AMERICAN INDEPENDENCE CORP
Form SC 13E3
June 28, 2016

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

SCHEDULE 13E-3

RULE 13E-3 TRANSACTION STATEMENT

(Pursuant to Section 13(e) of the Securities Exchange Act of 1934)

American Independence Corp.

(Name of the Issuer)

AMIC Holdings, Inc.

Independence Holding Company

Madison Investors Corporation

(Name of Person(s) Filing Statement)

Common Stock, $0.01 par value per share

(Title of Class of Securities)

026760 40 5

(CUSIP Number of Class of Securities)

Teresa A. Herbert

AMIC Holdings, Inc.

Independence Holding Company

Madison Investors Corporation

96 Cummings Pt. Road

Stamford, CT 06902

(203) 358-8000

(Name, Address and Telephone Number of Persons Authorized to Receive Notices

and Communications on Behalf of Persons Filing Statement)

Copies to:

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NEITHER THE SECURITIES AND EXCHANGE COMMISSION NOR ANY STATE SECURITIES COMMISSION HAS APPROVED OR DISAPPROVED THIS TRANSACTION, PASSED ON THE MERITS OR THE FAIRNESS OF THE TRANSACTION OR PASSED UPON THE ADEQUACY OR ACCURACY OF THE INFORMATION CONTAINED IN THIS DOCUMENT. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

This statement is filed in connection with (check the appropriate box):

a. ¨ The filing of solicitation materials or an information statement subject to Regulation 14A, Regulation 14-C or Rule 13e-3(c) under the Securities Exchange Act of 1934 (the “Act”).

b. ¨ The filing of a registration statement under the Securities Act of 1933.

c. ¨ A tender offer.

d. x None of the above.

Check the following box if the soliciting materials or information statement referred to in checking box (a) are preliminary copies: ¨

Check the following box if the filing is a final amendment reporting the results of the transaction: ¨

Calculation of Filing Fee

Transaction Valuation*	Amount of Filing Fee**
$17,848,421	$1,797.34

* For purposes of calculating the filing fee only, the transaction value was determined based upon the sum of (A) 695,400 outstanding shares of the issuer’s common stock multiplied by the stock merger price of $24.74 per share; and (B) 41,112 outstanding options to purchase shares of the issuer’s common stock multiplied by $15.67 per share (which is the difference between the $24.74 per share stock merger price and the $9.07 weighted average exercise price per share of the options).

** The amount of the filing fee is calculated in accordance with Rule 0-11 under the Exchange Act as the product of 17,848,421 and 0.0001007.

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

SUMMARY TERM SHEET

The following summary term sheet provides an overview of the "going private" merger transaction involving American Independence Corp. ("AMIC") and AMIC Holdings, Inc. ("Acquisition Co."), which will be effected by way of a statutory "short-form" merger of AMIC with and into Acquisition Co. pursuant to the terms of Section 253 of the Delaware General Corporation Law (the "DGCL"). This summary does not contain all of the information that may be relevant to holders of shares of common stock of AMIC. For more detailed information regarding the effects of the merger, how the merger affects you, what your rights are with respect to the merger, and the position of the entities filing this Schedule 13E-3 on the fairness of the merger, you should carefully review the entire Schedule 13E-3.

Purpose of the Merger

Immediately prior to the mailing of this Transaction Statement on Schedule 13E-3 (this "Schedule 13E-3") to the public stockholders of AMIC, Independence Holding Company, a Delaware corporation ("IHC"), and Madison Investors Corporation, a Delaware corporation ("MIC" and together with IHC, the "IHC Entities"), will contribute their respective shares of common stock, par value $.01 per share, of AMIC ("AMIC Common Stock" or "Common Stock") to Acquisition Co., a newly created Delaware corporation, resulting in Acquisition Co. owning 91.43% in the aggregate of the outstanding shares of AMIC Common Stock. Following such contribution, the IHC Entities together will own all the outstanding shares of capital stock of Acquisition Co. The IHC Entities currently intend to cause Acquisition Co. to merge with AMIC, with Acquisition Co. continuing as the surviving corporation (the "Surviving Corporation"), as a means of acquiring for cash all of the shares of Common Stock not owned directly or indirectly by the IHC Entities, and providing a source of liquidity to the public stockholders of those shares of Common Stock, through a "short-form" merger under Section 253 of the DGCL. Immediately following the merger, the IHC Entities together will own 100% of the capital stock of the Surviving Corporation.

The Merger

The IHC Entities intend to cause Acquisition Co. to merge with AMIC in a "short form" merger pursuant to Section 253 of the DGCL, with Acquisition Co. continuing as the surviving corporation. Pursuant to Section 253 of the DGCL, Acquisition Co. may effect the merger without the approval of the Board of Directors of AMIC or the other stockholders of AMIC. **THE BOARD OF DIRECTORS OF AMIC HAS NOT ACTED TO APPROVE OR DISAPPROVE THE MERGER, AND STOCKHOLDERS OF AMIC OTHER THAN ACQUISITION CO. ARE NOT BEING ASKED TO APPROVE OR DISAPPROVE, OR FURNISH A PROXY IN CONNECTION WITH, THE MERGER.**

The IHC Entities intend to cause Acquisition Co. to effect the merger on August 31, 2016, or as soon as practical thereafter. However, the IHC Entities are under no obligation to cause Acquisition Co. to consummate the merger and

could decide to withdraw from the transaction at any time before it becomes effective.

See "Special Factors - Purposes, Alternatives, Reasons and Effects of the Merger – Purposes" on page 12.

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Stock Merger Price.

Upon the effectiveness of the merger, each share of Common Stock (i) not owned by Acquisition Co. and (ii) as to which appraisal rights are not properly exercised (as described in this Schedule 13E-3) will be cancelled and automatically converted into the right to receive $24.74 in cash, without interest (the "Stock Merger Price ").

See "Fairness of the Merger – Factors Considered in Determining Fairness – The Stock Merger Price " on page 19 and "Fairness of the Merger – Factors Considered in Determining Fairness – Appraisal Rights" on page 20.

AMIC Shares Outstanding; Ownership by the IHC Entities.

As of June 15, 2016, there were 8,118,551 shares of Common Stock outstanding. As of June 15, 2016, the IHC Entities owned 7,423,151 shares, representing 91.43% of the outstanding shares of Common Stock. Each of the IHC Entities intends to contribute the shares of Common Stock that it currently owns to Acquisition Co. immediately prior to the mailing of this Schedule 13E-3 to AMIC's public stockholders. In addition, as of June 15, 2016, AMIC had 1,063,242 shares of Common Stock held in treasury, which it plans to cancel.

As of June 15, 2016, AMIC had outstanding options to purchase 41,112 shares of Common Stock under its 2009 Stock Incentive Plan. In connection with the merger, Acquisition Co. will pay cash for the options (both vested and unvested) at the Stock Merger Price less the option exercise price.

See "Special Factors - Purposes, Alternatives, Reasons and Effects of the Merger – Effects" on page 14.

Payment for Shares.

You will be paid for the shares of Common Stock you hold as of the effective date of the merger promptly after the effective date of the merger and your compliance with the instructions set forth in the Notice of Merger and Appraisal Rights and Letter of Transmittal, which will be mailed to stockholders of record of AMIC as of the effective date of the merger within ten (10) calendar days following the effective date of the merger. Please do not submit your stock certificates before you have received these documents.

See Item 4 "Terms of the Transaction" on page 33 of this Schedule 13E-3.

Source and Amount of Funds; Conditions to Completing the Merger.

The total amount of funds expected to be required to pay the Stock Merger Price, and to pay related fees and expenses, is estimated to be approximately $18,328,000, including $480,000 of fees and expenses. In order to pay the Stock Merger Price, Acquisition Co. will borrow the necessary funds from IHC in consideration of Acquisition Co.'s execution of a promissory note in favor of IHC with a principal amount equal to the Stock Merger Price. The promissory note will mature on the one-year anniversary of the issuance of the note (the "Maturity Date") and accrue interest at an annual rate of 5.0%, payable on the Maturity Date. The note will allow prepayment without penalty. The outstanding principal amount and accrued but unpaid interest thereon will be due on the Maturity Date. Since IHC's loan to Acquisition Co. will be without conditions, there are no conditions to completing the merger.

See Item 10 “Source and Amounts of Funds or Other Consideration” on page 42 of this Schedule 13E-3.

The Filing Persons’ Position on the Fairness of the Merger

The Filing Persons have concluded that the merger is both substantively and procedurally fair to the holders of shares of Common Stock other than Acquisition Co., based primarily on the following factors:

- The merger will enable the public stockholders of AMIC to realize (without the payment of any brokerage fees or commissions) cash for their shares of Common Stock at a premium of (i) approximately 182% to $8.77, the last sales price of the Common Stock as of the end of trading on January 5, 2016 (the date that IHC publicly announced after the end of trading in a press release that it was taking steps to consider a going private transaction) and (ii) approximately 180% to $8.83, which is the thirty (30)-day volume-weighted average price prior to the end of trading on January 5, 2016 (the date that IHC publicly announced after the end of trading in a press release that it was taking steps to consider a going private transaction). The Stock Merger Price is greater than the range of closing prices per share of AMIC Common Stock during 2015, which closing prices ranged from a high of $11.19 to a low of $8.57;

- The Stock Merger Price is a 143% premium to the $10.19 per share price IHC paid to acquire an aggregate of 157,855 shares of AMIC Common Stock in a privately negotiated arms’ length transaction with a sophisticated, unaffiliated AMIC stockholder on March 24, 2015;

- The sale of IHC Risk Solutions, LLC, which may be considered the sale of all or substantially all of AMIC's assets, was consummated on March 31, 2016. The Stock Merger Price is approximately a 20% premium to the post-closing per share price of Common Stock of $20.67 on April 4, 2016 (to allow the market to absorb the disclosure, the second full trading day following March 31, 2016, the date that IHC publicly announced after the end of trading in a press release the consummation of the sale of IHC Risk Solutions, LLC);

