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PIONEER NATURAL RESOURCES CO
Form DEF 14A
April 04, 2007

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

SCHEDULE 14A

PROXY STATEMENT PURSUANT TO SECTION 14(a) OF THE SECURITIES
EXCHANGE ACT OF 1934 (AMENDMENT NO.)

Filed by the Registrant [X]
Filed by a Party other than the Registrant []

Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material Pursuant to ss. 240.14a-12

Pioneer Natural Resources Company

(Name of Registrant as Specified in Its Charter)

(Name of Person(s) Filing Proxy Statement, if Other Than the Registrant)

Payment of Filing Fee (Check the appropriate box):

- No fee required.
- Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

(4) Proposed maximum aggregate value of transaction:

(5) Total fee paid:

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(1) Amount Previously Paid:

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(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

PIONEER NATURAL RESOURCES COMPANY
5205 North O'Connor Boulevard
Suite 200
Irving, Texas 75039

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS

To the Stockholders of Pioneer Natural Resources Company:

Notice is hereby given that the Annual Meeting of Stockholders of Pioneer Natural Resources Company (the "Company") will be held in the Hudson Room at the Dallas Marriott Las Colinas Hotel, 223 West Las Colinas Boulevard, Irving, Texas 75039, on Wednesday, May 16, 2007, at 9:00 a.m. Central Time (the "Annual Meeting"). The Annual Meeting is being held for the following purposes:

1. To elect four Class I directors, each for a term of three years.
2. To ratify the selection of Ernst & Young LLP as the auditors of the the Company for the current year.
3. To consider and vote upon a proposal to approve the Company's Amended and Restated Employee Stock Purchase Plan, which will extend the termination date of the plan from December 31, 2007 to December 31, 2017.
4. To transact such other business as may properly come before the Annual Meeting.

These proposals are described in the accompanying proxy materials. You will be able to vote at the Annual Meeting only if you were a stockholder of record at the close of business on March 22, 2007.

YOUR VOTE IS IMPORTANT

Please date, sign and return the enclosed Proxy promptly so that your shares may be voted in accordance with your wishes and so we may have a quorum at the Annual Meeting. Instead of returning the paper proxy, you may vote by internet or phone by following the instructions on your Proxy.

By Order of the Board of Directors,

/s/ Mark H. Kleinman

Mark H. Kleinman
Secretary

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Irving, Texas
April 4, 2007

PIONEER NATURAL RESOURCES COMPANY
5205 North O'Connor Boulevard
Suite 200
Irving, Texas 75039

PROXY STATEMENT

2007 ANNUAL MEETING OF STOCKHOLDERS

The Board of Directors of the Company requests your Proxy for the Annual Meeting of Stockholders that will be held Wednesday, May 16, 2007, at 9:00 a.m. Central Time, in the Hudson Room at the Dallas Marriott Las Colinas Hotel, 223 West Las Colinas Boulevard, Irving, Texas 75039. By granting the Proxy, you authorize the persons named on the Proxy to represent you and vote your shares at the Annual Meeting. Those persons will also be authorized to vote your shares to adjourn the Annual Meeting from time to time and to vote your shares at any adjournments or postponements of the Annual Meeting.

If you attend the Annual Meeting, you may vote in person. If you are not present at the Annual Meeting, your shares may be voted only by a person to whom you have given a proper Proxy, such as the accompanying Proxy or the Internet Proxy. You may revoke the Proxy in writing at any time before it is exercised at the Annual Meeting by delivering to the Secretary of the Company a written notice of the revocation, by signing and delivering to the Secretary of the Company a Proxy with a later date, or by submitting your vote electronically through the internet or by phone after the grant of the Proxy. Your attendance at the Annual Meeting will not revoke the Proxy unless you give written notice of revocation to the Secretary of the Company before the Proxy is exercised or unless you vote your shares in person at the Annual Meeting.

DELIVERY OF PROXY MATERIALS

Mailing Date

The approximate date on which this Proxy Statement and accompanying Notice of Annual Meeting of Stockholders and Proxy are first being sent or given to stockholders is April 4, 2007.

Stockholders Sharing an Address

Registered Stockholders. Registered stockholders (the stockholder owns shares in his, her or its own name on the books of the Company's transfer agent) who share the same address will be delivered one Proxy Statement and one 2006 Annual Report.

Street name Stockholders. Most banks and brokers are delivering only one copy of the Proxy Statement and the 2006 Annual Report to consenting street name stockholders (the stockholder owns shares in the name of a bank, broker or other holder of record on the books of the Company's transfer agent) who share the same address. This procedure reduces the Company's printing and distribution costs. Those who wish to receive separate copies may do so by contacting their bank or broker. Similarly, most street name stockholders who are receiving multiple copies of the Proxy Statement and 2006 Annual Report at a single address may request that only a single set of materials be sent to them in the

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future by contacting their bank or broker. In the alternative, most street name stockholders may give instructions to receive separate copies or discontinue multiple mailings of materials by contacting the third party that mails annual meeting materials for most banks and brokers by writing to Householding Department, ADP, 51 Mercedes Way, Edgewood, New York 11717, or telephoning (800) 542-1061. The instructions must include the name of the stockholder's brokerage firm and account number.

Electronic Delivery Option

Instead of receiving future copies of the proxy materials by mail, registered stockholders may elect to view future proxy materials on the internet by following the instructions provided when voting by internet or phone. Street name stockholders may also have the opportunity to view copies of the proxy materials electronically. Those who opt to do so may contact their bank or broker regarding the availability of this service. Opting to view proxy materials online will save the Company the cost of producing and mailing documents to stockholders and provides immediate access to the information. The Notice of Annual Meeting of Stockholders, Proxy Statement and other proxy materials are also available on the Company's website at www.pxd.com. Neither the Company website nor any other website included in this Proxy Statement is intended to function as a hyperlink, and the information contained on such websites is not a part of this Proxy Statement.

QUORUM AND VOTING

Voting Stock. The Company's common stock, par value \$.01 per share, is the only class of securities that entitles holders to vote generally at meetings of the Company's stockholders. Each share of common stock outstanding on the record date is entitled to one vote.

Record Date. The record date for stockholders entitled to notice of and to vote at the Annual Meeting was the close of business on March 22, 2007. As of the record date, 123,386,066 shares of common stock were outstanding and entitled to be voted at the Annual Meeting.

Quorum and Adjournments. The presence, in person or by Proxy, of the holders of a majority of the votes eligible to be cast at the Annual Meeting is necessary to constitute a quorum at the Annual Meeting.

If a quorum is not present, the stockholders entitled to vote who are present in person or by Proxy at the Annual Meeting have the power to adjourn the Annual Meeting from time to time, without notice other than an announcement at the Annual Meeting, until a quorum is present. At any adjourned Annual Meeting at which a quorum is present, any business may be transacted that might have been transacted at the Annual Meeting as originally notified.

Vote Required. Directors will be elected by a plurality of the votes present and entitled to be voted at the Annual Meeting. Ratification of the selection of the Company's auditors will require the affirmative vote of the holders of a majority of the shares present and entitled to be voted at the Annual Meeting. Approval of the Company's Amended and Restated Employee Stock Purchase Plan will require the affirmative vote of the holders of a majority of the shares present and entitled to be voted at the Annual Meeting. An automated system that the Company's transfer agent administers will tabulate the votes. Brokers who hold shares in street name for customers are required to vote shares

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in accordance with instructions received from the beneficial owners. Brokers are permitted to vote on discretionary items if they have not received instructions from the beneficial owners, but they are not permitted to vote (a "broker non-vote") on non-discretionary items absent instructions from the beneficial owner. Abstentions and broker non-votes will count in determining whether a quorum is present at the Annual Meeting. Both abstentions and broker non-votes will not have any effect on the outcome of voting on director elections. For purposes of voting on the ratification of the selection of auditors and approval of the Company's Amended and Restated Employee Stock Purchase Plan, abstentions will be included in the number of shares voting and will have the effect of a vote against the proposals, and broker non-votes will not be included in the number of shares voting and therefore will have no effect on the outcome of the voting.

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Default Voting. A Proxy that is properly completed and returned will be voted at the Annual Meeting in accordance with the instructions on the Proxy. If you properly complete and return a Proxy, but do not indicate any contrary voting instructions, your shares will be voted as follows:

- o FOR the election of the four persons named in this Proxy Statement as the Board of Directors' nominees for election as Class I directors.
- o FOR the ratification of the selection of Ernst & Young LLP as the Company's auditors for 2007.
- o FOR the approval of the Company's Amended and Restated Employee Stock Purchase Plan.

If any other business properly comes before the stockholders for a vote at the meeting, your shares will be voted in accordance with the discretion of the holders of the Proxy. The Board of Directors knows of no matters, other than those previously stated, to be presented for consideration at the Annual Meeting.

PARTICIPANTS IN THE PIONEER NATURAL RESOURCES USA, INC. 401(k) AND MATCHING PLAN

Participants in the Pioneer Natural Resources USA, Inc. 401(k) and Matching Plan (the "401(k) Plan") who have shares of common stock credited to their plan account as of the record date will have the right to direct the 401(k) Plan trustee regarding how to vote those shares. The trustee will vote the shares in a participant's 401(k) Plan account in accordance with the participant's instructions or, if no instructions are received prior to May 11, 2007, the shares credited to that participant's account will be voted by the trustee in the same proportion as it votes shares for which it did receive timely instructions. Information as to how participants voted the shares credited to their 401(k) Plan account will not be disclosed to the Company.

If a participant holds common stock outside of the 401(k) Plan, the participant will also receive a Proxy relating to those shares, which must be voted separately.

ITEM ONE

ELECTION OF DIRECTORS

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The Board of Directors has nominated the following individuals for election as Class I Directors of the Company with their terms to expire in 2010 when their successors are elected and qualified:

R. Hartwell Gardner
Linda K. Lawson
Frank A. Risch
Mark S. Sexton

Messrs. Gardner, Risch and Sexton and Mrs. Lawson are currently serving as Directors of the Company. Their biographical information is contained in the "Directors and Executive Officers" section below.

The Board of Directors has no reason to believe that any of its nominees will be unable or unwilling to serve if elected. If a nominee becomes unable or unwilling to accept nomination or election, either the number of the Company's directors will be reduced or the persons acting under the Proxy will vote for the election of a substitute nominee that the Board of Directors recommends.

The Board of Directors unanimously recommends that stockholders vote FOR the election of each of the nominees.

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DIRECTORS AND EXECUTIVE OFFICERS

The executive officers of the Company are, and after the Annual Meeting, assuming the stockholders elect the nominees of the Board of Directors as set forth in "Item One - Election of Directors" above, the Board of Directors of the Company will be:

Name	Age	Position
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Scott D. Sheffield.....	54	Chairman of the Board of Directors and Chief Executive Officer
Timothy L. Dove.....	50	President and Chief Operating Officer
A. R. Alameddine.....	59	Executive Vice President, Worldwide Negotiations
Mark S. Berg	48	Executive Vice President, General Counsel and Assistant Secretary
Chris J. Cheatwood.....	46	Executive Vice President, Worldwide Exploration
Richard P. Dealy.....	41	Executive Vice President and Chief Financial Officer
William F. Hannes.....	47	Executive Vice President, Worldwide Business Development
Danny L. Kellum.....	52	Executive Vice President, Domestic Operations
Darin G. Holderness.....	43	Vice President, Chief Accounting Officer and Assistant Secretary
James R. Baroffio.....	75	Director
Edison C. Buchanan.....	52	Director
R. Hartwell Gardner.....	72	Director
Linda K. Lawson.....	61	Director
Andrew D. Lundquist.....	46	Director
Charles E. Ramsey, Jr....	70	Director
Frank A. Risch	64	Director
Mark S. Sexton	51	Director

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Robert A. Solberg.....	61	Director
Jim A. Watson	68	Director

The Company has classified its Board of Directors into three classes. Directors in each class are elected to serve for three-year terms and until either they are reelected or their successors are elected and qualified. Each year, the directors of one class stand for reelection as their terms of office expire. Messrs. Gardner, Risch and Sexton and Mrs. Lawson are designated as Class I Directors and their terms of office expire at the Annual Meeting. Messrs. Baroffio, Buchanan, Sheffield and Watson are designated as Class II Directors and their terms of office expire in 2008. Messrs. Lundquist, Ramsey and Solberg are designated as Class III Directors and their terms of office expire in 2009.

Executive officers serve at the discretion of the Board of Directors.

Set forth below is biographical information about each of the Company's executive officers and directors named above.

Scott D. Sheffield. Mr. Sheffield, a distinguished graduate of The University of Texas with a Bachelor of Science degree in Petroleum Engineering, has held the position of Chief Executive Officer since August 1997. He was President of the Company from August 1997 to November 2004, and assumed the position of Chairman of the Board of Directors in August 1999. He was the Chairman of the Board of Directors and Chief Executive Officer of Parker & Parsley Petroleum Company ("Parker & Parsley") from October 1990 until the Company was formed in August 1997. Mr. Sheffield joined Parker & Parsley Development Company ("PPDC"), a predecessor of Parker & Parsley, as a petroleum engineer in 1979. Mr. Sheffield served as Vice President - Engineering of PPDC from September 1981 until April 1985, when he was elected President and a Director. In March 1989, Mr. Sheffield was elected Chairman of the Board of Directors and Chief Executive Officer of PPDC. Before joining PPDC, Mr. Sheffield was employed as a production and reservoir engineer for Amoco Production Company.

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Timothy L. Dove. Mr. Dove was elected President and Chief Operating Officer in November 2004. Prior to that, Mr. Dove held the positions of Executive Vice President and Chief Financial Officer from February 2000 to November 2004 and Executive Vice President - Business Development from August 1997 to January 2000. Mr. Dove joined Parker & Parsley in May 1994 as Vice President - International and was promoted to Senior Vice President - Business Development in October 1996, in which position he served until August 1997. Before joining Parker & Parsley, Mr. Dove was employed with Diamond Shamrock Corp., and its successor, Maxus Energy Corp., in various capacities in international exploration and production, marketing, refining, and planning and development. Mr. Dove earned a Bachelor of Science degree in Mechanical Engineering from Massachusetts Institute of Technology in 1979 and received his Master of Business Administration in 1981 from the University of Chicago.

A. R. Alameddine. Mr. Alameddine was elected Executive Vice President - Worldwide Negotiations in November 2005. Mr. Alameddine joined Parker & Parsley (a predecessor of the Company) in July 1997 as Vice President of Domestic Business Development, and continued to serve the Company in this capacity after the Company's formation in August 1997 until he was promoted to Executive Vice President - Worldwide Business Development in November 2003. Prior to joining Parker & Parsley, Mr. Alameddine spent 26 years with Mobil Exploration and

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Production Company ("Mobil"). At the time of his departure from Mobil, Mr. Alameddine was the Acquisition, Trade and Sales Manager, a position he had held since 1990. Prior to 1990, Mr. Alameddine held several managerial positions in the acquisition and sales group as well as in the reservoir engineering department. A native of Lebanon, Mr. Alameddine joined Mobil as an Operations Engineer following his graduation from Louisiana State University in 1971 with a Bachelor of Science degree in Petroleum Engineering.

Mark S. Berg. Mr. Berg was elected Executive Vice President and General Counsel in April 2005. Prior to that, Mr. Berg served as Executive Vice President, General Counsel and Secretary of American General Corporation, a Fortune 200 diversified financial services company, from 1997 through 2002. Subsequent to the sale of American General to American International Group, Inc., Mr. Berg joined Hanover Compressor Company as Senior Vice President, General Counsel and Secretary. He served in that capacity from May of 2002 through April of 2004. Mr. Berg began his career in 1983 with the Houston-based law firm of Vinson & Elkins L.L.P. He was a partner with the firm from 1990 through 1997. Mr. Berg graduated Magna Cum Laude and Phi Beta Kappa with a Bachelor of Arts degree from Tulane University in 1980. He earned his Juris Doctorate with honors from the University of Texas Law School in 1983.

Chris J. Cheatwood. Mr. Cheatwood was elected Executive Vice President - Worldwide Exploration in January 2002. Mr. Cheatwood joined the Company in August 1997 and was promoted to Vice President - Domestic Exploration in July 1998 and Senior Vice President - Exploration in December 2000. Before joining the Company, Mr. Cheatwood spent ten years with Exxon Corporation where his focus included exploration in the Deepwater Gulf of Mexico. Mr. Cheatwood is a graduate of the University of Oklahoma with a Bachelor of Science degree in Geology and earned his Master of Science degree in Geology from the University of Tulsa.

Richard P. Dealy. Mr. Dealy was elected Executive Vice President and Chief Financial Officer in November 2004. Prior to that time, Mr. Dealy held positions of Vice President and Chief Accounting Officer from February 1998 and Vice President and Controller from August 1997 to January 1998. Mr. Dealy joined Parker & Parsley in July 1992 and was promoted to Vice President and Controller in 1995, in which position he served until August 1997. He is a Certified Public Accountant, and prior to joining Parker & Parsley, he was employed by KPMG LLP. Mr. Dealy graduated with honors from Eastern New Mexico University with a Bachelor of Business Administration degree in Accounting and Finance.

William F. Hannes. Mr. Hannes was elected Executive Vice President - Worldwide Business Development in November 2005. Mr. Hannes joined Parker & Parsley (a predecessor of the Company) in July 1997 as Director of Business Development, and continued to serve the Company in this capacity after the Company's formation in August 1997 until he was promoted to Vice President - Engineering and Development in June 2001. Prior to joining Parker & Parsley, Mr.

Hannes held engineering positions with Mobil and Superior Oil. He graduated from Texas A&M University in 1981 with a Bachelor of Science degree in Petroleum Engineering.

Danny L. Kellum. Mr. Kellum, who received a Bachelor of Science degree in Petroleum Engineering from Texas Tech University in 1979, was elected Executive Vice President - Domestic Operations in May 2000. From January 2000 until May 2000, Mr. Kellum served as Vice President - Domestic Operations. Mr. Kellum

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served as Vice President - Permian Division from August 1997 until December 1999. From 1989 until 1994 he served as Spraberry District Manager and as Vice President of the Spraberry and Permian Division for Parker & Parsley until August 1997. Mr. Kellum joined Parker & Parsley as an operations engineer in 1981 after a brief career with Mobil Oil Corporation.

Darin G. Holderness. Mr. Holderness graduated with a Bachelor of Business Administration in Accounting from Boise State University in 1986. In December 2004, he was elected Vice President and Chief Accounting Officer of the Company. He previously served as Chief Financial Officer and various other positions of Basic Energy Services from March 2004 to November 2004. Earlier in his career, he served as Vice President - Controller and various other positions with Pure Resources, Inc. and predecessor entities from January 1998 to February 2004. From January 1996 to December 1997, he served as Manager of Financial Reporting for Aquila Gas Pipeline Corporation. From June 1986 to December 1995 he was employed by KPMG LLP as a Senior Manager and various other positions.

James R. Baroffio. Dr. Baroffio received a Bachelor of Arts degree in Geology at the College of Wooster, Ohio, a Master of Science in Geology at Ohio State University, and a Ph.D. in Geology and Civil Engineering at the University of Illinois. Before becoming a Director of the Company in December 1997, Dr. Baroffio enjoyed a long career with Chevron Oil Corporation where he served as President, Chevron Research and Technology Center and Vice President of Exploration and eventually retired as President of Chevron Canada Resources in 1994. Dr. Baroffio was Chairman of the U.S. National Committee of the World Petroleum Congress and is a Trustee Associate of the AAPG Foundation. His community leadership positions included Chairman of the Pacific Symphony of California and a Director of the Nature Conservancy of Canada, as well as serving as President of the Alberta Nature Conservancy.

Edison C. Buchanan. Mr. Buchanan received a Bachelor of Science degree in Civil Engineering from Tulane University in 1977 and a Master of Business Administration in Finance and International Business from Columbia University Graduate School of Business in 1981. From 1981 to 1997, Mr. Buchanan was a Managing Director of various groups in the Investment Banking Division of Dean Witter Reynolds in their New York and Dallas offices. In 1997, Mr. Buchanan joined Morgan Stanley Dean Witter as a Managing Director in the Real Estate Investment Banking group. In 2000, Mr. Buchanan became Managing Director and head of the domestic Real Estate Investment Banking Group of Credit Suisse First Boston. In 2001, Mr. Buchanan began working for The Trust for Public Land, a land conservation organization, in Santa Fe, New Mexico. Mr. Buchanan became a Director of the Company in 2002. Since 2004, Mr. Buchanan has also served on the Board of Directors of MFA Mortgage Investments, Inc.

R. Hartwell Gardner. Mr. Gardner became a Director of the Company in August 1997. He served as a Director of Parker & Parsley from November 1995 until August 1997. Mr. Gardner graduated from Colgate University with a Bachelor of Arts degree in Economics and then earned a Master of Business Administration from Harvard University. Until October 1, 1995, Mr. Gardner was the Treasurer of Mobil Oil Corporation and Mobil Corporation from 1974 and 1976, respectively. Mr. Gardner is a member of Financial Executives International where he served as Chairman in 1986 and 1987 and is a Director and Chairman of the Investment Committee of Oil Investment Corporation Ltd. and Oil Casualty Investment Corporation Ltd. in Hamilton, Bermuda.

