NEWFIELD EXPLORATION CO /DE/
Form 10-Q
July 30, 2014

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q
(Mark One)

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

For the Quarterly Period Ended June 30, 2014
OR

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

For the Transition Period from to .

Commission File Number: 1-12534

NEWFIELD EXPLORATION COMPANY
(Exact name of registrant as specified in its charter)

Delaware	72-1133047
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)

4 Waterway Square Place
Suite 100
The Woodlands, Texas 77380
(Address and Zip Code of principal executive offices)

(281) 210-5100
(Registrant's telephone number, including area code)

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

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

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

Large accelerated filer þ	Accelerated filer ¨	Non-accelerated filer ¨	Smaller reporting company ¨

(Do not check if a smaller reporting company)

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

As of July 28, 2014, there were 136,653,324 shares of the registrant’s common stock, par value $0.01 per share, outstanding.

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NEWFIELD EXPLORATION COMPANY
CONSOLIDATED BALANCE SHEET
(In millions, except share data)
(Unaudited)

	June 30, 2014	December 31, 2013
ASSETS		
Current assets:		
Cash and cash equivalents	$36	$95
Restricted cash	—	90
Accounts receivable	384	474
Inventories	41	163
Deferred taxes	34	22
Other current assets	33	57
Total current assets	528	901
Oil and gas properties — full cost method ($1,398 and $1,300 were excluded from amortization at June 30, 2014 and December 31, 2013, respectively)	15,876	16,407
Less — accumulated depreciation, depletion and amortization	(7,691)	(8,306)
Total oil and gas properties, net	8,185	8,101
Other property and equipment, net	180	174
Derivative assets	5	26
Long-term investments	26	63
Deferred taxes	—	19
Other assets	32	37
Total assets	$8,956	$9,321
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$51	$76
Accrued liabilities	879	978
Deferred liabilities	—	90
Advances from joint owners	27	30
Asset retirement obligations	5	54
Derivative liabilities	167	62
Total current liabilities	1,129	1,290
Other liabilities	35	38
Derivative liabilities	58	—
Long-term debt	3,077	3,694
Asset retirement obligations	108	201
Deferred taxes	1,307	1,142
Total long-term liabilities	4,585	5,075
Commitments and contingencies (Note 12)		
Stockholders' equity:		
Preferred stock ($0.01 par value, 5,000,000 shares authorized; no shares issued)	—	—
	1	1

Common stock ($0.01 par value, 200,000,000 shares authorized at June 30, 2014 and December 31, 2013; 136,828,201 and 136,682,631 shares issued at June 30, 2014 and December 31, 2013, respectively)		
Additional paid-in capital	1,556	1,539
Treasury stock (at cost, 206,109 and 460,914 shares at June 30, 2014 and December 31, 2013, respectively)	(6)	(13)
Accumulated other comprehensive gain (loss)	2	2
Retained earnings	1,689	1,427
Total stockholders' equity	3,242	2,956
Total liabilities and stockholders' equity	$8,956	$9,321

The accompanying notes to consolidated financial statements are an integral part of this statement.

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NEWFIELD EXPLORATION COMPANY
CONSOLIDATED STATEMENT OF OPERATIONS
(In millions, except per share data)
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Oil, gas and NGL revenues	$608	$435	$1,161	$805
Operating expenses:				
Lease operating	119	107	230	195
Production and other taxes	29	21	54	33
Depreciation, depletion and amortization	212	164	400	311
General and administrative	68	54	124	99
Total operating expenses	428	346	808	638
Income from operations	180	89	353	167
Other income (expense):				
Interest expense	(51)	(50)	(102)	(101)
Capitalized interest	13	13	26	27
Commodity derivative income (expense)	(174)	117	(270)	33
Other, net	1	2	3	4
Total other income (expense)	(211)	82	(343)	(37)
Income (loss) from continuing operations before income taxes	(31)	171	10	130
Income tax provision (benefit):				
Current	—	—	—	—
Deferred	(8)	65	9	49
Total income tax provision (benefit)	(8)	65	9	49
Income (loss) from continuing operations	(23)	106	1	81
Income (loss) from discontinued operations, net of tax	1	5	261	22
Net income (loss)	$(22)	$111	$262	$103
Earnings (loss) per share:				
Basic:				
Income (loss) from continuing operations	$(0.16)	$0.78	$0.01	$0.60
Income (loss) from discontinued operations	—	0.04	1.91	0.16
Basic earnings (loss) per share	$(0.16)	$0.82	$1.92	$0.76
Diluted:				
Income (loss) from continuing operations	$(0.16)	$0.78	$0.01	$0.60
Income (loss) from discontinued operations	—	0.04	1.89	0.16
Diluted earnings (loss) per share	$(0.16)	$0.82	$1.90	$0.76
Weighted-average number of shares outstanding for basic earnings (loss) per share	136	135	136	135
Weighted-average number of shares outstanding for diluted earnings (loss) per share	136	136	138	136

The accompanying notes to consolidated financial statements are an integral part of this statement.

NEWFIELD EXPLORATION COMPANY
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
(In millions)
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Net income (loss)	$(22)	$111	$262	$103
Other comprehensive income (loss):				
Unrealized gain (loss) on investments, net of tax	—	1	—	3
Other comprehensive income (loss), net of tax	—	1	—	3
Comprehensive income (loss)	$(22)	$112	$262	$106

The accompanying notes to consolidated financial statements are an integral part of this statement.

