properties. The Company's cash expenditures for additions to oil and gas properties during the three-month periods ended March 31, 2009 and 2008, totaled \$164.5 million and \$297.3 million, respectively. During the three months ended March 31, 2009, the Company's expenditures for additions to oil and gas properties were funded by \$24.4 million of net cash provided by operating activities, cash on hand and borrowings under the Company's Credit Facility. During the three months ended March 31, 2008, the Company's expenditures for additions to oil and gas properties were funded by \$177.7 million of net cash provided by operating activities, borrowings on the Company's Credit Facility and \$130.8 million of the remaining proceeds received in January 2008 from the sale of the Company's Canadian assets in November 2007.

Contractual obligations, including off-balance sheet obligations. The Company's contractual obligations include long-term debt, operating leases, drilling commitments, derivative obligations, other liabilities, transportation commitments and VPP obligations. From time-to-time, the Company enters into off-balance sheet arrangements and transactions that can give rise to material off-balance sheet obligations of the Company. As of March 31, 2009, the material off-balance sheet arrangements and transactions that the Company has entered into included (i) undrawn letters of credit, (ii) operating lease agreements, (iii) drilling and transportation commitments, (iv) VPP obligations (to physically deliver volumes and pay related lease operating expenses in the future) and (v) contractual obligations for which the ultimate settlement amounts are not fixed and determinable, such as derivative contracts that are sensitive to future changes in commodity prices. Other than the off-balance sheet arrangements described above, the Company has no transactions, arrangements or other relationships with unconsolidated entities or other persons that are reasonably likely to materially affect the Company's liquidity or availability of or requirements for capital resources. Since December 31, 2008, the material changes in the Company's contractual obligations included a \$176.2 million increase in outstanding long-term borrowings, a \$36.7 million decrease in the Company's VPP obligations, a \$9.4 million decrease in the Company's net derivative liabilities and a decrease of approximately \$20.3 million in the Company's rig commitments. See Note F of Notes to Consolidated Financial Statements included in "Item 1. Financial Statements" for additional information regarding the Company's long-term debt and "Item 3. Quantitative and Qualitative Disclosures About Market Risk" for information regarding the interest on the Company's long-term debt and a table of changes in the fair value of the Company's open derivative obligations during the three months ended March 31, 2009.

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

The Company's commodity and interest rate derivative contracts that are periodically measured and recorded at fair value represent those derivatives that continue to be subject to market or credit risk. As of March 31, 2009, these contracts represented net assets of \$139.6 million, including approximately \$40.2 million of terminated hedge liabilities that are no longer subject to market risk. The ultimate liquidation value of the Company's commodity and interest rate derivatives that are subject to market risk will be dependent upon actual future commodity prices and interest rates, which may differ materially from the inputs used to determine the derivatives' fair values as of March 31, 2009. See Note G of Notes to Consolidated Financial Statements included in "Item 1. Financial Statements" and "Item 3. Quantitative and Qualitative Disclosures About Market Risk" for additional information about the Company's derivative instruments and market risk.

Capital resources. The Company's primary capital resources are net cash provided by operating activities, proceeds from financing activities and proceeds from sales of nonstrategic assets. Although the Company expects that these resources will be sufficient to fund its capital commitments during the foreseeable future, the recent turmoil in worldwide financial markets has resulted in the availability of external sources of short-term and long-term capital funding being less certain. For 2009, the Company currently expects that cash flow from operations and cash

on hand will be sufficient to fund the Company's capital budget.

Asset divestitures. In November 2007, the Company sold all of the common stock of its Canadian subsidiaries for net proceeds of \$525.7 million, \$132.8 million of which was deposited in a Canadian escrow account pending receipt from the Canada Revenue Agency of appropriate tax certifications. The tax certifications were received in January 2008 and the escrowed funds were subsequently released to the Company. Proceeds from disposition of assets of \$132.1 million for the first quarter of 2008 are primarily comprised of the receipt of the escrowed Canadian sales proceeds, net of foreign exchange differentials.

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Operating activities. Net cash provided by operating activities during the three-month periods ended March 31, 2009 and 2008 was \$24.4 million and \$177.7 million, respectively. The \$153.3 million decrease in net cash provided by operating activities is primarily due to decreased oil, NGL and gas prices, partially offset by an increase in commodity sales volumes.

