

NEWFIELD EXPLORATION CO /DE/
Form 10-Q
May 06, 2015

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 March 31, 2015

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
(State or other jurisdiction of
incorporation or organization)

72-1133047
(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 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, 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 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

As of May 1, 2015, there were 162,800,912 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)

	March 31, 2015	December 31, 2014
ASSETS		
Current assets:		
Cash and cash equivalents	\$783	\$14
Restricted cash	3	—
Accounts receivable, net	354	439
Inventories	27	33
Derivative assets	425	431
Other current assets	18	23
Total current assets	1,610	940
Oil and gas properties — full cost method (\$729 and \$677 were excluded from amortization at March 31, 2015 and December 31, 2014, respectively)	15,983	16,384
Less — accumulated depreciation, depletion and amortization	(8,380	) (8,152)
Total oil and gas properties, net	7,603	8,232
Other property and equipment, net	176	182
Derivative assets	224	190
Long-term investments	22	26
Other assets	43	28
Total assets	\$9,678	\$9,598
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$62	\$32
Accrued liabilities	606	880
Advances from joint owners	48	34
Asset retirement obligations	2	3
Derivative liabilities	1	8
Deferred taxes	143	144
Total current liabilities	862	1,101
Other liabilities	45	45
Derivative liabilities	2	—
Long-term debt	3,146	2,892
Asset retirement obligations	183	183
Deferred taxes	1,202	1,484
Total long-term liabilities	4,578	4,604
Commitments and contingencies (Note 13)		
Stockholders' equity:		
Preferred stock (\$0.01 par value, 5,000,000 shares authorized; no shares issued)	—	—
Common stock (\$0.01 par value, 200,000,000 shares authorized at March 31, 2015 and December 31, 2014; 163,001,991 and 137,603,643 shares issued at March 31, 2015 and December 31, 2014, respectively)	2	1
Additional paid-in capital	2,401	1,576
	(11) (10)

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Treasury stock (at cost, 304,944 and 275,069 shares at March 31, 2015 and December 31, 2014, respectively)

Accumulated other comprehensive gain (loss)	(1	) (1)
Retained earnings	1,847		2,327
Total stockholders' equity	4,238		3,893
Total liabilities and stockholders' equity	\$9,678		\$9,598

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		
	March 31,		
	2015	2014	
Oil, gas and NGL revenues	\$349	\$571	
Operating expenses:			
Lease operating	75	74	
Transportation and processing	49	37	
Production and other taxes	13	28	
Depreciation, depletion and amortization	237	192	
General and administrative	63	56	
Ceiling test and other impairments	792	—	
Other	4	2	
Total operating expenses	1,233	389	
Income (loss) from operations	(884	) 182
Other income (expense):			
Interest expense	(44) (51)
Capitalized interest	7	13	
Commodity derivative income (expense)	153	(96)
Other, net	8	2	
Total other income (expense)	124	(132)
Income (loss) from continuing operations before income taxes	(760	) 50
Income tax provision (benefit):			
Current	3	3	
Deferred	(283	) 20
Total income tax provision (benefit)	(280	) 23
Income (loss) from continuing operations	(480	) 27
Income (loss) from discontinued operations, net of tax	—	257	
Net income (loss)	\$(480	) \$284
Earnings (loss) per share:			
Basic:			
Income (loss) from continuing operations	\$(3.30	) \$0.19
Income (loss) from discontinued operations	—	1.89	
Basic earnings (loss) per share	\$(3.30	) \$2.08
Diluted:			
Income (loss) from continuing operations	\$(3.30	) \$0.19
Income (loss) from discontinued operations	—	1.88	
Diluted earnings (loss) per share	\$(3.30	) \$2.07
Weighted-average number of shares outstanding for basic earnings (loss) per share	145	136	
Weighted-average number of shares outstanding for diluted earnings (loss) per share	145	137	

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 March 31,	
	2015	2014
Net income (loss)	\$(480	) \$284
Other comprehensive income (loss):		
Unrealized gain (loss) on investments, net of tax	—	—
Other comprehensive income (loss), net of tax	—	—
Comprehensive income (loss)	\$(480	) \$284

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)