NEWFIELD EXPLORATION COMPANY
CONSOLIDATED STATEMENT OF CASH FLOWS
(In millions)
(Unaudited)

	Six Months Ended June 30, 2014	2013
Cash flows from operating activities:		
Net income (loss)	$262	$103
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation, depletion and amortization	437	439
Deferred tax provision (benefit)	153	68
Stock-based compensation	35	17
Commodity derivative (income) expense	270	(33)
Cash receipts (payments) related to derivative contracts, net	(86)	35
Gain on sale of Malaysia business	(388)	—
Other, net	(2)	4
Changes in operating assets and liabilities:		
(Increase) decrease in accounts receivable	76	(14)
(Increase) decrease in inventories	(6)	20
(Increase) decrease in other current assets	(5)	8
(Increase) decrease in other assets	1	2
Increase (decrease) in accounts payable and accrued liabilities	(14)	(40)
Increase (decrease) in advances from joint owners	(2)	5
Increase (decrease) in other liabilities	2	(4)
Net cash provided by (used in) operating activities	733	610
Cash flows from investing activities:		
Additions to oil and gas properties	(1,004)	(876)
Acquisitions of oil and gas properties	(15)	(3)
Proceeds from sales of oil and gas properties	12	19
Proceeds received from sale of Malaysia business, net	809	—
Additions to other property and equipment	(17)	(14)
Redemptions of investments	39	1
Net cash provided by (used in) investing activities	(176)	(873)
Cash flows from financing activities:		
Proceeds from borrowings under credit arrangements	1,134	1,425
Repayments of borrowings under credit arrangements	(1,752)	(1,194)
Debt issue costs	—	(4)
Proceeds from issuances of common stock	2	1
Purchases of treasury stock, net	—	(2)
Net cash provided by (used in) financing activities	(616)	226
Increase (decrease) in cash and cash equivalents	(59)	(37)
Cash and cash equivalents, beginning of period	95	88
Cash and cash equivalents, end of period	$36	$51

The accompanying notes to consolidated financial statements are an integral part of this statement.

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NEWFIELD EXPLORATION COMPANY
CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
(In millions)
(Unaudited)

	Common Stock		Treasury Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Gain (Loss)	Total Stockholders' Equity
	Shares	Amount	Shares	Amount				
Balance, December 31, 2013	136.7	$1	(0.5)	$(13)	$1,539	$1,427	$ 2	$2,956
Issuances of common stock	0.1	—			2			2
Stock-based compensation					22			22
Treasury stock, net			0.3	7	(7)			—
Net income						262		262
Balance, June 30, 2014	136.8	$1	(0.2)	$(6)	$1,556	$1,689	$ 2	$3,242

The accompanying notes to consolidated financial statements are an integral part of this statement.

NEWFIELD EXPLORATION COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. Organization and Summary of Significant Accounting Policies:

Organization and Principles of Consolidation

We are an independent energy company engaged in the exploration, development and production of crude oil, natural gas and natural gas liquids (NGLs). Our principal areas of operation include the Mid-Continent, the Rocky Mountains and the onshore Gulf Coast regions of North America.

Our consolidated financial statements include the accounts of Newfield Exploration Company, a Delaware corporation, and its subsidiaries. We proportionately consolidate our interests in oil and natural gas exploration and production ventures and partnerships in accordance with industry practice. All significant intercompany balances and transactions have been eliminated. Unless otherwise specified or the context otherwise requires, all references in these notes to "Newfield," "we," "us," "our" or the "Company" are to Newfield Exploration Company and its subsidiaries.

These unaudited consolidated financial statements reflect, in the opinion of our management, all adjustments, consisting only of normal and recurring adjustments, necessary to fairly state our financial position as of and results of operations for the periods presented. These financial statements have been prepared in accordance with the instructions to Form 10-Q and, therefore, do not include all disclosures required for financial statements prepared in conformity with accounting principles generally accepted in the United States of America. Interim period results are not necessarily indicative of results of operations or cash flows for a full year.

These consolidated financial statements and notes should be read in conjunction with our audited consolidated financial statements and the notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2013.

Discontinued Operations

Our businesses in Malaysia and China were classified as held for sale in the second quarter of 2013. Accordingly, the results of our international operations are reflected separately as discontinued operations in the consolidated statement of operations on a line immediately after "Income (loss) from continuing operations." See Note 3, "Discontinued Operations," for additional disclosures, as well as information regarding the sale of our Malaysia business, which closed in February 2014. These financial statements and notes are inclusive of our international operations unless otherwise noted.

Use of Estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires our management to make estimates and assumptions that affect the reported amounts of assets and liabilities; disclosure of contingent assets and liabilities at the date of the financial statements; the reported amounts of revenues and expenses during the reporting period; and the quantities and values of proved oil, natural gas and NGL reserves used in calculating depletion and assessing impairment of our oil and gas properties. Actual results could differ significantly from these estimates. Our most significant estimates are associated with the quantities of proved oil, natural gas and NGL reserves and the fair value of our derivative positions and our stock-based compensation liability awards.