Investing activities. Investing activities used \$171.1 million and \$177.5 million of cash during the three months ended March 31, 2009 and 2008, respectively. The \$6.4 million decrease in net cash used in investing activities is primarily due to a \$132.7 million decrease in additions to oil and gas properties and a \$5.7 million decrease in additions to other assets and other property and equipment, net, partially offset by a \$137.8 million decrease in proceeds from the disposition of assets, net of cash sold.

Financing activities. Net cash provided by financing activities during the three-month periods ended March 31, 2009 and 2008 was \$142.8 million and \$5.0 million, respectively. The \$142.6 million increase in net cash provided by financing activities is primarily due to a \$124.8 million net increase in borrowings of long-term debt.

During March 2009, the Company's board of directors (the "Board") declared a semiannual dividend of \$0.04 per common share payable to shareholders of record on March 31, 2009. Associated therewith, the Company paid approximately \$4.7 million of aggregate dividends during April 2009. Future dividends are at the discretion of the Board, and, if declared, the Board may change the current dividend amount based on the Company's liquidity and capital resources at the time.

During February 2007, the Board approved a share repurchase program authorizing the purchase of up to \$750 million of the Company's common stock. During the three months ended March 31, 2009 and 2008, the Company expended \$16.3 million to acquire 1.0 million shares of treasury stock and \$12.8 million to acquire 293 thousand shares of treasury stock, respectively, under share repurchase programs. As of March 31, 2009, approximately \$355.8 million of stock may be purchased in the future under the \$750 million Board authorization.

See Notes B and F of Notes to Consolidated Financial Statements included in "Item 1. Financial Statements" for additional information regarding the formation of Pioneer Southwest and the Pioneer Southwest Credit Facility, respectively.

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

Liquidity. The Company's principal sources of short-term liquidity are cash on hand and unused borrowing capacity under its Credit Facility. There were \$1.1 billion of outstanding borrowings under the Credit Facility as of March 31, 2009. Including \$46.0 million of undrawn and

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outstanding letters of credit under the Credit Facility, the Company had approximately \$370.0 million of unused borrowing capacity as of March 31, 2009. If internal cash flows do not meet the Company's expectations, the Company may further reduce its level of capital expenditures, reduce dividend payments, and/or fund a portion of its capital expenditures using borrowings under its Credit Facility, issuances of debt or equity securities or from other sources, such as asset sales. The Company cannot provide any assurance that needed short-term or long-term liquidity will be available on acceptable terms or at all. Although the Company expects that internal cash flows will be adequate to fund capital expenditures and dividend payments, and that available borrowing capacity under the Company's Credit Facility will provide adequate liquidity, no assurances can be given that such funding sources will be adequate to meet the Company's future needs. For instance, the amount that the Company may borrow under the Credit Facility in the future could be reduced as a result of lower oil, NGL or gas prices, among other items.

The Company's Credit Facility is subject to certain covenants, including the maintenance of a PV Ratio. Effective April 29, 2009, the Company and its lenders amended the Credit Facility to provide the Company additional financial flexibility if longer-term commodity prices were to significantly deteriorate from current levels. The amendment reduced the required PV Ratio from 1.75 to 1.0 to 1.5 to 1.0 through the period ending March 31, 2011, after which time the ratio reverts to 1.75 to 1.0, and provides that the Company may include in the PV Ratio calculation 75 percent of the market value of its ownership of common units of Pioneer Southwest.

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Debt ratings. The Company receives debt credit ratings from Standard & Poor's Ratings Group, Inc. ("S&P") and Moody's, which are subject to regular reviews. S&P's rating for the Company is BB+ with a negative outlook. Moody's rating for the Company is Ba1 with a negative outlook. The Company believes that S&P and Moody's consider many factors in determining the Company's ratings including: production growth opportunities, liquidity, debt levels and asset and proved reserve mix. A reduction in the Company's debt ratings could negatively impact the Company's ability to obtain additional financing or the interest rate, fees and other terms associated with such additional financing. As of March 31, 2009, the Company was in compliance with all of its debt covenants.

Book capitalization and current ratio. The Company's net book capitalization at March 31, 2009 was \$6.7 billion, consisting of \$44.5 million of cash and cash equivalents, debt of \$3.1 billion and stockholders' equity of \$3.6 billion. The Company's net debt to net book capitalization was 46 percent and 44 percent at March 31, 2009 and December 31, 2008, respectively. The Company's ratio of current assets to current liabilities was 0.91 to 1.00 at March 31, 2009 as compared to 0.70 to 1.00 at December 31, 2008.