	Three Months Ended March 31,		
	2015	2014	
Cash flows from operating activities:			
Net income (loss)	\$(480	) \$284
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Depreciation, depletion and amortization	237	224	
Deferred tax provision (benefit)	(283	) 161
Stock-based compensation	15	11	
Unrealized (gain) loss on derivative contracts	(32	) 57
Ceiling test and other impairments	792	—	
Gain on sale of Malaysia business	—	(388)
Other, net	6	(4)
Changes in operating assets and liabilities:			
(Increase) decrease in accounts receivable	38	51	
(Increase) decrease in inventories	2	(6)
(Increase) decrease in restricted cash	(3) —	
(Increase) decrease in other current assets	4	(7)
(Increase) decrease in other assets	4	—	
Increase (decrease) in accounts payable and accrued liabilities	(105) (6)
Increase (decrease) in advances from joint owners	14	(13)
Increase (decrease) in other liabilities	(4	) 1
Net cash provided by (used in) operating activities	205	365	
Cash flows from investing activities:			
Additions to oil and gas properties	(511) (553)
Proceeds from sales of oil and gas properties	29	10	
Proceeds received from sale of Malaysia business, net	—	809	
Additions to other property and equipment	(4) (8)
Redemptions of investments	—	39	
Net cash provided by (used in) investing activities	(486	) 297
Cash flows from financing activities:			
Proceeds from borrowings under credit arrangements	701	562	
Repayments of borrowings under credit arrangements	(1,147) (1,211)
Proceeds from issuance of senior notes	691	—	
Debt issue costs	(8) —	
Proceeds from issuances of common stock, net	815	—	
Purchases of treasury stock, net	(1) (1)
Other	(1) —	
Net cash provided by (used in) financing activities	1,050	(650)
Increase (decrease) in cash and cash equivalents	769	12	
Cash and cash equivalents, beginning of period	14	95	
Cash and cash equivalents, end of period	\$783	\$107	

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

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, 2014	137.6	\$1	(0.3)	\$(10)	\$1,576	\$2,327	\$ (1)	\$3,893
Issuances of common stock	25.4	1			814			815
Stock-based compensation					11			11
Treasury stock, net			—	(1)	—			(1)
Net income (loss)						(480)		(480)
Balance, March 31, 2015	163.0	\$2	(0.3)	\$(11)	\$2,401	\$1,847	\$ (1)	\$4,238

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 domestic areas of operation include the Mid-Continent, the Rocky Mountains and the onshore Gulf Coast regions of the United States. In addition, we have offshore oil developments in 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 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, 2014.

Discontinued Operations

The results of our Malaysia 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 16, "Discontinued Operations," for additional disclosures, as well as information regarding the sale of our Malaysia business, which closed in February 2014.

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. It is possible for any of these effects to occur in the near term, given the recent decline in commodity pricing.

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, the timing and amount of transfers of our unevaluated properties into our amortizable full cost pool and the fair value of both 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.

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NEWFIELD EXPLORATION COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

(Unaudited)

Restricted Cash

Restricted cash of \$3 million on our consolidated balance sheet at March 31, 2015 represents amounts held in escrow accounts to satisfy plug and abandonment obligations for our China operations. These amounts are restricted as to their current use and will be released when we have satisfied all plugging and abandonment obligations in our China field. Consistent with our other plug and abandonment activities, changes in restricted cash is included in cash flows from operating activities in our consolidated statement of cash flows.

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 \$32 million and \$54 million of interest and direct internal costs during the three-month periods ended March 31, 2015 and 2014, 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.

Capitalized costs and estimated future development costs are amortized using a unit-of-production method based on proved reserves associated with the applicable cost center. For each cost center, the net capitalized costs of oil and gas properties are limited to the lower of the unamortized cost or the cost center ceiling. A particular cost center ceiling is equal to the sum of:

the present value (10% per annum discount rate) of estimated future net revenues from proved reserves using oil, natural gas and NGL reserve estimation requirements, which require use of the unweighted average first-day-of-the-month commodity prices for the prior 12 months, adjusted for market differentials (SEC pricing), applicable to our reserves (including the effects of hedging contracts that are designated for hedge accounting, if any); plus
the cost of properties not included in the costs being amortized, if any; less
related income tax effects.

If net capitalized costs of oil and gas properties exceed the cost center ceiling, we are subject to a non-cash 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.