Reclassifications

Certain reclassifications have been made to prior years' reported amounts in order to conform to the current year presentation. These reclassifications did not impact our net income (loss), stockholders' equity or cash flows.

Restricted Cash and Deferred Liabilities

Restricted cash and the associated deferred liability on our consolidated balance sheet at December 31, 2013, represent a deposit received in the fourth quarter of 2013 related to the sale of our Malaysia business. Amounts were contractually restricted until the transaction closed on February 10, 2014. See Note 3, "Discontinued Operations," for further discussion about the close of the sale of our Malaysia business.

Oil and Gas Properties

We use the full cost method of accounting for our oil and gas producing activities. Under this method, all costs incurred in the acquisition, exploration and development of oil and gas properties, including salaries, benefits, interest and other internal costs directly attributable to these activities, are capitalized into cost centers that are established on a country-by-country basis. We capitalized approximately $65 million and $50 million of interest and direct internal costs during the three-month periods ended June 30, 2014 and 2013, respectively, and $120 million and $100 million during the six-month periods ended June 30, 2014 and 2013, respectively.

Proceeds from the sale of oil and gas properties are applied to reduce the costs in the applicable cost center unless the reduction would significantly alter the relationship between capitalized costs and proved reserves, in which case a gain or loss is recognized. During the first quarter of 2014, we recognized a gain of approximately $388 million ($249 million, after tax) on the sale of our Malaysia business, which constituted the entire full cost pool for Malaysia. See Note 3, "Discontinued Operations," for further discussion.

If net capitalized costs of oil and gas properties exceed the cost center ceiling, we are subject to a ceiling test writedown to the extent of such excess. If required, a ceiling test writedown reduces earnings and stockholders' equity in the period of occurrence and, holding other factors constant, results in lower depreciation, depletion and amortization expense in future periods. We did not have a ceiling test writedown in any periods presented.

New Accounting Requirements

In June 2014, the FASB issued guidance regarding stock-based compensation awards with targets that affect vesting and that could be achieved after the requisite service period. The guidance applies on a prospective basis to awards that are granted or modified on or after the effective date. The guidance is effective for annual periods beginning after December 15, 2015, and interim periods within those annual periods. We do not expect adoption of this guidance to have a material impact on our financial position or results of operations.

In May 2014, the FASB issued guidance regarding the accounting for revenue from contracts with customers. The guidance may be applied retrospectively or using a modified retrospective approach to adjust retained earnings. The guidance is effective for interim and annual periods beginning on or after December 15, 2016. We are currently evaluating the impact of this guidance on our financial statements.

In April 2014, the FASB issued guidance regarding the reporting of discontinued operations. The guidance applies prospectively to new disposals and new classifications of disposal groups as held for sale after the effective date. The guidance is effective for interim and annual periods beginning on or after December 15, 2014. We do not expect adoption of this guidance to have a material impact on our financial position or results of operations.

2. Earnings Per Share:

The following is the calculation of basic and diluted weighted-average shares outstanding and earnings per share (EPS) for the indicated periods:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
	(In millions, except per share data)			
Income (numerator):				
Income (loss) from continuing operations	$(23)	$106	$1	$81
Income (loss) from discontinued operations, net of tax	1	5	261	22
Net income (loss)	$(22)	$111	$262	$103
Weighted-average shares (denominator):				
Weighted-average shares — basic	136	135	136	135
Dilution effect of stock options and unvested restricted stock and restricted stock units outstanding at end of period[1] [2]	—	1	2	1
Weighted-average shares — diluted	136	136	138	136
Earnings (loss) per share:				
Basic:				
Income (loss) from continuing operations	$(0.16)	$0.78	$0.01	$0.60
Income (loss) from discontinued operations	—	0.04	1.91	0.16
Basic earnings (loss) per share	$(0.16)	$0.82	$1.92	$0.76
Diluted:				
Income (loss) from continuing operations	$(0.16)	$0.78	$0.01	$0.60
Income (loss) from discontinued operations	—	0.04	1.89	0.16
Diluted earnings (loss) per share	$(0.16)	$0.82	$1.90	$0.76

(1) Excludes 0.8 million shares of unvested restricted stock or restricted stock units and stock options for the six months ended June 30, 2014 and 3.4 million and 3.7 million shares for the three and six months ended June 30, 2013 because including the effect would have been anti-dilutive.

(2) The effect of unvested restricted stock or restricted stock units and stock options has not been included in the calculation of the shares outstanding for diluted EPS for the three months ended June 30, 2014, as their effect would have been anti-dilutive. Had we recognized income from continuing operations for this period, incremental shares attributable to the assumed vesting of unvested restricted stock and restricted stock units and the assumed exercise of outstanding stock options would have increased diluted weighted-average shares outstanding by 1.6 million shares for the three months ended June 30, 2014.

3. Discontinued Operations:

Malaysia Update

In February 2014, Newfield International Holding Inc., a wholly-owned subsidiary of the Company, closed the stock purchase agreement to sell our Malaysia business to SapuraKencana Petroleum Berhad, a Malaysian public company, for $898 million (subject to customary purchase price adjustments). We recorded a gain in the first quarter of 2014 of approximately $388 million ($249 million, after tax).