New accounting pronouncements. In September 2006, the FASB issued SFAS 157. SFAS 157 defines fair value, establishes a framework for measuring fair value and enhances disclosures about fair value measures required under other accounting pronouncements, but does not change existing guidance as to whether or not an instrument is carried at fair value. During February 2008, the FASB issued FSP FAS 157-2. FSP FAS 157-2 delayed the effective date of SFAS 157 for nonfinancial assets and nonfinancial liabilities until fiscal years beginning after November 15, 2008, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis at least annually. On January 1, 2009, the Company adopted the remaining provisions of SFAS 157, for which delayed adoption was provided by FSP FAS 157-2. See Note D of Notes to Consolidated Financial Statements included in "Item 1. Financial Statements" for additional information regarding the Company's adoption of FSP FAS 157-2.

In December 2007, the FASB issued SFAS 141(R). SFAS 141(R) replaces SFAS 141 and provides greater consistency in the accounting and financial reporting of business combinations. SFAS 141(R) requires the acquiring entity in a business combination to recognize all assets acquired and liabilities assumed in the transaction and any noncontrolling interest in the acquired entity at the acquisition date, measured at their fair values as of the date that the acquirer achieves control over the business acquired. This includes the measurement of the acquirer shares issued in consideration for a business combination, the recognition of contingent consideration, the recognition of pre-acquisition contractual and certain non-contractual gain and loss contingencies, the recognition of capitalized research and development costs and the recognition of changes in the acquirer's income tax valuation allowance and deferred taxes. The provisions of SFAS 141(R) also require that restructuring costs resulting from the business combination that the acquirer expects but is not required to incur and costs incurred to effect the acquisition be recognized separate from the business combination. SFAS 141(R) is effective for fiscal years and interim periods within those fiscal years, beginning on or after December 15, 2008, and is to be applied prospectively as of the beginning of the fiscal year in which the statement is applied. The Company became subject to the provisions of SFAS 141(R) on January 1, 2009.

In December 2007, the FASB issued SFAS 160. SFAS 160 amends ARB No. 51, "Consolidated Financial Statements," to establish accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. SFAS 160 clarifies that a noncontrolling interest in a subsidiary, which is sometimes referred to as minority interest, is an ownership interest in the consolidated entity that should be reported as a component of equity in the consolidated financial statements. Among other requirements, SFAS 160 requires consolidated net income to be reported at amounts that include the amounts attributable to both the parent and the noncontrolling interest. The Company adopted the provisions of SFAS 160 on January 1, 2009.

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In March 2008, the FASB issued SFAS 161. SFAS 161 changes the disclosure requirements for derivative instruments and hedging activities by requiring entities to provide enhanced disclosures about (i) how and why an entity uses derivative instruments, (ii) how derivative instruments and related hedged items are accounted for under SFAS 133 and its related interpretations, and (iii) how derivative instruments and related hedged items affect an entity's financial position, financial performance, and cash flows. SFAS 161 was adopted by the Company on January 1, 2009. See Note G of Notes to Consolidated Financial Statements included in "Item 1. Financial Statements" for disclosures about the Company's derivative instruments and hedging activities.

In May 2008, the FASB issued FSP APB 14-1. FSP APB 14-1 specifies that issuers of such instruments should separately account for the liability and equity components in a manner that will reflect the entity's nonconvertible debt borrowing rate when interest cost is recognized in subsequent periods. The Company adopted the provisions of FSP APB 14-1 on January 1, 2009. The adoption of FSP APB 14-1 increases the annual interest expense that the Company recognizes on its \$480 million of 2.875% Senior Convertible Notes from an annual yield of approximately

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2.875 percent to 6.75 percent, the annual yield equivalent to a nonconvertible debt borrowing on the date of issuance. The adoption of FSP APB 14-1 also resulted in the reclassification of the estimated issuance date fair value of the 2.875% Senior Convertible Notes conversion privilege from long-term debt to shareholders' equity in the accompanying consolidated balance sheets. See Note F of Notes to Consolidated Financial Statements included in "Item 1. Financial Statements" for additional information regarding the Company's adoption of FSP APB 14-1.

