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NEWFIELD EXPLORATION CO /DE/

Form 10-Q

July 31, 2018

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

FORM 10-Q

(Mark One)

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

For the Quarterly Period Ended June 30, 2018

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 (I.R.S. Employer incorporation or organization) 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 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 No

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

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company Emerging growth company

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(Do not check if a smaller reporting company)

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. "

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

As of July 26, 2018, there were 199,857,444 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, 2018	December 31, 2017
ASSETS		
Current assets:		
Cash and cash equivalents	\$293	\$326
Accounts receivable, net	348	292
Inventories	24	15
Derivative assets	2	15
Other current assets	89	98
Total current assets	756	746
Oil and gas properties, net — full cost method (\$1,244 and \$1,200 were excluded from amortization at June 30, 2018 and December 31, 2017, respectively)	4,416	3,931
Other property and equipment, net	169	168
Derivative assets	—	1
Long-term investments	24	24
Restricted cash	46	40
Other assets	50	51
Total assets	\$5,461	\$4,961
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$57	\$46
Accrued liabilities	692	591
Advances from joint owners	71	80
Asset retirement obligations	2	3
Derivative liabilities	228	98
Total current liabilities	1,050	818
Other liabilities	66	69
Derivative liabilities	39	26
Long-term debt	2,435	2,434
Asset retirement obligations	134	130
Deferred taxes	97	76
Total long-term liabilities	2,771	2,735
Commitments and contingencies (Note 11)		
Stockholders' equity:		
Preferred stock (\$0.01 par value, 5,000,000 shares authorized; no shares issued)	—	—
Common stock (\$0.01 par value, 300,000,000 shares authorized at June 30, 2018 and December 31, 2017; 201,554,837 and 201,363,345 shares issued at June 30, 2018 and December 31, 2017, respectively)	2	2
Additional paid-in capital	3,332	3,303
Treasury stock (at cost, 1,702,469 and 1,658,476 shares at June 30, 2018 and December 31, 2017, respectively)	(60)	(59)
Accumulated other comprehensive income (loss)	(1)	—
Retained earnings (deficit)	(1,633)	(1,838)
Total stockholders' equity	1,640	1,408
Total liabilities and stockholders' equity	\$5,461	\$4,961

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 AND COMPREHENSIVE INCOME
(In millions, except per share data)
(Unaudited)

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2018	2017	2018	2017
Oil, gas and NGL revenues	\$679	\$402	\$1,259	\$819
Operating expenses:				
Lease operating	73	58	131	114
Transportation and processing	83	71	161	143
Production and other taxes	27	13	51	27
Depreciation, depletion and amortization	151	110	284	216
General and administrative	51	51	105	98
Other expenses (income)	(6)	—	(5)	1
Total operating expenses	379	303	727	599
Income (loss) from operations	300	99	532	220
Other income (expense):				
Interest expense	(37)	(37)	(75)	(75)
Capitalized interest	15	15	30	31
Commodity derivative income (expense)	(145)	28	(256)	81
Other, net	—	2	1	4
Total other income (expense)	(167)	8	(300)	41
Income (loss) before income taxes	133	107	232	261
Income tax provision (benefit):				
Current	6	2	6	—
Deferred	8	7	21	16
Total income tax provision (benefit)	14	9	27	16
Net income (loss)	\$119	\$98	\$205	\$245
Earnings (loss) per share:				
Basic	\$0.60	\$0.49	\$1.03	\$1.23
Diluted	\$0.59	\$0.49	\$1.02	\$1.22
Weighted-average number of shares outstanding for basic earnings (loss) per share	200	199	200	199
Weighted-average number of shares outstanding for diluted earnings (loss) per share	201	200	200	200
Comprehensive income (loss):				
Net income (loss)	\$119	\$98	\$205	\$245
Other comprehensive income (loss), net of tax	—	1	(1)	1
Comprehensive income (loss)	\$119	\$99	\$204	\$246

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

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NEWFIELD EXPLORATION COMPANY
CONSOLIDATED STATEMENT OF CASH FLOWS

(In millions)

(Unaudited)

	Six Months Ended June 30,	
	2018	2017
Cash flows from operating activities:		
Net income (loss)	\$205	\$245
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation, depletion and amortization	284	216
Deferred tax provision (benefit)	21	16
Stock-based compensation	25	20
Unrealized (gain) loss on derivative contracts	157	(46)
Other, net	5	7
Changes in operating assets and liabilities:		
(Increase) decrease in accounts receivable	(56)	8
Increase (decrease) in accounts payable and accrued liabilities	110	5
Other items, net	(3)	3
Net cash provided by (used in) operating activities	748	474
Cash flows from investing activities:		
Additions to oil and gas properties	(752)	(507)
Acquisitions of oil and gas properties	(26)	(6)
Proceeds from sales of oil and gas properties	23	28
Additions to other property and equipment	(11)	(8)
Redemptions of investments	—	25
Purchases of investments	—	(25)
Net cash provided by (used in) investing activities	(766)	(493)
Cash flows from financing activities:		
Proceeds from issuances of common stock, net	1	2
Debt issue costs	(8)	—
Purchases of treasury stock, net	(1)	(8)
Other	(1)	(1)
Net cash provided by (used in) financing activities	(9)	(7)
Net increase (decrease) in cash, cash equivalents and restricted cash	(27)	(26)
Cash, cash equivalents and restricted cash, beginning of period	366	580
Cash, cash equivalents and restricted cash, end of period	\$339	\$554