China Update

In August 2013, during the installation of the LF-7 topside facilities by a third-party contractor, a hydraulic jacking system malfunctioned and the installation was suspended. Activities are substantially complete to repair the damage to the jacket. Subject to favorable weather conditions, we plan to install the LF-7 topside facilities in the third quarter of 2014 and expect to achieve first oil production in late 2014. We continue to pursue the sale of our China business.

Income from discontinued operations from our China business was $1 million ($1 million, net of tax) for the three months ended June 30, 2014 and $10 million ($3 million, net of tax) for the six months ended June 30, 2014. Income from discontinued operations from our China business was $4 million ($1 million, net of tax) for the three months ended June 30, 2013 and $17 million ($5 million, net of tax) for the six months ended June 30, 2013.

Results of Discontinued Operations

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
	(In millions)			
Oil and gas revenues[(1)]	$4	$188	$112	$470
Operating expenses	3	159	81	373
Income from discontinued operations	1	29	31	97
Other income (expense)	—	(1)	—	(1)
Gain on sale of Malaysia business	—	—	388	—
Income from discontinued operations before income taxes	1	28	419	96
Income tax provision (benefit):				
Current	—	6	14	55
Deferred	—	17	144	19
Total income tax provision (benefit)[(2)]	—	23	158	74
Income from discontinued operations, net of tax	$1	$5	$261	$22

(1) Certain payments to foreign governments made on our behalf that are part of the revenue process are recorded as a reduction of the related oil and gas revenues.
(2) Total income taxes rounded to zero for the three months ended June 30, 2014.

Income Taxes

Historically, our international effective tax rate has been approximately 37%. As a result of our December 2012 decision to repatriate earnings from our international operations, we have experienced higher international effective tax rates due to these earnings being taxed both in the U.S. and the local countries. We expect this to continue until we are fully divested of our international businesses. For the six months ended June 30, 2014, our effective tax rate was 37.9% as the majority of our income from discontinued operations resulted from the gain on the sale of our Malaysia business, which was only taxable in the U.S. The effective tax rate for our discontinued operations for the three months ended June 30, 2013 was 81.1% and for the six months ended June 30, 2013 was 76.7% due to our international earnings being taxed both in the U.S and the local country.

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NEWFIELD EXPLORATION COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
(Unaudited)

Assets and Liabilities in the Consolidated Balance Sheet Attributable to Discontinued Operations

	June 30, 2014	December 31, 2013
	(In millions)	
Current assets:		
Cash and cash equivalents	$31	$84
Accounts receivable	82	200
Inventories	12	130
Other current assets	6	33
Total current assets	131	447
Noncurrent assets:		
Oil and gas properties, net of accumulated depreciation, depletion and amortization of $116 and $1,121 as of June 30, 2014 and December 31, 2013, respectively	503	989
Deferred taxes	—	19
Other assets	1	4
Total noncurrent assets	504	1,012
Total assets	$635	$1,459
Current liabilities:		
Accounts payable	$3	$38
Accrued liabilities	191	324
Asset retirement obligations	—	49
Other current liabilities	—	18
Total current liabilities	194	429
Noncurrent liabilities:		
Asset retirement obligations	2	86
Deferred taxes	105	129
Other liabilities	—	11
Total noncurrent liabilities	107	226
Total liabilities	$301	$655

Inventories

Substantially all of the crude oil from our international offshore operations is produced into floating production, storage and off-loading vessels (FPSOs) and “lifted” and sold periodically as barge quantities are accumulated. At December 31, 2013, the crude oil inventory from our Malaysia and China operations consisted of approximately 1.1 million barrels of crude oil valued at cost of $90 million and is included in the "Inventories" line item in the preceding table and in our consolidated balance sheet. Cost for purposes of the carrying value of oil inventory is the sum of production costs and depletion expense. The sale of our Malaysia business in February 2014 reduced crude oil inventory to a de minimis amount. Remaining inventories at June 30, 2014 primarily consisted of tubular goods and well equipment for use in our oil and natural gas operations in China.

Oil and Gas Properties

As of June 30, 2014, all of our oil and gas properties in our discontinued operations were subject to amortization. As of December 31, 2013, approximately $115 million of our oil and gas properties in our discontinued operations were not subject to amortization.

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NEWFIELD EXPLORATION COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
(Unaudited)

Asset Retirement Obligations

During the six months ended June 30, 2014, asset retirement obligations were reduced by $133 million as a result of the sale of our Malaysia business in February 2014.

4. Oil and Gas Assets:

Property and Equipment

Property and equipment consisted of the following:

	June 30, 2014	December 31, 2013
	(In millions)	
Oil and gas properties:		
Subject to amortization	$14,478	$15,107
Not subject to amortization	1,398	1,300
Gross oil and gas properties	15,876	16,407
Accumulated depreciation, depletion and amortization	(7,691)	(8,306)
Net oil and gas properties	$8,185	$8,101
Other property and equipment:		
Furniture, fixtures and equipment	149	139
Gathering systems and equipment	109	104
Accumulated depreciation and amortization	(78)	(69)
Net other property and equipment	$180	$174

Oil and gas properties not subject to amortization as of June 30, 2014, consisted of the following:

	Costs Incurred In				
	2014	2013	2012	2011 and Prior	Total
	(In millions)				
Acquisition costs	$84	$199	$96	$430	$809
Exploration costs	301	19	2	7	329
Development costs	16	8	31	16	71
Fee mineral interests	—	1	—	23	24
Capitalized interest	26	53	67	19	165
Total oil and gas properties not subject to amortization	$427	$280	$196	$495	$1,398

5. Derivative Financial Instruments:

Commodity Derivative Instruments

We utilize derivative strategies that consist of either a single derivative instrument or a combination of instruments to manage the variability in cash flows associated with the forecasted sale of our future domestic oil and natural gas production. While the use of derivative instruments limits the downside risk of adverse commodity price movements, their use also may limit future income from favorable commodity price movements.