Linda K. Lawson. Mrs. Lawson holds a Bachelor of Science degree in Accounting from the University of Denver. Mrs. Lawson was employed by business units of The Williams Companies, as well as the parent organization from 1980 to her retirement in 2001. During her tenure she served in a variety of capacities including accounting and finance positions of the parent, and Controller of a

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Federal Energy Regulatory Commission regulated energy business unit, Vice President of Investor Relations, Vice President of Human Resources, and as Chief Operating Officer of several telecommunication start-up businesses. She is a Certified Public Accountant. She serves on the Strategic Planning and Funding Committee for the School of Accountancy at the University of Denver, where she is also an adjunct instructor, and she serves on several outdoor recreational non-profit Denver organizations and is a board member of the Center for Corporate Excellence, a non-profit organization engaged in the pursuit and improvement of corporate ethics and governance. Mrs. Lawson became a Director of the Company in 2002.

Andrew D. Lundquist. Mr. Lundquist received a Bachelor of Science degree from the University of Alaska and a Juris Doctorate from Catholic University Columbus School of Law. He joined the Company's Board of Directors in September 2004, in accordance with the terms of the Company's merger with Evergreen Resources, Inc. after having served as an independent director on the Board of Directors of Evergreen Resources, Inc. since November 2002. During 2001, Mr. Lundquist served as the Director of The White House National Energy Policy Development Group, which directed the cabinet-level task force created by the President and headed by the Vice President that produced the President's National Energy Policy. At that same time, he also served as Senior Advisor to the President and Vice President on energy issues. Mr. Lundquist was the Majority Staff Director of the U.S. Senate Energy and Natural Resources Committee from 1998 to 2001. Since March 2002, Mr. Lundquist has served as the Managing Partner of Lundquist, Nethercutt & Griles, LLC, a Washington, D.C.-based consulting firm that provides analytic and strategic advice to senior executives of corporations. Mr. Lundquist also serves as Director of Coeur d'Alene Mines Corporation, a company engaged in the operation, ownership, development and exploration of silver and gold mining property.

Charles E. Ramsey, Jr. Mr. Ramsey is a graduate of the Colorado School of Mines with a Petroleum Engineering degree and a graduate of the Smaller Company Management program at the Harvard Graduate School of Business Administration. Mr. Ramsey has served as a Director of the Company since August 1997. Mr. Ramsey served as a Director of Parker & Parsley from October 1991 until August 1997. Since October 1991, he has operated an independent management and financial consulting firm. From June 1958 until June 1986, Mr. Ramsey held various engineering and management positions in the oil and gas industry and, for six years before October 1991, was a Senior Vice President in the Corporate Finance Department of Dean Witter Reynolds Inc. in its Dallas, Texas office. His industry experience includes 12 years of senior management experience with May Petroleum Inc. in the positions of President, Chief Executive Officer and Executive Vice President. Mr. Ramsey is also a former director of MBank Dallas, the Dallas Petroleum Club and Lear Petroleum Corporation.

Frank A. Risch. Mr. Risch earned a Bachelor of Science degree in business administration in 1964 from Pennsylvania State University and a Master of Science degree in industrial administration in 1966 from Carnegie Mellon University. After joining Exxon Corporation in 1966 as a financial analyst, he held various positions in finance, planning and marketing with Exxon and its operating affiliates in the U.S. and abroad for nearly 38 years. Mr. Risch retired as Vice President and Treasurer of Exxon Mobil Corporation in June 2004 and was appointed to the Company's Board of Directors in August 2005. He serves on the Business Board of Advisors of the Tepper School of Business at Carnegie Mellon University. He is active in civic and community organizations, serving as Chairman of the Finance Committee and Treasurer of the Dallas Theater Center and as a member of the Board of Directors of Dallas CASA (Court Appointed Special

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Advocates). Mr. Risch is also a member of the Financial Executives Institute, the World Affairs Council of Greater Dallas and the Dallas Committee on Foreign Relations.

Mark S. Sexton. Mr. Sexton is the Chairman and Chief Executive Officer of Evergreen Energy Inc. (formerly known as KFx, Inc.), which offers combined energy, environmental and economic solutions to coal-fired power generating facilities and industrial coal users in the United States and internationally. Mr. Sexton graduated from Stanford University in 1978 with a Bachelor of Science degree in mechanical engineering and is registered as a professional engineer in Colorado. He joined the Company's Board of Directors in September 2004, in accordance with the terms of the Company's merger with Evergreen Resources, Inc. (which is not affiliated with Mr. Sexton's present employer, Evergreen Energy,

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Inc.). Mr. Sexton was employed in various technical, financial and management positions with Amoco Production Company, Norwest Bank and energy companies specifically targeting coal bed methane development until he joined Evergreen Resources, Inc. in 1989 where he initially managed its daily operating activities. Before Evergreen Resources, Inc. merged with the Company in September 2004, Mr. Sexton served as a director from March 1995, its President and its Chief Executive Officer from June 1995 and Chairman of the Board of Directors from 1999. Mr. Sexton is a past president of the Colorado Oil & Gas Association, a board member of the Independent Petroleum Association of America, an executive committee member of the Independent Petroleum Association of Mountain States and a member of the Society of Petroleum Engineers.

Robert A. Solberg. Mr. Solberg earned a Bachelor of Science in Civil Engineering from the University of North Dakota in 1969, and is a licensed Petroleum Engineer. Mr. Solberg spent over three decades working for Texaco Inc. throughout the world. He served his last ten years as a Corporate Vice President with several management roles including President of International Exploration and Production and President of Upstream Commercial Development. He elected to retire in 2002 and joined the Company's Board of Directors in 2002. He continues to live in Houston, Texas with a focus on investment management and business consultation. Mr. Solberg serves as an outside Director and non-executive Chairman of JDR Cable Systems, Ltd., a privately owned British company. Since December of 2005, Mr. Solberg has served as Chairman of the Board of Directors for Scorpion Offshore Ltd, a Bermuda based corporation that owns and operates offshore drilling rigs. He also enjoys a history of civic leadership and serves on the University of North Dakota Alumni Association Board with a director role on their investment committee.

Jim A. Watson. Mr. Watson became a Director of the Company in September 2004. He earned a Bachelor of Arts degree from the University of Texas in 1962 and graduated, with honors, from The University of Texas School of Law in 1964. Mr. Watson has served as Senior Counsel for the law firm of Carrington, Coleman, Sloman, & Blumenthal, L.L.P. in Dallas, Texas since June 2003. Before then, he was a partner at the law firm of Vinson & Elkins L.L.P. in Dallas, Texas. From 1987 to 1995, he held the position of Adjunct Professor at The University of Texas School of Law and from 2000 to 2004, Mr. Watson was Chairman of the Advisory Board of the Clement Center for Southwestern Studies at Southern Methodist University. Since 1989, Mr. Watson has been included in The Best Lawyers in America.

MEETINGS AND COMMITTEES OF DIRECTORS

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The Board of Directors of the Company held sixteen meetings during 2006, and its independent directors met in executive session four times during 2006. No director attended fewer than 75 percent of the aggregate of the total number of meetings of the Board of Directors and the total number of meetings of all committees of the Board of Directors on which that director served.

The Board of Directors has three standing committees: the Audit Committee, the Compensation and Management Development Committee and the Nominating and Corporate Governance Committee.

Audit Committee. Information regarding the functions performed by the Audit Committee and its membership is set forth in the "Audit Committee Report", included herein, and the "Audit Committee Charter" that is posted on the Company's website at www.pxd.com. The members of the Audit Committee are Messrs. Gardner (Chairman), Risch, Solberg and Watson and Mrs. Lawson. The Audit Committee held seven meetings during 2006.

Compensation and Management Development Committee. Responsibilities of the Compensation and Management Development Committee (the "Compensation Committee"), which are discussed in detail in its charter that is posted on the Company's website at www.pxd.com, include among other duties, the responsibility to:

- o periodically review the compensation, employee benefit plans and fringe benefits paid to, or provided for, executive officers of the Company,

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- o approve the annual salaries, bonuses and share-based awards paid to the Company's executive officers,
- o periodically review and recommend to the full Board of Directors total compensation for each non-employee director for services as a member of the Board of Directors and its committees,
- o administer the Company's equity plans, and
- o oversee the Company's succession planning.

The Compensation Committee is delegated all authority of the Board of Directors as may be required or advisable to fulfill the purposes of the Compensation Committee. The Compensation Committee may form and delegate some or all of its authority to subcommittees when it deems appropriate. Meetings may, at the discretion of the Compensation Committee, include members of the Company's management, independent consultants or advisors, and such other persons as the Compensation Committee or its chairperson may determine.

The Vice President, Administration and Risk Management of the Company, or such other officer as may from time to time be designated by the Compensation Committee, acts as management liaison to the Compensation Committee and works with the Compensation Committee chairperson to prepare an agenda for regularly scheduled meetings. The Compensation Committee chairperson makes the final decision regarding the agenda for regularly scheduled meetings and develops the agenda for special meetings based on the information supplied by the persons requesting the special meeting. The Company's Chief Executive Officer (the "CEO") makes recommendations to the Compensation Committee regarding the compensation of other executive officers and provides information to the Compensation Committee regarding the executive officers' performance; however, the Compensation Committee makes all final decisions regarding the executive officers' compensation.

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The Compensation Committee has the sole authority to retain, amend the engagement with, and terminate any compensation consultant to be used to assist in the evaluation of director, CEO or officer compensation. The Compensation Committee has sole authority to approve the consultant's fees and other retention terms and has authority to cause the Company to pay the fees and expenses of such consultants. During 2006, the Compensation Committee engaged the services of Mercer Human Resource Consulting ("Mercer"). Among the services Mercer was asked to perform were apprising the Compensation Committee of compensation-related trends, developments in the marketplace and industry best practices; informing the Compensation Committee of compensation-related regulatory developments; providing peer group survey data to establish compensation ranges for the various elements of compensation; providing an evaluation of the competitiveness of the Company's executive compensation and benefits programs; assessing the relationship between executive pay and performance; and advising on the design of the Company's incentive compensation programs, including metric selection and target setting and the design of the Company's performance unit award program.

The members of the Compensation Committee are Messrs. Buchanan (Chairman), Baroffio, Lundquist and Ramsey. The Compensation Committee held ten meetings during 2006.

Nominating and Corporate Governance Committee. The Nominating and Corporate Governance Committee assists the Board of Directors in evaluating potential new members of the Board of Directors, recommending committee members and structure, and advising the Board of Directors about corporate governance practices. Additional information regarding the functions performed by the Nominating and Corporate Governance Committee is set forth in "Corporate Governance" included herein, and the "Nominating and Corporate Governance Committee Charter" that is posted on the Company's website at www.pxd.com. The members of the Nominating and Corporate Governance Committee include all non-employee directors. The Nominating and Corporate Governance Committee held four meetings during 2006.

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ITEM TWO

RATIFICATION OF SELECTION OF INDEPENDENT AUDITORS

The Audit Committee of the Board of Directors has selected Ernst & Young LLP as the independent auditors of the Company for 2007. Ernst & Young LLP have audited the Company's consolidated financial statements since 1998. The 2006 audit of the Company's annual consolidated financial statements and effectiveness of internal control over financial reporting was completed on February 19, 2007.

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

The Audit Committee has the sole authority and responsibility to retain, evaluate and replace the Company's auditors. The stockholders' ratification of

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the appointment of Ernst & Young LLP does not limit the authority of the Audit Committee to change auditors at any time.

Audit Fees. The aggregate fees of Ernst & Young LLP for professional services rendered for the audits of the Company's annual consolidated financial statements included in its Annual Report on Form 10-K, audit of the Company's internal control over financial reporting, reviews of the Company's quarterly financial statements included in its Quarterly Reports on Form 10-Q and reviews of the Company's other filings with the Securities and Exchange Commission (the "SEC"), including comfort letters, consents and other research work necessary to comply with generally accepted auditing standards for the years ended December 31, 2006 and 2005 were \$1,876,000 and \$1,371,000, respectively.

Audit-Related Fees. The aggregate fees of Ernst & Young LLP for audit-related services provided to the Company totaled \$113,000 and \$46,000 during each of the years ended December 31, 2006 and 2005, respectively. Audit-related services were comprised of audits of the Company's 401(k) Plan and certain affiliated partnerships and subsidiaries, and related out-of-pocket expenses.

Tax Services Fees. The aggregate fees of Ernst & Young LLP for tax services provided to the Company totaled \$101,000 and \$49,000 during the years ended December 31, 2006 and 2005, respectively. Tax services were primarily comprised of tax return preparation and review services for expatriates and the Company's international subsidiaries and consultation on various tax issues.

Other Fees. The aggregate fees of Ernst & Young LLP for other services provided to the Company during the years ended December 31, 2006 and 2005 totaled \$6,000 and \$6,500, respectively. The other services were comprised of access to Ernst & Young LLP's on-line research services.

The Charter of the Company's Audit Committee requires that the Audit Committee review and pre-approve the plan and scope of Ernst & Young LLP's audit, audit-related, tax and other services. During 2006, the Audit Committee pre-approved 100 percent of the services described above under the captions "Audit Fees", "Audit-Related Fees," "Tax Services Fees" and "Other Fees."

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

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The audit report of Ernst & Young LLP on the Company's annual consolidated financial statements for 2006, 2005 and 2004 did not contain an adverse opinion or a disclaimer of opinion and was not qualified or modified as to uncertainty or audit scope. The audit report of Ernst & Young LLP on management's assessment that the Company maintained effective internal control over financial reporting as of December 31, 2006, 2005 and 2004 did not contain an adverse opinion or a disclaimer of opinion and was not qualified or modified as to uncertainty or audit scope.

In connection with the audits of the Company's annual consolidated financial statements for 2006, 2005 and 2004, there were no disagreements with Ernst & Young LLP on any matters of accounting principles or practices, financial statement disclosure, or auditing scope or procedures which, if not resolved to the satisfaction of such independent auditors, would have caused

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such independent accountants to make reference to the matter in their audit report.

The Board of Directors unanimously recommends that stockholders vote FOR ratification of the selection of Ernst & Young LLP as the auditors of the Company for 2007.

ITEM THREE

APPROVAL OF AMENDED AND RESTATED EMPLOYEE STOCK PURCHASE PLAN

There will be presented at the Annual Meeting a proposal to approve the Pioneer Natural Resources Company Amended and Restated Employee Stock Purchase Plan, effective as of September 1, 2007 (the "Plan"). This amendment and restatement will extend the termination date of the Plan from December 31, 2007 to December 31, 2017. The amendment and restatement of the Plan will not increase the number of shares authorized for issuance under the Plan. The description set forth below represents a summary of the principal terms and conditions of the Plan and does not purport to be complete. Such description is qualified in its entirety by reference to the Plan document, a copy of which has been filed with the SEC as Appendix A to this Proxy Statement.

General

The Plan was originally adopted by the Company's Board of Directors and approved by the stockholders of the Company on August 7, 1997, and a total of 750,000 shares of common stock (the "Plan Shares") were reserved for issuance under the Plan at that time. The Plan was later amended and restated, effective as of December 9, 2005. The term of the Plan is set to expire on December 31, 2007. As of August 31, 2006 (the ending date of the last completed Option Period (as defined below) under the Plan), 280,473 Plan Shares had been issued, and 469,527 Plan Shares were available for future awards under the Plan.

The Company now desires to amend and restate the Plan, contingent on stockholder approval, effective as of September 1, 2007. This amendment and restatement will not increase the number of Plan Shares authorized for issuance under the Plan. Instead, in addition to effectuating certain other modifications to the Plan, this amendment and restatement will extend the term of the Plan until December 31, 2017, so that the Plan Shares that remain available may be used in connection with the grant of future awards under the Plan. The Plan Shares that remain available for future grants under the Plan as of the September 1, 2007, effective date will equal the difference between (1) 750,000 shares and (2) the sum of (A) 280,473 shares (the shares already issued pursuant to the Plan), and (B) the number of shares issued pursuant to the current Option Period (which began on January 1, 2007, and ends on August 31, 2007). Based on the significant motivational and performance benefits that are achieved from employee ownership of the Company's common stock, the Company believes that it is important to continue making grants under the Plan by utilizing Plan Shares, the issuance of which has been previously approved by stockholders. Absent stockholder approval of this amendment and restatement, the current Option Period will continue in accordance with the terms of the Plan but no further Option Periods will commence under the Plan.

Purpose

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The purpose of the Plan is to provide employees of the Company with an opportunity to purchase common stock of the Company at a discount through payroll deductions and to align the interests of Company employees with those of stockholders. The Plan, and the right of participants to make purchases thereunder, is intended to qualify under the provisions of sections 421 and 423 of the Internal Revenue Code of 1986, as amended (the "Code"). See "Federal Income Tax Consequences" below.

Administration

The Plan is administered by a committee (the "Plan Committee") appointed by the Board of Directors. All questions of interpretation of the Plan are determined by the Plan Committee, whose decisions are final and binding upon all participants.

Eligibility

All employees (other than officers) of the Company and of each present or future parent or subsidiary corporation of the Company, within the meaning of sections 424(e) and (f) of the Code, other than a foreign parent or subsidiary corporation whose participation has not been approved by the Board of Directors, who have been employed for at least six (6) months prior to the applicable Date of Grant (as defined below) and who are customarily employed at least twenty (20) hours per week and at least five (5) months per year are eligible to participate in the Plan, subject to certain limitations imposed by section 423(b) of the Code (an "Eligible Employee"). A participant who withdraws from the Plan during an Option Period (as defined below) will be eligible to again participate in the Plan in a subsequent Option Period, provided the participant is otherwise an Eligible Employee at that time.

Offering Dates

The Company offers Eligible Employees the option to purchase shares of common stock under the Plan. Except as otherwise determined by the Plan Committee, these options are granted on January 1 of each year (a "Date of Grant"). The term of each option granted under the Plan is for a period of eight (8) months, beginning on the Date of Grant and ending on the following August 31 (a "Date of Exercise") (each such eight (8) month period is herein referred to as an "Option Period").

Purchase Price

The purchase price per share at which shares of common stock are sold under the Plan is an amount equal to the lesser of (i) 85 percent of the fair market value of the common stock on the Date of Exercise or (ii) 85 percent of the fair market value of the common stock on the Date of Grant (the "Purchase Price"). The fair market value of a share of common stock on a given date is the last reported sale price, regular way, on the composite tape of the New York Stock Exchange (the "NYSE") on that day.

Payment of Purchase Price; Payroll Deductions

The purchase price of the shares of common stock to be purchased under the Plan is accumulated by payroll deductions during each Option Period. For each participant, these payroll deductions may not exceed: (i) 15 percent of the

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amount of eligible compensation (which is generally defined in the Plan to include all wages, salary, commissions and bonuses) from which the deduction is made, or (ii) an amount which will result in noncompliance with the limitations described below in the section entitled "Purchase of Stock; Exercise of Option." Additionally, a deduction for any payroll period may not be in an amount less than \$20.00. Such payroll deductions are credited to a book entry account established for each participant. An employee may, pursuant to certain limitations, discontinue participation in the Plan, but may not otherwise increase or decrease the rate of payroll deductions during any Option Period. If approved by the Plan Committee, (i) a participant may continue payroll deductions during a paid leave of absence, or (ii) a participant on an unpaid leave of absence may continue participation in the Plan by making cash payments on the participant's normal pay days equal to the participant's payroll deductions.

Purchase of Stock; Exercise of Option

The maximum number of shares placed under option to a participant in any Option Period cannot exceed the lesser of (i) 1,000 shares, and (ii) the number determined by dividing (A) the amount of payroll deductions during the Option Period (including any carryover amounts from the preceding Option Period and any cash payments made by the participant during an unpaid leave of absence) by (B) the Purchase Price, excluding all fractions. Unless a participant withdraws from the Plan, the participant's option for the purchase of shares is exercised automatically on each Date of Exercise for the maximum number of whole shares at the applicable price. As soon as practicable following the end of each Option Period, the Company deposits in each participant's brokerage account the number of whole shares of common stock purchased for such Option Period. Shares of common stock purchased under the Plan are uncertificated and evidenced by book entry in the brokerage accounts unless a certificate is requested by a participant in writing. Any balance remaining in a participant's account following the exercise of the participant's option in an Option Period is, at the Company's election, either carried over to the next Option Period or refunded to the participant.

Notwithstanding the foregoing, no Eligible Employee is granted an option to purchase shares of common stock under the Plan if, immediately after the grant of the option, the employee would own five percent or more of the voting power or value of all classes of stock of the Company or its subsidiaries, nor is any Eligible Employee granted an option which would permit the employee to purchase, pursuant to the Plan, more than \$25,000 worth of common stock (determined at the fair market value of the shares at the time the option is granted) in any calendar year.