In June 2008, the FASB issued FSP EITF 03-6-1, which addresses whether instruments granted in share-based payment transactions are participating securities prior to vesting and, therefore, need to be included in the net income (loss) allocation in computing basic and diluted net income (loss) per share under the two class method prescribed under SFAS 128, "Earnings per Share". The Company adopted the provisions of FSP EITF 03-6-1 on January 1, 2009 and, in accordance with FSP EITF 03-6-1, applied its provisions retrospectively to prior-period net income per share computations. See Note K of Notes to Consolidated Financial Statements included in "Item 1. Financial Statements" for additional information regarding the Company's basic and diluted net income (loss) computations for the three months ended March 31, 2009 and 2008.

In December 2008, the SEC released the Reserve Ruling. The Reserve Ruling revises oil and gas reporting disclosures. The Reserve Ruling also permits the use of new technologies to determine proved reserves if those technologies have been demonstrated empirically to lead to reliable conclusions about reserves volumes. The Reserve Ruling will also allow companies to disclose their probable and possible reserves to investors. In addition, the new disclosure requirements require companies to: (i) report the independence and qualifications of its reserves preparer or auditor; (ii) file reports when a third party is relied upon to prepare reserves estimates or conduct a reserves audit; and (iii) report oil and gas reserves using an average price based upon the prior 12-month period rather than a year-end price. The Reserve Ruling becomes effective for annual reports on Forms 10-K for fiscal years ending on or after December 31, 2009. During February 2009, the FASB announced a project to amend SFAS 19 to conform to the Reserve Ruling. The Company is currently assessing the impact that adoption of the provisions of the Reserve Ruling will have on its financial position, results of operations and disclosures.

In April 2009, the FASB issued FSP FAS 107-1, which amends FASB Statement No. 107, "Disclosures about Fair Value of Financial Instruments" and Accounting Principles Board Opinion No. 28, "Interim Financial Reporting". FSP FAS 107-1 requires disclosures about the fair value of financial instruments for interim reporting purposes of publicly traded companies. FSP FAS 107-1 is effective for interim reporting periods ending after June 15, 2009 and will only impact future disclosures about the fair value of the Company's financial instruments.

In April 2009, the FASB issued FSP FAS 157-4, which provides additional guidelines for estimating fair value in accordance with SFAS 157 when the volume and level of activity for the asset or liability have decreased and guidance on identifying circumstances that indicate a transaction is not orderly. FSP FAS 157-4 is effective for interim and annual reporting periods ending after June 15, 2009 and is not expected to have a material impact on the Company's fair value measurements.

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

The following quantitative and qualitative disclosures about market risk are supplementary to the quantitative and qualitative disclosures provided in the Company's Annual Report on Form 10-K for the year ended December 31, 2008. As such, the information contained herein should be read in conjunction with the related disclosures in the Company's Annual Report on Form 10-K for the year ended December 31, 2008.

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

Effective February 1, 2009, the Company discontinued hedge accounting on all existing derivative instruments, and from that date forward has accounted for derivative instruments using the mark-to-market accounting method. Therefore, the Company will recognize all future changes in the fair values of its derivative contracts as gains or losses in the earnings of the period in which they occur.

The following table reconciles the changes that occurred in the fair values of the Company's open derivative contracts during the first quarter of 2009:

	Derivative Contract Net Assets (Liabilities)			
	Commodities (a)	Interest Rate (a)	Commodity Unwinds	Total
	(in thousands)			
Fair value of contracts				
outstanding as of December 31, 2008	\$ 112,286	\$(9,903)	\$(40,312)	\$ 62,071
Changes in contract fair value (b)	114,237	(2,132)	-	112,105
Contract maturities	(33,236)	2,314	401	(30,521)
Accretion of discount	-	-	(270)	(270)
Contract terminations	(3,745)	-	-	(3,745)
Fair value of contracts				
outstanding as of March 31, 2009	\$ 189,542	\$(9,721)	\$(40,181)	\$ 139,640

(a) Represents the fair values of open derivative contracts subject to market risk.

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

Foreign exchange rate sensitivity. During November 2007, the Company invested \$131.7 million Canadian dollars ("CND"), representing \$132.8 million U.S. dollars, in a CND-denominated escrow account associated with the sale of the Company's Canadian assets. During December 2007, the Company entered into foreign exchange rate derivatives to swap \$131.7 million CND for \$131.0 million U.S. dollars ("USD") to be delivered during May 2008. The foreign exchange rate swaps were economic hedges of the CND-denominated escrow account balance; however, uncertainty regarding the matching of cash flow timing between the foreign exchange rate swaps and the liquidation of the CND-denominated escrow account caused the Company not to designate the foreign exchange rate swaps as hedges. The CND-denominated escrow account was liquidated during January 2008 for \$129.0 million USD, at which time the foreign exchange rate swaps were terminated at a gain of \$1.8 million. Subsequent to these transactions, the Company has no remaining material foreign exchange rate risk associated with financial instruments.