Our oil and gas derivative contracts are settled based upon reported prices on the NYMEX. The estimated fair value of these contracts is based upon various factors, including closing exchange prices on the NYMEX, over-the-counter quotations, estimated volatility, non-performance risk adjustments using credit default swaps and time to maturity. The calculation of the fair value of options requires the use of an option-pricing model. See Note 8, “Fair Value Measurements.”

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NEWFIELD EXPLORATION COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
(Unaudited)

At June 30, 2014, we had outstanding derivative positions as set forth in the tables below.

Natural Gas

Period and Type of Instrument	Volume in MMMBtus	NYMEX Contract Price Per MMBtu Swaps (Weighted Average)	Sold Puts (Weighted Average)	Collars Floors (Weighted Average)	Collars Ceilings (Weighted Average)	Estimated Fair Value Asset (Liability) (In millions)
2014:						
Fixed-price swaps	43,240	$3.98	—	—	—	$(21)
Collars	11,960	—	—	$3.75	$4.62	(2)
2015:						
Fixed-price swaps	49,275	4.28	—	—	—	3
Collars	38,325	—	—	3.93	4.74	1
Total						$(19)

Crude Oil

Period and Type of Instrument	Volume in MBbls	NYMEX Contract Price Per Bbl Swaps (Weighted Average)	Sold Puts (Weighted Average)	Collars Floors (Weighted Average)	Collars Ceilings (Weighted Average)	Estimated Fair Value Asset (Liability) (In millions)
2014:						
Fixed-price swaps	4,048	$89.91	—	—	—	$(54)
Fixed-price swaps with sold puts	2,944	95.16	$75.00	—	—	(24)
Collars with sold puts	1,104	—	75.83	$90.83	$102.93	(4)
2015:						
Fixed-price swaps	8,115	90.37	—	—	—	(53)
Fixed-price swaps with sold puts	6,989	90.19	69.47	—	—	(47)
Collars with sold puts	365	—	75.00	90.00	103.50	—
2016:						
Fixed-price swaps with sold puts	6,766	91.01	74.53	—	—	(16)
Collars with sold puts	4,938	—	75.00	90.00	95.86	(2)
2017:						
Fixed-price swaps with sold puts	450	91.52	75.00	—	—	(1)
Collars with sold puts	813	—	75.00	90.00	94.93	—
Total						$(201)

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NEWFIELD EXPLORATION COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
(Unaudited)

Additional Disclosures about Derivative Instruments

We had derivative financial instruments recorded in our consolidated balance sheet as assets (liabilities) at their respective estimated fair value, as set forth below.

	Derivative Assets				Derivative Liabilities			
	Gross Fair Value	Offset in Balance Sheet	Balance Sheet Location Current	Noncurrent	Gross Fair Value	Offset in Balance Sheet	Balance Sheet Location Current	Noncurrent
	(In millions)				(In millions)			
June 30, 2014								
Natural gas positions	$5	$—	$—	$5	$(24)	$—	$(24)	$—
Oil positions	8	(8)	—	—	(209)	8	(143)	(58)
Total	$13	$(8)	$—	$5	$(233)	$8	$(167)	$(58)
December 31, 2013								
Natural gas positions	$11	$(2)	$—	$9	$(22)	$2	$(20)	$—
Oil positions	26	(9)	—	17	(51)	9	(42)	—
Total	$37	$(11)	$—	$26	$(73)	$11	$(62)	$—

The amount of gain (loss) recognized in “Commodity derivative income (expense)” in our consolidated statement of operations related to our derivative financial instruments follows:

	Three Months Ended June 30, 2014	2013	Six Months Ended June 30, 2014	2013
	(In millions)			
Derivatives not designated as hedging instruments:				
Realized gain (loss) on natural gas positions	$(12)	$5	$(34)	$32
Realized gain (loss) on oil positions	(35)	3	(52)	3
Total realized gain (loss)	(47)	8	(86)	35
Unrealized gain (loss) on natural gas positions	9	70	(8)	(18)
Unrealized gain (loss) on oil positions	(136)	39	(176)	16
Total unrealized gain (loss)	(127)	109	(184)	(2)
Total	$(174)	$117	$(270)	$33

The use of derivative transactions involves the risk that the counterparties will be unable to meet the financial terms of such transactions. Our derivative contracts are with multiple counterparties to minimize our exposure to any individual counterparty, and we have netting arrangements with all of our counterparties that provide for offsetting payables against receivables from separate derivative instruments with that counterparty. At June 30, 2014, 10 of our 16 counterparties accounted for approximately 85% of our contracted volumes, with no single counterparty accounting for more than 15%.

A portion of our derivative instruments are with lenders under our credit facility. Our credit facility, senior notes, senior subordinated notes and substantially all of our derivative instruments contain provisions that provide for cross defaults and acceleration of those debt and derivative instruments in certain situations.