- Before establishing the Stock Merger Price, IHC retained Duff & Phelps, LLC (“Duff & Phelps”) to provide an analysis of values of the Common Stock resulting from the application of generally accepted valuation and analytical techniques;

- The Stock Merger Price is in excess of AMIC’s range of $23.02 to $24.30 estimated discounted cash flow value, based on an analysis by Duff & Phelps;

- The Stock Merger Price is within the high end range of AMIC’s $22.96 to $25.18 estimated equity value as compared to select public companies, based on an analysis by Duff & Phelps of the financial performance and trading multiples of such companies,

- The Stock Merger Price is the highest price of AMIC's concluded per share price range of $22.99 to $24.74, based on an analysis by Duff & Phelps;

- AMIC Common Stock trades on the Nasdaq Capital Market (NASDAQ:AMIC), and the daily trading volumes are relatively minimal (e.g., the average daily trading volume of Common Stock for the three months prior to January 5, 2016 (the date that IHC publicly announced after the end of trading in a press release that it was taking steps to consider a going private transaction) was 539 shares). Therefore, shares of AMIC Common Stock have limited liquidity and, as a result, it may be difficult for the public stockholders to sell even small amounts of Common Stock without adversely impacting the market prices thereof;

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- The merger will enable the holders of AMIC Common Stock, other than Acquisition Co., to realize (without the payment of any brokerage fees or commissions) a cash value for their shares, which would otherwise be difficult to achieve, given the illiquidity of the market; and

- The holders of AMIC Common Stock, other than Acquisition Co., will be entitled to exercise appraisal rights and demand "fair value" for their shares as determined by the Delaware Court of Chancery, which may be determined to be equal to, more than, or less than the Stock Merger Price to which the stockholders are entitled in the merger. See "Special Factors—Purposes, Alternatives, Reasons and Effects of the Merger" on page 12 and Item 4 "Terms of the Transaction" on page 33 of this Schedule 13E-3.

See "See "Special Factors—Fairness of the Merger—Position of the Filing Persons as to the Fairness of the Merger" on page 19.

Consequences of the Merger

Completion of the merger will have the following consequences:

- AMIC will be merged into Acquisition Co., with Acquisition Co. continuing as the surviving corporation. The Surviving Corporation will be a privately held corporation, with the IHC Entities owning all of the capital stock of the Surviving Corporation;

- The shares of Common Stock will no longer be publicly traded. See "Special Factors - Purposes, Alternatives, Reasons and Effects of the Merger – Effects - The Shares of Common Stock" on page 15. In addition, the Surviving Corporation will no longer be subject to the reporting and other disclosure requirements of the Securities Exchange Act of 1934, as amended, including requirements to file annual and other periodic or current reports or to provide the type of going private disclosure contained in this Schedule 13E-3;

- Only the IHC Entities and their stockholders will have the opportunity to participate in the future earnings and growth, if any, of the Surviving Corporation. Similarly, only the IHC Entities and their stockholders will face the risk of losses generated by the Surviving Corporation's operations or the decline in value of the Surviving Corporation;

- Subject to the proper exercise of statutory appraisal rights, each share of AMIC Common Stock held by persons other than Acquisition Co. as of the effective date of the merger will be converted into the right to receive $24.74 cash, without interest;

- In connection with the merger, Acquisition Co. will pay cash for the AMIC stock options (both vested and unvested) that are currently outstanding;

- Each of IHC's and MIC's interest (through their respective interests in Acquisition Co.) in the net book value of AMIC at March 31, 2016 will increase by 3.23% and 5.34%, respectively; and

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- Each of IHC's and MIC's interest (through their respective interests in Acquisition Co.) in the net earnings of AMIC will increase by 3.23% and 5.34%, respectively

See "Special Factors, Purposes, Alternatives, Reasons and Effects of the Merger - Effects" on page 14.

Appraisal Rights

Subject to compliance with the applicable provisions of the DGCL, you have a statutory right to dissent and demand payment of the "fair value" (as defined pursuant to Section 262 of the DGCL) of your shares of AMIC Common Stock as determined in a judicial appraisal proceeding in accordance with Section 262 of the DGCL, plus interest, if any, from the effective date of the merger. This value may be equal to, more than, or less than the Stock Merger Price offered in the merger. Pursuant to an amendment to Section 262 of the DGCL that applies to certain mergers approved on or after August 1, 2016 (the "Amendment"), if you exercise your appraisal rights and an appraisal proceeding is commenced, Acquisition Co. may make a voluntary cash payment to you prior to the time the Delaware Court of Chancery makes a final judgment in the appraisal proceeding. If Acquisition Co. makes such prepayment, interest will accrue only on the sum of (i) the difference, if any, between the amount paid and the fair value of the shares as determined by the Delaware Court of Chancery and (ii) interest accrued before the prepayment, unless paid at the time of such prepayment.

In order to properly exercise these rights, you must make a written demand for appraisal within twenty (20) days after the date of mailing of the Notice of Merger and Appraisal Rights and Letter of Transmittal, which will be mailed to AMIC stockholders of record as of the effective date of the merger within ten (10) days following the effective date of the merger, and otherwise comply with the procedures for exercising appraisal rights set forth in the DGCL. The statutory right to seek appraisal is complicated. A copy of Section 262 of the DGCL, both pre-Amendment and post-Amendment, is attached to this Schedule 13E-3 as Exhibit F-1 and F-2, respectively. Any failure to properly comply with its terms may result in an irrevocable loss of such right. Stockholders seeking to properly exercise their statutory appraisal rights are encouraged to seek advice from legal counsel.

See "Fairness of the Merger – Factors Considered in Determining Fairness – Appraisal Rights" on page 20 and Item 4 "Terms of the Transaction - Appraisal Rights" on page 34 of this Schedule 13E-3.

Where You Can Find More Information

More information regarding AMIC is available from its public filings with the Securities and Exchange Commission ("SEC"). AMIC also maintains a website at www.americanindependencecorp.com. Information contained on or connected to AMIC's website is not incorporated by reference into this Schedule 13E-3 and should not be considered part of this Schedule 13E-3 or any other filing that the Filing Persons make with the SEC.

See also Item 2 "Subject Company Information" on page 30 of this Schedule 13E-3 and Item 3 "Identity and Background of Filing Persons" on page 31 of this Schedule 13E-3.

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INTRODUCTION

This Transaction Statement on Schedule 13E-3 is being filed with the SEC by the IHC Entities and Acquisition Co. (collectively, the "Filing Persons") pursuant to Section 13(e) of the Exchange Act, and Rule 13e-3 promulgated thereunder.

This Schedule 13E-3 is being filed by the Filing Persons in connection with the proposed short-form merger of Acquisition Co. with AMIC pursuant to Section 253 of the DGCL. The merger is expected to be effective on August 31, 2016 or as soon thereafter as possible (the "Effective Date"). The Filing Persons are under no obligation to consummate the merger and could withdraw from the transaction at any time before the Effective Date.

As of June 15, 2016, there were 8,118,551 shares of AMIC Common Stock outstanding, of which 7,423,151, or 91.43%, were held by the IHC Entities. Each of the IHC Entities intends to contribute the shares of Common Stock that it currently owns to Acquisition Co. immediately prior to the mailing of this Schedule 13E-3 to AMIC's public stockholders.

Upon consummation of the merger, each outstanding share of Common Stock not held by Acquisition Co. or by stockholders of AMIC who properly exercise statutory appraisal rights under the DGCL will be cancelled and automatically converted into the right to receive $24.74 in cash, without interest (the "Stock Merger Price "), upon surrender of the certificate for such share of Common Stock to Broadridge Corporate Issuer Solutions, Inc. (the "Paying Agent"). Instructions regarding surrender of certificates to the Paying Agent together with a description of statutory appraisal rights will be set forth in a Notice of Merger and Appraisal Rights and a Letter of Transmittal, which will be mailed to stockholders of record of AMIC within ten (10) calendar days following the Effective Date. The officers and directors of AMIC will not be entitled to receive cash payments in connection with the merger, other than as holders of Common Stock and/or Company Stock Options (as defined below). The aggregate amount to be paid to the officers and directors of AMIC in connection with the merger (solely as holders of Common Stock and/or Company Stock Options) is estimated to be $1,741,098. As of June 15, 2016, AMIC had outstanding options to acquire 41,112 shares of Common Stock under its 2009 Stock Option Incentive Plan (the "Company Stock Options"). In connection with the merger, Acquisition Co. will pay cash for the Common Stock Options (both vested and unvested). AMIC does not intend to grant any additional stock options prior to consummation of the merger.

The Paying Agent's address and telephone number is: Broadridge Corporate Issuer Solutions, Inc., 51 Mercedes Way, Edgewood, NY 11717, Telephone No. 866-321-8022 (toll free).

Under the DGCL, no action is required by the Board of Directors or the stockholders of AMIC other than the Filing Persons for the merger to become effective. Acquisition Co. will be the surviving corporation in the merger (the "Surviving Corporation") and the IHC Entities will be the sole stockholders of the Surviving Corporation after the merger. **THE BOARD OF DIRECTORS OF AMIC HAS NOT ACTED TO APPROVE OR DISAPPROVE THE MERGER, AND STOCKHOLDERS OF AMIC OTHER THAN THE FILING PERSONS ARE NOT BEING ASKED TO APPROVE OR DISAPPROVE, OR FURNISH A PROXY IN CONNECTION WITH, THE MERGER.**

Subject to compliance with the applicable provisions of the DGCL, stockholders of AMIC as of the Effective Date other than the Filing Persons have a statutory right to demand payment of the "fair value" (as defined pursuant to Section 262 of the DGCL) of their shares of Common Stock as determined in a judicial appraisal proceeding in accordance with Section 262 of the DGCL, plus interest, if any, from the Effective Date. This value may be equal to, more than, or less than the Stock Merger Price offered in the merger. Pursuant to an amendment to Section 262 of the DGCL that applies to certain mergers approved on or after August 1, 2016 (the "Amendment"), if you exercise your appraisal rights and an appraisal proceeding is commenced, Acquisition Co. may make a voluntary cash payment to you prior to the time the Delaware Court of Chancery makes a final judgment in the appraisal proceeding. If Acquisition Co. makes such prepayment, interest will accrue only on the sum of (i) the difference, if any, between the amount paid and the fair value of the shares as determined by the Delaware Court of Chancery and (ii) interest accrued before the prepayment, unless paid at the time of such prepayment.