Withdrawal

Any participant may withdraw in whole from the Plan (i) at any time prior to 30 days before the Date of Exercise relating to a particular Option Period, or (ii) for a subsequent Option Period, by giving a notice of withdrawal to the Company at least 30 days prior to the beginning of such Option Period. Partial withdrawals are not permitted. A participant who wishes to withdraw from the Plan must timely deliver to the Company a notice of withdrawal on a form prepared by the Plan Committee. The Company, promptly following the time when the notice of withdrawal is delivered, refunds to the participant the amount of the cash balance in his account under the Plan. Thereafter, the participant's payroll deduction authorization and the participant's interest in unexercised options under the Plan terminates automatically and without any further act on the participant's part.

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Capital Changes

Whenever any change is made in the common stock, by reason of a stock dividend or by reason of subdivision, stock split, reverse stock split, recapitalization, reorganization, combinations, reclassification of shares, or other similar change, appropriate action is taken by the Plan Committee to adjust accordingly the number of shares subject to the Plan, the maximum number of shares that may be subject to any option, and the number and purchase price of shares subject to options outstanding under the Plan.

Nonassignability

Each option is assignable or transferable only by will or by the laws of descent and distribution and is exercisable during the optionee's lifetime only by the optionee. The Company will not recognize and is under no duty to recognize any assignment or purported assignment by an employee of his option or of any rights under his option, and any such attempt may be treated by the Company as an election to withdraw from the Plan.

Amendment and Termination of the Plan

The Board of Directors, in its discretion, may terminate the Plan at any time with respect to any shares for which options have not been granted. The Board of Directors has the right to alter or amend the Plan or any part thereof from time to time without the approval of the stockholders of the Company; provided, that no change in any option granted may be made that would impair the rights of the participant without the consent of such participant; and provided, further, that the Plan Committee may not make any alteration or amendment that would increase the aggregate number of shares that may be issued pursuant to the provisions of the Plan (other than as a result of the anti-dilution provisions of the Plan), change the class of individuals eligible to receive options under the Plan, cause options issued under the Plan to fail to meet the requirements for employee stock purchase plans as defined in section 423 of the Code, or otherwise modify the requirements as to eligibility for participation in the Plan, without the approval of the stockholders of the Company. The current termination date of the Plan is December 31, 2007, and if the amendment and restatement of the Plan is approved by the stockholders at the Annual Meeting, the termination date of the Plan will be extended to December 31, 2017.

Federal Income Tax Consequences

The Plan, and the right of participants to make purchases thereunder, is intended to qualify under the provisions of sections 421 and 423 of the Code. Under these provisions, no income is taxable to a participant at the time of grant of the option or purchase of the shares. Upon disposition of the shares, the participant is generally subject to tax in an amount that is determined based upon the participant's holding period. If the shares have been held by the participant for more than two years after the Date of Grant, the lesser of (A) the excess of the fair market value of the shares at the time of such disposition over the Purchase Price or (B) the excess of the fair market value of the shares at the Date of Grant over the Purchase Price is treated as ordinary income, and any further gain or loss is treated as long-term capital gain or loss. If the shares are disposed of before the expiration of this two year holding period, the excess of the fair market value of the shares on the Date of Exercise over the Purchase Price is treated as ordinary income, and any further gain or loss on such disposition is long-term or short-term capital gain or loss, depending on the holding period. The Company is not entitled to a deduction for amounts taxed as ordinary income or capital gain to a participant

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except to the extent of ordinary income reported by participants upon disposition of shares within two years from the Date of Grant.

The foregoing brief summary of the effect of federal income taxation upon the participants in the Company with respect to the purchase of shares under the Plan does not purport to be complete, and reference should be made to the applicable provisions of the Code. In addition, this summary does not discuss the tax consequences of a participant's death or the provisions of the income tax laws of any municipality, state or foreign country that may apply.

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Employee Stock Purchase Plan Benefit Table

As of the date of this Proxy Statement, no employee of the Company has subscribed for or purchased any shares under the Plan for delivery after December 31, 2007, the current termination date. Directors and officers are not eligible to participate in the existing Plan, and will not be eligible to participate in the amended and restated Plan, if approved. The following table sets forth the number of Plan Shares purchased and the dollar value of the benefit received by those employees participating in the existing Plan in 2006:

Groups	Number of Shares -----	Value of Ben -----
All Executive Officers as a Group	--	\$
Non-Executive Director Group	--	
Non-Executive Officer Employee Group (approximately 500 persons)	43,879	274
	-----	-----
Total	43,879	\$ 274
	=====	=====

If the Plan submitted to stockholders is not approved by stockholders at the Annual Meeting, no shares will be sold under the Plan after its expiration on December 31, 2007.

The Board of Directors unanimously recommends that stockholders vote FOR the approval of the Pioneer Natural Resources Company Amended and Restated Employee Stock Purchase Plan.

EQUITY COMPENSATION PLAN INFORMATION

The following table provides certain information about the Company's equity compensation plans as of December 31, 2006:

Number of Securities to be Issued Upon Exercise of Outstanding Options (1)	Weighted Average Exercise Price of Outstanding Options	Number Remaini Future Equit Plan Securitie Firs
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Equity Compensation Plans Approved by Security Holders (3):

Pioneer Natural Resources Company:		
2006 Long-Term Incentive Plan	--	--
Long-Term Incentive Plan (adopted 1997)	1,464,609	\$20.99
Employee Stock Purchase Plan	--	--
Predecessor plans	136,886	\$14.39

	1,601,495	
	=====	

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COMPENSATION

Compensation of Directors

2006 DIRECTOR COMPENSATION TABLE

The table below summarizes the compensation paid by the Company to non-employee directors during 2006:

Name	Fees Earned or Paid in Cash	Stock Awards (1), (2) (3) and (4)	All Other Compensation (5)	Total
(a)	(\$) (b)	(\$) (c)	(\$) (g)	(\$) (h)
-----	-----	-----	-----	-----
James R. Baroffio	\$ 62,515	\$ 73,333	\$ 601	\$ 136,449
Edison C. Buchanan	\$ 57	\$ 131,389	\$ 957	\$ 132,403
R. Hartwell Gardner	\$ 31	\$ 144,722	\$ 2,817	\$ 147,570
Linda K. Lawson	\$ 62,515	\$ 73,333	\$ -	\$ 135,848
Andrew D. Lundquist	\$ 30,015	\$ 88,889	\$ 7,062	\$ 125,966
Charles E. Ramsey, Jr.	\$ 31	\$ 143,611	\$ -	\$ 143,642
Frank A. Risch	\$ 64,390	\$ 115,000	\$ 657	\$ 180,047
Mark S. Sexton	\$ 55,015	\$ 73,333	\$ 41,255	\$ 169,603
Robert A. Solberg	\$ 28,805	\$ 118,333	\$ 978	\$ 148,116
Jim A. Watson	\$ 62,515	\$ 115,000	\$ -	\$ 177,515
James L. Houghton (6)	\$ 14,375	\$ 5,003	\$ -	\$ 19,378
Jerry P. Jones (6)	\$ 45,625	\$ 20,000	\$ 1,671	\$ 67,296

The Board of Directors believes providing competitive compensation is necessary to attract and retain qualified non-employee directors. The Board of Directors believes that the compensation package should require a significant portion of the total compensation package to be equity-based to align the interests of the directors and the Company's stockholders, but should also allow each director the flexibility to choose to receive a portion of the director's compensation in cash.

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The elements of compensation for the Company's non-employee directors for the 2006-2007 director year, which runs from the annual meeting of 2006 to the annual meeting of 2007, are as follows:

- o Each non-employee director receives an annual base retainer fee of \$50,000 and an annual fee of \$10,000 for service on one or more committees.
- o Each non-employee director receives an annual equity award of \$80,000 in restricted stock units, which vests one year following the date of the award.
- o Audit Committee members receive an additional \$7,500 annual fee.
- o The geosciences specialist on the Board of Directors receives an additional \$7,500 annual fee.
- o The lead director receives an additional \$15,000 annual fee.
- o The chairman of the Audit Committee receives an additional \$7,500 annual fee.
- o The chairman of the Compensation Committee receives an additional \$2,500 annual fee.

Additionally, each non-employee director is provided information technology support by the Company and is also reimbursed for travel expenses to attend meetings of the Board of Directors or its committees, travel and entertainment expenses for each director's spouse who is invited to accompany directors to meetings of the Board of Directors, director education, seminars and trade publications. No additional fees are paid for attendance at Board of Directors or committee meetings. The Company's CEO does not receive additional compensation for serving on the Board of Directors.

Under this compensation program, non-employee directors are eligible to receive their fees in the form of stock options, stock appreciation rights, restricted stock, restricted stock units or performance units. The Company can use these awards instead of cash to pay its non-employee directors all or part of their annual fees. The Board of Directors determines the form (or combination of forms) of compensation each year, based on the economic and other circumstances at the time of award and based on its view of which awards will best align the interests of the stockholders and the Board of Directors. For the 2006-2007 director year, the non-employee directors could choose to be compensated for their annual directors' fees in (i) 100 percent cash, (ii) 100 percent restricted stock units ("RSU") or (iii) a 50/50 combination thereof. The restricted stock units received in payment of annual directors' fees vest quarterly on a pro rata basis during the director year. The price used to calculate the number of restricted stock units granted with respect to both the annual equity award and any fees that a director chooses to receive in restricted stock units is based on the closing stock price on the day prior to the Company's annual meeting of stockholders.

Each non-employee director, upon commencement of initial service as a director, receives \$150,000 in restricted stock units. Directors who served on the board of directors of a company that was acquired or merged into the Company and joined the Company's Board of Directors as a result of the acquisition or merger are not eligible for this award. The price used to calculate the number of restricted stock units granted is based on the closing stock price on the day prior to the day the director is elected to serve on the Board of Directors. The shares granted are subject to vesting and transfer restrictions that lapse with respect to one-third of the shares each year following the grant over a three-year period. Retirement before the third anniversary of the grant results in pro rata vesting based on the number of quarterly meetings remaining in the three-year vesting period.

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The vesting of ownership and the lapse of transfer restrictions on restricted stock units to non-employee directors is accelerated in the event of the death or disability of the director or a change in control of the Company.

To support the Company's commitment to significant stock ownership, the Company has established an ownership guideline that non-employee directors own stock with a value equal to at least five times each director's annual base retainer fee. The non-employee directors have three years after joining the Board of Directors to meet this guideline. All non-employee directors are in compliance with this ownership guideline.

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Compensation of Executive Officers

COMPENSATION DISCUSSION AND ANALYSIS

Overview

Successful execution of the Company's strategic plan is predicated on attracting and retaining a talented and highly motivated executive team. Unwanted turnover among the Company's key executives can be very costly to stockholders. Therefore, the Company's executive compensation program has been designed to support its long-term strategic objectives, as well as address the realities of the competitive market for talent.

Compensation Principles

The Company's executive compensation program has been designed to provide a total compensation package that allows the Company to attract, retain and motivate executives necessary to capably manage the Company's business. The Company's executive compensation program is guided by several key principles:

- o To be fair to both the executive and the Company;
- o To provide total compensation opportunities at levels that are competitive for comparable positions at companies with whom the Company competes for talent;
- o To provide financial incentives to the Company's executives to achieve key financial and operational objectives set by the Board of Directors;
- o To provide an appropriate mix of fixed and variable pay components to establish a "pay-for-performance" oriented compensation program;
- o To provide compensation that takes into consideration the education, training and knowledge that is specific to each job and the unique qualities the individual brings to the job; and
- o To recognize an executive's commitment and dedication in the performance of the job and to support the Company's culture.

Establishing the Executive Compensation Program

The Company's executive compensation program takes into consideration the marketplace for the individuals that the Company wishes to attract, retain and motivate; the Company's past practices; and the talents that each individual executive brings to the Company.

Role of the Compensation and Management Development Committee. The Compensation Committee administers the Company's executive compensation program.

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The Compensation Committee establishes the Company's overall compensation strategy to ensure that the Company's executives are rewarded appropriately and that executive compensation supports the Company's business strategy and objectives. In discharging its duties, the Compensation Committee annually approves specific corporate goals and objectives relative to Mr. Sheffield's compensation; reviews Mr. Sheffield's performance in meeting these corporate goals and objectives; and determines the individual elements of his total compensation and benefits. Prior to finalizing compensation for Mr. Sheffield, the Compensation Committee reviews its intentions with the other independent directors and receives their input. Mr. Sheffield makes recommendations to the Compensation Committee regarding the compensation of the named executive officers listed on the "Summary Compensation Table" that follows this discussion (the "NEOs"), and provides information to the Compensation Committee regarding the NEOs' performance; however, the Compensation Committee makes all final decisions regarding the NEOs' compensation.

The Compensation Committee utilizes tally sheets to review each executive's total compensation and potential payouts in the event of a change in control and for various terminating events as a check to determine if the compensation plan design is meeting the Compensation Committee's objectives. The Company has never, subsequent to the award or payment of compensation, restated or adjusted the performance measures upon which the awards or payments were based and, as

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such, the Compensation Committee has not developed a policy regarding the adjustment or recovery of awards or payments under these conditions.

A further description of the duties and responsibilities of the Compensation Committee can be found in "Meetings and Committees of Directors - Compensation and Management Development Committee."

Role of the Compensation Consultant. The Compensation Committee has retained Mercer as an outside advisor to provide information and objective advice regarding executive compensation. All of the decisions with respect to the Company's executive compensation, however, are made by the Compensation Committee alone and may reflect factors and considerations other than, or that may differ from, the information and recommendations provided by Mercer. Mercer may, from time to time, contact the Company's executive officers for information necessary to fulfill its assignment and may make reports and presentations to and on behalf of the Compensation Committee that the Company's executive officers also receive.

Role of Executives. The Company's Administration and Human Resources Departments assist the Compensation Committee and Mercer in gathering the information needed for their respective reviews of the Company's executive compensation program. This assistance includes assembling requested compensation data for the NEOs. The Compensation Committee also reviews the recommendations of the Company's CEO with respect to the compensation of the other NEOs.

Benchmarking. In conjunction with Mercer, the Compensation Committee periodically benchmarks the competitiveness of its compensation programs to determine how well actual compensation levels compare to overall philosophy and competitive markets. The peer group generally consists of independent oil and gas exploration companies having similar asset, revenue and capital investment profiles as the Company. The Compensation Committee believes that these metrics are appropriate for determining peers because they provide a reasonable point of reference for comparing like positions and scope of responsibility. The

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Compensation Committee seeks to construct a peer group with roughly equal numbers of companies that are larger than and smaller than the Company. Following the Company's divestiture of significant assets in early 2006, the peer group was modified from the 2005 peer group, which included companies of greater revenue scope, to include the following companies for 2006: Chesapeake Energy Corporation, Cimarex Energy Co., EOG Resources, Inc., Kerr-McGee Corporation, Newfield Exploration Company, Noble Energy, Inc., Plains Exploration and Production Company, Pogo Producing Company, Quicksilver Resources Inc., Range Resources Corporation and XTO Energy Inc.

In addition, in order to accurately reflect the competitive market for executive talent, survey data for similar positions at other similarly-sized energy companies, with a focus on oil and gas exploration, are analyzed to develop a broader market point of reference. Surveys reviewed were published by leading human resource organizations, including Mercer. These surveys cover approximately 20 to 70 companies per positional match.

The Company's benchmarking consists of all components of direct compensation, including base salary, annual incentive bonus and long-term incentives. Information gathered from the proxy statements of the peer group for the Company's CEO and other NEOs and Mercer's proprietary databases are reviewed as part of the benchmarking effort. Given the changing nature of the Company's industry, the actual companies used in the benchmarking process will vary from year to year, and the Compensation Committee intends to review the peer group each year and make changes if appropriate.

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Elements of the Company's Compensation Program

Components of Compensation. There are four main components of the Company's executive compensation program:

- o Base salary;
- o Annual cash incentives;
- o Long-term equity incentives; and
- o Other compensation, including perquisites and retirement benefits.

The Compensation Committee considers each of these components within the context of a total rewards framework. The proportion of compensation allocated to each of these components is generally designed to be consistent with competitive practices among exploration and production companies and the markets in which the Company competes for executive talent. The Compensation Committee believes that the appropriate balance of these components will align the interests of executives with the Company's stockholders and facilitate the creation of value for stockholders.

In making executive compensation decisions, the Company is guided by the compensation philosophy described above. The Compensation Committee also considers historical compensation levels, competitive pay practices at the companies in the Company's peer group and the relative compensation levels of the named executive officers among that group. The Compensation Committee views the executives below the CEO level as a team with diverse duties, but with similar authority and responsibility and factors this team approach into determining pay decisions for this group. The Company may also consider industry conditions, industry life cycle, corporate performance as compared to internal

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goals as well as to the peer group and the overall effectiveness of the Company's compensation program in achieving desired results.

Balance of Compensation Components. The Company's program offers the NEOs the opportunity to receive base pay at the median of the market and total compensation that is above or below target, depending upon the achievement of performance hurdles in the annual incentive plan and the long-term incentive plan. As a result, the compensation program is designed to pay executives at the median of the market for target performance, significantly above the median in times of superior performance and significantly below the median in times of poor performance.

In addition, the Company believes that as an executive's leadership role expands and the associated scope, duties and responsibilities increase, a greater portion of the executive's total compensation should be variable and performance-driven and have a longer-term emphasis.

The following sections describe in greater detail each of the components of the Company's executive compensation program, why they were selected, and how the amounts of each element were determined for 2006.

Base Salary

Base salary is designed to compensate the NEOs in part for their roles and responsibilities, and to provide a stable and fixed level of compensation that serves as a retention tool throughout the executive's career. In determining base salaries, the Company considers each executive's role and responsibility, unique skills and future potential with the Company, along with salary levels for similar positions in the Company's competitive market and internal pay equity.

The Company's compensation philosophy is to target base salaries at the market median for each NEO.

In general, base salary represents approximately 20 percent to 25 percent of the NEO's overall compensation package, assuming that the Company is at target performance levels for its incentive programs.

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Annual Cash Incentives

Overview

The annual incentive bonus program is designed to recognize and reward the NEOs with cash payments based on both the individual executive's performance and the Company's success in achieving its preset financial metrics for the year.

Target award levels are set as a percent of an executive's base salary. Overall, the targets are set at the median of the Company's competitive market. These target award levels are reviewed periodically by the Board of Directors and for 2006, the target awards for the Company's NEOs ranged from 65 percent to 100 percent of base salary.

The Company's annual incentives are predicated on internal performance metrics that drive the Company's success rather than the achievement of goals measured relative to peer company performance. The Compensation Committee views

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these goals as being aligned with the Company's publicly disclosed operating and financial targets and although it considers the goals challenging, it believes that they are achievable if the Company's expectations as to industry, Company and individual performance are realized. The Compensation Committee also establishes certain non-financial objectives that vary by NEO depending on the NEO's area of responsibility. Since the Company's culture is focused on teamwork and communication, the NEO's achievement of the individual goals is also based on the Compensation Committee's evaluation of the NEO's individual leadership of their departments and reporting groups and on the contribution made by the NEO to the senior management leadership team and to the Company's success in achieving its annual goals.

In evaluating performance against the goals and objectives, the Company does not employ a formula or weighting of the goals, but rather subjectively evaluates performance in light of oil and gas industry fundamentals and assesses how effectively management adapts to changing industry conditions and opportunities during the year. In determining the actual annual incentive bonus payouts, the Compensation Committee also takes into consideration expected annual incentive bonus payouts within the oil and gas industry. On average, the target annual incentive award values currently represent about 20 percent of the total compensation package.

Current Framework

Working with management, the Compensation Committee established the 2006 performance metrics and a goal or goal range for each metric. The metrics represented many of the operating and financial measures critical to the success of exploration and production companies and therefore supported the Compensation Committee's philosophy that the compensation package reflect overall corporate performance.

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The 2006 performance metrics and goals or goal ranges were as follows:

Metric -----	Goal ----
Production (barrel of oil equivalent ("BOE"))	32,000,000 - 35,000,000
Operating Costs (\$/BOE)	
Base	\$7.50 - \$8.50
Total Operating Cost	\$11.00 - \$12.00
Safety and Environmental	Subjective
G&A Overhead (\$/BOE)	\$3.75 - \$4.25
Debt	\$1,100,000,000 - \$1,400,000,000
Debt/EBITDAX (1)	Less than 2.5 times
Debt/Book	Less than 30%
Finding Cost (\$/BOE) (2)	\$15.00 - \$20.00
Reserve Replacement Percentage (3)	Greater than 250%
Return on Equity	10% - 15%

The Company did not establish a specific net asset value metric, but the

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Compensation Committee reviewed with management the Company's net asset value per share calculation to understand how value was increased or decreased during 2006. Changes in net asset value are important in the Compensation Committee's overall assessment of the Company's performance and one of the key factors in the Compensation Committee's discretionary determination of final annual incentive bonus awards.

The Compensation Committee also established for 2006 individual non-financial objectives for each NEO based on the operational, project-oriented and other goals that the Compensation Committee, working with Mr. Sheffield, determined to be critical to the performance of the NEO's area of responsibility.

In February 2007, the Compensation Committee reviewed the Company's 2006 performance relative to internal metrics against the peers and evaluated the individual performance of each NEO. Based on this performance review, the Compensation Committee set the base level of 2006 annual incentive bonus payouts at 110 percent of target for the NEOs, excluding Mr. Sheffield and Mr. Dove. Individual awards were then adjusted from the base level based on the performance of that individual. For Mr. Sheffield and Mr. Dove, the Compensation Committee also reviewed the Company's stock price performance for calendar year 2006. Based on that review, Mr. Sheffield and Mr. Dove were awarded annual incentive bonuses at target levels.