6. Accounts Receivable:

Accounts receivable consisted of the following:

	June 30, 2014	December 31, 2013
	(In millions)	
Revenue	$190	$294
Joint interest	159	156
Other	36	25
Reserve for doubtful accounts	(1)	(1)
Total accounts receivable	$384	$474

7. Accrued Liabilities:

Accrued liabilities consisted of the following:

	June 30, 2014	December 31, 2013
	(In millions)	
Revenue payable	$182	$175
Accrued capital costs	451	458
Accrued lease operating expenses	30	71
Employee incentive expense	65	64
Accrued interest on debt	73	72
Taxes payable	27	93
Other	51	45
Total accrued liabilities	$879	$978

8. Fair Value Measurements:

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (exit price). The authoritative guidance requires disclosure of the framework for measuring fair value and requires that fair value measurements be classified and disclosed in one of the following categories:

Level 1: Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities. We consider active markets as those in which transactions for the assets or liabilities occur with sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2: Quoted prices in markets that are not active, or inputs that are observable, either directly or indirectly, for substantially the full term of the asset or liability. This category includes those derivative instruments that we value using observable market data. Substantially all of these inputs are observable in the marketplace throughout the full term of the derivative instrument, can be derived from observable data or are supported by observable levels at which transactions are executed in the marketplace. Instruments in this category include non-exchange traded derivatives such as over-the-counter commodity fixed-price swaps and certain investments.

Level 3: Measured based on prices or valuation models that require inputs that are both significant to the fair value measurement and less observable from objective sources (i.e., supported by little or no market activity). Level 3 instruments primarily include derivative instruments, such as commodity options (i.e., price collars, sold puts or swaptions) and other financial investments.

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- Our valuation models for derivative contracts are primarily industry-standard models (i.e., Black-Scholes) that consider various inputs including: (a) quoted forward prices for commodities, (b) time value, (c) volatility factors, (d) counterparty credit risk and (e) current market and contractual prices for the underlying instruments.

- Our valuation model for the Stockholder Value Appreciation Program (SVAP) is a Monte Carlo simulation that is based on a probability model and considers various inputs including: (a) the measurement date stock price, (b) time value and (c) historical and implied volatility. See Note 11, "Stock-Based Compensation," for a description of the SVAP.

Financial assets and liabilities are classified based on the lowest level of input that is significant to the fair value measurement. Our assessment of the significance of a particular input to the fair value measurement requires judgment and may affect the valuation of the fair value of assets and liabilities and their placement within the fair value hierarchy.

Recurring Fair Value Measurements

The following table summarizes the valuation of our assets and liabilities that are measured at fair value on a recurring basis.

	Fair Value Measurement Classification			
	Quoted Prices in Active Markets for Identical Assets or Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
	(In millions)			
As of December 31, 2013:				
Money market fund investments	$2	$—	$—	$2
Deferred compensation plan assets	8	—	—	8
Investments available-for-sale:				
Equity securities	8	—	—	8
Auction rate securities	—	—	39	39
Oil and gas derivative swap contracts	—	(28)	—	(28)
Oil and gas derivative option contracts	—	—	(8)	(8)
Stock-based compensation liability awards	(11)	—	(5)	(16)
Total	$7	$(28)	$26	$5
As of June 30, 2014:				
Money market fund investments	$1	$—	$—	$1
Deferred compensation plan assets	9	—	—	9
Equity securities available-for-sale	9	—	—	9
Oil and gas derivative swap contracts	—	(196)	—	(196)
Oil and gas derivative option contracts	—	—	(24)	(24)
	(19)	—	(46)	(65)

Stock-based compensation liability awards				
Total	$—	$(196)	$(70)	$(266)

The determination of the fair values above incorporates various factors, which include not only the impact of our non-performance risk on our derivative liabilities but also the credit standing of the counterparties involved and the impact of credit enhancements (such as cash deposits, letters of credit and priority interests), if any. We utilize credit default swap values to assess the impact of non-performance risk when evaluating both our liabilities to and receivables from counterparties.

As of December 31, 2013, we held $39 million of auction rate securities, which were classified as a Level 3 fair value measurement. During the first quarter of 2014, all auction rate securities were sold for $39 million.

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Level 3 Fair Value Measurements

The following table sets forth a reconciliation of changes in the fair value of financial assets and liabilities classified as Level 3 in the fair value hierarchy for the indicated periods.

	Investments	Derivatives	Stock-based Compensation	Total
	(In millions)			
Balance at January 1, 2013	$36	$115	$ —	$151
Realized or unrealized gains (losses):				
Included in earnings	—	(41)	—	(41)
Included in other comprehensive income (loss)	4	—	—	4
Purchases, issuances, sales and settlements:				
Settlements	(1)	(32)	—	(33)
Transfers in to Level 3	—	—	—	—
Transfers out of Level 3	—	—	—	—
Balance at June 30, 2013	$39	$42	$ —	$81
Change in unrealized gains or losses included in earnings relating to Level 3 instruments still held at June 30, 2013	$—	$5	$ —	$5
Balance at January 1, 2014	$39	$(8)	$ (5)	$26
Realized or unrealized gains (losses) included in earnings	—	(23)	(54)	(77)
Purchases, issuances, sales and settlements:				
Sales	(39)	—	—	(39)
Settlements	—	4	13	17
Transfers in to Level 3	—	—	—	—
Transfers out of Level 3	—	3	—	3
Balance at June 30, 2014	$—	$(24)	$ (46)	$(70)
Change in unrealized gains or losses included in earnings relating to Level 3 instruments still held at June 30, 2014	$—	$(17)	$ (28)	$(45)

During the second quarter of 2014, we transferred $3 million of derivative option contracts out of the Level 3 hierarchy. The transfer was a result of our Level 3 swaptions being exercised by the counterparties as swaps on May 30, 2014.