AMIC stockholders wishing to seek such appraisal rights must make a written demand for appraisal within twenty (20) days after the date of mailing of the Notice of Merger and Appraisal Rights and Letter of Transmittal and otherwise comply with the procedures for exercising appraisal rights set forth in the DGCL. The statutory right to seek appraisal is complicated. A copy of Section 262 of the DGCL, both pre-Amendment and post-Amendment, is attached to this Schedule 13E-3 as Exhibit F-1 and F-2, respectively Any failure to properly comply with its terms may result in an irrevocable loss of such right. Stockholders seeking to properly exercise their statutory appraisal rights are encouraged to seek advice from legal counsel.

This Schedule 13E-3 and the documents incorporated by reference in this Schedule 13E-3 include certain forward-looking statements. These statements appear throughout this Schedule 13E-3 and include statements regarding the intent, belief, or current expectations of the Filing Persons, including statements concerning the Filing Persons' strategies following completion of the merger. Such forward-looking statements are not guarantees of future performance and involve risks and uncertainties. Actual results may differ materially from those described in such forward-looking statements as a result of various factors, including general economic conditions, positions and strategies of competitors and the capital markets.

BACKGROUND OF THE MERGER

AMIC is a holding company principally engaged in health insurance and reinsurance. Through its subsidiaries, AMIC provides specialized health coverage and related services to commercial customers and individuals, and focuses on niche health products and narrowly defined distribution channels in the United States. AMIC's wholly owned subsidiary, Independence American Insurance Company ("IAIC"), markets its products through IHC Specialty Benefits, Inc. (including through www.healthedeals.com and www.aspiraAmas.com[1]), IPA Family, LLC, and IPA Direct, LLC, each of which are subsidiaries of AMIC (collectively, the "Agencies"), and through independent brokers, producers and agents. AMIC retains much of the risk that it underwrites, and currently sells or reinsures the following lines of business: (i) specialty health products, including short-term medical, vision, dental, supplemental products (including fixed indemnity limited benefit, critical illness, and hospital indemnity); (ii) pet insurance; (iii) occupational accident; and (iv) New York State Disability Benefits Law. In addition, AMIC markets and sells certain other products (including Affordable Care Act major medical and small group stop-loss policies) for various unaffiliated insurers through the Agencies.

AMIC began its affiliation with IHC on July 30, 2002 when MIC, an affiliate of IHC, purchased from an affiliate of Pacific Century Cyberworks, 5,000,000 shares of AMIC Common Stock (constituting 19.9% of the outstanding shares of AMIC Common Stock at that time), for $15 million or $3.00 per share. Subsequently, AMIC did a 3 for 1 reverse stock split, which caused these shares to be converted into 1,666,666 shares with a value of $9.00 per share. Also on July 30, 2012, AMIC (under its former name Softnet Systems, Inc.) entered into a stock purchase agreement with IHC and one of its affiliates, SSH Corp., whereby AMIC purchased the stock of First Standard Holdings Corp. (now known as Independence American Holdings Corp. ("IAHC")) from SSH Corp. for $31.92 million in cash. Such transaction closed on or around November 27, 2002.

In addition to the shares acquired from the affiliate of Pacific Century Cyberworks, IHC and one of its affiliates agreed to make a cash tender offer after the closing of the acquisition of IAHC for $9.00 per share ($3.00 post reverse split). On April 22, 2003, AMIC acquired 3,000,000 shares (1,000,000 shares post reverse split).

Prior to these acquisitions, AMIC was a holding company principally engaged in providing internet services. IAHC and its wholly-owned subsidiaries were engaged in the insurance and reinsurance business. After these acquisitions, the senior management team of IHC began providing management services to AMIC and changed AMIC's name from 'Softnet Systems, Inc.' to 'American Independence Corp.' AMIC also began trading on the NASDAQ Global Market under the ticker 'AMIC.' At the time of closing, IAHC owned an insurance company (now known as Independence American Insurance Company) ("IAIC") and two medical stop-loss managing general underwriters ("MGU's"). AMIC subsequently purchased two more MGUs and a 23% equity interest in another MGU (the balance being owned by IHC) and entered into a long-term reinsurance treaty with IHC whereby IHC agreed to cede medical stop-loss reinsurance to IAIC. These MGUs were subsequently merged together to form (or entered into contractual relationships with) IHC Risk Solutions LLC ("RS"). AMIC's sale of RS to Swiss Re Corporate Solutions, which may be considered the sale of all or substantially all of AMIC's assets, was consummated on March 31, 2016. (See "Item 5(b)

"Past Contacts, Transactions, Negotiations and Agreements—Significant Corporate Events" on page 39 of this Schedule 13E-3 for additional information). Between April 2003 and March 2010, IHC and MIC increased their ownership percentage of AMIC by purchasing shares through open market purchase transactions and privately negotiated transactions with unaffiliated AMIC stockholders. By March 2010, IHC and MIC had increased their aggregate ownership percentage of AMIC to a little over 50%. On June 30, 2010, IHC contributed all of its shares of AMIC Common Stock that it then owned to MIC. Afterwards, IHC and MIC made a series of acquisitions of AMIC Common Stock through market transactions and privately negotiated transactions with unaffiliated AMIC stockholders and increased their aggregate ownership percentage to 63%.

[1] Information contained on or connected to these websites is not incorporated by reference into this Schedule 13E-3 and should not be considered part of this Schedule 13E-3 or any other filing that the Filing Persons make with the SEC.

On July 15, 2011, IHC offered to exchange up to 908,085 shares of its common stock for shares of AMIC Common Stock. For each share of AMIC Common Stock accepted, IHC issued 0.625 of a share of IHC common stock. As a result of the exchange offer, 1,109,225 shares of AMIC Common Stock were tendered and not withdrawn, all of which were accepted for exchange by IHC, and IHC exchanged approximately 693,266 shares of its common stock for the tendered shares of AMIC Common Stock. The exchange offer expired on August 12, 2011. Following the completion of the exchange offer, IHC's and MIC's total aggregate ownership of AMIC increased to 76%.

Subsequent to the exchange offer, IHC made a series of acquisitions of AMIC Common Stock through market transactions and privately negotiated transactions with unaffiliated AMIC stockholders. In addition, AMIC made treasury share repurchases in January, 2013, which increased IHC's and MIC's aggregate ownership increased to over 80%.

On September 4, 2013, IHC commenced another tender offer to purchase up to 762,640 shares of AMIC Common Stock for $10.00 net per share in cash, which represented a 19.5% premium to the closing price of AMIC Common Stock reported on the NASDAQ Global Market on September 3, 2013. The tender offer was oversubscribed, with 952,999 shares of AMIC Common Stock being tendered and not withdrawn. The number of shares that IHC accepted for purchase from each of the tendering stockholders was prorated to limit IHC's purchase to 762,640 shares. The tender offer expired on October 2, 2013. Following its completion of the tender offer, IHC and MIC owned an aggregate of 90% of the outstanding shares of AMIC Common Stock. At the closing of the tender offer, IHC did not contemplate entering into a short form merger with AMIC.

On March 24, 2015, an unaffiliated AMIC stockholder contacted IHC to inquire whether IHC would have an interest in acquiring 157,855 shares of AMIC Common Stock held by such stockholder. IHC agreed to acquire such shares of AMIC Common Stock at a per share purchase price of $10.19. As a result, IHC's ownership of AMIC, in the aggregate with MIC's ownership, increased to 91.88%. Due to option exercises, IHC's aggregate ownership changed to 91.62% at March 31, 2016, with IHC holding 34.57% and MIC holding 57.05%. As a result of owning more than 90% of AMIC, IHC and MIC, following the contribution of their shares of AMIC Common Stock to Acquisition Co., will be able to cause Acquisition Co. to complete the merger pursuant to Section 253 of the DGCL, which authorizes "short-form" mergers.

On January 4, 2016, the board of directors of IHC (the "IHC Board") held a special meeting by telephone. All directors were present and could hear each other during the meeting. At the meeting, the IHC Board preliminarily determined to take the steps necessary to take AMIC private in 2016. In a press release issued on January 5, 2016, IHC disclosed that the IHC Board appointed a special committee of independent directors (the "Special Committee"), which had been authorized to hire independent advisors to recommend to the full IHC Board the price at which IHC would take AMIC private in 2016. In addition, at this same meeting, the IHC Board approved the entry into the agreement to sell RS to Swiss Re Corporate Solutions. However, neither such sale nor such proposed going-private transaction were connected with, or contingent upon, the other.

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On January 13, 2016, Mr. Allan Kirkman and Mr. John Lahey, the independent directors who comprised the Special Committee, held the first meeting of the Special Committee. The meeting was held by telephone and representatives of Young Conaway Stargatt & Taylor, LLP ("Young Conaway") attended the meeting by invitation of the Special Committee. The Special Committee members discussed with Young Conaway a short-form merger and whether it was in the best interests of IHC to have the Special Committee, rather than the full IHC Board, determine whether or not it was prudent to consummate a short-form merger with AMIC that would have the effect of taking AMIC private. The Special Committee engaged Young Conaway as its legal counsel at the meeting and asked Young Conaway to prepare a memo describing the costs and benefits of having a Special Committee. The Special Committee deferred making any type of decision until after it reviewed the memo.

The second meeting of the Special Committee was held by telephone on January 15, 2016. Representatives of Young Conaway attended the meeting by invitation of the Special Committee. Messrs. Kirkman and Lahey discussed with Young Conaway the memo and concluded, after examining the costs and benefits of having a Special Committee, that it would be better for the Special Committee to disband and have the material aspects of the merger determined by the full IHC Board, with the assistance of management.