Long-Term Equity Incentives

Overview

The Company's long-term incentive awards are used to link Company performance and increases in stockholder value to the total compensation for the Company's NEOs. These awards are also key components of the Company's ability to attract and retain the Company's key NEOs. Over the past several years, the Company modified its approach to long-term incentive awards from solely stock options to a combination of stock options and restricted stock and finally to an approach beginning in 2004 that included only restricted stock. For 2007, in order to more closely align the interests of the NEOs with stockholders, the Company made grants in both restricted stock and performance units under a new performance unit program (See "2007 Long-Term Incentive Program" below for additional details).

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The target award levels are set by the Board of Directors and expressed as a percentage of base salary for each NEO. Targets are intended to be at the median of the Company's peer group, consistent with the Company's overall philosophy. Grant levels in any given year may deviate on a discretionary basis from the median of the market based on measuring the Company's performance against internal metrics, total shareholder return ("TSR") compared to a peer group and individual performance. The Compensation Committee also considers the competitive environment for experienced oil and gas executives and the retention value of long-term incentive awards. The Compensation Committee generally does not consider the size or current value of prior long-term incentive awards in determining future award levels because prior awards are considered as only one component of a total compensation package determined in the year awarded to be competitive and appropriate.

The annualized value of the awards to the Company's NEOs is intended to be

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the largest component of the Company's overall compensation package. On average, and assuming performance is at target, these awards currently represent approximately 55 percent to 60 percent of the total compensation package, consistent with the Company's emphasis on linking executive pay to stockholder value.

Restricted stock awards to executive officers vest on a three-year cliff vesting schedule. Grants made under the Company's performance unit plan for 2007 are earned over a three-year performance period. The Company believes that these mechanisms keep executives focused on the creation of long-term stockholder value. The vesting of restricted stock and performance unit awards accelerates upon a change in control. The Compensation Committee believes that providing this benefit is in line with the Company's compensation philosophy and provides continuity of management in the event of an actual or threatened change in control, and this practice was confirmed by Mercer to be in line with market practice for the Company's peers. Furthermore, the Company does not sponsor a defined benefit retirement plan as the Compensation Committee believes that the accumulation of Company stock is the preferred method to encourage the Company's NEOs to build a retirement portfolio.

Current Framework

In evaluating 2006 award levels, the Compensation Committee reviewed the Company's three- and five-year performance against the following internal metrics. The Company did not employ a formula or weighting of the goals.

Metric -----	Goal -----
Reserve Replacement Percentage	125% - 150%
Finding Cost (\$/BOE)	\$6.50 - \$9.00
Net Asset Value Per Share Increase (1)	5%
Production Growth	Prior annual goals

In addition, 2006 award levels were also determined by considering the Company's TSR to the peer group for the previous three- and five-year periods. Finally, the Compensation Committee evaluated each executive's individual performance, contribution to the senior management leadership team and leadership provided to the Company.

After reviewing these factors, the Compensation Committee concluded that the 2006 long-term incentive awards for Mr. Sheffield and the other NEOs as a group should be slightly below the 60th percentile to the target market.

2007 Long-Term Incentive Program

At the end of 2006, the Company conducted a review of the Company's long-term incentive award philosophy with the intent of moving it more in line with the Company's pay for performance philosophy. Based on the results of the study, the 2007 long-term incentive awards to the NEOs were granted 50 percent in restricted stock and 50 percent in performance units under a new performance

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unit award program. Under this program, delivery of shares in payment of the performance unit awards will be contingent upon the achievement of certain performance criteria. The Compensation Committee intends to determine annually the allocation of future long-term incentive awards between restricted stock, performance units and other equity awards as well as the metrics that would be applicable to any performance-based award.

Although certain compensation awards, such as the annual incentive bonus, have included a subjective evaluation factor, the Compensation Committee determined that performance under the performance unit award program should be measured objectively to keep executives in close alignment with stockholders. As such, performance under the 2007 performance unit award program is measured based on relative TSR over a three-year performance period. The Company believes relative TSR is an appropriate long-term performance metric because it generally reflects all elements of a company's performance and provides the best alignment of the interests of management and the Company's stockholders. Payouts range from zero percent to 250 percent of a target number of units based on the relative ranking. The earned units will be paid in stock, and dividends declared during the performance period will be paid at the end of the three-year performance period only on shares delivered for earned units, up to a maximum of target shares.

In administering the long-term incentive plan, award grants currently are made under the following guidelines:

- o For existing employees, all long-term incentive awards are approved during the regularly scheduled February Compensation Committee meeting.
- o Employees hired after the February Compensation Committee meeting, but prior to the regularly scheduled August Compensation Committee meeting, receive long-term awards approved during the August Compensation Committee meeting.
- o The Compensation Committee retains the discretion to approve long-term incentive awards effective on an employee's hire date.
- o Restricted stock awards are determined based on a dollar value, which is converted to shares by reference to the average closing price of the Company's common stock during the prior calendar year.
- o The Company does not time the release of material non-public information to impact the value of executive equity compensation awards.

Other Compensation

Overview

The Compensation Committee believes that providing perquisites and retirement benefits as components of total compensation is important in attracting and retaining qualified personnel; however, insofar as the Company has chosen to emphasize variable, performance-based pay, the Company takes a conservative approach to these fixed benefits. Further, retirement plans are not viewed to be the sole means by which its executive officers will fund their retirement, as a portion of this need can be satisfied through the accumulation of Company stock acquired through equity awards. As a result, and because the costs and the ultimate payouts are difficult to quantify and control, the Company has purposely avoided sponsoring a defined benefit retirement plan or a supplemental executive retirement plan. The Company provides a defined contribution 401(k) retirement plan with a fixed matching contribution rate to all employees, including the NEOs, and a non-qualified deferred compensation plan with a fixed Company matching contribution rate to certain of its more highly compensated employees, including the NEOs.

The Company's perquisite, retirement and other benefit programs are established based upon an assessment of competitive market factors and a determination of what is needed to attract, retain and motivate high caliber executives.

Perquisites

The perquisites provided to the NEOs are payment of country club dues, financial counseling services, annual medical physical exam and personal use of the Company's cell phones and computers. The Company also pays the cost of limited spousal travel and the spouse's cost to participate in business dinners or events if the spouse is attending at the request of the Company.

In addition to the above perquisites, Mr. Sheffield receives the premium for a \$1,000,000 term life insurance policy and the costs for expanded spousal travel for Mrs. Sheffield to participate in business dinners and business events to support Mr. Sheffield.

The Company maintains a fractional ownership interest in two private aircraft. These aircraft are made available for business use to the executive officers and other employees of the Company. The Company's policy is to generally not permit employees, including executive officers, to use the aircraft for personal use. The Company expects there will be occasions when a personal guest (including a family member) will accompany an employee on a business related flight. In such instances, the Company will follow the Internal Revenue Service rules and, where required, impute income to the employee based on the Standard Industry Fare Level rates provided by the Internal Revenue Service.

The Company's NEOs also participate in the Company's welfare benefit plan on the same basis as the Company's other employees.

Retirement Plans

All eligible employees of the Company, including the NEOs, may participate in the defined contribution 401(k) retirement plan. The Company contributes two dollars for every one dollar of basic compensation (up to 5% of basic compensation) contributed by the participant. The participant's contributions are fully vested at all times, and matching contributions vest over a period of four years, with 25 percent vesting for each one-year period of service with the Company by the participant. Participants may make additional pre-tax and after-tax contributions to the plan subject to plan and Internal Revenue Service limits.

The non-qualified deferred compensation retirement plan allows each participant to contribute up to 25 percent of base salary and 100 percent of annual incentive bonus payments. The Company provides a matching contribution equal to the participant's contribution, but limited to a maximum of ten percent of the executive officer's base salary. The Company's matching contribution vests immediately. The non-qualified deferred compensation plan permits each executive officer to make investment allocation choices for both the executive officer's contribution and the Company match to designated mutual funds or to a self-directed brokerage account offered as investment options under the non-qualified deferred compensation plan. The Company retains the right to maintain these investment choices as hypothetical investments or to actually invest in the executive officer's investment choices. To date, the Company has chosen to actually invest the funds in the investment options selected by the

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executive officers so that the investment returns are funded and do not create unfunded liabilities to the Company.

Participants may choose to receive distribution of their vested benefits from the non-qualified compensation plan as soon as administratively practicable (i) after the date of separation from service with the Company or (ii) after January 1 of the year following the date of separation from service with the Company. A participant's vested benefits may, at the option of the participant, be distributed in one lump sum, in five annual installments or in ten annual installments.

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Severance and Change in Control Arrangements

The Compensation Committee believes compensation issues related to severance and change in control events for the NEOs should be addressed through contractual arrangements. The terms of these agreements are described later in "Potential Payments Upon Termination or Change in Control." The Company competes in an industry with a shortage of professionals with oil and gas expertise, long investment lead times that can affect short-term results, a fluctuating stock price often directly caused by the commodity price driven nature of the business and a history of merger and acquisition activity. To recruit and retain executives, provide continuity of management in the event of an actual or threatened change in control and provide the executive with the security to make decisions that are in the best long-term interest of the stockholders, the Company enters into severance and change in control agreements with each of its executive officers, including each NEO. The Compensation Committee engaged advisors knowledgeable in the field of executive compensation to assist in analyzing current market practices and designing an agreement competitive with market practices.

Stock Ownership Guidelines

To support the commitment to significant stock ownership, the Company's common stock ownership guidelines are as follows:

- o For the Chairman of the Board of Directors and CEO, ownership of stock with a value equal to at least five times annual base salary.
- o For the President and other NEOs, ownership of stock with a value equal to at least three times annual base salary.
- o The NEOs generally have three years after becoming an executive officer to meet the guideline.

In evaluating compliance by officers and directors with the stock ownership guidelines, the Committee has established procedures to minimize the effect of stock price fluctuations on the deemed value of the individual's holdings. All NEOs, including Mr. Sheffield, are in compliance with the ownership guidelines.

Indemnification Agreements

The Company has entered into indemnification agreements with each of its directors and executive officers. Each indemnification agreement requires the Company to indemnify each indemnitee to the fullest extent permitted by the Delaware General Corporation Law. This means, among other things, that the Company must indemnify the director or executive officer against expenses (including attorneys' fees), judgments, fines and amounts paid in settlement

that are actually and reasonably incurred in an action, suit or proceeding by reason of the fact that the person is or was a director, officer, employee or agent of the Company or is or was serving at the request of the Company as a director, officer, employee or agent of another corporation or other entity if the indemnitee meets the standard of conduct provided in Delaware law. Also as permitted under Delaware law, the indemnification agreements require the Company to advance expenses in defending such an action provided that the director or executive officer undertakes to repay the amounts if the person ultimately is determined not to be entitled to indemnification from the Company. The Company will also make the indemnitee whole for taxes imposed on the indemnification payments and for costs in any action to establish indemnitee's right to indemnification, whether or not wholly successful.

Tax and Accounting Considerations

Deductibility of Executive Compensation. The Omnibus Budget Reconciliation Act of 1993 placed restrictions on the deductibility of executive compensation paid by public companies. Under the restrictions, the Company is not able to deduct compensation paid to any of the NEOs in excess of \$1,000,000 unless the compensation meets the definition of "performance-based compensation" as required in Section 162(m) of the Internal Revenue Code of 1986, as amended. Non-deductibility could result in additional tax costs to the Company. The Company generally tries to preserve the deductibility of all executive compensation if it can do so without interfering with the Company's ability to attract and retain capable and highly motivated senior management. The Company's annual incentive bonus plan does not meet the definition of performance-based compensation as required in Section 162(m) primarily because the annual incentive bonus plan is not formula driven and the Compensation Committee retains the right to make subjective evaluations of performance including an assessment of how effectively management adapts to changing industry conditions and opportunities during the Company's bonus year. The Company's restricted stock awards do not qualify as performance-based compensation under Section 162(m). Accordingly, the portions of compensation paid to the Company's NEOs in 2006 that exceeded \$1,000,000 (other than from the exercise of stock options) are generally not deductible. The Compensation Committee believes it is in the best interest of stockholders to use restricted stock and to continue with a discretionary element in the annual incentive bonus program.

Awards under the performance unit award program are designed to qualify for deductibility under Section 162(m). Portions of future restricted stock awards and annual incentive bonus awards may not be deductible. The Compensation Committee believes it is important to retain its discretionary judgment in evaluating performance-based pay and that a portion of the long-term incentive awards should be in restricted stock. The Compensation Committee has reviewed the approximate amount of the Section 162(m) loss of deduction and concluded that it should continue with its current practices.

Non-qualified Deferred Compensation. On October 22, 2004, the American Jobs Creation Act of 2004 was signed into law, changing the tax rules applicable to non-qualified deferred compensation arrangements. While the final regulations have not become effective yet, the Company believes it is operating in good faith compliance with the statutory provisions, which were effective January 1, 2005. A more detailed discussion of the Company's non-qualified deferred compensation arrangements is provided above under the heading "Retirement Plans."

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Accounting for Stock-Based Compensation. Beginning on January 1, 2006, the Company began accounting for stock-based payments including its Stock Option Program, Long-Term Stock Grant Program, Restricted Stock Program and Stock Award Program in accordance with the requirements of Statement of Financial Accounting Standards No. 123 (R) "Share-Based Payment."

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2006 SUMMARY COMPENSATION TABLE

The compensation paid to the Company's executive officers generally consists of base salaries, annual incentive bonus payments, awards under the Company's Long-Term Incentive Plan, contributions to the Company's non-qualified deferred compensation plan, contributions to the Company's defined contribution 401(k) retirement plan and miscellaneous perquisites. The following table summarizes the total compensation for 2006 awarded to, earned by or paid to the named executive officers, the NEOs, comprised of (i) the Company's CEO, (ii) the Company's Chief Financial Officer, and (iii) the three most highly compensated executive officers other than its CEO and Chief Financial Officer:

Name and Principal Position	Year	Salary (\$)	Bonus (1) (\$)	Stock Awards (2) (\$)	Change in Non-qualified Deferred Compensation Earnings (3) (\$)	All Other Compensation (4) (\$)
(a)	(b)	(c)	(d)	(e)	(h)	(i)
Scott D. Sheffield Chairman of the Board of Directors and Chief Executive Officer	2006	\$850,000	\$850,000	\$2,217,217	\$14,348	\$221,110
Richard P. Dealy Executive Vice President and Chief Financial Officer	2006	\$360,000	\$277,200	\$ 445,132	\$34,397	\$ 74,660
Chris J. Cheatwood Executive Vice President, Worldwide Exploration	2006	\$340,000	\$243,100	\$ 539,619	\$63,992	\$ 73,195
Timothy L. Dove President and Chief Operating Officer	2006	\$525,000	\$446,250	\$ 827,427	\$46,380	\$ 86,429
Danny L. Kellum Executive Vice President, Domestic Operations	2006	\$340,000	\$276,250	\$ 539,619	\$19,199	\$ 67,922

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	Scott D. Sheffield	Richard P. Dealy	Chris J. Cheatwood	Timothy Dove
	-----	-----	-----	-----
401(k) contributions	\$ 22,125	\$ 22,000	\$ 22,000	\$ 22,000
Non-qualified deferred compensation				
plan contributions	85,000	36,000	34,000	52,000
Life insurance premiums	5,482	804	1,134	2,000
Country club dues	6,495	4,858	5,651	5,000
Spousal travel & entertainment costs (a)	38,955	-	1,175	
Personal travel & entertainment costs (b)	6,084	-	-	
Financial counseling	9,150	9,150	9,150	
Tax reimbursement payments (c)	42,637	1,083	85	2,000
Medical exams and other	5,182	765	-	
	-----	-----	-----	-----
	\$ 221,110	\$ 74,660	\$ 73,195	\$ 86,000
	=====	=====	=====	=====

Two of the Company's executive officers, Mr. Sheffield and Mr. Kellum, directly or indirectly, hold working interests in wells of which the Company or a subsidiary is the operator. These interests were acquired in 1990 or earlier with the executive officers' personal funds pursuant to a program offered by the Company's predecessor. As such, the holders participate in the costs and revenues attributable to that working interest in accordance with customary industry terms. During 2006, the aggregate amounts of the distributions made to Messrs. Sheffield and Kellum were \$34,920 and \$15,365, respectively.

2006 GRANTS OF PLAN BASED AWARDS

The following table sets forth, for each NEO, information about grants of plan based awards during 2006:

Name	Grant Date	All Other Stock Awards: Number of Shares of Stock or Units (1)	Grant Date Fair Opti
(a)	(b)	(#) (i)	
-----	-----	-----	-----
Scott D. Sheffield	02/14/2006	61,000	
Richard P. Dealy	02/14/2006	13,100	
Chris J. Cheatwood	02/14/2006	12,000	
Timothy L. Dove	02/14/2006	24,100	
Danny L. Kellum	02/14/2006	12,000	

The 2006 stock awards were issued under the Company's Long-Term Incentive Plan and represent retention or service condition awards. Plan-based awards granted during 2006 consisted of restricted stock, which vests in full three years after the date of grant, except as described in "Potential Payments Upon Termination or Change in Control."

2006 OUTSTANDING EQUITY AWARDS AT FISCAL YEAR END

The following table sets forth, for each NEO, information about equity awards outstanding as of December 31, 2006:

Name	Option Awards			Stock Awards		
	Number of Securities Underlying Unexercised Options	Option Exercise Price	Option Expiration Date (1)	Number of Shares or Units of Stock that have not Vested	Market Value of Shares or Units of Stock that have not Vested (2)	Vested
(a)	(#) Exercisable (b)	(\$)(e)	(f)	(#)(g)	(\$)(h)	
Scott D. Sheffield	40,000	\$ 18.96	02/14/2009			
	52,000	\$ 17.69	08/14/2009			
	90,000	\$ 18.30	02/19/2010			
	60,000	\$ 24.72	08/12/2010			
	60,000	\$ 24.25	02/18/2011			
	30,000	\$ 25.58	08/19/2011			
				49,350	\$ 1,958,702	02
				63,000	\$ 2,500,470	02

our performance by assembling a portfolio of 40-60 mid-size companies where we have an out-of-con research, which we view as a key competitive advantage. For each of our investments, we perform o benchmark. We develop a best, worst and base-case cash flow estimate, using these three estimates portfolio, we pay close attention to sector diversification. It has been our experience that we c objective in the long term by focusing the scope of analysis on companies with businesses that de

Blum (TCW Large-Cap Growth): We are a quality-focused, concentrated, large-cap growth manager. In our view, four attributes set the strategy apart from many others. First, our definition of quality is unique in that we focus squarely on large and attractive end markets that face each company and then combine that with research around business model advantage. Second, we own a concentrated portfolio of approximately 25 to 35 stocks, allowing us to focus our efforts strictly on our best ideas.

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Third, we embrace a long-term orientation, which typically translates into a holding period of between three and five years. This enables the strategy to

remain invested in the most attractive opportunities given our belief that the best businesses tend to repeat their successes for long time periods. Finally, we employ what we refer to as

The team's investment process is a proprietary, fundamental, bottom-up approach designed to identify attractive opportunities and then move those names through an exhaustive, fundamental research process.

Craig Blum (TCW Large-Cap Growth)

a light macro overlay that aligns our current portfolio construction with our current macro view. The team's investment process is a proprietary, fundamental, bottom-up approach designed to identify attractive opportunities and then move those names through an exhaustive, fundamental research process. Our focus is on evaluating and modeling industry dynamics, modeling company-specific fundamentals, conducting competitor analysis, identifying sustainable competitive advantages, meeting with and evaluating management, and performing all related valuation work. Please summarize what produced the best results for you in 2011 and what, in retrospect, didn't play out the way you thought. Let's reverse the order and ask Craig Blum to start.

Blum (TCW Large-Cap Growth): From a portfolio attribution perspective, our information technology holdings contributed most to our results during the year. Solid fundamental developments continued to support names such as QUALCOMM and Apple, while Visa continued to execute well and post respectable growth following the poor sentiment that developed after the debit-interchange legislation of 2010. Intuitive Surgical, a leader in robotically-assisted minimally invasive surgery, was our single best performing name, with performance driven by procedure growth, profitability and innovation that continued to exceed expectations.

One of our disappointments was mainly isolated to poor sentiment and industry dynamics that continue to pressure C.H. Robinson. Third-party logistics provider C.H. Robinson struggled throughout the year with anemic growth in freight volumes combined with a reduced ability to raise prices. While it was a disappointment for the year, we still believe the company to be meaningfully underpriced longer term and we are maintaining our current exposure.