Qualitative Disclosures about Unobservable Inputs for Level 3 Fair Value Measurements

Derivatives. Our valuation models for Level 3 derivative contracts are primarily industry-standard models that consider various factors, including certain significant unobservable inputs such as (a) quoted forward prices for commodities, (b) volatility factors and (c) counterparty credit risk. The calculation of the fair value of our option contracts requires the use of an option-pricing model. The estimated future prices are compared to the strike prices fixed by our derivative contracts, and the resulting estimated future cash inflows or outflows over the contractual life are discounted to calculate the fair value. These pricing and discounting variables are sensitive to market volatility as well as changes in future price forecasts, regional price differences and interest rates. Significant increases (decreases) in the quoted forward prices for commodities generally lead to corresponding decreases (increases) in the fair value measurement of our oil and gas derivative contracts. Significant changes in the volatility factors utilized in our option-pricing model can cause significant changes in the fair value measurement of our oil and gas derivative contracts.

The determination of the fair values of derivative instruments incorporates various factors that include not only the impact of our non-performance risk on our liabilities but also the credit standing of the counterparties involved and the impact of credit enhancements (such as cash deposits, letters of credit and priority interests). Historically, we have not experienced significant changes in the fair value of our derivative contracts resulting from changes in counterparty credit risk as the counterparties for all of our derivative transactions have an "investment grade" credit rating.

Stock-Based Compensation. The calculation of the fair value of the SVAP liability requires the use of a probability-based Monte Carlo simulation, which includes unobservable inputs. The simulation predicts multiple scenarios of future stock returns over the performance period, which are discounted to calculate the fair value. The fair value is recognized over a service period derived from the simulation. Future stock returns and discounting variables are sensitive to market volatility. Significant increases (decreases) in the volatility factors utilized in our option-pricing model can cause significant increases (decreases) in the fair value measurement of the SVAP liability.

Quantitative Disclosures about Unobservable Inputs for Level 3 Fair Value Measurements

Instrument Type	Estimated Fair Value Asset (Liability) (In millions)	Quantitative Information about Level 3 Fair Value Measurements		
		Valuation Technique	Unobservable Input	Range
Oil option contracts	$(23)	Black-Scholes	Oil price volatility	11.76% — 52.25%
			Credit risk	0.01% — 3.11%
Natural gas option contracts	$(1)	Black-Scholes	Natural gas price volatility	20.77% — 49.14%
			Credit risk	0.01% — 0.90%
SVAP	$(46)	Monte Carlo	Implied volatility	34.5%

Fair Value of Debt

The estimated fair value of our notes, based on quoted prices in active markets (Level 1) as of the indicated dates, was as follows:

	June 30, 2014	December 31, 2013
	(In millions)	
5¾% Senior Notes due 2022	$834	$767
5 % Senior Notes due 2024	1,093	1,025
7 % Senior Subordinated Notes due 2018	610	624
6 % Senior Subordinated Notes due 2020	742	755

Any amounts outstanding under our credit arrangements as of the indicated dates are stated at cost, which approximates fair value. Please see Note 9, "Debt."

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9. Debt:

Our debt consisted of the following:

	June 30, 2014	December 31, 2013
	(In millions)	
Senior unsecured debt:		
Revolving credit facility - LIBOR based loans	$—	$585
Money market lines of credit[1]	31	64
Total credit arrangements	31	649
5¾% Senior Notes due 2022	750	750
5 % Senior Notes due 2024	1,000	1,000
Total senior unsecured debt	1,781	2,399
7 % Senior Subordinated Notes due 2018	600	600
6 % Senior Subordinated Notes due 2020	700	700
Discount on notes	(4)	(5)
Total long-term debt	$3,077	$3,694

(1) Because capacity under our credit facility was available to repay borrowings under our money market lines of credit as of the indicated dates, amounts outstanding under these obligations, if any, are classified as long-term.

Credit Arrangements

We have a revolving credit facility that matures in June 2018 and provides borrowing capacity of $1.4 billion. As of June 30, 2014, the largest individual loan commitment by any lender was 14% of total commitments.

Loans under the credit facility bear interest, at our option, equal to (a) a rate per annum equal to the higher of the prime rate announced from time to time by JPMorgan Chase Bank, N.A. or the weighted average of the rates on overnight federal funds transactions with members of the Federal Reserve System during the last preceding business day plus 50 basis points, plus a margin that is based on a grid of our debt rating (75 basis points per annum at June 30, 2014) or (b) the London Interbank Offered Rate, plus a margin that is based on a grid of our debt rating (175 basis points per annum at June 30, 2014).