On January 22, 2016, the IHC Board held a special meeting by telephone. All directors were present and could hear each other during the meeting. Mr. David T. Kettig informed the IHC Board that Messrs. Kirkman and Lahey had consulted with Young Conaway on two separate occasions. Messrs. Kirkman and Lahey summarized for the IHC Board the advice that Young Conaway had provided. Following discussion, the IHC Board determined to accept the Special Committee's recommendation that the Special Committee be disbanded and that the full IHC Board retain the power and responsibility of determining all material aspects of the merger.

At the same meeting, the IHC Board considered the selection of a valuation firm to advise the IHC Board respecting the fair value of AMIC and AMIC Common Stock for purposes of a potential short-form merger. The options presented were: (i) Dowling Hales LLC, which had provided financial advisory services in connection with the sale of RS and may be engaged to provide similar services with respect to future asset or stock sales; (ii) Duff & Phelps, which has provided financial advisory services to IHC (such as analysis of good will, valuation of IHC and AMIC in relation to purchase accounting, and determining fair value of a ceding commission in a transaction) for which (A) IHC has paid or accrued approximately $333,400 in the aggregate in calendar years 2014 and 2015 and the five months ended May 31, 2016, and expects to pay approximately $50,000 per year for annual goodwill valuation support, and (B) AMIC has paid approximately $36,000 in the aggregate in calendar years 2014 and 2015 and the five months ended May 31, 2016 and does not expect to pay any fees in the foreseeable future; and (iii) a third party firm that would be new to IHC. After considering the potential benefits and risks associated with each of these alternatives, the IHC Board determined to authorize management to approach Duff & Phelps to determine whether, and on what terms, Duff & Phelps would provide a valuation of AMIC and AMIC Common Stock that could be used to establish the Stock Merger Price in the event that a determination were to be made to proceed with the short-form merger. The IHC Board made this determination with an understanding that Duff & Phelps has previously done, and is expected to continue to do, business with IHC. Among other things, the IHC Board considered the argument that Duff & Phelps was not "independent" of IHC on account of Duff & Phelps' prior, current and expected future business relationship with IHC, which argument could be eliminated if a financial advisor at Duff & Phelps with no prior relationship and no

expected future relationship with IHC were engaged. The IHC Board also considered that the fees paid and expected to be paid to Duff & Phelps by IHC and its affiliates were not likely to be material to Duff & Phelps in relation to the overall fees received from all clients of Duff & Phelps, and the fact that Duff & Phelps has the advantage of already being familiar with IHC, which would make the process more efficient. After due consideration, the IHC Board determined that the benefits of engaging Duff & Phelps outweighed the risks of doing so and outweighed the benefits of engaging a new firm that has no prior experience with AMIC or its subsidiaries, and authorized IHC's management to have discussions with Duff & Phelps regarding their possible engagement. On February 1, 2016, IHC engaged Duff & Phelps to provide a valuation analysis of AMIC and the AMIC Common Stock from which the IHC Board would make a determination of whether or not to proceed with a short-form merger, and, if so, the per share price it will pay to AMIC's public stockholders.

On February 1, 2016, IHC entered into an engagement letter with Duff & Phelps pursuant to which Duff & Phelps would serve as an independent financial advisor to IHC to provide a valuation analysis in connection with a going private transaction that would be effected by way of a statutory "short-form" merger of AMIC with Acquisition Co. pursuant to the terms of Section 253 of the DGCL.

On March 4, 2016, Acquisition Co. was incorporated in Delaware.

On March 9, 2016, the IHC Board held an in-person special meeting at which Duff & Phelps presented to the IHC Board a draft of the valuation analysis. During the meeting, the directors asked Duff & Phelps questions about the valuation analysis. The IHC Board decided to review the valuation analysis in detail before making any decision regarding whether or not to proceed with the going private transaction and, if the IHC Board determined to proceed, the purchase price to be offered to the stockholders of AMIC other than Acquisition Co. and the AMIC stockholders who exercise their appraisal rights. The meeting was adjourned and no future meeting date was set.

On June 14, 2016, Duff & Phelps distributed to management a revised draft of its valuation analysis to take into consideration an immaterial misstatement of a deferred tax liability on AMIC's balance sheet that was discovered by management of AMIC in March, 2016. On June 15, 2016, IHC management distributed a copy of such revised valuation analysis to the members of the IHC Board via email transmission and a telephonic meeting of the IHC Board was scheduled for June 20, 2016.

At the June 20, 2016 special meeting, the IHC Board decided to go forward with the going private transaction and set the purchase price at $24.74 per share.

Immediately prior to the mailing of this Schedule 13E-3 to the public stockholders of AMIC, the IHC Entities will contribute their respective shares of AMIC Common Stock to Acquisition Co., resulting in Acquisition Co. owning 91.43% in the aggregate of the outstanding shares of AMIC Common Stock.

SPECIAL FACTORS

PURPOSES, ALTERNATIVES, REASONS AND EFFECTS OF THE MERGER

Purposes

IHC and MIC (collectively, the "IHC Entities") are currently the holders of 34.5% and 56.93%, respectively, of the outstanding shares of AMIC Common Stock. On March 4, 2016, the IHC Entities formed Acquisition Co. Prior to the mailing of this Schedule 13E-3 to AMIC's public stockholders, the IHC Entities will enter into a Contribution Agreement (the "Contribution Agreement") with Acquisition Co., pursuant to which the IHC Entities will contribute immediately prior to the mailing of this Schedule 13E-3 to AMIC's public stockholders an aggregate of 7,423,151 shares of Common Stock (representing all of the shares of Common Stock held by the IHC Entities) to Acquisition Co. As a result of such contributions, Acquisition Co. will own 91.43% of the outstanding shares of Common Stock. The IHC Entities then intend to cause Acquisition Co. to merge with AMIC in a "short form" merger pursuant to Section 253 of the DGCL, with Acquisition Co. continuing as the surviving corporation (the "Surviving Corporation").

The purpose of the merger is for the IHC Entities to acquire the shares of Common Stock that they do not already own. The merger is a means for acquiring for cash all of the shares of Common Stock not owned directly or indirectly by the IHC Entities and providing a source of liquidity to the AMIC public stockholders of their shares of Common Stock. The IHC Entities intend to cause Acquisition Co. to effect the merger on August 31, 2016, or as soon as practical thereafter; provided, however, that the IHC Entities are under no obligation to consummate the merger and could decide to withdraw from the transaction at any time before it becomes effective.

The Merger.

On June 27, 2016, the Filing Persons filed an initial Schedule 13E-3 with the SEC announcing the intention of the IHC Entities to cause Acquisition Co. to effect the "short form" merger. Pursuant to the terms of the merger, AMIC will be merged into Acquisition Co., with Acquisition Co. continuing as the surviving corporation, and each outstanding share of Common Stock, other than shares of Common Stock held by Acquisition Co. and by stockholders of AMIC who properly exercise statutory appraisal rights under Section 262 of the DGCL, will be cancelled and automatically converted into the right to receive in cash the Stock Merger Price. Immediately following the merger, the IHC Entities will own 100% of the capital stock of the Surviving Corporation. Further, the shares of Common Stock will be de-registered under the Exchange Act.

As the holder of in excess of 90% of the outstanding shares of Common Stock, Acquisition Co. may effect the merger without the approval of the Board of Directors of AMIC or the other stockholders of AMIC. Such other holders of Common Stock (which constitutes the only class of capital stock of AMIC that, in the absence of Section 253 of the DGCL, would be entitled to vote on the merger) will not be entitled to vote their shares with respect to the merger.

THE BOARD OF DIRECTORS OF AMIC HAS NOT ACTED TO APPROVE OR DISAPPROVE THE MERGER, AND STOCKHOLDERS OF AMIC OTHER THAN ACQUISITION CO. ARE NOT BEING ASKED TO APPROVE OR DISAPPROVE, OR FURNISH A PROXY IN CONNECTION WITH, THE MERGER.

Alternatives

The Filing Persons believe that effecting the transaction by way of a "short-form" merger with Acquisition Co. under Section 253 of the DGCL is the quickest and most cost effective way for Acquisition Co. to acquire the public minority interest in AMIC and to provide the stockholders other than the Filing Persons with the cash Stock Merger Price for their shares of AMIC Common Stock.

Reasons

In determining whether to acquire the outstanding shares of Common Stock that they do not already own, and to effect the merger, the Filing Persons considered the following factors to be the principal benefits of taking AMIC private:

· the reduction in the amount of public information available to competitors about AMIC's businesses that would result from the termination of AMIC's obligations under the reporting requirements of the Exchange Act, and the rules and regulations promulgated thereunder, and any other requirements of the SEC;

· the decrease in costs associated with being a public company, which the Filing Persons anticipate should result in savings of at least $500,000 per year. The Filing Persons estimate that if they had earlier suspended AMIC's filing and other obligations under the Exchange Act, AMIC would have achieved cost savings in excess of $560,000 in each of the past two fiscal years with respect to the public reporting requirements. As a privately held entity, AMIC would no longer be required to file quarterly, annual or other periodic and current reports with the SEC, publish and distribute to its stockholders annual reports and proxy statements, comply with certain provisions of the Sarbanes-Oxley Act of 2002 ("SOX"), maintain a board of directors that includes independent members, and pay director and officer liability insurance premiums, independent auditors' fees, legal fees, transfer agent fees, printing costs, and other costs related to being a public company;

· the elimination of additional burdens on management associated with public reporting and other tasks resulting from AMIC's public company status, including, for example, the dedication of time by, and resources of, AMIC's management and Board of Directors to stockholder inquiries and investor and public relations;

· the greater flexibility that AMIC's management would have to focus on long-term business goals, as opposed to quarterly earnings, as a non-reporting company;

- the immediate liquidity for the public stockholders of the Common Stock at the same time and at predetermined prices without the payment of any brokerage fees or commissions, especially considering (i) the lack of interest by institutional investors in companies with a limited public float such as AMIC (AMIC's public float was 651,064 shares as of June 1, 2016) and (ii) the fact that the public market has historically offered minimal liquidity for AMIC stockholders, as average daily trading volume of shares of Common Stock during the three-month period ended March 31, 2015 and 2016 was only 776 shares and 5,172 shares, respectively; and

- the ability to afford the holders of Common Stock other than the Filing Persons the opportunity to receive cash for their shares at a price considered fair by the IHC Board after consultation with an independent valuation firm (or, in the alternative, the right for such stockholders to seek an appraisal of the fair value of such shares in accordance with Section 262 of the DGCL).