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

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The following table provides information about financial instruments to which the Company was a party as of March 31, 2009 and that are sensitive to changes in interest rates. For debt obligations, the table presents maturities by expected maturity dates, the weighted average interest rates expected to be paid on the debt given current contractual terms and market conditions and the debt's estimated fair value. For fixed rate debt, the weighted average interest rate represents the contractual fixed rates that the Company was obligated to periodically pay on the debt as of March 31, 2009. For variable rate debt, the average interest rate represents the average rates being paid on the debt projected forward proportionate to the forward yield curve for LIBOR on April 27, 2009.

	Nine Months Ending December 31, 2009						Total	Asset / (Liability) Fair Value at March 31, 2009
	Year Ending December 31,							
	2010	2011	2012	2013	Thereafter			
(\$ in thousands)								
Total Debt:								
Fixed rate principal maturities (a)	\$ -	\$ -	\$ -	\$ 6,110	\$ 480,000	\$ 1,639,985	\$ 2,126,095	\$ 1,527,518
Weighted average interest rate	5.74%	5.74%	5.74%	5.73%	5.74%	6.83%		
Variable rate principal maturities	\$ -	\$ -	\$ -	\$ 1,084,000	\$ -	\$ -	\$ 1,084,000	\$ 982,952
Weighted average interest rate	1.89%	2.29%	3.02%	3.62%				
Interest Rate Swaps:								
Credit Facility:								
Notional debt amount (b)	\$ 400,000	\$ 227,222	\$ 25,000	\$				\$ 9,721
Fixed rate payable (%)	2.87%	2.97%	3.00%					
Variable rate receivable (%)	1.14%	1.54%	2.27%					

- (a) Represents maturities of principal amounts excluding (i) debt issuance discounts and premiums and (ii) net deferred fair value hedge losses.
- (b) Represents weighted average notional contract amounts of interest rate derivatives.

Commodity price sensitivity. The following tables provide information about the Company's oil and gas derivative financial instruments that were sensitive to changes in oil, NGL and gas prices as of March 31, 2009. Although mitigated by the Company's derivative activities, declines in commodity prices will reduce the Pioneer's revenues and internal cash flows. Recent uncertainties in worldwide financial markets may have the effect of reducing liquidity in the financial derivatives market, impeding the Company's ability to enter into derivative contracts under acceptable terms.

Commodity derivative instruments. The Company manages commodity price risk with derivative contracts, such as swap and collar contracts. Swap contracts provide a fixed price for a notional amount of sales volumes. Collar contracts provide minimum ("floor") and maximum ("ceiling") prices for the Company on a notional amount of sales volumes, thereby allowing some price participation if the relevant index price closes above the floor price. Collar contracts with short put options differ from other collar contracts by virtue of the short put option price, below which the Company's realized price will exceed the variable market prices by the long put-to-short put price differential. With collar contracts, if the relevant market price is above the ceiling price, the Company pays the derivative counterparty the difference between the market price and the ceiling price; if the relevant market price is between the ceiling price and the floor price, the derivative has no cash settlement value; and, if the relevant market price is below the floor price, the Company receives the difference between the floor price and the market price from the counterparty. Collar contracts with short puts are similar to collar contracts, except that if the relevant market price is below the short put price, the Company receives the difference between the floor price and short put price from the counterparty.

See Note G of Notes to Consolidated Financial Statements included in "Item 1. Financial Statements" for a description of the accounting procedures followed by the Company relative to its derivative financial instruments and for specific information regarding the terms of the Company's derivative financial instruments that are sensitive to changes in oil, NGL or gas prices.