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 (Deficit)	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
	Shares	Amount	Shares	Amount				
Balance, December 31, 2017	201.4	\$ 2	(1.7)	\$ (59)	\$ 3,303	\$ (1,838)	\$ —	\$ 1,408
Issuances of common stock	0.2	—			2			2
Stock-based compensation					27			27
Treasury stock, net			—	(1)	—			(1)
Net income (loss)						205		205
Other comprehensive income (loss), net of tax							(1)	(1)
Balance, June 30, 2018	201.6	\$ 2	(1.7)	\$ (60)	\$ 3,332	\$ (1,633)	\$ (1)	\$ 1,640

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

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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 U.S. operations are onshore and focus primarily on large scale, liquids-rich resource plays in the Anadarko and Arkoma basins of Oklahoma, the Williston Basin of North Dakota and the Uinta Basin of Utah. In addition, we have oil assets offshore China.

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 joint 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 (U.S. GAAP). 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, 2017.

Risks and Uncertainties

As an independent oil and natural gas producer, our revenue, profitability and future rate of growth are substantially dependent on prevailing prices for oil, natural gas and NGLs. Historically, the energy markets have been very volatile, and there can be no assurance that commodity prices will not be subject to wide fluctuations in the future. A substantial or extended decline in commodity prices could have a material adverse effect on our financial position, results of operations, cash flows, access to capital and on the quantities of oil, natural gas and NGL reserves that we can economically produce. Other risks and uncertainties that could affect us in a volatile commodity price environment include, but are not limited to, counterparty credit risk for our receivables, responsibility for decommissioning liabilities for offshore interests we no longer own, inability to access credit markets, regulatory risks and our ability to meet financial ratios and covenants in our financing agreements.

Use of Estimates

The preparation of financial statements in accordance with U.S. GAAP 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, the timing and amount of transfers of our unevaluated properties into our amortizable full cost pool, the recoverability of our deferred tax assets and the fair value of our derivative contracts.

Revenue Recognition

We adopted the accounting guidance issued by the FASB regarding revenues from contracts with customers on January 1, 2018. The adoption of the new guidance did not materially impact our existing policies governing the timing and amount of revenue recognition or the classification of revenues and associated expenses on our Consolidated Statement of Operations and Comprehensive Income.

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

All of our oil, natural gas and NGLs are sold at market-based prices adjusted for location and quality differentials to a variety of purchasers. Our production is sold either at the lease or transported to markets further downstream. We record revenue when control of our production transfers to the customer and collectability is reasonably assured. Substantially all of our customers pay us within 30 days in accordance with industry standards for the sale of oil, natural gas and NGLs. For sales at the lease, control transfers immediately and we record revenue for the amount we expect to receive from the purchaser. For contracts in which control transfers to the customer downstream from the lease, expected revenues are presented on a gross basis with related expenses incurred prior to the transfer of control to the customer presented as transportation and processing expenses.

Restricted Cash

Restricted cash consists of amounts held in escrow accounts to satisfy future plug and abandonment obligations for our China operations. These amounts are restricted as to their current use and will be released as we plug and abandon wells and facilities in China.

Other Current Assets

Other current assets primarily consist of federal income tax refunds receivable, capital and lease operating expense prepayments and other prepaid items, including but not limited to, rent and insurance. For the periods ended June 30, 2018 and December 31, 2017 federal income tax refunds receivable were \$43 million and \$53 million, respectively.

New Accounting Requirements

In November 2016, the FASB issued guidance regarding the classification and presentation of changes in restricted cash in the statement of cash flows. The guidance requires amounts described as restricted cash be included with cash and cash equivalents when reconciling the beginning of period and end of period total amounts shown on the statement of cash flows. We adopted this guidance in the first quarter of 2018 and retrospectively adjusted the prior period presented.

The following table summarizes the impact of the adoption of the new accounting standard to the Company's Consolidated Statements of Cash Flows for the six months ended June 30, 2017.

	As Originally Presented	Adoption Adjustments	As Adjusted
(In millions)			
For the period ended June 30, 2017			
Net cash provided by (used in) operating activities	\$467	\$ 7	\$ 474
Net increase (decrease) in cash, cash equivalents and restricted cash	(33)	7	(26)
Cash, cash equivalents and restricted cash, beginning of period	555	25	580
Cash, cash equivalents and restricted cash, end of period	\$522	\$ 32	\$ 554

In January 2016, the FASB issued guidance regarding several broad topics related to the recognition and measurement of financial assets and liabilities. The guidance is effective for interim and annual periods beginning after December 15, 2017 and did not have an impact on our financial statements.