Under our credit facility, we pay commitment fees on available but undrawn amounts based on a grid of our debt rating (30 basis points per annum at June 30, 2014). We incurred aggregate commitment fees under our current credit facility of approximately $1 million and $2 million for the three and six months ended June 30, 2014, respectively, which are recorded in “Interest expense” on our consolidated statement of operations. For the three and six months ended June 30, 2013, we incurred commitment fees under our current credit facility of approximately $1 million and $2 million, respectively.

Our credit facility has restrictive financial covenants that include the maintenance of a ratio of total debt to book capitalization not to exceed 0.6 to 1.0 and maintenance of a ratio of earnings before gain or loss on the disposition of assets, interest expense, income taxes and noncash items (such as depreciation, depletion and amortization expense, unrealized gains and losses on commodity derivatives, ceiling test writedowns and goodwill impairments) to interest expense of at least 3.0 to 1.0. At June 30, 2014, we were in compliance with all of our debt covenants.

As of June 30, 2014, we had no letters of credit outstanding under our credit facility. Letters of credit are subject to a fronting fee of 20 basis points and annual fees based on a grid of our debt rating (175 basis points at June 30, 2014).

Subject to compliance with the restrictive covenants in our credit facility, at June 30, 2014, we also had a total of $164 million of available borrowing capacity under our money market lines of credit with various financial institutions, the availability of which is at the discretion of the financial institutions.

The credit facility includes events of default relating to customary matters, including, among other things, nonpayment of principal, interest or other amounts; violation of covenants; inaccuracy of representations and warranties in any material respect; a change of control; or certain other material adverse changes in our business. Our senior notes and senior subordinated notes also contain standard events of default. If any of the foregoing defaults were to occur, our lenders under the credit facility could terminate future lending commitments, and our lenders under both the credit facility and our notes could declare the outstanding borrowings due and payable. In addition, our credit facility, senior notes, senior subordinated notes and substantially all of our derivative arrangements contain provisions that provide for cross defaults and acceleration of those debt and derivative instruments in certain situations.

10. Income Taxes:

The provision for income taxes for continuing operations for the indicated periods was different than the amount computed using the federal statutory rate (35%) for the following reasons:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
	(In millions)			
Amount computed using the statutory rate	$(10)	$60	$4	$46
Increase (decrease) in taxes resulting from:				
State and local income taxes, net of federal effect	2	5	5	3
Total provision (benefit) for income taxes	$(8)	$65	$9	$49

The effective tax rates for continuing operations for the three months ended June 30, 2014 and 2013 were 27.4% and 38.1%, respectively. The effective tax rates for continuing operations for the six months ended June 30, 2014 and 2013 were 89.2% and 37.9%, respectively. Unrealized derivative gains and losses are treated differently for income tax purposes in the various state taxing jurisdictions to which we are subject. As a result, our effective tax rate fluctuates in periods with significant commodity price volatility.

As of June 30, 2014, we did not have a liability for uncertain tax positions, and as such, we had not accrued related interest or penalties. The tax years 2010 through 2013 remain open to examination for federal income tax purposes and by the other major taxing jurisdictions to which we are subject.

11. Stock-Based Compensation:

Our stock-based compensation consisted of the following:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
	(In millions)			
Equity awards	$11	$11	$22	$23
Liability awards:				
Stockholder Value Appreciation Program	40	—	54	—
Cash-settled restricted stock units	10	1	16	1
Total liability awards	50	1	70	1

Total stock-based compensation	61	12	92	24
Capitalized in oil and gas properties	(26)	(4)	(40)	(7)
Net stock-based compensation expense	$35	$8	$52	$17

As of June 30, 2014, we had approximately $104 million of total unrecognized stock-based compensation expense related to unvested stock-based compensation awards. The full amount is expected to be recognized within four years.

Equity Awards

Equity awards consist of service-based and performance- or market-based restricted stock units, stock options and stock purchase options under the Employee Stock Purchase Plan.

Stock-based compensation classified as equity awards to employees and non-employee directors are currently granted under the 2011 Omnibus Stock Plan (2011 Plan). The fair value of grants is determined utilizing the Black-Scholes option-pricing model for stock options and a Monte Carlo lattice-based model for our performance- and market-based restricted stock and restricted stock units. Compensation expense for equity awards is expected to be recognized on a straight-line basis over the applicable remaining vesting periods.

Restricted Stock. The following table provides information about restricted stock and restricted stock unit activity.

	Service-Based Shares	Performance/ Market-Based Shares	Total Shares	Weighted-Average Grant Date Fair Value per Share
	(In thousands, except per share data)			
Non-vested shares outstanding at December 31, 2013	2,999	706	3,705	$33.31
Granted	311	339	650	23.41
Forfeited	(226)	(46)	(272)	32.06
Vested	(332)	—	(332)	43.55
Non-vested shares outstanding at June 30, 2014	2,752	999	3,751	$30.72

Stock Options. The following table provides information about stock option activity.

	Number of Shares Underlying Options	Weighted-Average Exercise Price per Share	Weighted-Average Grant Date Fair Value per Share	Weighted-Average Remaining Contractual Life	Aggregate Intrinsic Value[1]
	(In thousands)			(In years)	(In millions)
Outstanding at December 31, 2013	687	$39.68		1.9	$—
Granted	—	—	$—		
Exercised	(86)	28.82			1
Forfeited	(231)	40.03			