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	Nine Months					Asset (Liability)
	Ending	Year Ending December 31,				Fair Value at
	December 31,	2010	2011	2012	2013	March 31, 2009
	2009					(in thousands)
Oil Non-Hedge Derivatives:						
Average daily notional Bbl volumes (a):						
Swap contracts	21,151	2,000	-	-	-	\$47,720
Weighted average fixed price per Bbl	\$57.98	\$98.32	\$-	\$-	\$-	
Collar contracts	2,000	-	2,000	-	-	\$33,605
Weighted average ceiling price per Bbl	\$70.38	\$-	\$170.00	\$-	\$-	
Weighted average floor price per Bbl	\$52.00	\$-	\$115.00	\$-	\$-	
Collar contracts with short puts	4,349	5,000	5,000	-	-	\$(1,697)
Weighted average ceiling price per Bbl	\$70.77	\$73.00	\$87.14	\$-	\$-	
Weighted average floor price per Bbl	\$51.38	\$62.00	\$70.00	\$-	\$-	
Weighted average short put price per Bbl	\$41.38	\$47.00	\$55.00	\$-	\$-	
Average forward NYMEX oil prices (b)	\$55.14	\$62.49	\$67.08	\$-	\$-	
NGL Non-Hedge Derivatives (a):						
Average daily notional Bbl volumes:						
Swap contracts	3,750	1,250	-	-	-	\$16,470
Weighted average fixed price per Bbl	\$34.28	\$47.38	\$-	\$-	\$-	
Average forward Mont Belvieu NGL prices (b)	\$26.51	\$28.76	\$-	\$-	\$-	
Gas Non-Hedge Derivatives (a):						
Average daily notional MMBtu volumes (b):						
Swap contracts	135,000	125,000	-	-	-	\$101,683
Weighted average fixed price per MMBtu	\$6.22	\$6.60	\$-	\$-	\$-	
Basis swap contracts	215,000	155,000	60,000	20,000	10,000	\$(18,244)
Weighted average fixed price per MMBtu	\$(1.04)	\$(0.88)	\$(0.82)	\$(0.78)	\$(0.71)	
Collar contracts	20,000	30,000	-	-	-	\$6,641
Weighted average ceiling price per MMBtu	\$5.90	\$7.52	\$-	\$-	\$-	
Weighted average floor price per MMBtu	\$4.00	\$6.00	\$-	\$-	\$-	

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Collar contracts with short puts	40,000	95,000	-	-	-	\$3,364
Weighted average ceiling price per Bbl	\$5.86	\$7.94	\$-	\$-	\$-	
Weighted average floor price per Bbl	\$4.50	\$6.00	\$-	\$-	\$-	
Weighted average short put price per Bbl	\$3.50	\$5.00	\$-	\$-	\$-	
Average forward NYMEX gas prices (b)	\$3.98	\$5.77	\$6.68	\$7.01	\$7.13	

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- (a) From April 1, 2009 through May 1, 2009, the Company (i) entered into derivative transactions to convert 8,888 Bbls per day of 2009 swap contracts with a weighted average fixed price of \$52.35 per Bbl into collar contracts with short puts with a ceiling price of \$62.41 per Bbl, a floor price of \$51.43 per Bbl and a short put price of \$44.55 per Bbl, and (ii) entered into additional oil collar contracts with short puts for approximately (a) 3,000 Bbls per day of the Company's 2010 production with a ceiling price of \$80.25 per Bbl, a floor price of \$65.00 per Bbl and a short put price of \$52.00 per Bbl and (b) 2,000 Bbls per day of the Company's 2011 production with a ceiling price of \$90.00 per Bbl, a floor price of \$70.00 per Bbl and a short put price of \$55.00 per Bbl. From April 1, 2009 through May 1, 2009, the Company entered into additional gas basis swap contracts for approximately 30,000 MMBtu of the Company's 2010 production at an average price differential of \$0.73 per MMBtu.
- (b) The average forward NYMEX oil and gas prices are based on April 30, 2009 market quotes.
- (c) Forward Mont Belvieu NGL prices are not available as formal market quotes. These forward prices represent estimates as of April 30, 2009 provided by third parties who actively trade in the derivatives.

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Item 4. Controls and Procedures

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

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

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Item 1. **Legal Proceedings**

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

Item 1A. **Risk Factors**

In addition to the other information set forth in this Report, you should carefully consider the risks discussed in the Company's Annual Report on Form 10-K under the headings "Item 1. Business – Competition, Markets and Regulations", "Item 1A. Risk Factors" and "Item 7A. Quantitative and Qualitative Disclosures About Market Risk", which risks could materially affect the Company's business, financial condition or future results. Except as stated below, there has been no material change in the Company's risk factors from those described in the Annual Report on Form 10-K.

The Company is subject to regulations that may cause it to incur substantial costs and affect its ability to grow.