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The Filing Persons also considered a variety of risks and other potentially negative factors for the public stockholders following the merger, including that:

- the Filing Persons and their stockholders will be the sole beneficiaries of the cost savings that result from going private;
- if AMIC's financial condition improves, the public stockholders will not participate in any future earnings of or benefit from any increases in the Surviving Corporation's value; rather, only the Filing Persons would benefit by an increase in the value of the Surviving Corporation;
- for U.S. federal income tax purposes generally, the cash payments made to the public stockholders pursuant to the merger may be taxable to the public stockholders; and
- the public stockholders have not been represented in discussions about the merger, either by AMIC's Board of Directors (which, by statute, is not involved in the short-form merger process) or an independent committee representing the interests of the public stockholders.

Effects

General. The aggregate ownership of the IHC Entities (through Acquisition Co.) in the Common Stock immediately prior to the merger will be 91.43%. Upon completion of the merger, the IHC Entities will have complete control over the conduct of the Surviving Corporation's business, and their interest in the net assets, net book value and net earnings of the Surviving Corporation will increase from 91.43% to 100% thereof. In addition, upon completion of the merger, only the IHC Entities will receive the benefit of the right to participate in any future increases in the value of the Surviving Corporation and will bear the risk of any losses incurred in the operation of the Surviving Corporation and any decrease in the value of the Surviving Corporation. The IHC Entities will indirectly realize all of the benefit in the estimated savings of at least $500,000 per year in costs related to AMIC being a public company. Upon completion of the merger, the IHC Entities' interest in the Surviving Corporation's net book value (approximately $103,920,000 at December 31, 2015) and net earnings (approximately $3,529,000 for the fiscal year ending December 31, 2015) will increase from 91.43% to 100% thereof.

Stockholders. Upon completion of the merger, the public stockholders will no longer have any interest in AMIC, and will not be stockholders of the Surviving Corporation, and therefore will not participate in the Surviving Corporation's future earnings and potential growth and will not bear the risk of any decreases in the value of the Surviving Corporation. In addition, the public stockholders will not share in any distribution of proceeds after any sales of businesses of the Surviving Corporation, whether contemplated at the time of the merger or thereafter. See Item 6(c)

"Purposes of the Transaction and Plans or Proposals—Plans" on page 41 of this Schedule 13E-3. All of the public stockholders' other indicia of stock ownership, such as the right to vote on certain corporate decisions, to elect directors, to receive distributions upon the liquidation of AMIC, and to receive appraisal rights upon certain mergers or consolidations of AMIC (unless such appraisal rights are perfected in connection with the merger) will be extinguished upon completion of the merger. Instead, the public stockholders will have liquidity, in the form of the Stock Merger Price, in place of an ongoing equity interest in the Surviving Corporation . However, the public stockholders (other than the public stockholders, if any, who properly exercise their statutory appraisal rights under the DGCL) will be required to surrender their shares of Common Stock involuntarily in exchange for the Stock Merger Price, and will not have the right to liquidate the shares of Common Stock at a time and for a price of their choosing. In summary, if the merger is completed, the public stockholders will have no ongoing rights as stockholders of the Surviving Corporation (other than statutory appraisal rights in connection with the merger, if properly perfected under the DGCL).

The Shares of Common Stock. Once the merger is consummated, public trading of the shares of Common Stock will cease. The Filing Persons intend to deregister the shares of Common Stock under Section 13 of the Exchange Act. As a result, the Surviving Corporation will no longer be required to file annual, quarterly, and other periodic and current reports with the SEC under the Exchange Act and will no longer be subject to the proxy rules under Section 14 of the Exchange Act. In addition, the IHC Entities will no longer be subject to reporting their ownership of shares of Common Stock under Section 13 of the Exchange Act or to the requirement under Section 16 of the Exchange Act to disgorge to AMIC certain profits from the purchase and sale of shares of Common Stock.

The Company Stock Options. As of June 15, 2016, AMIC had outstanding Common Stock Options to purchase 41,112 shares of Common Stock. AMIC does not intend to grant any additional options under its 2009 Stock Incentive Plan. In connection with the merger, Acquisition Co. will pay cash for the Common Stock Options (both vested and unvested).

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CERTAIN U.S. FEDERAL INCOME TAX CONSIDERATIONS

The following is a summary of certain material U.S. federal income tax consequences relevant to a U.S. Holder and Non-U.S Holder (each as defined below) of AMIC resulting from the merger. This summary is based upon the Internal Revenue Code of 1986, as amended (the “Internal Revenue Code”), its legislative history, United States judicial decisions, administrative pronouncements, existing and proposed Treasury regulations, and published rulings, all as in effect as of the date hereof. This summary assumes that each U.S. Holder and Non-U.S. Holder of Common Stock have held their Common Stock as a capital asset under the Internal Revenue Code. All of the preceding authorities are subject to change, possibly with retroactive effect, so as to result in United States federal income tax consequences different from those discussed below. No ruling has been obtained, and no ruling will be requested, from the Internal Revenue Service (“IRS”) with respect to any of the United States federal income tax consequences described below, and as a result, there can be no assurance that the IRS will not challenge any of the conclusions that are described herein or that a court would sustain such challenge.

The discussion does not cover all aspects of U.S. federal income taxation that may be relevant to particular investors and does not address state, local, foreign, or other tax laws. In particular, this summary does not discuss all of the tax considerations that may be relevant to certain taxpayers subject to special treatment under U.S. federal income tax laws (such as financial institutions, regulated investment companies, real estate investment trusts, insurance companies, investors liable for the alternative minimum tax, individual retirement accounts and other tax-deferred accounts, tax-exempt organizations, dealers or traders in securities or currencies, investors whose functional currency is not the U.S. dollar, persons holding the stock as part of a hedging, integrated or conversion transaction, constructive sale or “straddle,” persons who acquired their stock through the exercise or cancellation of employee stock options or otherwise as compensation for their services, or investors that own or have owned more than 5% of AMIC's Common Stock). Finally, the following discussion does not address the tax consequences under U.S. federal estate and gift tax laws, state, local or non-U.S. tax laws, or the Medicare tax on net investment income.

For purposes of this summary, the term “U.S. Holder” means a beneficial owner of shares of Common Stock that, for U.S. federal income tax purposes, is:

- an individual who is a citizen or resident of the United States;
- a corporation or other entity taxable as a corporation that is created or organized in or under the laws of the United States or any state thereof (or the District of Columbia);
- an estate the income of which is subject to U.S. federal income tax regardless of its source; or

- a trust (x) if a court within the United States is able to exercise primary jurisdiction over the administration of the trust, and one or more United States persons (within the meaning of the Internal Revenue Code) have the authority to control all substantial decisions of the trust; or (y) that has an election in effect under applicable income tax regulations to be treated as a United States person.

A "Non-U.S. Holder" means a beneficial owner of shares of Common Stock that is an individual, corporation (or other entity treated as a corporation for U.S. federal income tax purposes), trust or estate and that is not a U.S. Holder.

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If a partnership is a beneficial owner of shares of Common Stock, the tax treatment of a partner will generally depend upon the status of the partner and the activities of the partnership. If you are a partner of a partnership that holds shares of Common Stock, you should consult your tax advisor regarding the tax consequences of the merger.

ALL BENEFICIAL OWNERS OF SHARES OF COMMON STOCK SHOULD CONSULT THEIR TAX ADVISER AS TO THE PARTICULAR TAX CONSEQUENCES TO THEM OF THE MERGER, INCLUDING THE APPLICABILITY AND EFFECT OF STATE, LOCAL, FOREIGN, AND OTHER TAX LAWS AND POSSIBLE CHANGES IN TAX LAW.

Receipt of Cash

U.S. Holders

The receipt of cash by a U.S. Holder, pursuant to the merger or pursuant to the U.S. Holder’s statutory appraisal rights, will be a taxable transaction for U.S. federal income tax purposes. A U.S. Holder will generally recognize capital gain or loss for federal income tax purposes equal to the difference, if any, between the amount of cash the U.S. Holder receives in the merger and the U.S. Holder’s adjusted tax basis in the Common Stock. A U.S. Holder’s adjusted tax basis in a share of Common Stock will generally be the cost at which it was purchased. Capital gain or loss will be long-term capital gain or loss if the U.S. Holder has held the shares for more than one year at the time of disposition. The deductibility of capital losses is subject to significant limitations under the Internal Revenue Code. The cash payments made to U.S. Holders pursuant to the merger will be reported to the IRS and to the U.S. Holder as may be required under applicable regulations.

Non-U.S. Holders

Generally, a Non-U.S. Holder will not be subject to U.S. federal income taxes upon the exchange of the Non-U.S. Holder's shares for cash in the merger provided:

. the Non-U.S. Holder's capital gain is not effectively connected with the conduct of a trade or business in the United States by the Non-U.S. Holder; and

.

in the case of an individual, the non-U.S. Holder is not present in the United States for 183 days or more during the current taxable year or certain other circumstances exist.

A Non-U.S. Holder described in the first bullet point above will be required to pay U.S. federal income tax on the net gain derived from the disposition of AMIC Common Stock at the graduated tax rates that apply to U.S. Holders, and if the Non-U.S. Holder is treated as a corporation for U.S. federal income tax purposes, it may also be required to pay a branch profits tax at a thirty percent (30%) rate or a lower rate if so specified by an applicable income tax treaty. A Non-U.S. Holder described in the second bullet point above will be subject to a flat thirty percent (30%) United States federal income tax on the gain derived from the disposition of AMIC Common Stock in the merger, which may be offset by U.S. source capital losses.