Stallings (TCW Mid-Cap Growth): Our investments in the energy and technology sectors were our best performers in 2011. In energy, our focus on energy services firms served us well. With oil prices remaining high and the U.S. in the middle of an energy exploration boom due to the abundance of both shale oil and gas, energy services companies did well. We have a bias towards services companies with relatively differentiated, high-margin offerings. Additionally, the portfolio benefitted from M&A activity in the energy sector, with Brigham Exploration being acquired by StatOil. The technology sector remains very fertile ground for mid-cap growth investors. With the increasing ubiquity and speed of the Internet (especially wireless) and the proliferation of both devices (e.g., iPads) and applications (e.g., Facebook, software-as-a-service models), there is plenty of innovation to invest in. It is somewhat surprising, then, that the technology sector was one of the worst performing sectors within our benchmark. Owing to some good stock picking, especially in semiconductors and software, our investments did relatively well against the benchmark. In the consumer staples sector, Green Mountain helped performance for the year, despite the stock's decline at year-end. We had a more difficult year in the consumer discretionary sector. Our investments in the for-profit educational industry dragged down performance, and we sold these from the portfolio. Conversely, we did not own enough of the traditional retailers, which hurt our relative performance. Healthcare was a challenge for us as new products launched more slowly than expected at some of our largest biotech companies in the portfolio. In several cases, we have added to these biotech positions.

Weatherbie (M.A. Weatherbie Small-Cap Growth): Individual stock selection across several different industry sectors created our 2011 outperformance versus our benchmark. Notable positive contributors included LKQ Corp., the largest provider of recycled original equipment manufacturer (OEM) auto replacement parts;

Bio-marin Pharmaceutical, a biotech company that develops therapeutic enzyme-based drugs for rare diseases; and Ulta Salon Cosmetics, a fragrances retailer. Detractors to performance included

One distinct feature of our process is that we invest in what we call Foundation stocks, characterized by consistent growth, as well as opportunity stocks, which are cyclical or re-emergent growth stocks.

Matt Weatherbie (M.A.

Weatherbie Small-Cap Growth)

Monster Worldwide, an online recruitment company, and Masimo Corporation, a healthcare company focused on blood tests. We continue to own both as we expect earnings growth to pick up while their shares are now undervalued.

What is a stock in the portion of the All-Star Growth Fund portfolio that you manage that is a long-term holding that reflects your strategy and process as summarized in the first question? And what is a recent addition to your portion of the portfolio about which you are optimistic, and why? Matt, please start off.

Weatherbie (M.A. Weatherbie - Small-Cap Growth):

Signature Bank (SBNY) is a metropolitan New York-based full-service commercial bank with proven management whose steadily growing private client offices serve the diverse financial needs of privately-owned businesses, their owners and senior managers. SBNY's sophisticated services and one-stop shopping approach have filled a void created by the mergers of prior competitors into giant banks, whose unspecialized service is anathema to busy entrepreneurs. SBNY is deposit-rich and can grow for years, we believe, by prudently growing its loan portfolio.

Liquidity Services (LQDT), a recent purchase, is a leader in providing internet-based auctions that enable retailers, other businesses, and federal and state government agencies to dispose of surplus inventory, capital equipment, office furniture, scrap metal and other unwanted items. Among its many clients, LQDT is a trusted partner of Wal-Mart, Target and the U.S. Department of Defense. It enjoys a first-mover advantage and economies of scale versus its non-web-based competitors. We believe this market has significant longer-term growth potential.

Stallings (TCW - Mid-Cap Growth): A long-term holding that we would mention is F5 Networks. F5 designs and markets IT solutions that enable managers to optimize data center investments. Among other products, the company is a leading provider of application delivery controllers (ADCs). These are utilized to manage and accelerate data traffic into and out of data centers. We believe that the adoption of cloud-based services is in its infancy and that F5 will be a beneficiary of a very long adoption cycle. Consistent with our discipline, we took advantage of the stock's weakness during the year to add to our position.

An example of recent addition is Arcos Dorados, which is McDonald's largest franchisee, representing over 5 percent of McDonald's 2010 sales. The company operates nearly 1,800 restaurants and has a master franchise agreement with McDonald's covering Latin

America. Arcos Dorados provides us the opportunity to invest in a company experiencing both rapid unit growth and positive same-store sales in a region undergoing above-average economic growth.

Blum (TCW - Large-Cap Growth): Precision Castparts Corp. (PCP) remains a relatively long term holding for the portfolio. PCP manufactures specialized metal components and engineered composite products for the global aerospace, infrastructure and power markets. We believe a multi year cycle has developed, defined by increasing demand for lighter, stronger, cleaner and more energy efficient materials to be used across a wide variety of industrial end markets. PCP is thus benefiting from rising demand

We earn our performance by assembling a portfolio of 40-60 midsize companies where we have an out-of-consensus opinion... the only way we can achieve (our goal) is by doing our own fundamental research, which we view as a key competitive advantage.

Brendt Stallings (TCW - Mid-Cap Growth)

strength-to-weight ratio products that are forged and cast with proprietary materials and technology. In particular, we believe the commercial aerospace market represents a significant long-term opportunity for the company as high-margin composite products continue to increase as a share of total aircraft content. Additionally, the company is nicely leveraged to emerging market infrastructure growth and is a best-of-breed operator with industry leading margins and returns on capital.

A recent addition to the portfolio is VMware. VMware is the dominant provider of server virtualization software and virtualization-based cloud infrastructure solutions. We believe the financial and operational benefits of server virtualization will continue to drive penetration of workloads in the enterprise, with VMware being the primary beneficiary. Increased virtualization penetration is also driving an increased need for management and automation software, another significant opportunity that VMware is well positioned to exploit. The company has also amassed a portfolio of technologies, including desktop virtualization, cloud-based applications and cloud-related development platforms, that is expanding its addressable market. In our opinion, the current valuation does not adequately reflect these growth opportunities.

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Great insights from experienced investment managers and we thank you all. It should be an interesting year ahead. We'll check in again next year.

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10 LIBERTY ALL-STAR® GROWTH FUND
TABLE OF DISTRIBUTIONS AND RIGHTS OFFERINGS (UNAUDITED)

YEAR	PER SHARE	MONTH	RIGHTS OFFERINGS	SUBSCRIPTION
	DISTRIBUTION		COMPLETED	
			ONE ADDITIONAL SHARES	PRICE
1997	\$1.24			
1998	1.35	July	10	\$12.41
1999	1.23			
2000	1.34			
2001	0.92	September	8	6.64
2002	0.67			
2003	0.58	September	8*	5.72
2004	0.63			
2005	0.58			
2006	0.59			
2007	0.61			
2008	0.47			
2009**	0.24			
2010	0.25			
2011	0.27			
Total	\$10.97			

* The number of shares offered was increased by an additional 25% to cover a portion of the over-subscription requests.

** Effective with the second quarter distribution, the annual distribution rate was changed from 10 percent to 6 percent.

DISTRIBUTION POLICY

Liberty All-Star® Growth Fund, Inc. s current policy is to pay distributions on its shares totaling approximately 6 percent of its net asset value per year, payable in four quarterly installments of 1.5 percent of the Fund s net asset value at the close of the New York Stock Exchange on the Friday prior to each quarterly declaration date. The fixed distributions are not related to the amount of the Fund s net investment income or net realized capital gains or losses and may be taxed as ordinary income up to the amount of the Fund s current and accumulated earnings and profits. If, for any calendar year, the total distributions made under the distribution policy exceed the Fund s net investment income and net realized capital gains, the excess will generally be treated as a non-taxable return of capital, reducing the shareholder s adjusted basis in his or her shares. If the Fund s net investment income and net realized capital gains for any year exceed the amount distributed under the distribution policy, the Fund may, in its discretion, retain and not distribute net realized capital gains and pay income tax thereon to the extent of such excess.

LIBERTY ALL-STAR® GROWTH FUND
TOP 20 HOLDINGS AND ECONOMIC SECTORS (UNAUDITED)
December 31, 2011

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TOP 20 HOLDINGS*	PERCENT OF NET ASSETS
Apple, Inc.	2.34%
C.H. Robinson Worldwide, Inc.	2.15
FMC Technologies, Inc.	2.04
ACE Ltd.	2.00
IHS, Inc., Class A	1.92
QUALCOMM, Inc.	1.90
Intuitive Surgical, Inc.	1.86
Oceaneering International, Inc.	1.85
Core Laboratories N.V.	1.78
American Tower Corp., Class A	1.74
Salesforce.com, Inc.	1.72
ARM Holdings PLC	1.69
Google, Inc., Class A	1.60
Rockwell Automation, Inc.	1.53
LKQ Corp.	1.47
BioMarin Pharmaceutical, Inc.	1.45
Expeditors International of Washington, Inc.	1.43
VMware, Inc., Class A	1.42
Signature Bank	1.37
Occidental Petroleum Corp.	1.36
	34.62%

ECONOMIC SECTORS*	PERCENT OF NET ASSETS
Information Technology	28.31%
Industrials	15.51
Health Care	13.12
Consumer Discretionary	12.27
Energy	10.16
Financials	9.63
Materials	2.97
Consumer Staples	2.63
Telecommunication Services	1.74
Utilities	0.69
Other Net Assets	2.97
	100.00%

* Because the Fund is actively managed, there can be no guarantee that the Fund will continue to hold securities of the indicated issuers and sectors in the future.

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LIBERTY ALL-STAR® GROWTH FUND
MAJOR STOCK CHANGES IN THE QUARTER (UNAUDITED)
December 31, 2011

The following are the major (\$300,000 or more) stock changes - both purchases and sales - that were made in the Fund's portfolio during the fourth quarter of 2011.

SECURITY NAME	00000000000000 PURCHASES (SALES)	00000000000000 SHARES AS OF 12/31/11
PURCHASES		
Arcos Dorados Holdings, Inc., Class A	32,300	32,300
Human Genome Sciences, Inc.	33,500	88,888
LinkedIn Corp., Class A	6,200	6,200
Shutterfly, Inc.	15,360	15,360
SALES		
Brigham Exploration Co.	(15,700)	0
ICF International, Inc.	(14,139)	0
Pharmasset Inc.	(4,200)	0
SuccessFactors, Inc.	(25,581)	21,500
Urban Outfitters, Inc.	(25,100)	0
Varian Medical Systems, Inc.	(5,900)	16,700

LIBERTY ALL-STAR® GROWTH FUND 13
SCHEDULE OF INVESTMENTS
as of December 31, 2011

COMMON STOCKS (97.03%)	SHARES	MARKET VALUE
Consumer Discretionary (12.27%)		
Auto Components (0.62%)		
BorgWarner, Inc. ^(a)	12,500	\$ 796,750
Automobiles (0.51%)		
Thor Industries, Inc.	23,752	651,517
Distributors (1.47%)		
LKQ Corp. ^(a)	62,490	1,879,699
Hotels, Restaurants & Leisure (1.49%)		
Arcos Dorados Holdings, Inc., Class A	32,300	663,119
BJ's Restaurants, Inc. ^(a)	14,588	661,128
Ctrip.com International Ltd. ^{(a)(b)}	24,366	570,165
		1,894,412
Household Durables (0.20%)		
Harman International Industries, Inc.	6,667	253,613
Internet & Catalog Retail (2.50%)		
Amazon.com, Inc. ^(a)	6,465	1,119,091
priceline.com, Inc. ^(a)	2,575	1,204,353
Shutter-fly, Inc. ^(a)	15,360	349,594
TripAdvisor, Inc. ^(a)	20,600	519,326
		3,192,364
Specialty Retail (3.77%)		
CarMax, Inc. ^(a)	32,100	978,408
Dick's Sporting Goods, Inc.	19,300	711,784
Francesca's Holdings Corp. ^(a)	17,803	307,992
Monro Muffler Brake, Inc.	19,431	753,728
Rue21, Inc. ^(a)	54,490	1,176,984
Teavana Holdings, Inc. ^(a)	20,756	389,798
Ulta Salon, Cosmetics & Fragrance, Inc. ^(a)	7,563	490,990
		4,809,684
Textiles, Apparel & Luxury Goods (1.71%)		
Fossil, Inc. ^(a)	10,200	809,472
Gildan Activewear, Inc.	31,100	584,369
Michael Kors Holdings Ltd. ^(a)	2,000	54,500
Under Armour, Inc., Class A ^(a)	10,248	735,704

2,184,045

u CONSUMER STAPLES (2.63%)

Food & Staples Retailing (0.91%)

Costco Wholesale Corp.	11,750	979,010
The Fresh Market, Inc. ^(a)	4,645	185,336
		1,164,346

Food Products (1.72%)

Green Mountain Coffee Roasters, Inc. ^(a)	20,600	923,910
Mead Johnson Nutrition Co.	18,500	1,271,505
		2,195,415

See Notes to Schedule of Investments and Financial Statements

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LIBERTY ALL-STAR® GROWTH FUND
SCHEDULE OF INVESTMENTS
as of December 31, 2011

COMMON STOCKS (continued)	SHARES	MARKET VALUE
ENERGY (10.16%)		
Energy Equipment & Services (8.80%)		
CARBO Ceramics, Inc.	6,200	\$ 764,646
Core Laboratories N.V.	19,909	2,268,631
Dril-Quip, Inc. ^(a)	9,967	656,028
FMC Technologies, Inc. ^(a)	49,800	2,601,054
Lufkin Industries, Inc.	16,232	1,092,576
Oceaneering International, Inc.	51,250	2,364,162
Schlumberger Ltd.	21,795	1,488,816
		11,235,913
Oil, Gas & Consumable Fuels (1.36%)		
Occidental Petroleum Corp.	18,500	1,733,450
FINANCIALS (9.63%)		
Capital Markets (3.33%)		
Affiliated Managers Group, Inc. ^(a)	14,005	1,343,780
The Charles Schwab Corp.	62,900	708,254
Financial Engines, Inc. ^(a)	9,586	214,055
FXCM, Inc., Class A	37,470	365,333
T. Rowe Price Group, Inc.	16,700	951,065
Virtus Investment Partners, Inc. ^(a)	8,718	662,655
		4,245,142
Commercial Banks (1.37%)		
Signature Bank ^(a)	29,148	1,748,589
Consumer Finance (0.58%)		
Green Dot Corp., Class A ^(a)	23,800	743,036
Diversified Financial Services (1.15%)		
MSCI, Inc., Class A ^(a)	21,867	720,080
Portfolio Recovery Associates, Inc. ^(a)	11,006	743,125
		1,463,205
Insurance (2.55%)		
ACE Ltd.	36,400	2,552,368
Greenlight Capital Re Ltd., Class A ^(a)	29,869	706,999
		3,259,367
Real Estate Management & Development (0.65%)		
FirstService Corp. ^(a)	31,154	825,269

u HEALTH CARE (13.12%)

Biotechnology (2.97%)

BioMarin Pharmaceutical, Inc. ^(a)	53,670	1,845,175
Dendreon Corp. ^(a)	55,200	419,520
Human Genome Sciences, Inc. ^(a)	88,888	656,882
Ironwood Pharmaceuticals, Inc. ^(a)	19,200	229,824
Vertex Pharmaceuticals, Inc. ^(a)	19,300	640,953
		3,792,354

Health Care Equipment & Supplies (3.78%)

Accuray, Inc. ^(a)	42,336	179,081
Intuitive Surgical, Inc. ^(a)	5,125	2,372,926
Masimo Corp. ^(a)	28,488	532,299
Varian Medical Systems, Inc. ^(a)	16,700	1,121,071
Volcano Corp. ^(a)	25,800	613,782
		4,819,159

See Notes to Schedule of Investments and Financial Statements

LIBERTY ALL-STAR® GROWTH FUND 15
SCHEDULE OF INVESTMENTS
as of December 31, 2011

COMMON STOCKS (continued)	SHARES	MARKET VALUE
Health Care Providers & Services (1.55%)		
IPC The Hospitalist Co., Inc. ^(a)	10,143	\$ 463,738
PSS World Medical, Inc. ^(a)	34,151	826,112
VCA Antech, Inc. ^(a)	34,665	684,634
		1,974,484
Health Care Technology (1.94%)		
athena health, Inc. ^(a)	15,683	770,349
Cerner Corp. ^(a)	27,800	1,702,750
		2,473,099
Life Sciences Tools & Services (0.87%)		
Life Technologies Corp. ^(a)	28,650	1,114,772
Pharmaceuticals (2.01%)		
Allergan, Inc.	18,250	1,601,255
Mylan, Inc. ^(a)	45,100	967,846
		2,569,101
INDUSTRIALS (15.51%)		
Aerospace & Defense (2.95%)		
Aerovironment, Inc. ^(a)	18,020	567,089
HEICO Corp.	16,190	946,791
Precision Castparts Corp.	8,400	1,384,236
TransDigm Group, Inc. ^(a)	9,098	870,497
		3,768,613
Air Freight & Logistics (3.59%)		
C.H. Robinson Worldwide, Inc.	39,400	2,749,332
Expedito International of Washington, Inc.	44,700	1,830,912
		4,580,244
Commercial Services & Supplies (0.92%)		
American Reprographics Co. ^(a)	47,644	218,686
Waste Connections, Inc.	28,864	956,553
		1,175,239
Electrical Equipment (1.96%)		
II-VI, Inc. ^(a)	29,769	546,559
Rockwell Automation, Inc.	26,650	1,955,310

2,501,869

Machinery (1.07%)

Graco, Inc.	17,077	698,278
Middleby Corp. ^(a)	7,072	665,051

1,363,329

Professional Services (4.33%)

Huron Consulting Group, Inc. ^(a)	21,472	831,825
IMS, Inc., Class A ^(a)	28,499	2,455,474
Resources Connection, Inc.	55,983	592,860
Robert Half International, Inc.	37,400	1,064,404
Stantec, Inc. ^(a)	21,250	575,875

5,520,438

See Notes to Schedule of Investments and Financial Statements

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LIBERTY ALL-STAR® GROWTH FUND
SCHEDULE OF INVESTMENTS
as of December 31, 2011

COMMON STOCKS (continued)	SHARES	MARKET VALUE
Road & Rail (0.69%)		
Landstar System, Inc.	18,482	\$ 885,658
u INFORMATION TECHNOLOGY (28.31%)		
Communications Equipment (4.23%)		
Aruba Networks, Inc. ^(a)	37,483	694,185
F5 Networks, Inc. ^(a)	9,100	965,692
InterDigital, Inc.	13,750	599,088
Polycom, Inc. ^(a)	44,225	720,868
QUALCOMM, Inc.	44,265	2,421,295
		5,401,128
Computers & Peripherals (2.82%)		
Apple, Inc. ^(a)	7,360	2,980,800
Fusion-io, Inc. ^(a)	25,702	621,988
		3,602,788
Electronic Equipment & Instruments (1.76%)		
FARO Technologies, Inc. ^(a)	21,488	988,448
FLIR Systems, Inc.	9,102	228,187
IPG Photonics Corp. ^(a)	5,459	184,896
National Instruments Corp.	24,024	623,423
Universal Display Corp. ^(a)	5,900	216,471
		2,241,425
Internet Software & Services (5.49%)		
Baidu, Inc. ^{(a)(b)}	14,725	1,715,021
Google, Inc., Class A ^(a)	3,160	2,041,044
LinkedIn Corp., Class A ^(a)	6,200	390,662
Liquidity Services, Inc. ^(a)	27,491	1,014,418
Monster Worldwide, Inc. ^(a)	59,017	468,005
SINA Corp. ^(a)	5,400	280,800
VistaPrint Ltd. ^(a)	19,431	594,588
Youku, Inc. ^{(a)(b)}	31,864	499,309
		7,003,847
IT Services (3.29%)		
Cognizant Technology Solutions Corp., Class A ^(a)	19,150	1,231,536
FleetCor Technologies, Inc. ^(a)	9,265	276,746
ServiceSource International, Inc. ^(a)	35,930	563,742
VeriFone Systems, Inc. ^(a)	27,162	964,794
Visa, Inc., Class A	11,415	1,158,965
		4,195,783

Semiconductors & Semiconductor Equipment (2.73%)

ARM Holdings PLC ^(b)	77,817	2,153,196
Cavium, Inc. ^(a)	29,388	835,501
Hittite Microwave Corp. ^(a)	9,932	490,442
		3,479,139

Software (7.99%)

ANSYS, Inc. ^(a)	17,131	981,264
Concur Technologies, Inc. ^(a)	15,873	806,190
QLIK Technologies, Inc. ^(a)	36,577	885,163
RealPage, Inc. ^(a)	29,925	756,205
Salesforce.com, Inc. ^(a)	21,650	2,196,609

See Notes to Schedule of Investments and Financial Statements

LIBERTY ALL-STAR® GROWTH FUND 17
SCHEDULE OF INVESTMENTS
as of December 31, 2011

COMMON STOCKS (continued)	SHARES	MARKET VALUE
Software (continued)		
Solera Holdings, Inc.	24,143	\$ 1,075,329
SuccessFactors, Inc. ^(a)	21,500	857,205
Ultimate Software Group, Inc. ^(a)	12,713	827,871
VMware, Inc., Class A ^(a)	21,750	1,809,382
		10,195,218
u MATERIALS (2.97%)		
Chemicals (1.71%)		
CF Industries Holdings, Inc.	4,700	681,406
Praxair, Inc.	13,975	1,493,928
		2,175,334
Metals & Mining (1.26%)		
Allegheny Technologies, Inc.	17,900	855,620
Silver Wheaton Corp.	26,000	752,960
		1,608,580
u TELECOMMUNICATION SERVICES (1.74%)		
Wireless Telecommunication Services (1.74%)		
American Tower Corp., Class A	36,900	2,214,369
u UTILITIES (0.69%)		
Electric Utilities (0.69%)		
ITC Holdings Corp.	11,636	882,940
TOTAL COMMON STOCKS		
(COST OF \$107,089,109)		123,814,726
SHORT TERM INVESTMENTS (2.93%)		
u REPURCHASE AGREEMENT (2.93%)		
Repurchase agreement with State Street Bank & Trust Co., dated 12/30/11, due 01/03/12 at 0.01%, collateralized by several Fannie Mae and Freddie Mac instruments with various maturity dates, market value of \$3,825,774 (Repurchase proceeds of \$3,743,004) (COST OF \$3,743,000)	\$ 3,743,000	3,743,000
TOTAL INVESTMENTS (99.96%)		
(COST OF \$110,832,109) ^(C)		127,557,726
OTHER ASSETS IN EXCESS OF LIABILITIES (0.04%)		44,671
NET ASSETS (100.00%)		\$ 127,602,397

NET ASSET VALUE PER SHARE (30,080,350 SHARES OUTSTANDING)	\$	4.24
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Notes to Schedule of Investments:

- (a) Non-income producing security.
- (b) American Depositary Receipt.
- (c) Cost of investments for federal income tax purposes is \$111,121,709.