As previously disclosed in the Company's Annual Report on Form 10-K, including in "Item 1. Business — Competition, Markets and Regulations," the Company's business is regulated by a variety of federal, state, local and foreign laws and regulations. For example, the Company's properties located in Colorado are subject to the authority of the Colorado Oil & Gas Conservation Commission (the "COGCC"). The COGCC recently passed certain rules that will increase the length of time needed to obtain certain permits and will increase the Company's costs of permitting and environmental compliance. In addition, in connection with the Company's CBM operations in the Raton Basin in Colorado, the Colorado Supreme Court recently affirmed the ruling of a state water court, which held that the use of water tributary to surface flows in CBM operations should be subject to water-use regulation under an additional agency as is the case with other uses of water in the state, including the need for the obtaining of permits, possible competition with other claimants for the use of the water and the possibility of providing augmentation water supplies for water rights owners with more senior rights. There can be no assurance that present or future regulations will not adversely affect the Company's business and operations. See "Item 1. Business — Competition, Markets and Regulations" in the Annual Report on Form 10-K for additional discussion regarding government regulation.

Item 2. **Unregistered Sales of Equity Securities and Use of Proceeds**

Purchases of Equity Securities by the Issuer and Affiliated Purchasers

The following table summarizes the Company's purchases of treasury stock during the three months ended March 31, 2009:

Period	Total Number of Shares (or Units) Purchased (a)	Average Price Paid per Share (or Unit)	Total Number of Shares (or Units) Purchased As Part of Publicly Announced Plans or Programs	Approximate Dollar Amount of Shares that May Yet Be Purchased under Plans or Programs (b)
January 2009	47,459	\$ 20.08	-	
February 2009	1,176,528	\$ 16.29	1,000,000	
March 2009	255	\$ 18.45	-	
Total	1,224,242	\$ 16.43	1,000,000	\$ 355,789,018

- (a) Amounts include shares withheld to satisfy tax withholding on employees' share-based awards.
- (b) During 2007, the Board approved a share repurchase program authorizing the purchase of up to \$750 million of the Company's common stock.

PIONEER NATURAL RESOURCES COMPANY

Item 6. Exhibits

Exhibits

Exhibit Number	Description
10.1	— Third Amendment to Amended and Restated Credit Agreement dated as of April 29, 2009 among the Company, as Borrower, JPMorgan Chase Bank, N.A., as Administrative Agent, and certain other lenders (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, File No. 1-13245, filed with the SEC on May 5, 2009).
10.2	— Letter Agreement dated March 18, 2009 between the Company and Southeastern Asset Management, Inc. (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, File No. 1-13245, filed with the SEC on March 19, 2009).
10.3 (a)	— Form of Performance Unit Award Agreement, dated February 18, 2009, between the Company and Scott D. Sheffield, with respect to awards made under the Company's 2006 Long Term Incentive Plan, together with a schedule identifying other substantially identical agreements between the Company and each of its other executive officers and identifying the material differences between each of those agreements and the filed Performance Unit Award Agreement.
10.4 (a)	— Form of Nonstatutory Stock Option Agreement, dated February 18, 2009, between the Company and Scott D. Sheffield, with respect to awards made under the Company's 2006 Long Term Incentive Plan, together with a schedule identifying other substantially identical agreements between the Company and each of its other executive officers and identifying the material differences between each of those agreements and the filed Nonstatutory Stock Option Agreement.
10.5 (a)	— Form of Restricted Stock Unit Award Agreement, dated February 18, 2009, between the Company and Frank W. Hall and other officers of the Company, with respect to awards made under the Company's 2006 Long Term Incentive Plan.
31.1 (a)	— Chief Executive Officer certification under Section 302 of Sarbanes-Oxley Act of 2002.
31.2 (a)	— Chief Financial Officer certification under Section 302 of Sarbanes-Oxley Act of 2002.
32.1 (b)	— Chief Executive Officer certification under Section 906 of Sarbanes-Oxley Act of 2002.
32.2 (b)	— Chief Financial Officer certification under Section 906 of Sarbanes-Oxley Act of 2002.

(a) Filed herewith.

(b) Furnished herewith.

PIONEER NATURAL RESOURCES COMPANY

SIGNATURES

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

PIONEER NATURAL RESOURCES COMPANY

Date: May 11, 2009

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

Date: May 11, 2009

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

PIONEER NATURAL RESOURCES COMPANY

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