Information Reporting and Backup Withholding Tax

Under certain circumstances, the Internal Revenue Code imposes a backup withholding obligation on certain reportable payments. Proceeds from the disposition of shares of Common Stock pursuant to the merger that are paid in the United States or by a U.S.-related financial intermediary will be subject to U.S. information reporting rules, unless a U.S. Holder is a corporation or other exempt recipient. In addition, payments that are subject to information reporting may be subject to backup withholding (currently at the rate of twenty-eight percent (28%)). To avoid backup withholding, a U.S. Holder that does not otherwise establish an exemption must provide its correct taxpayer identification number ("TIN") and certify that it is not subject to backup withholding by completing and returning an IRS Form W-9, or otherwise establish an exemption from the backup withholding rules. Non-U.S. Holders generally will avoid being subject to backup withholding by providing a properly completed applicable IRS form W-8 certifying the holder's non-U.S. status or by otherwise establishing an exemption. Backup withholding is not an additional tax. Amounts withheld under the backup withholding rules are available to be credited against a U.S. Holder's U.S. federal income tax liability and may be refunded to the extent they exceed such liability, provided the required information is provided to the IRS. Holders should consult their tax advisors as to their qualification for exemption from backup withholding and the procedure for obtaining an exemption.

Tax Consequences

The merger is not expected to have material U.S. federal income tax consequences to any of the Filing Persons or to AMIC.

FAIRNESS OF THE MERGER

Position of the Filing Persons as to the Fairness of the Merger

Applicable Delaware law does not require procedural fairness in the context of a "short-form" merger pursuant to Section 253 of the DGCL. However, because each of the Filing Persons may be deemed to be the beneficial owner of a majority of the shares of Common Stock, and each of the Filing Persons may therefore be deemed "affiliates" of AMIC within the meaning of Rule 13e-3 under the Exchange Act, Rule 13e-3 under the Exchange Act requires the Filing Persons to provide certain information regarding their position as to the substantive and procedural fairness of the proposed merger to the unaffiliated stockholders. Accordingly, each of the Filing Persons is expressing in this section its reasonable belief as to the substantive and procedural fairness of the merger to the public stockholders, and the Filing Persons are making the statements included in this section solely for the purpose of complying with the requirements of Rule 13e-3 and related rules under the Exchange Act.

Factors Considered in Determining Fairness

In reaching its determination that the terms of the merger are both substantively and procedurally fair to the stockholders of AMIC, the Filing Persons considered the factors described below.

The Stock Merger Price. The Filing Persons believe that the cash Stock Merger Price is fair in relation to recent trading prices for AMIC Common Stock and will enable the public stockholders of AMIC to realize (without the payment of any brokerage fees or commissions) cash for their shares of Common Stock at a premium of (i) approximately 182% to $8.77, the last sales price of the Common Stock as of the end of trading on January 5, 2016 (the date that IHC publicly announced after the end of trading in a press release that it was taking steps to consider a going private transaction) and (ii) approximately 180% to $8.83, which is the thirty (30)-day volume-weighted average price prior to the end of trading on January 5, 2016 (the date that IHC publicly announced after the end of trading in a press release that it was taking steps to consider a going private transaction). The Stock Merger Price is greater than the range of closing prices per share of AMIC Common Stock during 2015, which closing prices ranged from a high of $11.19 and a low of $8.57;

On January 5, 2016, the date that IHC publicly announced after the end of trading in a press release that it was taking steps to consider a going private transaction, the stock price for the Common Stock had been in a range of $10.11 to $22.76 from January 5, 2016 through June 1, 2016. In this same announcement, IHC also announced that AMIC had entered into an agreement sell IHC Risk Solutions to Swiss Re Corporate Solutions. The trading volumes during this period were sometimes significantly higher than the volumes prior to the announcement. The Filing Persons believe

that the stock prices and trading volumes during this period are not fully indicative of the real value of the Common Stock and represent in part speculation on the price that might be paid in a going private transaction. Nevertheless, the Stock Merger Price is approximately a 20% premium to the post-closing per share price of Common Stock of $20.67 on April 4, 2016 (to allow the market to absorb the disclosure, the second full trading day following March 31, 2016, the date that IHC publicly announced after the end of trading in a press release the consummation of the sale of IHC Risk Solutions).

Financial Analysis of the Merger In considering the fairness of the Stock Merger Price from a financial point of view, the IHC Entities retained Duff & Phelps, an independent valuation and corporate finance advisory firm ("Duff & Phelps") to provide an analysis of values of AMIC and AMIC Common Stock resulting from the application of generally accepted valuation and analytical techniques.

Lack of Liquidity. The Filing Persons believed that the liquidity that would result from the merger would be beneficial to the stockholders of AMIC other than the Filing Persons because IHC’s and MIC’s aggregate ownership of approximately 91.43% of the outstanding shares of Common Stock results in an extremely small public float that limits the amount of trading in the shares of Common Stock, and decreases the likelihood that a proposal to acquire the shares by an independent entity could succeed without the consent of IHC and MIC. The limited trading volume in the shares of Common Stock makes ownership thereof unattractive to the public stockholders because the shares of Common Stock are not readily saleable in the public market. The Common Stock trades on the NASDAQ Capital Market (NASDAQ:AMIC), and the daily trading volumes are minimal.   The average daily trading volumes for shares of Common Stock for the three-month period prior to January 5, 2016 ding-right:2px;">

Operating expenses:

Lease operating

126

104

356

299

Production and other taxes

31

19

85

52

Depreciation, depletion and amortization

228

171

628

482

General and administrative

48

61

172

160

Other

8

—

8

—

Total operating expenses

441

355

1,249

993

Income (loss) from operations

169

131

522

298

Other income (expense):

Interest expense

(51
)

(52

)

(153
)

(153
)
Capitalized interest

13

13

39

40

Commodity derivative income (expense)

303

(99
)

33

(66
)
Other, net

1

1

4

5

Total other income (expense)

266

(137
)

(77
)

(174
)

Income (loss) from continuing operations before income taxes

435

(6
)

445

124

Income tax provision (benefit):

Current

1

(4
)

1

(4
)
Deferred

155

2

164

51

Total income tax provision (benefit)

156

(2
)

165

47

Income (loss) from continuing operations

279

(4
)

280

77

Income (loss) from discontinued operations, net of tax

(1
)

31

260

53

Net income (loss)

$
278

$
27

$
540

$
130

Earnings (loss) per share:

Basic:

Income (loss) from continuing operations

$
2.04

$
(0.03
)

$
2.06

$
0.57

Income (loss) from discontinued operations

—

0.08

1.90

0.24

Basic earnings (loss) per share

$
2.04

$
0.05

$
3.96

$
0.81

Diluted:

Income (loss) from continuing operations

$
2.02

$
(0.03
)

$
2.04

$
0.57

Income (loss) from discontinued operations

—

0.08

1.88

0.24

Diluted earnings (loss) per share

$
2.02

$
0.05

$
3.92

$
0.81

Weighted-average number of shares outstanding for basic earnings (loss) per share

137

136

137

135

Weighted-average number of shares outstanding for diluted earnings (loss) per share

138

136

138

136

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Net income (loss)	$278	$27	$540	$130
Other comprehensive income (loss):				
Unrealized gain (loss) on investments, net of tax	—	—	—	3
Other comprehensive income (loss), net of tax	—	—	—	3
Comprehensive income (loss)	$278	$27	$540	$133

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)

	Nine Months Ended September 30,	
	2014	2013
Cash flows from operating activities:		
Net income (loss)	$540	$130
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation, depletion and amortization	665	664
Deferred tax provision (benefit)	308	89
Stock-based compensation	15	35
Commodity derivative (income) expense	(33)	66
Cash receipts (payments) related to derivative contracts, net	(106)	45
Gain on sale of Malaysia business	(388)	—
Other, net	1	7
Changes in operating assets and liabilities:		
(Increase) decrease in accounts receivable	89	16
(Increase) decrease in inventories	(1)	(4)
(Increase) decrease in other current assets	(2)	8
(Increase) decrease in other assets	1	4
Increase (decrease) in accounts payable and accrued liabilities	(20)	30
Increase (decrease) in advances from joint owners	(1)	10
Increase (decrease) in other liabilities	2	(5)
Net cash provided by (used in) operating activities	1,070	1,095
Cash flows from investing activities:		
Additions to oil and gas properties	(1,535)	(1,441)
Acquisitions of oil and gas properties	(21)	(64)
Proceeds from sales of oil and gas properties	616	25
Proceeds received from sale of Malaysia business, net	809	—
Additions to other property and equipment	(22)	(25)
Redemptions of investments	39	1
Net cash provided by (used in) investing activities	(114)	(1,504)
Cash flows from financing activities:		
Proceeds from borrowings under credit arrangements	2,076	2,409
Repayments of borrowings under credit arrangements	(2,725)	(1,969)
Debt issue costs	—	(4)
Proceeds from issuances of common stock	4	1
Repurchase of preferred shares of subsidiary	—	(20)
Purchases of treasury stock, net	(10)	(7)
Net cash provided by (used in) financing activities	(655)	410
Increase (decrease) in cash and cash equivalents	301	1
Cash and cash equivalents, beginning of period	95	88
Cash and cash equivalents, end of period	$396	$89

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	0.8	—			4			4
Stock-based compensation					35			35
Treasury stock, net			0.2	4	(14)			(10)
Net income						540		540
Balance, September 30, 2014	137.5	$1	(0.3)	$(9)	$1,564	$1,967	$ 2	$3,525

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 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 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.

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 in February 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 $38 million and $47 million of interest and direct internal costs during the three-month periods ended September 30, 2014 and 2013, respectively, and $158 million and $147 million during the nine-month periods ended September 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 August 2014, the FASB issued guidance regarding disclosures of uncertainties about an entity's ability to continue as a going concern. The guidance applies prospectively to all entities, requiring management to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the entity's ability to continue as a going concern and disclose certain information when substantial doubt is raised. The guidance is effective for interim and annual periods beginning on or after December 15, 2016. We do not expect adoption of this guidance to have a material impact on our financial position or results of operations.

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.