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LIBERTY ALL-STAR® GROWTH FUND
SCHEDULE OF INVESTMENTS
as of December 31, 2011

Gross unrealized appreciation and depreciation at December 31, 2011 based on cost of investments for federal income tax purposes is as follows:

Gross unrealized appreciation	\$ 26,642,370
Gross unrealized depreciation	(10,206,353)
Net unrealized appreciation	\$ 16,436,017

See Notes to Financial Statements

LIBERTY ALL-STAR® GROWTH FUND
STATEMENT OF ASSETS AND LIABILITIES
December 31, 2011

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ASSETS:

Investments at market value (Cost \$110,832,109)	\$ 127,557,726
Cash	804
Receivable for investment securities sold	2,814,870
Dividends and interest receivable	40,193
Prepaid assets	225

TOTAL ASSETS 130,413,818

LIABILITIES:

Payable for investments purchased	471,544
Distributions payable to shareholders	2,105,625
Investment advisory fee payable	87,871
Payable for administration, pricing and bookkeeping fees	28,767
Accrued expenses	117,614

TOTAL LIABILITIES 2,811,421

NET ASSETS \$ 127,602,397

NET ASSETS REPRESENTED BY:

Paid-in capital	\$ 111,166,380
Overdistributed net investment income	(26,710)
Accumulated net realized loss on investments	(262,890)
Net unrealized appreciation on investments	16,725,617
NET ASSETS	\$ 127,602,397

Shares of common stock outstanding (authorized 60,000,000 shares at \$0.10 Par)	30,080,350
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NET ASSET VALUE PER SHARE \$ 4.24

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LIBERTY ALL-STAR® GROWTH FUND
STATEMENT OF OPERATIONS
Year Ended December 31, 2011

INVESTMENT INCOME:	
Dividends (Net of foreign taxes withheld at source which amounted to \$7,421)	\$ 659,288
Interest	328
TOTAL INVESTMENT INCOME	659,616
EXPENSES:	
Investment advisory fee	1,095,426
Administration fee	273,856
Pricing and bookkeeping fees	74,398
Audit fee	32,881
Custodian fee	48,971
Directors' fees and expenses	68,541
Insurance expense	7,927
Legal fees	320,936
NYSE fee	27,975
Shareholder communication expenses	71,088
Transfer agent fees	54,828
Miscellaneous expenses	5,891
TOTAL EXPENSES	2,082,718
NET INVESTMENT LOSS	(1,423,102)
REALIZED AND UNREALIZED GAIN ON INVESTMENTS:	
Net realized gain on investment transactions	9,291,538
Net change in unrealized appreciation/(depreciation) on investments	(9,617,091)
NET REALIZED AND UNREALIZED LOSS ON INVESTMENTS	(325,553)
NET DECREASE IN NET ASSETS RESULTING FROM OPERATIONS	\$ (1,748,655)

See Notes to Financial Statements

LIBERTY ALL-STAR® GROWTH FUND
STATEMENTS OF CHANGES IN NET ASSETS

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	Year Ended December 31,	
	2011	2010
FROM OPERATIONS:		
Net investment loss	\$ (1,423,102)	\$ (1,175,567)
Net realized gain on investment transactions	9,291,538	5,137,175
Net change in unrealized appreciation/(depreciation) on investments	(9,617,091)	20,620,701
Net Increase/(Decrease) in Net Assets From Operations	(1,748,655)	24,582,309
DISTRIBUTIONS TO SHAREHOLDERS:		
From net investment income	(1,994,479)	(5,615,921)
From net realized gains	(6,127,216)	
Tax return of capital		(1,904,168)
Total Distributions	(8,121,695)	(7,520,089)
Total Increase/(Decrease) in Net Assets	(9,870,350)	17,062,220
NET ASSETS:		
Beginning of year	137,472,747	120,410,527
End of year (Includes overdistributed net investment income of \$(26,710) and \$(62,208), respectively)	\$ 127,602,397	\$ 137,472,747

See Notes to Financial Statements

LIBERTY ALL-STAR® GROWTH FUND
FINANCIAL HIGHLIGHTS

	Year Ended December 31,				
	2011	2010	2009	2008	2007
PER SHARE OPERATING PERFORMANCE:					
Net asset value at beginning of year	\$ 4.57	\$ 4.00	\$ 3.24	\$ 6.03	\$ 5.69
INCOME FROM INVESTMENT OPERATIONS:					
Net investment loss ^(a)	(0.05)	(0.04)	(0.02)	(0.03)	(0.03)
Net realized and unrealized gain/loss) on investments	(0.01)	0.86	1.02	(2.29)	0.98
Total from Investment Operations	(0.06)	0.82	1.00	(2.32)	0.95
LESS DISTRIBUTIONS TO SHAREHOLDERS:					
Net investment income	(0.07)	(0.19)			
Net realized gain on investments	(0.20)			(0.02)	(0.61)
Tax return of capital		(0.06)	(0.24)	(0.45)	
Total Distributions	(0.27)	(0.25)	(0.24)	(0.47)	(0.61)
Net asset value at end of year	\$ 4.24	\$ 4.57	\$ 4.00	\$ 3.24	\$ 6.03
Market price at end of year	\$ 3.81	\$ 4.25	\$ 3.36	\$ 2.60	\$ 5.96
TOTAL INVESTMENT RETURN FOR SHAREHOLDERS:^(b)					
Based on net asset value	(1.0%)	21.8%	34.6%	(40.0%)	17.9%
Based on market price	(4.4%)	34.8%	40.8%	(51.3%)	23.5%
RATIOS AND SUPPLEMENTAL DATA:					
Net assets at end of year (millions)	\$ 128	\$ 137	\$ 120	\$ 96	\$ 172
Ratio of expenses to average net assets	1.52%	1.79%	1.44%	1.46%	1.28% ^(c)
Ratio of net investment loss to average net assets	(1.04%)	(0.95%)	(0.58%)	(0.74%)	(0.51%) ^(c)
Portfolio turnover rate	32%	80%	135%	97%	60%

^(a) Calculated using average shares outstanding during the period.

^(b) Calculated assuming all distributions are reinvested at actual reinvestment prices. The net asset value and market price returns will differ depending upon the level of any discount from or premium to net asset value at which the Fund's shares traded during the period. Past performance is not a guarantee of future results.

^(c) The benefits derived from custody credits and directed brokerage arrangements, if any, had an impact of less than 0.01%.

See Notes to Financial Statements

NOTE 1. ORGANIZATION

Liberty All-Star® Growth Fund, Inc. (the Fund) is a Maryland corporation registered under the Investment Company Act of 1940 (the Act), as amended, as a diversified, closed-end management investment company.

Investment Goal

The Fund seeks long-term capital appreciation.

Fund Shares

The Fund may issue 60,000,000 shares of common stock at \$0.10 par.

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES**Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) requires management to make estimates and assumptions that affect the reported amounts and disclosures in the financial statements. Actual results could differ from these estimates. The following is a summary of significant accounting policies consistently followed by the Fund in the preparation of its financial statements.

Security Valuation

Equity securities including common stocks and exchange traded funds are valued at the last sale price at the close of the principal exchange on which they trade, except for securities listed on the National Association of Securities Dealers Automated Quotations (NASDAQ) exchange, which are valued at the NASDAQ official closing price. Unlisted securities or listed securities for which there were no sales during the day are valued at the closing bid price on such exchanges or over-the-counter markets.

Short-term debt obligations maturing in more than 60 days for which market quotations are readily available are valued at current market value. Short-term debt obligations maturing within 60 days are valued at amortized cost, which approximates market value.

Investments for which market quotations are not readily available are valued at fair value as determined in good faith under consistently applied procedures approved by and under the general supervision of the Fund's Board of Directors.

Foreign Securities

The Fund may directly purchase securities of foreign issuers. Investing in securities of foreign issuers involves special risks not typically associated with investing in securities of U.S. issuers. The risks include possible reevaluation of currencies, the inability to repatriate foreign currency, less complete financial information about companies and possible future adverse political and economic developments. Moreover, securities of many foreign issuers and their markets may be less liquid and their prices more volatile than those of securities of comparable U.S. issuers. For the year ended December 31, 2011, the Fund only held American Depositary Receipts and did not hold any securities denominated in foreign currencies.

Security Transactions

Security transactions are recorded on trade date. Cost is determined and gains/losses are based upon the specific identification method for both financial statement and federal income tax purposes.

Repurchase Agreements

The Fund engages in repurchase agreement transactions with institutions that the Fund's investment advisor has determined are creditworthy. The Fund, through its custodian, receives delivery of underlying securities collateralizing a repurchase agreement. Collateral is at least equal, at all times, to the value of the repurchase obligation including interest. A repurchase agreement transaction involves certain risks in the event of default or insolvency of the counterparty. These risks include possible delays or restrictions upon a Fund's ability to dispose of the underlying securities and a possible decline in the value of the underlying securities during the period while the Fund seeks to assert its rights.

Income Recognition

Interest income is recorded on the accrual basis. Corporate actions and dividend income are recorded on the ex-date.

Recent Accounting Pronouncements

In April 2011, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2011-03 Transfers and Servicing (Topic 860): Reconsideration of Effective Control for Repurchase Agreements. The ASU 2011-03 is intended to improve financial reporting of repurchase agreements and other agreements that both entitle and obligate a transferor to repurchase or redeem the financial assets before their maturity. The ASU is effective for the first interim or annual period beginning on or after December 15, 2011. Management is currently evaluating the impact this ASU may have on the Fund's financial statements.

In May 2011, the FASB issued ASU No. 2011-04 Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and International Financial Reporting Standards (IFRSs). ASU 2011-04 includes common requirements for measurement of and disclosure about fair value between U.S. GAAP and IFRS. ASU 2011-04 will require reporting entities to disclose quantitative information about the unobservable inputs used in the fair value measurements categorized within Level 3 of the fair value hierarchy. In addition, ASU 2011-04 will require reporting entities to make disclosures about amounts and reasons for all transfers in and out of Level 1 and Level 2 fair value measurements. The new and revised disclosures are effective for interim and annual reporting periods beginning after December 15, 2011. Management is currently evaluating the impact this ASU may have on the Fund's financial statements.

Fair Value Measurements

The Fund discloses the classification of its fair value measurements following a three-tier hierarchy based on the

LIBERTY ALL-STAR® GROWTH FUND
NOTES TO FINANCIAL STATEMENTS
December 31, 2011

inputs used to measure fair value. Inputs refer broadly to the assumptions that market participants would use in pricing the asset or liability, including assumptions about risk. Inputs may be observable or unobservable. Observable inputs reflect the assumptions market participants would use in pricing the asset or liability that are developed based on market data obtained from sources independent of the reporting entity. Unobservable inputs reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability that are developed based on the best information available.

Various inputs are used in determining the value of the Fund's investments as of the end of the reporting period. When inputs used fall into different levels of the fair value hierarchy, the level in the hierarchy within which the fair value measurement falls is determined based on the lowest level input that is significant to the fair value measurement in its entirety. The designated input levels are not necessarily an indication of the risk or liquidity associated with these investments. These inputs are categorized in the following hierarchy under applicable financial accounting standards:

- Level 1** Unadjusted quoted prices in active markets for identical investments, unrestricted assets or liabilities that a Fund has the ability to access at the measurement date;
- Level 2** Quoted prices which are not active, quoted prices for similar assets or liabilities in active markets or inputs other than quoted prices that are observable (either directly or indirectly) for substantially the full term of the asset or liability; and
- Level 3** Significant unobservable prices or inputs (including the Fund's own assumptions in determining the fair value of investments) where there is little or no market activity for the asset or liability at the measurement date.

The following is a summary of the inputs used to value the Fund's investments as of December 31, 2011. The Fund recognizes transfers between the levels as of the beginning of the annual period in which the transfer occurred.

Valuation inputs	Investments in Securities at Value*
Level 1 - Unadjusted Quoted Prices	
Common Stocks	\$ 123,814,726
Level 2 - Other Significant Observable Inputs	
Short Term Investment	3,743,000
Level 3 - Significant Unobservable Inputs	
TOTAL	\$ 127,557,726

*See Schedule of Investments for industry classification.

For the year ended December 31, 2011, the Fund did not have any significant transfers between Level 1 and Level 2 securities. The Fund did not have any securities which used significant unobservable inputs (Level 3) in determining fair value.

Distributions to Shareholders

The Fund currently has a policy of paying distributions on its common shares totaling approximately 6% of its net asset value per year. The distributions are payable in four quarterly distributions of 1.5% of the Fund's net asset value at the close of the New York Stock Exchange on the Friday prior to each quarterly declaration date. Distributions to shareholders are recorded on ex-date.

NOTE 3. FEDERAL TAX INFORMATION

The timing and character of income and capital gain distributions are determined in accordance with income tax regulations, which may differ from GAAP. Reclassifications are made to the Fund's capital accounts for permanent tax differences to reflect income and gains available for distribution (or available capital loss carryforwards) under income tax regulations. If, for any calendar year, the total distributions made under the distribution policy exceed the Fund's net investment income and net realized capital gains, the excess will generally be treated as a

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non-taxable return of capital, reducing the shareholder's adjusted basis in his or her shares. If the Fund's net investment income and net realized capital gains for any year exceed the amount distributed under the distribution policy, the Fund may, in its discretion, retain and not distribute net realized capital gains and pay income tax thereon to the extent of such excess.

For the year ended December 31, 2011, permanent book and tax basis differences resulting primarily from a net operating loss and excess distributions were identified and reclassified among the components of the Fund's net assets as follows:

Accumulated Net Investment Income	Accumulated Net Realized Loss	Paid-in Capital
\$3,453,079	(\$1,019,242)	(\$2,433,837)

Net investment loss and net realized gain, as disclosed on the Statement of Operations, and net assets were not affected by this reclassification.

Classification of Distributions to Shareholders

Net investment income/loss) and net realized gain/loss) may differ for financial statement and tax purposes. The character of distributions made during the year from net investment income or net realized gains may differ from its ultimate characterization for federal income tax purposes. Also, due to the timing of dividend distributions, the fiscal year in which amounts are distributed may differ from the fiscal year in which the income or realized gain was recorded by the Funds.

The tax character of distributions paid during the years ended December 31, 2011, and December 31, 2010 was as follows:

	12/31/11	12/31/10
Distributions paid from:		
Ordinary income	\$ 1,994,479	\$ 5,615,921
Long-term capital gain	6,127,216	
Tax return of capital		1,904,168
	\$ 8,121,695	\$ 7,520,089

The Fund used capital loss carry forwards of \$1,800,878 to offset taxable capital gains during the period ended December 31, 2011.

Future realized gains offset by the loss carryforwards are not required to be distributed to shareholders. However, under the Fund's distribution policy, such gains may be distributed to shareholders in the year the gains are realized. Any such gains distributed may be taxable to shareholders as ordinary income.

Under the Regulated Investment Company Modernization Act of 2010 (the Modernization Act), net capital losses recognized in tax years beginning after December 22, 2010 may be carried forward indefinitely, and the character of the losses is retained as short-term and/or long-term. Under the law in effect prior to the Modernization Act, net capital losses were carried forward for eight years and treated as short-term. As a transition rule, the Modernization Act requires that post-enactment net capital losses be used before pre-enactment net capital losses. Additionally, post-enactment capital losses that are carried forward will retain their character as either short-term or long-term losses rather than being considered all short-term as under previous law.

As of December 31, 2011, the components of distributable earnings on a tax basis were as follows:

Accumulated	Net Unrealized	Undistributed Net
Capital Gains/Losses	Appreciation	Investment Income
\$0	\$16,436,017	\$0

The differences between book-basis and tax-basis are primarily due to adjustments related to passive foreign investment companies and deferral of losses from wash sales.

Federal Income Tax Status

For federal income tax purposes, the Fund currently qualifies, and intends to remain qualified, as a regulated investment company under the provisions of Subchapter M of the Internal Revenue Code by distributing substantially all of its investment company taxable net income including realized gain, not offset by capital loss carryforwards, if any, to its shareholders. Accordingly, no provision for federal income or excise taxes has been made.

Management has concluded that the Fund has taken no uncertain tax positions that require recognition in the fi-

ancial statements. The Fund files income tax returns in the U.S. federal jurisdiction and Colorado. For the years ended December 31, 2008, December 31, 2009, December 31, 2010, and December 31, 2011 the Fund's returns are still open to examination by the appropriate taxing authorities.

NOTE 4. FEES AND COMPENSATION PAID TO AFFILIATES

Investment Advisory Fee

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ALPS Advisors, Inc. (AAI) serves as the investment advisor to the Fund. AAI receives a monthly investment advisory fee based on the Fund's average daily net assets at the following annual rates:

Average Daily	Annual
Net Assets	Fee Rate
First \$300 million	0.80%
Over \$300 million	0.72%

AAI retains multiple Portfolio Managers to manage the Fund's investments in various asset classes. AAI pays each Portfolio Manager a portfolio management fee based on the assets of the investment portfolio that they manage. The portfolio management fee is paid from the investment advisory fees collected by AAI and is based on the Fund's average daily net assets at the following annual rates:

Average Daily	Annual
Net Assets	Fee Rate
First \$300 million	0.40%
Over \$300 million	0.36%

Administration, Bookkeeping and Pricing Services Agreement

ALPS Fund Services, Inc. (ALPS) provides administrative and other services to the Fund for a monthly administration fee based on the Fund's average daily net assets at the following annual rates:

Average Daily	Annual
Net Assets	Fee Rate
First \$300 million	0.20%
Over \$300 million	0.18%

In addition, ALPS provides bookkeeping and pricing services to the Fund for an annual fee consisting of: (i) \$38,000 paid monthly plus 0.015% on the average daily net assets for the month; and (ii) a multi-manager fee based on the number of portfolio managers; provided that during any 12-month period, the aggregate amount of (i) shall not exceed \$140,000 (exclusive of out-of-pocket expenses and charges). The Fund also reimburses ALPS for out-of-pocket expenses and charges, including fees payable to third parties for pricing the Fund's portfolio securities and direct internal costs incurred by ALPS in connection with providing fund accounting oversight and monitoring and certain other services.

Fees Paid to Officers

All officers of the Fund, including the Fund's Chief Compliance Officer, are employees of AAI or its affiliates, and receive no compensation from the Fund. The Board of Directors has appointed a Chief Compliance Officer to the Fund in accordance with federal securities regulations.

LIBERTY ALL-STAR® GROWTH FUND
NOTES TO FINANCIAL STATEMENTS
December 31, 2011

NOTE 5. PORTFOLIO INFORMATION

Purchases and Sales of Securities

For the year ended December 31, 2011, the cost of purchases and proceeds from sales of securities, excluding short-term obligations, were \$42,567,605 and \$52,892,885, respectively.

NOTE 6. INDEMNIFICATION

In the normal course of business, the Fund enters into contracts that contain a variety of representations and warranties and which provide general indemnities. The Fund's maximum exposure under these arrangements is unknown, as this would involve future claims against the Fund. Also, under the Fund's organizational documents and by contract, the Directors and Officers of the Fund are indemnified against certain liabilities that may arise out of their duties to the Fund. However, based on experience, the Fund expects the risk of loss due to these warranties and indemnities to be minimal.

NOTE 7. OTHER MATTERS

Maryland Statutes

By resolution of the Board of Directors, the Fund has opted into the Maryland Control Share Acquisition Act and the Maryland Business Combination Act. In general, the Maryland Control Share Acquisition Act provides that control shares of a Maryland corporation acquired in a control share acquisition may not be voted except to the extent approved by shareholders at a meeting by a vote of two-thirds of the votes entitled to be cast on the matter (excluding shares owned by the acquirer and by officers or directors who are employees of the corporation).