The risk that we will be required to writedown the carrying value of our oil and gas properties increases when oil, natural gas and NGL prices decrease significantly for a prolonged period of time or if we have substantial downward revisions in our estimated proved reserves. At March 31, 2015, the ceiling value of our reserves was calculated based upon SEC pricing of \$3.88 per MMBtu for natural gas and \$82.60 per barrel for oil. Using these prices, our ceiling for the U.S. did not exceed the net capitalized costs of oil and gas properties resulting in a ceiling test writedown of approximately \$788 million (\$496 million after tax). The cost center ceiling with respect to the China full cost pool exceeded the net capitalized costs of oil and gas properties by approximately \$200 million, net of tax, and as such, no

ceiling test writedown was required.

The continued decline of SEC pricing for oil and natural gas reserves since March 31, 2015 will likely result in a U.S. ceiling test writedown in the second quarter of 2015.

New Accounting Requirements

In April 2015, the Financial Accounting Standards Board (FASB) issued guidance regarding the presentation of debt issuance costs in the financial statements and requires that debt issuance costs be presented as a reduction of the carrying value of the financial liability and not as a separate asset. The guidance requires retrospective adjustment to the balance sheet presentation and disclosures applicable for a change in an accounting principle. The guidance is effective for interim and annual periods beginning after December 15, 2015. We expect to adopt this guidance on or before the effective date.

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NEWFIELD EXPLORATION COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

(Unaudited)

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. On April 1, 2015, the FASB proposed a deferral of the effective date by one year, which is not final until the FASB completes its due process requirements. We are currently evaluating the impact of this guidance on our financial statements.

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 March 31,	
	2015	2014
	(In millions, except per share data)	
Income (numerator):		
Income (loss) from continuing operations	\$(480)	\$27
Income (loss) from discontinued operations	—	257
Net income (loss)	\$(480)	\$284
Weighted-average shares (denominator):		
Weighted-average shares — basic	145	136
Dilution effect of stock options and unvested restricted stock and restricted stock units outstanding at end of period ⁽¹⁾⁽²⁾	—	1
Weighted-average shares — diluted	145	137
Earnings (loss) per share:		
Basic:		
Income (loss) from continuing operations	\$(3.30)	\$0.19
Income (loss) from discontinued operations	—	1.89
Basic earnings (loss) per share	\$(3.30)	\$2.08
Diluted:		
Income (loss) from continuing operations	\$(3.30)	\$0.19
Income (loss) from discontinued operations	—	1.88
Diluted earnings (loss) per share	\$(3.30)	\$2.07

The effect of 2.4 million unvested restricted stock or restricted stock units and stock options has not been included in the calculation of shares outstanding for diluted EPS for the quarter ended March 31, 2015, as their effect would have been anti-dilutive. Had we recognized income from continuing operations for the quarter, 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 1.3 million shares for the three months ended March 31, 2015.

(2) Excludes 1.5 million shares of unvested restricted stock or restricted stock units and stock options for the three months ended March 31, 2014, respectively, because including the effect would have been anti-dilutive.

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NEWFIELD EXPLORATION COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

(Unaudited)

3. Equity Offering:

During the first quarter of 2015, we issued 25.3 million additional shares of common stock through a public equity offering. We received proceeds of approximately \$815 million, which were used primarily to repay all borrowings under our credit facility and money market lines of credit.

4. Inventories:

At March 31, 2015, the crude oil inventory from our China operations consisted of approximately 144,000 barrels of crude oil valued at cost of approximately \$5 million. At December 31, 2014, the crude oil inventory from our China operations consisted of approximately 240,000 barrels of crude oil valued at cost of approximately \$8 million and is included under the caption "Inventories" on our consolidated balance sheet. Cost for purposes of the carrying value of oil inventory is the sum of related production costs and depletion expense.

5. Oil and Gas Assets:

Property and Equipment

Property and equipment consisted of the following:

	March 31, 2015 (In millions)	December 31, 2014
Oil and gas properties:		
Subject to amortization	\$15,254	\$15,707
Not subject to amortization	729	677
Gross oil and gas properties	15,983	16,384
Accumulated depreciation, depletion and amortization	(8,380)	(8,152)
Net oil and gas properties	\$7,603	\$8,232
Other property and equipment:		
Furniture, fixtures and equipment	\$143	\$144
Gathering systems and equipment	115	114
Accumulated depreciation and amortization	(82)	(76)
Net other property and equipment	\$176	\$182

Oil and gas properties not subject to amortization as of March 31, 2015, consisted of the following:

	Costs Incurred In				
	2015	2014	2013	2012 and Prior	Total
	(In millions)				
Acquisition costs	\$41	\$182	\$158	\$91	\$472
Exploration costs	78	82	—	—	160
Fee mineral interests	—	—	1	23	24
Capitalized interest	7	52	14	—	73
Total oil and gas properties not subject to amortization	\$126	\$316	\$173	\$114	\$729

Granite Wash Asset Sale

In September 2014, we closed on the sale of our Granite Wash assets, located primarily in Texas, for approximately \$588 million, subject to customary post-closing purchase price adjustments. The sale of our Granite Wash assets did not significantly alter the relationship between capitalized costs and proved reserves, and as such, all proceeds were recorded as adjustments to our domestic full cost pool with no gain or loss recognized. These consolidated financial statements include the results of our Granite Wash operations through the date of sale.

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NEWFIELD EXPLORATION COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

(Unaudited)

6. 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 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.

In addition to the derivative strategies outlined in our Annual Report on Form 10-K for the year ended December 31, 2014, we also implemented a derivative strategy beginning in the first quarter of 2015 that is associated with our derivative positions for oil swaps with short puts that achieve maximum value once the market price falls below the short puts. During the first quarter of 2015, we purchased call options that effectively lock in the maximum value for a portion of our corresponding oil swaps with short puts. We elected to defer the premiums of \$3 million related to these calls until contract settlement. Excluding the effect of the deferred premium, if the settlement price is above the call strike price, the counterparty is required to make a payment to us.

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 9, "Fair Value Measurements."

At March 31, 2015, we had outstanding derivative positions as set forth in the tables below.

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NEWFIELD EXPLORATION COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

(Unaudited)

Crude Oil

Period and Type of Instrument	Volume in MBbls	NYMEX Contract Price Per Bbl			Collars		Estimated Fair Value Asset (Liability) (In millions)
		Swaps (Weighted Average)	Purchased Calls (Weighted Average)	Sold Puts (Weighted Average) ⁽¹⁾	Floors (Weighted Average)	Ceilings (Weighted Average)	
2015:							
Fixed-price swaps	1,555	\$90.00	\$—	\$—	\$—	\$—	\$60
Fixed-price swaps with sold puts:	11,554						
Fixed-price swaps		90.00	—	—	—	—	429
Sold puts		—	—	71.57	—	—	(229)
Collars with sold puts:	550						
Collars		—	—	—	90.00	104.00	21
Sold puts		—	—	75.00	—	—	(13)
2016:							
Fixed-price swaps with sold puts:	10,060						
Fixed-price swaps		89.98	—	—	—	—	316
Sold puts		—	—	74.14	—	—	(187)
Collars with sold puts:	6,220						
Collars		—	—	—	90.00	96.15	198
Sold puts		—	—	75.00	—	—	(120)
Purchased calls	732	—	70.00	—	—	—	2
2017:							
Fixed-price swaps with sold puts:	4,468						
Fixed-price swaps		88.37	—	—	—	—	118
Sold puts		—	—	73.28	—	—	(72)
Collars with sold puts:	2,080						
Collars		—	—	—	90.00	95.59	61
Sold puts		—	—	75.00	—	—	(37)
Total							\$547

(1) If the market prices remain below our sold puts at contract settlement, we will receive the market price plus the following associated with our production:

• the difference between our floors and our sold puts for collars with sold puts; or
• the difference between our swaps and our sold puts for fixed-price swaps with sold puts.

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NEWFIELD EXPLORATION COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

(Unaudited)

Natural Gas

Period and Type of Instrument	Volume in MMMBtus	NYMEX Contract Price Per MMBtu				Estimated Fair Value Asset (Liability) (In millions)
		Swaps (Weighted Average)	Sold Puts (Weighted Average)	Floors (Weighted Average)	Ceilings (Weighted Average)	
2015:						
Fixed-price swaps	37,125	\$4.28	\$—	\$—	\$—	\$55
Collars	28,875	—	—	3.93	4.74	34
2016:						
Swaptions ⁽¹⁾	—	4.10	—	—	—	—
Collars	10,980	—	—	4.00	4.54	10
Total						\$99

(1) During the fourth quarter of 2014, we sold natural gas swaption contracts that, if exercised on their expiration date in the second quarter of 2015, would protect 14,640 MMBtus of calendar-year 2016 production from future commodity price volatility. These contracts give the counterparties the option to enter into swap contracts with us at \$4.10/MMBtu for calendar-year 2016.