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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 September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
	(In millions, except per share data)			
Income (numerator):				
Income (loss) from continuing operations	$279	$(4)	$280	$77
Income (loss) from discontinued operations, net of tax	(1)	31	260	53
Net income (loss)	278	27	540	130
Repurchase of preferred shares of subsidiary[3]	—	(20)	—	(20)
Net income (loss) attributable to common shareholders	$278	$7	$540	$110
Weighted-average shares (denominator):				
Weighted-average shares — basic	137	136	137	135
Dilution effect of stock options and unvested restricted stock and restricted stock units outstanding at end of period[1] [2]	1	—	1	1
Weighted-average shares — diluted	138	136	138	136
Earnings (loss) per share:				
Basic:				
Income (loss) from continuing operations	$2.04	$(0.03)	$2.06	$0.57
Income (loss) from discontinued operations before preferred share repurchase	—	0.23	1.90	0.39
Repurchase of preferred shares of subsidiary[3]	—	(0.15)	—	(0.15)
Income (loss) from discontinued operations	—	0.08	1.90	0.24
Basic earnings (loss) per share	$2.04	$0.05	$3.96	$0.81
Diluted:				
Income (loss) from continuing operations	$2.02	$(0.03)	$2.04	$0.57
Income (loss) from discontinued operations before preferred share repurchase	—	0.23	1.88	0.39
Repurchase of preferred shares of subsidiary[3]	—	(0.15)	—	(0.15)
Income (loss) from discontinued operations	—	0.08	1.88	0.24
Diluted earnings (loss) per share	$2.02	$0.05	$3.92	$0.81

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(1) Excludes 0.3 million and 1.1 million shares of unvested restricted stock or restricted stock units and stock options for the three and nine months ended September 30, 2014 and 4.1 million shares for the nine months ended September 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 September 30, 2013, 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 0.7 million shares for the three months ended September 30, 2013.

(3) The numerator includes an adjustment of $20 million related to the repurchase of preferred shares of a now wholly-owned subsidiary, which reduces net income (loss) for purposes of earnings per share for the three and nine months ended September 30, 2013. The subsidiary is part of our discontinued operations. See Note 14, “Related-Party Transactions,” for additional information.

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3. Discontinued Operations:

Malaysia Update

In February 2014, Newfield International Holdings, Inc., a wholly-owned subsidiary of the Company, closed the stock purchase agreement to sell its Malaysia business to SapuraKencana Petroleum Berhad, a Malaysian public company, for approximately $898 million (subject to purchase price adjustments). As a result of the sale, we recorded a gain in the first quarter of 2014 of approximately $388 million ($249 million, after tax). As of the date of this report, the final post-close settlement is pending due to a dispute with the purchaser regarding certain post-closing adjustments. We have not recorded any adjustments to the sales price or the gain recognized as we believe the Company would prevail in the event of arbitration on this matter.

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. In August 2014, the LF-7 topside facilities were installed, and we began drilling our first well. We expect to achieve first oil production in the fourth quarter of 2014 and continue to work with potential purchasers of our China business.

Loss from discontinued operations from our China business was $2 million ($1 million, net of tax) for the three months ended September 30, 2014, and income was $8 million ($2 million, net of tax) for the nine months ended September 30, 2014. Income from discontinued operations from our China business was $9 million ($8 million, net of tax) for the three months ended September 30, 2013 and $26 million ($13 million, net of tax) for the nine months ended September 30, 2013.

Results of Discontinued Operations

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
	(In millions)			
Oil and gas revenues[1]	$—	$189	$112	$659
Operating expenses	2	128	83	501
Income (loss) from discontinued operations	(2)	61	29	158
Other income (expense)	—	(1)	—	(2)
Gain on sale of Malaysia business	—	—	388	—
Income (loss) from discontinued operations before income taxes	(2)	60	417	156
Income tax provision (benefit):				
Current	(1)	10	13	65
Deferred	—	19	144	38
Total income tax provision (benefit)	(1)	29	157	103
Income (loss) from discontinued operations, net of tax	$(1)	$31	$260	$53

(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.

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 fully divest our international businesses. The effective tax rate for our discontinued operations for the three months ended September 30, 2014 was 63.1% and for the nine months ended September 30, 2014 was 37.8% as the majority of our income (loss) 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

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

for our discontinued operations for the three months ended September 30, 2013 was 48.2% and for the nine months ended September 30, 2013 was 65.7%.

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

	September 30, 2014	December 31, 2013
	(In millions)	
Current assets:		
Cash and cash equivalents	$27	$84
Accounts receivable	89	200
Inventories	14	130
Other current assets	5	33
Total current assets	135	447
Noncurrent assets:		
Oil and gas properties, net of accumulated depreciation, depletion and amortization of $118 and $1,121 as of September 30, 2014 and December 31, 2013, respectively	540	989
Deferred taxes	—	19
Other assets	1	4
Total noncurrent assets	541	1,012
Total assets	$676	$1,459
Current liabilities:		
Accounts payable	$3	$38
Accrued liabilities	202	324
Asset retirement obligations	—	49
Other current liabilities	—	18
Total current liabilities	205	429
Noncurrent liabilities:		
Asset retirement obligations	2	86
Deferred taxes	104	129
Other liabilities	—	11
Total noncurrent liabilities	106	226
Total liabilities	$311	$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 related production costs and depletion expense. As of September 30, 2014, we had crude oil inventory of approximately 75,000 barrels valued at cost of $3 million related to our China operations. The remaining inventory is materials and supplies for use in our oil and gas operations.

Oil and Gas Properties

As of September 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 Malaysia 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 nine months ended September 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:

	September 30, 2014	December 31, 2013
	(In millions)	
Oil and gas properties:		
Subject to amortization	$14,348	$15,107
Not subject to amortization	1,438	1,300
Gross oil and gas properties	15,786	16,407
Accumulated depreciation, depletion and amortization	(7,915)	(8,306)
Net oil and gas properties	$7,871	$8,101
Other property and equipment:		
Furniture, fixtures and equipment	$150	$139
Gathering systems and equipment	111	104
Accumulated depreciation and amortization	(81)	(69)
Net other property and equipment	$180	$174

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

	Costs Incurred In				
	2014	2013	2012	2011 and Prior	Total
	(In millions)				
Acquisition costs	$129	$199	$86	$410	$824
Exploration costs	345	1	1	7	354
Development costs	14	8	31	11	64
Fee mineral interests	—	1	—	23	24
Capitalized interest	39	53	67	13	172
Total oil and gas properties not subject to amortization	$527	$262	$185	$464	$1,438

Granite Wash Asset Sale

On September 19, 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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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.

In addition to the derivative strategies outlined in our annual Report on Form 10-K for the year ended December 31, 2013, we also utilize swaptions from time to time. A swaption is an option to exercise a swap where the buyer (counterparty) of the swaption purchases the right from the seller (Newfield), but not the obligation, to enter into a fixed-price swap with the seller on a predetermined date (expiration date). The swap price is a fixed price determined at the time of the swaption contract. If the swaption is exercised, the contract will become a swap treated consistent with our other fixed-price swaps.
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."

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

Natural Gas

		NYMEX Contract Price Per MMBtu				
				Collars		
Period and Type of Instrument	Volume in MMMBtus	Swaps (Weighted Average)	Sold Puts (Weighted Average)	Floors (Weighted Average)	Ceilings (Weighted Average)	Estimated Fair Value Asset (Liability) (In millions)
2014:						
Fixed-price swaps	20,400	$3.97	$—	$—	$—	$(2)
Collars	5,980	—	—	3.75	4.62	—
2015:						
Fixed-price swaps	49,275	4.28	—	—	—	14
Collars	38,325	—	—	3.93	4.74	7
Total						$19

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
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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)	Ceilings (Weighted Average)	Estimated Fair Value Asset (Liability) (In millions)
2014:						
Fixed-price swaps	2,116	$89.94	$—	$—	$—	$(1)
Fixed-price swaps with sold puts	1,472	95.16	75.00	—	—	7
Collars with sold puts	552	—	75.83	90.83	102.93	1
2015:						
Fixed-price swaps	8,845	90.42	—	—	—	23
Fixed-price swaps with sold puts	7,354	90.22	69.75	—	—	11
Collars with sold puts	730	—	75.00	90.00	104.00	3
2016:						
Fixed-price swaps with sold puts	7,864	90.89	74.59	—	—	14
Collars with sold puts	6,220	—	75.00	90.00	96.15	19
Swaptions [1]	—	91.00	—	—	—	(1)
2017:						
Fixed-price swaps with sold puts	1,180	90.63	75.00	—	—	2
Collars with sold puts	2,080	—	75.00	90.00	95.59	6
Total						$84

(1) During the third quarter of 2014, we sold crude oil swaption contracts that, if exercised on their expiration date in the first quarter of 2015, would hedge 732 MBbls of calendar-year 2016 production. These contracts give the counterparties the option to enter into swap contracts with us at $91.00/Bbl 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 Gross Fair Value	Offset in Balance Sheet	Balance Sheet Location Current	Noncurrent	Derivative Liabilities Gross Fair Value	Offset in Balance Sheet	Balance Sheet Location Current	Noncurrent
	(In millions)				(In millions)			
September 30, 2014								
Natural gas positions	$23	$(3)	$15	$5	$(4)	$3	$(1)	$—
Oil positions	141	(57)	33	51	(57)	57	—	—
Total	$164	$(60)	$48	$56	$(61)	$60	$(1)	$—

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)	$—

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NEWFIELD EXPLORATION COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
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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 September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
	(In millions)			
Derivatives not designated as hedging instruments:				
Realized gain (loss) on natural gas positions	$(2)	$19	$(36)	$51
Realized gain (loss) on oil positions	(18)	(12)	(70)	(9)
Total realized gain (loss)	(20)	7	(106)	42
Unrealized gain (loss) on natural gas positions	38	(6)	30	(24)
Unrealized gain (loss) on oil positions	285	(100)	109	(84)
Total unrealized gain (loss)	323	(106)	139	(108)
Total	$303	$(99)	$33	$(66)

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 September 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:

	September 30, 2014	December 31, 2013
	(In millions)	
Revenue	$176	$294
Joint interest	183	156
Other	37	25
Reserve for doubtful accounts	(1)	(1)
Total accounts receivable	$395	$474

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NEWFIELD EXPLORATION COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
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7. Accrued Liabilities:

Accrued liabilities consisted of the following:

	September 30, 2014	December 31, 2013
	(In millions)	
Revenue payable	$179	$175
Accrued capital costs	449	458
Accrued lease operating expenses	27	71
Employee incentive expense	49	64
Accrued interest on debt	48	72
Taxes payable	28	93
Other	47	45
Total accrued liabilities	$827	$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.