Control shares are voting shares of stock which, if aggregated with all other shares of stock owned by the acquirer or in respect of which the acquirer is able to exercise or direct the exercise of voting power (except solely by virtue of a revocable proxy), would entitle the acquirer to exercise voting power in electing directors within certain statutorily defined ranges (one-tenth but less than one-third, one-third but less than a majority, and more than a majority of the voting power). In general, the Maryland Business Combination Act prohibits an interested shareholder (a shareholder that holds 10% or more of the voting power of the outstanding stock of the corporation) of a Maryland corporation from engaging in a business combination (generally defined to include a merger, consolidation, share exchange, sale of a substantial amount of assets, a transfer of the corporation's securities and similar transactions to or with the interested shareholder or an entity affiliated with the interested shareholder) with the corporation for a period of five years after the most recent date on which the interested shareholder became an interested shareholder. At the time of adoption, March 19, 2009, the Board and the Fund were not aware, and currently are not aware, of any shareholder that held control shares or that was an interested shareholder under the statutes.

LIBERTY ALL-STAR® GROWTH FUND
REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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TO THE BOARD OF DIRECTORS AND SHAREHOLDERS OF LIBERTY ALL-STAR® GROWTH FUND, INC.:

We have audited the accompanying statement of assets and liabilities of Liberty All-Star® Growth Fund, Inc. (the Fund), including the schedule of investments, as of December 31, 2011, and the related statement of operations for the year then ended, the statements of changes in net assets for each of the two years in the period then ended, and the financial highlights for each of the five years in the period then ended. These financial statements and financial highlights are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements and financial highlights based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and financial highlights are free of material misstatement. The Fund is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. Our procedures included confirmation of securities owned as of December 31, 2011, by correspondence with the custodian and brokers; where replies were not received from brokers, we performed other auditing procedures. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such financial statements and financial highlights referred to above present fairly, in all material respects, the financial position of Liberty All-Star® Growth Fund, Inc. as of December 31, 2011, the results of its operations for the year then ended, the changes in its net assets for each of the two years in the period then ended, and the financial highlights for each of the five years in the period then ended, in conformity with accounting principles generally accepted in the United States of America.

DELOITTE & TOUCHE LLP

Denver, Colorado

February 16, 2012

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**28 LIBERTY ALL-STAR® GROWTH FUND
AUTOMATIC DIVIDEND REINVESTMENT AND DIRECT PURCHASE PLAN (UNAUDITED)**

Under the Fund's Automatic Dividend Reinvestment and Direct Purchase Plan (the "Plan"), shareholders automatically participate and have all their Fund dividends and distributions reinvested by Computer share Trust Company, N.A., as agent for participants in the Plan (the "Plan Agent"), in additional shares of the Fund. For further information, call Investor Assistance at 1-800-LIB-FUND (1-800-542-3863) weekdays between 9 a.m. and 5 p.m. Eastern Time.

Shareholders whose shares are held in the name of a brokerage firm, bank or other nominee can participate in the Plan only if their brokerage firm, bank or nominee is able to do so on their behalf. Shareholders participating in the Plan through a brokerage firm may not be able to transfer their shares to another brokerage firm and continue to participate in the Plan.

Under the Plan, all dividends and distributions will be reinvested in additional shares of the Fund. Distributions declared payable in cash will be reinvested for the accounts of participants in the Plan in additional shares purchased by the Plan Agent on the open market at prevailing market prices. If, prior to the Plan Agent's completion of such open market purchases, the market price of a share plus estimated brokerage commissions exceeds the net asset value, the remainder of the distribution will be paid in newly issued shares valued at net asset value (but not at a discount of more than 5% from market price). Distributions declared payable in shares (or cash at the option of shareholders) are paid to participants in the Plan entirely in newly issued full and fractional shares valued at the lower of market value or net asset value per share on the valuation date for the distribution (but not at a discount of more than 5 percent from market price). Dividends and distributions are subject to taxation, whether received in cash or in shares.

Plan participants have the option of making additional investments of \$100 or more on a monthly basis up to a maximum of \$120,000 in a calendar year. These direct purchases will be invested on or shortly after the 15th of each month and direct purchases should be sent so as to be received by the Plan Agent at least two business days prior to the next investment date. Barring suspension of trading, direct purchases will be invested within 35 days after such date. Alternatively, participants can authorize an automatic monthly deduction from a checking or savings account at a U.S. bank or other financial institution. A

participant may withdraw a direct purchase by written notice received by the Plan Agent at least two business days before such payment is to be invested.

The Plan Agent maintains all shareholder accounts in the Plan and furnishes confirmations of all transactions in the account, including information needed by shareholders for tax records. Shares in the account of each Plan participant will be held by the Plan Agent in book-entry or non-certificated form in the name of the participant, and each shareholder's proxy will include those shares purchased or received pursuant to the Plan.

There is no charge to participants for reinvesting distributions pursuant to the Plan. The Plan Agent's fees are paid by the Fund, therefore indirectly by shareholders. There are no brokerage charges with respect to shares issued directly by the Fund as a result of dividends or distributions declared payable in shares. However, each participant bears a per share fee (which includes any brokerage commissions the Plan Agent is required to pay) incurred with respect to the Plan Agent's open market purchases in connection with the reinvestment of distributions declared payable in cash.

With respect to direct purchases, the Plan Agent will charge \$1.25 for purchase by check and \$2.00 for automatic investment transactions, plus a per share fee (which includes any brokerage commissions the Plan Agent is required to pay). Sales of shares held in the Plan will also be subject to a service fee of \$2.50 and a per share fee currently \$0.10. All fees described in this summary are subject to change. Please contact the Plan Agent for the current fees.

Shareholders may terminate their participation in the Plan by notifying the Plan Agent by telephone, through the Internet or in writing. Such termination will be effective immediately if notice is received by The Plan Agent prior to any dividend record date and all subsequent dividends and distributions will be paid in cash instead of shares.

The Fund reserves the right to amend or terminate the Plan.

The full text of the Plan may be found on the Fund's website at www.all-starfunds.com.

All 2011 distributions whether received in cash or shares of the Fund consist of the following:

- (1) ordinary dividends, and
- (2) long-term capital gains

The table below details the breakdown of each 2011 distribution for federal income tax purposes.

TAX STATUS OF 2011 DISTRIBUTIONS

DATE PAID	AMOUNT PER SHARE	ORDINARY DIVIDENDS		LONG-TERM CAPITAL GAINS	RETURN OF CAPITAL
		QUALIFIED	NON-QUALIFIED		
01/03/11*	\$0.07		31.29%	68.71%	
03/14/11	\$0.07		31.29%	68.71%	
06/13/11	\$0.07		31.29%	68.71%	
09/12/11	\$0.06		31.29%	68.71%	
01/03/12	\$0.026453		31.29%	68.71%	
01/03/12**	\$0.043547				

* Pursuant to Section 852 of the Internal Revenue Code, the taxability of this distribution will be reported in the Form 1099-DIV for 2011

** Pursuant to Section 852 of the Internal Revenue Code, the taxability of this distribution will be reported in the Form 1099-DIV for 2012

TAX DESIGNATIONS

The Fund designates the following amounts for the fiscal year ended December 31, 2011:

Qualified Dividend Income	0.00%
Corporate Dividends Received Deduction	0.00%

**LIBERTY ALL-STAR® GROWTH FUND
DIRECTORS AND OFFICERS (UNAUDITED)**

The names of the Directors and Officers of the Liberty All-Star® Growth Fund, Inc., the date each was first elected or appointed to office, their term of office, their principal business occupations and other directorships they have held during at least the last five years, are shown below.

INDEPENDENT DIRECTORS

NAME AND ADDRESS*	POSITION WITH GROWTH FUND, LENGTH OF SERVICE AND TERM OF OFFICE	PRINCIPAL OCCUPATION(S) DURING PAST FIVE YEARS	NUMBER OF PORTFOLIOS IN FUND COMPLEX	
			OVERSEEN BY DIRECTOR	OTHER DIRECTORSHIPS HELD
John A. Benning (Age 77)	Director Since 2002; Term expires 2014	Retired (since December 1999)	2	Trustee, Liberty All-Star Equity Fund (since 2002).
Thomas W. Brock (Age 64)	Director Since 2005; Term expires 2012	CEO, StoneHarbor Investment Partners LP (since April, 2006); Adjunct Professor, Columbia University Graduate School of Business (1998-2006).	2	Trustee, Liberty All-Star Equity Fund (since 2005); Trustee and Chairman, Stone Harbor Investment Funds (since 2007).
George R. Gaspari (Age 71)	Director Since 2006; Term Expires 2013	Financial Services Consultant (since 1996)	2	Trustee and Chairman, The Select Sector SPDR Trust (since 1999); Trustee, Liberty All-Star Equity Fund (since 2006).
Richard W. Lowry (Age 75)	Director Since 1994; Term Expires 2013; Chairman since 2004	Private Investor (since 1987)	2	Trustee and Chairman, Liberty All-Star Equity Fund (since 1986).

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John J. Neuhauser (Age 68)	Director Since 1998; Term Expires 2012	President, St. Michael's College (since August, 2007); University Professor December 2005-2007, Boston College (formerly Academic Vice President and Dean of Faculties, from August 1999 to December 2005, Boston College)	2	Trustee, Liberty All-Star Equity Fund (since 1998); Trustee, Columbia Funds Series Trust I (66 funds).
Richard C. Rantzow (Age 73)	Director Since 2006; Term expires 2014	Retired; Chairman of the Board of First Funds (from 1992 to July, 2006)	2	Director, Clough Global Allocation Fund (since 2004), Clough Global Equity Fund (since 2005) and Clough Global Opportunities Fund (since 2006); Trustee, Liberty All-Star Equity Fund (since 2006).

* The address for all Directors and Officers is: c/o ALPS Fund Services, Inc., 1290 Broadway, Suite 1100; Denver, CO 80203.

LIBERTY ALL-STAR® GROWTH FUND
DIRECTORS AND OFFICERS (UNAUDITED)

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INTERESTED DIRECTOR

NAME AND ADDRESS*	POSITION WITH GROWTH FUND, LENGTH OF SERVICE AND TERM OF OFFICE		PRINCIPAL OCCUPATION(S) DURING PAST FIVE YEARS	NUMBER OF PORTFOLIOS IN FUND COMPLEX	
	FUND, LENGTH OF SERVICE AND TERM OF OFFICE	PRINCIPAL OCCUPATION(S) DURING PAST FIVE YEARS		OVERSEEN BY DIRECTOR	OTHER DIRECTORSHIPS HELD
Edmund J. Burke (Age 51)**	Director Since 2006; Term expires 2012	President of ALPS, a DST Company since November 2011. CEO and a Director of ALPS Holdings, Inc. (since 2005); Director, ALPS Advisors (since 2001), ALPS Distributors, Inc. (since 2000) and ALPS (since 2000); President and a Director of ALPS Financial Services, Inc. (1991-2005)	2	President (since 2001), Trustee and Chairman (since 2009), Financial Investors Trust; Trustee and President, Clough Global Allocation Fund (Trustee since 2006, President since 2004); Trustee and President, Clough Global Equity Fund (Trustee since 2006, President since 2005); Trustee and President Clough Global Opportunities Fund (since 2006); Trustee, Liberty All-Star Equity Fund (since 2006); formerly, President Reaves Utility Income Fund and Financial Investors Variable Insurance Trust.	

OFFICERS

NAME AND ADDRESS*	POSITION WITH GROWTH FUND	FIRST YEAR ELECTED OR APPOINTED TO OFFICE	PRINCIPAL OCCUPATION(S) DURING PAST FIVE YEARS
	William R. Parmentier, Jr. (Age 58)	President	1999

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Mark T. Haley, CFA (Age 47)	Senior Vice President	1999	Senior Vice President of the Liberty All-Star Funds (since January, 1999). Vice President, ALPS Advisors, Inc. (since 2006); Vice President, Banc of America Investment Advisors (1999-2006).
Edmund J. Burke (Age 51)	Vice President	2006	President of ALPS, a DST Company since November 2011. CEO and a Director of ALPS Holdings, Inc. (since 2005); Director, ALPS Advisors (since 2001), ALPS Distributors, Inc. (since 2000) and ALPS (since 2000); President and a Director of ALPS Financial Services, Inc. (1991-2005)

* The address for all Directors and Officers is: c/o ALPS Fund Services, Inc., 1290 Broadway, Suite 1100; Denver, CO 80203.

** Mr. Burke is an interested person of the Fund as defined in the Investment Company Act, because he is an officer of ALPS and ALPS Advisors.

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LIBERTY ALL-STAR® GROWTH FUND
DIRECTORS AND OFFICERS (UNAUDITED)
OFFICERS (continued)

NAME AND ADDRESS*	POSITION WITH GROWTH FUND	FIRST YEAR ELECTED OR APPOINTED TO OFFICE	PRINCIPAL OCCUPATION(S) DURING PAST FIVE YEARS
Jeremy O. May (Age 41)	Treasurer	2006	President and Director of ALPS Fund Services, Inc. Mr. May joined ALPS in 1995. Because of his position with ALPS, Mr. May is deemed an affiliate of the Fund as defined under the 1940 Act. Mr. May is currently a Director of Reaves Utility Income Fund and Treasurer of the Liberty All-Star Equity Fund, Clough Global Opportunities Fund, Financial Investors Trust, and Financial Investors Variable Insurance Trust. Mr. May is also on the Board of Directors of the University of Colorado Foundation.
Kimberly R. Storms (Age 39)	Assistant Treasurer	2006	Director of Fund Administration and Senior Vice-President of ALPS Fund Services, Inc. Ms. Storms joined ALPS in 1998. Because of her position with ALPS, Ms. Storms is deemed an affiliate of the Fund as defined under the 1940 Act. Ms. Storms is also Assistant Treasurer of the Liberty All-Star Equity Fund, and Financial Investors Trust and Assistant Secretary of Ameristock Mutual Fund, Inc. She is Treasurer of ALPS ETF Trust and BPV Family of Funds. Ms. Storms is also Chief Financial Officer for the Arbitrage Funds. Ms. Storms was previously Assistant Treasurer of the Clough Global Equity, Clough Global Allocation, Clough Global Opportunities and Reaves Utility Income Funds.
Melanie H. Zimdars (Age 35)	Chief Compliance Officer	2009	Deputy Chief Compliance Officer with ALPS Fund Services, Inc. since September 2009. Principal Financial Officer, Treasurer and Secretary, Wasatch Funds, February 2007 to December 2008. Assistant Treasurer, Wasatch Funds, November 2006 to February 2007. Senior Compliance Officer, Wasatch Advisors, Inc., 2005 to 2008. Ms. Zimdars is currently the CCO for Liberty All-Star Equity Fund, Financial Investors Variable Insurance Trust, ALPS ETF Trust, EGA Emerging Global Shares Trust and BPV Family of Funds.

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Tané T. Tyler (Age 45)	Secretary	2011	Senior Vice President, General Counsel and Secretary of ALPS Holdings, Inc.; ALPS Advisors, Inc.; ALPS Distributors, Inc. and ALPS Fund Services, Inc. Ms. Tyler joined ALPS in 2004. She also serves as Secretary of the ALPS ETF Trust since December 2008 and the Liberty All-Star Equity Fund since 2011. She also served as Secretary, Liberty All-Star Equity Fund and Liberty All-Star Growth Fund from December 2006-2008; Secretary, Reaves Utility Income Fund from December 2004-2007; Secretary, Westcore Funds from February 2005-2007; Secretary, Rrst Funds from November 2004 to January 2007; Secretary, Financial Investors Variable Insurance Trust from December 2004-December 2006. She was previously Vice President and Associate Counsel, Oppenheimer Funds from January 2004 to August 2004 and Vice President and Assistant General Counsel, INVESCO Funds from September 1991 to December 2003.
Alex J. Marks (Age 37)	Assistant Secretary	2011	Employee of ALPS Fund Services, Inc. since June 2011. Mr. Marks also serves as Assistant Secretary of the Liberty All-Star Equity Fund. Mr. Marks was previously Secretary of the Financial Investors Variable Insurance Trust from December 2008 to June 2010.

* The address for all Officers is: c/o ALPS Fund Services, Inc., 1290 Broadway, Suite 1100; Denver, CO 80203.

LIBERTY ALL-STAR® GROWTH FUND 33
RESULTS OF SHAREHOLDER MEETING (UNAUDITED)

A Special Meeting of shareholders of the Liberty All-Star Growth Fund (the Fund) was held on September 30, 2011 (the Meeting). On July 19, 2011, the record date of the Meeting, the Fund had outstanding 30,080,350 shares of common stock. The meeting was held as a result of the acquisition of ALPS Holdings, Inc., ALPS Advisors' parent company, by DST Systems, Inc. At the Meeting, the following matters were voted on and approved by the shareholders. The results of the Special Meeting of shareholders are noted below.

PROPOSAL 1 - To approve a new Investment Advisory Agreement between the Fund and ALPS Advisors, Inc.:

ADVISOR	TOTAL RECORD DATE VOTES	NUMBER OF VOTES		
		AFFIRMATIVE	AGAINST	ABSTAIN
ALPS Advisors, Inc.	19,449,748.171	16,226,187.214	2,481,739.641	741,821.316

ADVISOR	PERCENTAGE OF TOTAL OUTSTANDING SHARES		
	AFFIRMATIVE	AGAINST	ABSTAIN
ALPS Advisors, Inc.	53.943%	8.250%	2.466%

ADVISOR	PERCENTAGE OF VOTES		
	AFFIRMATIVE	AGAINST	ABSTAIN
ALPS Advisors, Inc.	83.427%	12.759%	3.814%

PROPOSAL 2 - To approve a new Portfolio Management Agreement for the Fund with ALPS Advisors, Inc. and each of the following Sub-Advisers:

SUB-ADVISER	TOTAL RECORD DATE VOTES	NUMBER OF VOTES		
		AFFIRMATIVE	AGAINST	ABSTAIN
TCW Investment Management Co.	19,449,748.171	16,249,995.078	2,461,925.838	737,827.255
M.A. Weatherbie & Co., Inc.	19,449,748.171	16,240,450.165	2,467,008.838	742,289.168

SUB-ADVISER	PERCENTAGE OF TOTAL OUTSTANDING SHARES		
	AFFIRMATIVE	AGAINST	ABSTAIN
TCW Investment Management Co.	54.022%	8.184%	2.453%
M.A. Weatherbie & Co., Inc.	53.990%	8.201%	2.468%

SUB-ADVISER	PERCENTAGE OF VOTES		
	AFFIRMATIVE	AGAINST	ABSTAIN
TCW Investment Management Co.	83.549%	12.658%	3.793%
M.A. Weatherbie & Co., Inc.	83.500%	12.684%	3.816%

**LIBERTY ALL-STAR® GROWTH FUND
PRIVACY POLICY (UNAUDITED)**

This Privacy Policy Notice discloses the privacy policies of the Liberty All-Star® Funds, which are advised by ALPS Advisors, Inc. and serviced by ALPS Fund Services, Inc. (the Companies). The Companies and the Funds are referred to herein collectively as we or us.

PROTECTING YOUR PRIVACY IS A TOP PRIORITY

We realize that our ability to offer superior products and services depends on the personal and financial information we collect from you. We value your business and are committed to maintaining your trust. That is why we have made your privacy a top priority.

THE INFORMATION WE HAVE AND WHERE WE GET IT

We collect information about you from a variety of sources, including:

- Information we receive from you on applications or other forms, such as your name, address and phone number; your social security number; and your assets, income and other household information;
- Information about your other transactions with us, our affiliates or others, such as your account balances and transactions history; and
- Information from visitors to our websites provided through online forms, site visitorship data and online information-collecting devices known as cookies.

We do not solicit personal or financial information from minors without written parental consent, nor do we knowingly market products and services to minors.

HOW WE USE THIS INFORMATION

We may share all of the information we collect with the Companies as part of the ordinary course of providing financial products and services to you, for the purpose of offering you new products and services to address your financial needs, for product development purposes and as otherwise required or permitted by law.

To assist in our business dealings with you, we may also share this information with companies (other than the Companies) that perform services, including marketing services, on our behalf (such as vendors that package and mail our investor statements and marketing research firms that enhance our ability to market our products and services). We do not share your information with mailing list or direct marketing companies. Thus, the information you provide to us will not result in unwanted solicitations from third-party marketers.

Finally, we may share this information with other entities outside of the Companies for the following purposes, including among others:

- To respond to a subpoena or court order, judicial process or regulatory inquiry;
- To report suspicious transactions to government agencies and law enforcement officials;
- To protect against fraud;
- To provide products and services with the consent or the direction of a customer; or
- In connection with the proposed or actual sale or merger of all or a portion of a business or operating unit.

Except as described above, and except for information we provide to nonaffiliated third parties as otherwise required or permitted by law, we do not share information about you with nonaffiliated third parties.

SECURITY OF PERSONAL FINANCIAL INFORMATION

We restrict access to information about you to those employees we determine need to know that information to provide products and services to you. We maintain physical, electronic and procedural safeguards to protect this information.

If you provide information to us via our websites in order to view your account activity or conduct transactions, we use 128-bit SSL encryption security with passwords to ensure a safe transmission of data between you and us. Information you provide is stored and transmitted in a secure environment, accessible only by a select group of people who are given a secure passcode to access the information.