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 (In millions)	Offset in Balance Sheet	Balance Sheet Location		Gross Fair Value (In millions)	Offset in Balance Sheet	Balance Sheet Location	
			Current	Noncurrent			Current	Noncurrent
March 31, 2015								
Natural gas positions	\$99	\$—	\$91	\$8	\$—	\$—	\$—	\$—
Oil positions	1,145	(595)	334	216	(598)	595	(1)	(2)
Total	\$1,244	\$(595)	\$425	\$224	\$(598)	\$595	\$(1)	\$(2)
December 31, 2014								
Natural gas positions	\$105	\$(2)	\$99	\$4	\$(2)	\$2	\$—	\$—
Oil positions	1,115	(597)	332	186	(605)	597	(8)	—
Total	\$1,220	\$(599)	\$431	\$190	\$(607)	\$599	\$(8)	\$—

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NEWFIELD EXPLORATION COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

(Unaudited)

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 March 31,	
	2015	2014
	(In millions)	
Derivatives not designated as hedging instruments:		
Realized gain (loss) on natural gas positions	\$25	\$(22)
Realized gain (loss) on oil positions	96	(17)
Total realized gain (loss)	121	(39)
Unrealized gain (loss) on natural gas positions	(5)	(17)
Unrealized gain (loss) on oil positions	37	(40)
Total unrealized gain (loss)	32	(57)
Total	\$153	\$(96)

The use of derivative transactions involves the risk that the counterparties, which generally are financial institutions, 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 March 31, 2015, ten of our 16 counterparties accounted for approximately 85% of our contracted volumes, with no single counterparty accounting for more than 15%.

Approximately 72% of our volumes subject to derivative instruments are with lenders under our credit facility. Our credit facility, senior 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.

7. Accounts Receivable:

Accounts receivable consisted of the following:

	March 31, 2015	December 31, 2014
	(In millions)	
Revenue	\$102	\$155
Joint interest	200	230
Other	68	70
Reserve for doubtful accounts	(16)	(16)
Total accounts receivable, net	\$354	\$439

Reserve for doubtful accounts includes an allowance for \$15 million related to discontinued operations. See Note 16, "Discontinued Operations."

8. Accrued Liabilities:

Accrued liabilities consisted of the following:

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NEWFIELD EXPLORATION COMPANY

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(Unaudited)

	March 31, 2015	December 31, 2014
	(In millions)	
Revenue payable	\$ 139	\$ 197
Accrued capital costs	293	441
Accrued lease operating expenses	41	47
Employee incentive expense	28	62
Accrued interest on debt	32	67
Taxes payable	39	32
Other	34	34
Total accrued liabilities	\$ 606	\$ 880

9. 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. 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 2: 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.

Our valuation models for derivative contracts are primarily industry-standard models (i.e., Black-Scholes) that consider various inputs including: (a) 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 12, "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.

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NEWFIELD EXPLORATION COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

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	Fair Value Measurement Classification			Total
	Quoted Prices in Active Markets for Identical Assets or Liabilities (Level 1) (In millions)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
As of December 31, 2014:				
Money market fund investments	\$1	\$—	\$—	\$1
Deferred compensation plan assets	9	—	—	9
Equity securities available-for-sale	10	—	—	10
Oil and gas derivative swap contracts	—	994	—	994
Oil and gas derivative option and swaption contracts	—	—	(381)	(381)
Stock-based compensation liability awards	(12)	) —	(3)	(15)
Total	\$8	\$994	\$(384)	\$618
As of March 31, 2015:				
Money market fund investments	\$768	\$—	\$—	\$768
Deferred compensation plan assets	5	—	—	5
Equity securities available-for-sale	9	—	—	9
Oil and gas derivative swap contracts	—	978	—	978
Oil and gas derivative option and swaption contracts	—	—	(332)	(332)
Stock-based compensation liability awards	(19)	) —	(8)	(27)
Total	\$763	\$978	\$(340)	\$1,401

The determination of the fair values above incorporates various factors, which 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), 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.

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.