In February 2016, the FASB issued guidance regarding the accounting for leases. The guidance requires recognition of certain leases on the balance sheet. The guidance requires lessees and lessors to recognize and measure leases at the beginning of the earliest period presented using a modified retrospective approach. The guidance is effective for interim and annual periods beginning after December 15, 2018. We are currently evaluating the impact of this guidance on our financial statements.

In February 2018, the FASB issued guidance regarding the reclassification of certain tax effects from accumulated other comprehensive income. The guidance allows a reclassification from accumulated other comprehensive income to re

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NEWFIELD EXPLORATION COMPANY
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tained earnings for stranded tax effects resulting from the Tax Cuts and Jobs Act of 2017. The guidance is effective for interim and annual periods beginning after December 15, 2018, with early adoption permitted. We adopted this guidance in the first quarter of 2018, as permitted, with no material impact on our financial statements.

2. Accounts Receivable

Accounts receivable consisted of the following:

	June 30, 2018	December 31, 2017
	(In millions)	
Revenue	\$258	\$ 175
Joint interest	82	108
Other	24	25
Reserve for doubtful accounts	(16)	(16)
Total accounts receivable, net	\$348	\$ 292

3. Inventories

Inventories primarily consist of tubular goods and well equipment held for use in our oil and natural gas operations, and oil produced but not sold. Inventories are carried at the lower of cost or net realizable value. At June 30, 2018 oil inventory totaled approximately \$5 million. We had no crude oil inventory at December 31, 2017.

4. 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, natural gas and NGL production. While the use of derivative instruments may limit or partially reduce the downside risk of adverse commodity price movements, their use also may limit future income from favorable commodity price movements. Our derivative strategies are outlined in our Annual Report on Form 10-K for the year ended December 31, 2017.

Our oil and gas derivative contracts are settled based upon reported prices on the NYMEX, and our NGL derivative contracts are settled on posted prices at Mont Belvieu. The estimated fair value of these contracts is based upon various factors, including closing exchange prices on the NYMEX, Mont Belvieu over-the-counter quotations, estimated volatility, non-performance risk adjustments using rates of default and time to maturity. The calculation of the fair value of options requires the use of an option-pricing model. See Note 5, "Fair Value Measurements."

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

At June 30, 2018, we had outstanding derivative positions as set forth in the tables below.

Crude Oil

Period and Type of Instrument	Volume in MBbls	NYMEX Contract Price Per Bbl				Estimated Fair Value Asset (Liability) (In millions)
		Swaps (Weighted Average)	Puts (Weighted Average)	Collars Floors (Weighted Average)	Collars Ceilings (Weighted Average)	
2018:						
Fixed-price swaps	8,096	\$56.33	\$ —	—\$ —\$	—\$	(120)
Fixed-price swaps with sold puts:	644					
Fixed-price swaps		56.78	—	— —		(9)
Sold puts		—	44.00	— —		—
Collars with sold puts:	1,932					
Collars		—	—	48.34	56.60	(25)
Sold Puts		—	39.47	— —		—
2019:						
Collars with sold puts:	10,566					
Collars		—	—	50.55	57.13	(105)
Sold puts		—	40.60	— —		(4)
Total						\$ (263)

Natural Gas

Period and Type of Instrument	Volume in MMBtus	NYMEX Contract Price Per MMBtu				Estimated Fair Value Asset (Liability) (In millions)
		Swaps (Weighted Average)	Puts (Weighted Average)	Collars Floors (Weighted Average)	Collars Ceilings (Weighted Average)	
2018:						
Fixed-price swaps	30,360	\$2.97	\$ —	—\$ —\$	—\$	1
Fixed-price swaps with sold puts:	9,800					
Fixed-price swaps		3.01	—	— —		—
Sold puts		—	2.64	— —		—
Collars	4,590	—	—	2.88	3.26	—
Collars with sold puts:	3,690					
Collars		—	—	2.87	3.32	—
Sold puts		—	2.30	— —		—
2019:						
Fixed-price swaps	3,650	2.91	—	— —		—
Collars	9,000	—	—	3.00	3.47	1
Total						\$ 2

NEWFIELD EXPLORATION COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
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Natural Gas Liquids (Propane)

Period and Type of Instrument	Volume in MBbls	Mont Belvieu Contract Price Per Gallon	Swaps (Weighted Average)	Estimated Fair Value Asset (Liability) (In millions)
Fixed-price swaps	736	\$ 0.82		\$ (4)
Total				\$ (4)

Additional Disclosures about Derivative Financial 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		Gross Fair Value	Offset in Balance Sheet	Balance Sheet Location	
	(In millions)		Current	Noncurrent	(In millions)		Current	Noncurrent
June 30, 2018								
Oil positions	\$98	\$(98)	\$ —	\$ —	—\$(361)	\$ 98	\$(224)	\$ (39)
Natural gas positions	5	(3)	2	—	(3)	3	—	—
NGL positions	—	—	—	—	(4)	—	(4)	—
Total	\$103	\$(101)	\$ 2	\$ —	—\$(368)	\$ 101	\$(228)	\$ (39)

December 31, 2017

Oil positions	\$48	\$(48)	\$ —	\$ —
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