We continuously assess new technology for protecting information and upgrade our systems where appropriate.

IF YOU HAVE ANY QUESTIONS OR CONCERNS ABOUT THIS PRIVACY POLICY NOTICE, PLEASE WRITE TO US AT:

ALPS Advisors, Inc.

Attn: Compliance Department

1290 Broadway, Suite 1100

Denver, CO 80203

FORMER CUSTOMERS

If, for whatever reason, our customer relationship with you ends, we will preserve your information as necessary to comply with applicable laws. The measures we take to protect the privacy of customer information, as described in this Privacy Policy Notice, will continue to apply to you. We also will comply with more restrictive state laws to the extent they apply.

We reserve the right to change this Privacy Policy Notice, and any of the policies described herein, at any time. The examples contained in this Privacy Policy Notice are illustrations; they are not intended to be exclusive.

LIBERTY ALL-STAR® GROWTH FUND
DESCRIPTION OF LIPPER BENCHMARK AND MARKET INDICES (UNAUDITED)

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Lipper Multi-Cap Growth Mutual Fund Average

The average of funds that, by portfolio practice, invest in a variety of market capitalization ranges without concentrating 75% of their equity assets in any one market capitalization range over an extended period of time. Multi-Cap growth funds typically have an above-average price-to-earnings ratio, price-to-book ratio, and three-year sales-per-share growth value, compared to the S&P SuperComposite 1500® Index.

NASDAQ Composite Index

Measures all NASDAQ domestic and international based common type stocks listed on the NASDAQ Stock Market.

Russell 3000® Growth Index

Measures the performance of those Russell 3000® companies with higher price-to-book-ratios and higher forecasted growth values. The Russell 3000® Index measures the performance of the 3,000 largest U.S. companies based on total market capitalization, which represents approximately 98% of the investable U.S. equity market.

Russell 1000® Growth Index (Largecap)

Measures the performance of those Russell 1000® companies with higher price-to-book ratios and higher forecasted growth values. The Russell 1000® Index measures the performance of the 1,000 largest companies in the Russell 3000® Index.

Russell Midcap® Growth Index

Measures the performance of those Russell Midcap® companies with higher price-to-book ratios and higher forecasted growth values. The Russell Midcap® Index measures the performance of the 800 smallest companies in the Russell 1000® Index.

Russell 2000® Growth Index (Smallcap)

Measures the performance of those Russell 2000® companies with higher price-to-book ratios and higher forecasted growth values. The Russell 2000® Index measures the performance of the 2,000 smallest companies in the Russell 3000® Index.

S&P 500® Index

A representative sample of 500 leading companies in leading industries of the U.S. economy. Focuses on the large-cap segment of the market with approximately 75% coverage of U.S. equities. You cannot invest directly in an index.

**36 LIBERTY ALL-STAR® GROWTH FUND
NOTES**

Item 2. Code of Ethics.

- (a) The registrant has, as of the end of the period covered by this report, adopted a code of ethics that applies to the registrant's principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions, regardless of whether these individuals are employed by the registrant or a third party.
- (b) The registrant's Board adopted, effective December 10, 2007, a revised code of ethics described in 2(a) above. There have been no revisions to the code since that date.
- (c) During the period covered by this report, there were not any waivers or implicit waivers to a provision of the code of ethics adopted in 2(a) above.

Item 3. Audit Committee Financial Expert.

The registrant's Audit Committee is composed of six of the registrant's independent directors who are not affiliated with the registrant's investment advisor. The Board has determined that each of the audit committee members is financially literate and that at least one member has accounting or related financial management expertise as used in the New York Stock Exchange definitions of the terms.

Under the Sarbanes-Oxley Act, if the Board has not determined that a financial expert, a term based on criteria contained in the Sarbanes-Oxley Act, is serving on the audit committee, it must disclose this fact and explain why the committee does not have such an expert. The Board has determined that none of the members of its audit committee meets the technical requirements of the definition. Moreover, it believes that for the following reasons it is not necessary for a registered investment company such as the registrant, with an audit committee that meets the New York Stock Exchange requirements of financial literacy, to have a financial expert as a member of the committee.

1. The financial statements of and accounting principles applying to the registrant are relatively straightforward and transparent compared to those of operating companies. The significant accounting issues are valuation of securities and other assets (regulated under the Investment Company Act of 1940 (the 1940 Act) and computed daily), accrual of expenses, allocation of joint expenses shared with other entities, such as insurance premiums, and disclosures of all related party transactions. Equally important is knowledge of the tax laws applying to registered investment companies. None of the accounting issues involving corporate America that have received recent publicity, such as sophisticated derivative transactions and special purpose entities, are present in financial reporting for this registered investment company.
2. During the years that the registrant has been filing financial reports under the 1940 Act since its inception in 1986 there has never been a requirement for a financial report or statement to be restated.
3. The current members of the audit committee have many years of aggregate experience serving on this audit committee and/or in the Board's judgment, through this experience and experience with other public corporation's financial affairs, they have an understanding of the relevant generally accepted accounting principles governing the registrant's financial statements, tax laws applying to the registrant, the registrant's internal accounting controls and audit committee functions necessary to satisfy the objectives of the Sarbanes-Oxley Act with respect to the financial statements, auditing process and internal controls of the registrant.
4. The audit committee has the capability of employing a consultant who satisfies the technical definition of a financial expert and will do so from time to time if circumstances warrant.

Item 4. Principal Accountant Fees and Services.

(a) *Audit Fees.* Aggregate Audit Fees billed by the principal accountant for professional services rendered during the fiscal years ended December 31, 2010 and December 31, 2011 are approximately \$24,700 and \$24,700, respectively.

Audit Fees include amounts related to the audit of the registrant's annual financial statements or services that are normally provided by the accountant in connection with statutory and regulatory filings or engagements for those fiscal years.

(b) *Audit-Related Fees.* Aggregate Audit-Related Fees billed to the registrant by the principal accountant for professional services rendered during the fiscal years ended December 31, 2010 and December 31, 2011 are approximately \$0 and \$0, respectively.

Audit-Related Fees include amounts for assurance and related services by the principal accountant that are reasonably related to the performance of the audit of the registrant's financial statements and are not reported in Audit Fees above.

(c) *Tax Fees.* Aggregate Tax Fees billed by the principal accountant to the registrant for professional services rendered during the fiscal years ended December 31, 2010 and December 31, 2011 are approximately \$3,560 and \$3,685, respectively.

(d) *All Other Fees.* Aggregate All Other Fees billed by the principal accountant to the registrant for professional services rendered during the fiscal years ended December 31, 2010 and December 31, 2011 are \$0 and \$0, respectively.

All Other Fees include amounts for products and services provided by the principal accountant, other than the services reported in paragraphs (a) through (c) above.

None of the amounts described in paragraphs (a) through (d) above were approved pursuant to the *de minimis* exception under paragraph (c)(7)(i)(C) of Rule 2-01 of Regulation S-X. During the fiscal years ended December 31, 2010 and December 31, 2011, there were no Audit-Related Fees, Tax Fees and All Other Fees that were approved for services related directly to the operations and financial reporting of the registrant to the investment advisor (not including any sub-advisor whose role is primarily portfolio management and is subcontracted with or overseen by another investment advisor) and any entity controlling, controlled by, or under common control with such investment advisor that provides ongoing services to the registrant under paragraph (c)(7)(ii) of Rule 2-01 of Regulation S-X.

(e)(1) Audit Committee Pre-Approval Policies and Procedures

The registrant's Audit Committee is required to pre-approve the engagement of the registrant's independent accountants to provide audit and non-audit services to the registrant and non-audit services to its investment advisor (not including any sub-advisor whose role is primarily portfolio management and is subcontracted with or overseen by another investment advisor) or any entity controlling, controlled by or under common control with such investment advisor that provides ongoing services to the registrant (*Advisor Affiliates*), if the engagement relates directly to the operations or financial reporting of the registrant, including the fees and other compensation to be paid to the independent accountants.

The Audit Committee has adopted a Policy for Engagement of Independent Accountants for Audit and Non-Audit Services (*Policy*). The Policy sets forth the understanding of the Audit Committees regarding the engagement of the registrant's independent accountants to provide (i) audit and permissible audit-related, tax and other services to the registrant; (ii) non-audit services to the registrant's investment advisor (not including any sub-advisor whose role is primarily portfolio management and is subcontracted with or overseen by another investment advisor) and Advisor Affiliates, if the engagement relates directly to the operations or financial reporting of a Fund; and (iii) other audit and non-audit services to the registrant's investment advisor (not including any sub-advisor whose role is primarily portfolio management and is subcontracted with or overseen by another investment advisor) and Advisor Affiliates. Unless a type of service receives general pre-approval under the Policy, it requires specific pre-approval by the Audit Committee if it is to be provided by the independent accountants. Pre-approval of non-audit services to the registrant, the registrant's investment advisor (not including any sub-advisor whose role is primarily portfolio management and is subcontracted with or overseen by another investment advisor) and Advisor Affiliates may be waived provided that the *de minimis* requirements set forth in the SEC's rules relating to pre-approval of non-audit services are met.

Under the Policy, the Audit Committee may delegate pre-approval authority to any pre-designated member or members who are Independent Directors. The member(s) to whom such authority is delegated must report, for informational purposes only, any pre-approval decisions to the Audit Committee at its next regular meeting. The Audit Committee's responsibilities with respect to the pre-approval of services performed by the independent accountants may not be delegated to management.

The Policy requires the Fund Treasurer and/or Director of Board Administration to submit to the Audit Committee, on an annual basis, a schedule of the types of services that are subject to general pre-approval. The schedule(s) provide a description of each type of service that is subject to general pre-approval and, where possible, will provide estimated fee caps for each instance of providing each service. The Audit Committees will review and approve the types of services and review the projected fees for the next fiscal year and may add to, or subtract from, the list of general pre-approved services from time to time based on subsequent determinations. That approval acknowledges that each Audit Committee is in agreement with the specific types of services that the independent accountants will be permitted to perform.

(e)(2) The percentage of services described in paragraphs (b) through (d) of this Item approved pursuant to the de minimis exception under paragraph (c)(7)(i)(C) of Rule 2-01 of Regulation S-X during both fiscal years ended December 31, 2010 and December 31, 2011 was zero.

(f) Not applicable.

(g) The aggregate non-audit fees billed by the registrant's accountant in each of the last two fiscal years of the Registrant were \$198,560 in 2010 and \$166,685 in 2011. These fees consisted of non-audit fees billed to (i) the Registrant of \$3,560 in 2010 and \$3,685 in 2011 as described in response to paragraph (c) above and (ii) to ALPS Fund Services, Inc., (AFS), an entity under common control with the ALPS Advisors, Inc., the Registrant's investment advisor, \$195,000 in 2010 and \$163,000 in 2011. The non-audit fees billed to AFS related to SAS 70 services and other compliance related matters.

(h) The registrant's Audit Committee has considered whether the provision of non-audit services that were rendered to the registrant's advisor (not including any sub-advisor whose role is primarily portfolio management and is subcontracted with or overseen by another investment advisor), and any entity controlling, controlled by, or under common control with the investment advisor that provides ongoing services to the registrant that were not pre-approved pursuant to paragraph (c)(7)(ii) of Rule 2-01 of Regulation S-X, is compatible with maintaining the principal accountant's independence. The Audit Committee determined that the provision of such services is compatible with maintaining the principal accountant's independence.

Item 5. Audit Committee of Listed Registrants.

The registrant has a separately-designated standing audit committee established in accordance with Section 3(a)(58)(A) of the Securities Exchange Act of 1934 (15 U.S.C. 78c(a)(58)(A)).

As of December 31, 2011, John A. Benning, Thomas W. Brock, George R. Gaspari Richard W. Lowry, John J. Neuhauser, and Richard C. Rantzow are each an independent director and collectively constitute the entire Audit Committee.

Item 6. Schedule.

The registrant's Schedule I Investments in securities of unaffiliated issuers (as set forth in 17 CFR 210.12-12) is included in Item 1 of this Form N-CSR.

Item 7. Disclosure of Proxy Voting Policies and Procedures for Closed-End Management Investment Companies.

The Fund has delegated to ALPS Advisors, Inc. (the Advisor) the responsibility to vote proxies relating to portfolio securities held by the Fund. In deciding to delegate this responsibility to the Advisor, the Fund's Board reviewed and approved the policies and procedures adopted by the Advisor. These included the procedures that the Advisor follows when a vote presents a conflict between the interests of the Fund and its shareholders and the Advisor, its affiliates, its other clients or other persons.

The Advisor's policy is to vote all proxies for Fund securities in a manner considered by the Advisor to be in the best interest of the Fund and its shareholders without regard to any benefit to the Advisor, its affiliates, its other clients or other persons. The Advisor or an affiliate examines each proposal and votes against the proposal, if, in its judgment,

approval or adoption of the proposal would be expected to impact adversely the current or potential market value of the issuer's securities. The Advisor or an affiliate also examines each proposal and votes the proxies against the proposal, if, in its judgment, the proposal would be expected to affect adversely the best interest of the Fund. The Advisor or an affiliate determines the best interest of the Fund in light of the potential economic return on the Fund's investment.

The Advisor addresses potential material conflicts of interest by having predetermined voting guidelines. For those proposals that require special consideration or in instances where special circumstances may require varying from the predetermined guideline, a Proxy Committee determines the vote in the best interest of the Fund, without consideration of any benefit to the Advisor, its affiliates, its other clients or other persons. The Proxy Committee is composed of representatives of equity investments, equity research, compliance, legal and fund administration functions. In addition to the responsibilities described above, the Proxy Committee has the responsibility to review, on a semi-annual basis, the Advisor's proxy voting policies to ensure consistency with internal and regulatory agency policies and to develop additional predetermined voting guidelines to assist in the review of proxy proposals.

The Proxy Committee may vary from a predetermined guideline if it determines that voting on the proposal according to the predetermined guideline would be expected to impact adversely the current or potential market value of the issuer's securities or to affect adversely the best interest of the client. References to the best interest of a client refer to the interest of the client in terms of the potential economic return on the client's investment. In determining the vote on any proposal, the Proxy Committee does not consider any benefit other than benefits to the owner of the securities to be voted. A member of the Proxy Committee is prohibited from voting on any proposal for which he or she has a conflict of interest by reason of a direct relationship with the issuer or other party affected by a given proposal. Persons making recommendations to the Proxy Committee or its members are required to disclose to the Committee any relationship with a party making a proposal or other matter known to the person that would create a potential conflict of interest.

The Advisor has retained Institutional Shareholder Services (ISS), a third party vendor, to implement its proxy voting process. ISS provides proxy analysis, record keeping services and vote disclosure services.

Item 8. Portfolio Managers of Closed-End Management Investment Companies.

M.A. Weatherbie & Co., Inc. (M.A. Weatherbie)

MANAGEMENT. Matthew A. Weatherbie, CFA is the person responsible for managing the portion of the Fund allocated to M.A. Weatherbie. Mr. Weatherbie is the Chief Investment Officer, President and Lead Portfolio Manager of M.A. Weatherbie, which he founded in December 1995. Mr. Weatherbie's prior experience as a portfolio manager was at Putnam Investments from 1983-1995 where he managed the Putnam Voyager Fund. Between 1973 and 1983, he was a securities analyst and then a portfolio manager of MFS (Massachusetts Financial Services) Emerging Growth Trust. He has earned the right to use the CFA Institute Chartered Financial Analyst designation.

OTHER ACCOUNTS. The table below provides information regarding the other accounts managed by Matthew A. Weatherbie as of December 31, 2011:

Type of Account	Number of Accounts Managed	Total Assets	Number of Accounts	Assets Managed for
		Managed	Managed For which	which Advisory Fee is
		(in millions)	Advisory Fee is	Performance Based
			Performance Based	(in millions)
Matthew A. Weatherbie				
Registered Investment Companies	2	\$71	0	N/A
Other pooled investment vehicles	2	\$109	2	\$109
Other accounts	24	\$730	0	N/A

COMPENSATION STRUCTURE. As the sole owner of M.A. Weatherbie, Matthew A. Weatherbie's compensation is directly related to the overall profitability of M.A. Weatherbie. Mr. Weatherbie receives a fixed base salary, profit sharing (pre-tax/deferred compensation) and earnings from the company, if any, at year end under the rules of Sub-Chapter S of the Internal Revenue Code. All compensation is pre-tax. There is no difference between the method used to determine compensation with respect to the Fund and the other accounts managed by Mr. Weatherbie, except that a performance allocation may be payable by the other pooled investment vehicles managed by M.A. Weatherbie.

OWNERSHIP BY PORTFOLIO MANAGER: None

MATERIAL CONFLICTS OF INTEREST: None

TCW Investment Management Company (TCW)

MANAGEMENT. Matthew A. Weatherbie, CFA is the person responsible for managing the portion of the Fund allocated to M.A. Weatherbie. Mr. Weatherbie is the Chief Investment Officer, President and Lead Portfolio Manager of M.A. Weatherbie, which he founded in December 1995. Mr. Weatherbie's prior experience as a portfolio manager was at Putnam Investments from 1983-1995 where he managed the Putnam Voyager Fund. Between 1973 and 1983, he was a securities analyst and then a portfolio manager of MFS (Massachusetts Financial Services) Emerging Growth Trust. He has earned the right to use the CFA Institute Chartered Financial Analyst designation.

OTHER ACCOUNTS. The table below provides information regarding the other accounts managed by Matthew A. Weatherbie as of December 31, 2011:

Type of Account	Number of Accounts Managed	Total Assets Managed (in millions)	Number of Accounts	Assets Managed for
			Managed For which Advisory Fee is Performance Based	which Advisory Fee is Performance Based (in millions)
Matthew A. Weatherbie				
Registered Investment Companies	2	\$71	0	N/A
Other pooled investment vehicles	2	\$109	2	\$109
Other accounts	24	\$730	0	N/A

COMPENSATION STRUCTURE. As the sole owner of M.A. Weatherbie, Matthew A. Weatherbie's compensation is directly related to the overall profitability of M.A. Weatherbie. Mr. Weatherbie receives a fixed base salary, profit sharing (pre-tax/deferred compensation) and earnings from the company, if any, at year end under the rules of Sub-Chapter S of the Internal Revenue Code. All compensation is pre-tax. There is no difference between the method used to determine compensation with respect to the Fund and the other accounts managed by Mr. Weatherbie, except that a performance allocation may be payable by the other pooled investment vehicles managed by M.A. Weatherbie.

OWNERSHIP BY PORTFOLIO MANAGER: None

MATERIAL CONFLICTS OF INTEREST: None

Item 9. Purchases of Equity Securities by Closed-End Management Investment Company and Affiliated Purchasers.

During the fiscal year ended December 31, 2011, there were no purchases made by or on behalf of the registrant or any affiliated purchaser, as defined in Rule 10b-18(a)(3) under the Securities Exchange Act of 1934 (Exchange Act), of shares or other units of any class of the registrant's equity securities that are registered by the registrant pursuant to Section 12 of the Exchange Act.

Item 10. Submission of Matters to a Vote of Security Holders.

There have not been any material changes to the procedures by which shareholders may recommend nominees to the registrant's board of directors, since those procedures were last disclosed in response to the requirements of Item 7(d)(2)(ii)(G) of Schedule 14A or this Item.

Item 11. Controls and Procedures.

- (a) The registrant's principal executive officer and principal financial officers, based on their evaluation of the registrant's disclosure controls and procedures as of a date within 90 days of the filing of this report, have concluded that such controls and procedures are adequately designed to ensure that information required to be disclosed by the registrant in Form N-CSR is accumulated and communicated to the registrant's management, including the principal executive officer and principal financial officer, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.
- (b) There were no changes in the registrant's internal control over financial reporting that occurred during the registrant's second fiscal quarter of the period covered by this report that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.

Item 12. Exhibits.

(a)(1) The registrant's Code of Ethics for Principal Executive and Senior Financial Officers that applies to the registrant's principal executive officer and principal financial officer and as described in Item 2 hereof is incorporated by reference to Exhibit-99-12(a)(1) to the registrant's Form N-CSR for its fiscal year ended December 31, 2007, filed electronically with the Securities and Exchange Commission on March 7, 2008.

(a)(2) Certifications pursuant to Rule 30a-2(a) under the Investment Company Act of 1940 (17 CFR 270.30a-2(a)) attached hereto as Exhibit 99.CERT.

(a)(3) Not applicable.

(b) Certification pursuant to Rule 30a-2(b) under the Investment Company Act of 1940 (17 CFR 270.30a-2(b)) attached hereto as Exhibit 99.906CERT.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

LIBERTY ALL-STAR GROWTH FUND, INC.

By: /s/ William R. Parmentier, Jr.
William R. Parmentier, Jr. (Principal Executive Officer)
President

Date: March 5, 2012

Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

LIBERTY ALL-STAR GROWTH FUND, INC.

By: /s/ William R. Parmentier, Jr.
William R. Parmentier, Jr. (Principal Executive Officer)
President

Date: March 5, 2012

By: /s/ Jeremy O. May
Jeremy O. May (Principal Financial Officer)
Treasurer

Date: March 5, 2012