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(Unaudited)

	Investments	Derivatives	Stock-Based Compensation	Total
	(In millions)			
Balance at January 1, 2014	\$39	\$ (8)	\$ (5)	\$26
Realized or unrealized gains (losses) included in earnings	—	(13)	(14)	(27)
Purchases, issuances, sales and settlements:				
Sales	(39)	—	—	(39)
Settlements	—	2	—	2
Transfers in to Level 3	—	—	—	—
Transfers out of Level 3	—	—	—	—
Balance at March 31, 2014	\$—	\$ (19)	\$ (19)	\$ (38)
Change in unrealized gains or losses included in earnings relating to Level 3 instruments still held at March 31, 2014	\$—	\$ (11)	\$ (14)	\$ (25)
Balance at January 1, 2015	\$—	\$ (381)	\$ (3)	\$ (384)
Realized or unrealized gains (losses) included in earnings	—	(21)	(5)	(26)
Purchases, issuances, sales and settlements:				
Settlements	—	70	—	70
Transfers in to Level 3	—	—	—	—
Transfers out of Level 3	—	—	—	—
Balance at March 31, 2015	\$—	\$ (332)	\$ (8)	\$ (340)
Change in unrealized gains or losses included in earnings relating to Level 3 instruments still held at March 31, 2015	\$—	\$ (4)	\$ (5)	\$ (9)

Qualitative Disclosures about Unobservable Inputs for Level 3 Fair Value Measurements

Investments. During the first quarter of 2014, all auction rate securities that we held as of January 1, 2014, were sold for \$39 million.

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 volatility factors and 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. See Note 6, "Derivative Financial Instruments," for additional discussion of our derivative instruments.

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.

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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	\$(376)	Black-Scholes	Oil price volatility	21.39 %	— 68.99 %
			Credit risk	0.01 %	— 2.10 %
Natural gas option and swaption contracts	\$44	Black-Scholes	Natural gas price volatility	23.44 %	— 54.28 %
			Credit risk	0.01 %	— 1.36 %
SVAP	\$(8)	Monte Carlo	Implied volatility		46.7 %

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:

	March 31, 2015	December 31, 2014
	(In millions)	
5¾% Senior Notes due 2022	\$789	\$772
5 % Senior Notes due 2024	1,041	989
5 % Senior Notes due 2026	709	—
6 % Senior Subordinated Notes due 2020	725	721

Any amounts outstanding under our credit arrangements as of the indicated dates are stated at cost, which approximates fair value. Please see Note 10, "Debt."

10. Debt:

Our debt consisted of the following:

	March 31, 2015	December 31, 2014
	(In millions)	
Senior unsecured debt:		
Revolving credit facility — LIBOR based loans	\$—	\$345
Money market lines of credit ⁽¹⁾	—	101
Total credit arrangements	—	446
5¾% Senior Notes due 2022	750	750
5 % Senior Notes due 2024	1,000	1,000
5 % Senior Notes due 2026	700	—
Total senior unsecured debt	2,450	2,196
6 % Senior Subordinated Notes due 2020	700	700
Discount on notes	(4)	(4)

Total long-term debt	\$3,146	\$2,892
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(1) Because we have the ability and intent to use our available credit facility 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.

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Credit Arrangements

In March 2015, we entered into the fourth amendment to our Credit Agreement. This amendment extended the maturity date of the revolving credit facility from June 2018 to June 2020 and increased the borrowing capacity from \$1.4 billion to \$1.8 billion. We incurred \$7 million of deferred financing costs related to this amendment, which will be amortized through June 2020. As of March 31, 2015, the largest individual loan commitment by any lender was 12% 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 March 31, 2015) 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 March 31, 2015).

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 March 31, 2015). We incurred aggregate commitment fees under our current credit facility of approximately \$1 million for each of the three-month periods ended March 31, 2015 and 2014, which are recorded in "Interest expense" on our consolidated statement of operations.

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 March 31, 2015, we were in compliance with all of our debt covenants.

As of March 31, 2015, 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 March 31, 2015).

Subject to compliance with the restrictive covenants in our credit facility, at March 31, 2015, we also had a total of \$195 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.

Senior Notes and Senior Subordinated Notes

On March 5, 2015, we issued \$700 million of 5 % Senior Notes due 2026 and received net proceeds of approximately \$690 million (net of offering costs of approximately \$10 million). These notes were issued at par to yield 5 %. Also in March 2015, we called our outstanding 6 % Senior Subordinated Notes due 2020. See Note 17, "Subsequent Events."

11. Income Taxes:

The provision (benefit) 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:

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

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