- 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.

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NEWFIELD EXPLORATION COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
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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 September 30, 2014:				
Money market fund investments	$365	$—	$—	$365
Deferred compensation plan assets	9	—	—	9
Equity securities available-for-sale	9	—	—	9
Oil and gas derivative swap contracts	—	104	—	104
Oil and gas derivative option contracts	—	—	(1)	(1)
Stock-based compensation liability awards	(13)	—	(7)	(20)
Total	$370	$104	$(8)	$466

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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NEWFIELD EXPLORATION COMPANY
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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	—	(59)	(8)	(67)
Included in other comprehensive income (loss)	4	—	—	4
Purchases, issuances, sales and settlements:				
Settlements	(1)	(46)	—	(47)
Transfers in to Level 3	—	—	—	—
Transfers out of Level 3	—	—	—	—
Balance at September 30, 2013	$39	$10	$ (8)	$41
Change in unrealized gains or losses included in earnings relating to Level 3 instruments still held at September 30, 2013	$—	$(8)	$ (8)	$(16)
Balance at January 1, 2014	$39	$(8)	$ (5)	$26
Realized or unrealized gains (losses) included in earnings	—	—	(42)	(42)
Purchases, issuances, sales and settlements:				
Sales	(39)	—	—	(39)
Settlements	—	4	40	44
Transfers in to Level 3	—	—	—	—
Transfers out of Level 3[(1)]	—	3	—	3
Balance at September 30, 2014	$—	$(1)	$ (7)	$(8)
Change in unrealized gains or losses included in earnings relating to Level 3 instruments still held at September 30, 2014	$—	$20	$ (3)	$17

(1) 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

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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	$(8)	Black-Scholes	Oil price volatility	14.54% — 52.12%
			Credit risk	0.01% — 3.95%
Natural gas option contracts	$7	Black-Scholes	Natural gas price volatility	24.78% — 50.03%
			Credit risk	0.01% — 0.64%
SVAP	$(7)	Monte Carlo	Implied volatility	37.0%

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:

	September 30, 2014	December 31, 2013
	(In millions)	
5¾% Senior Notes due 2022	$836	$767
5 % Senior Notes due 2024	1,072	1,025
7 % Senior Subordinated Notes due 2018	615	624
6 % Senior Subordinated Notes due 2020	730	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:

	September 30, 2014	December 31, 2013
	(In millions)	
Senior unsecured debt:		
Revolving credit facility - LIBOR based loans	$—	$585
Money market lines of credit[1]	—	64
Total credit arrangements	—	649
5¾% Senior Notes due 2022	750	750
5 % Senior Notes due 2024	1,000	1,000
Total senior unsecured debt	1,750	2,399
7 % Senior Subordinated Notes due 2018[2]	600	600
6 % Senior Subordinated Notes due 2020	700	700
Discount on notes	(4)	(5)
Total long-term debt	$3,046	$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.
(2) In September 2014, we called for the redemption of these Notes. See Note 15, "Subsequent Events."

Credit Arrangements

We have a revolving credit facility that matures in June 2018 and provides borrowing capacity of $1.4 billion. As of September 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 September 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 September 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 September 30, 2014). We incurred aggregate commitment fees under our current credit facility of approximately $1 million and $3 million for the three and nine months ended September 30, 2014, respectively, which are recorded in "Interest expense" on our consolidated statement of operations. For the three and nine months ended September 30, 2013, we incurred commitment fees under our current credit facility of approximately $1 million and $3 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 September 30, 2014, we were in compliance with all of our debt covenants.

As of September 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 September 30, 2014).

Subject to compliance with the restrictive covenants in our credit facility, at September 30, 2014, 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.

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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 (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:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
	(In millions)			
Amount computed using the statutory rate	$152	$(3)	$156	$43
Increase (decrease) in taxes resulting from:				
State and local income taxes, net of federal effect	4	1	9	4
Total provision (benefit) for income taxes	$156	$(2)	$165	$47

The effective tax rates for continuing operations for the three months ended September 30, 2014 and 2013 were 35.8% and 32.9%, respectively. The effective tax rates for continuing operations for the nine months ended September 30, 2014 and 2013 were 37.0% and 38.2%, 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 September 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 2011 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 September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
	(In millions)			
Equity awards	$15	$12	$37	$35
Liability awards:				
Stockholder Value Appreciation Program	(12)	8	42	8

Cash-settled restricted stock units	5	5	21	6
Total liability awards	(7)	13	63	14
Total stock-based compensation	8	25	100	49
Capitalized in oil and gas properties	2	(7)	(38)	(14)
Net stock-based compensation expense	$10	$18	$62	$35

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As of September 30, 2014, we had approximately $96 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	382	339	721	25.24
Forfeited	(353)	(46)	(399)	26.00
Vested	(1,088)	(30)	(1,118)	36.61
Non-vested shares outstanding at September 30, 2014	1,940	969	2,909	$30.19

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	(134)	29.32			1
Forfeited	(236)	40.22			
Outstanding at September 30, 2014	317	$43.64		2.3	$—
Exercisable at September 30, 2014	317	$43.64		2.3	$—

(1)

The intrinsic value of a stock option is the amount by which the market value of our common stock at the indicated date, or at the time of exercise, exceeds the exercise price of the option.

On September 30, 2014, the last reported sales price of our common stock on the New York Stock Exchange was $37.07 per share.

Employee Stock Purchase Plan. During the first six months of 2014, options to purchase approximately 92,000 shares of our common stock, which were issued under our employee stock purchase plan, were exercised. The weighted-average fair value of each option was $5.96 per share. The fair value of the options granted was determined using the Black-Scholes option valuation method assuming no dividends, a risk-free weighted-average interest rate of 0.09%, an expected life of six months and weighted-average volatility of 34%.

On July 1, 2014, options to purchase approximately 59,000 shares of our common stock were issued under our employee stock purchase plan. The weighted-average fair value of each option was $10.28 per share. The fair value of the options granted was determined using the Black-Scholes option valuation method assuming no dividends, a risk-free weighted-average interest rate of 0.06%, an expected life of six months and weighted-average volatility of 30%.

Liability Awards

Liability awards consist of performance awards that are settled in cash instead of shares as discussed below.

Stockholder Value Appreciation Program. In September 2013, the Compensation and Management Development Committee of the Board approved the Stockholder Value Appreciation Program (SVAP) to be administered under the 2011 Plan. The SVAP pays substantially all full-time domestic, nonexecutive employees a cash payment based on a percentage of salary upon each incremental $5 increase in our 30-calendar day average share price. Each price threshold can be reached only once during the term of the program. The SVAP's performance period lasts through December 31, 2015.

The first price threshold that triggered a payment under the SVAP was $27.50 during the fourth quarter of 2013. The second and third price thresholds for the SVAP were $32.50 and $37.50, respectively, which were reached during the second quarter of 2014. The fourth price threshold for the SVAP of $42.50 was reached in July 2014.

Based on the valuation of the SVAP as of September 30, 2014, the fair value of the awards was $12 million, of which $7 million has been accrued. The total expected cost was determined using a Monte Carlo simulation assuming no dividends, a risk-free weighted-average interest rate of 0.28%, a plan term of 1.25 years and an average of implied and historical stock price volatility of 34%. An additional $5 million is expected to be recognized over the remaining service period of the plan. Future changes in our stock price could cause the total cost of the plan to be significantly different than our estimates as of September 30, 2014.

Cash-Settled Restricted Stock Units. We also have granted cash-settled restricted stock units to employees that vest over three years. The value of the awards, and the associated stock-based compensation expense, is based on the Company’s stock price at the end of each period. During the nine months ended September 30, 2014, approximately 585,000 cash-settled restricted stock units vested and settled for approximately $19 million. During the nine months ended September 30, 2013, approximately 83,000 cash-settled restricted stock units vested and settled for approximately $2 million, all of which occurred during the first quarter of 2013. During the quarter ended September 30, 2014, we granted approximately 600,000 cash-settled restricted stock units to employees. As of September 30, 2014, we had approximately 1.2 million cash-settled restricted stock units outstanding and related unrecognized stock-based compensation expense of approximately $31 million.

12. Commitments and Contingencies:

We have been named as a defendant in a number of other lawsuits and are involved in various other disputes, all arising in the ordinary course of our business, such as (a) claims from royalty owners for disputed royalty payments, (b) commercial disputes, (c) personal injury claims and (d) property damage claims. Although the outcome of these lawsuits and disputes cannot be predicted with certainty, we do not expect these matters to have a material adverse

effect on our financial position, cash flows or results of operations.

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13. Supplemental Cash Flow Information:

	Nine Months Ended September 30,	
	2014	2013
	(In millions)	
Non-cash items excluded from the statement of cash flows:		
(Increase) decrease in receivables for property sales	$(17)	$(4)
(Increase) decrease in receivables from sale of Malaysia business	(15)	—
(Increase) decrease in accrued capital expenditures	2	(55)
(Increase) decrease in asset retirement costs	18	(8)
Increase (decrease) in deferred liabilities	(90)	—

14. Related-Party Transactions:

Kevin M. Robinson, our former Vice President — Asia through February 10, 2014, and Susan G. Riggs, our current Treasurer, were minority owners of Huffco International L.L.C. (Huffco). In May 1997, before Mr. Robinson and Ms. Riggs joined the Company, we acquired from Huffco an entity now known as Newfield China, LDC, the owner of a 12% interest in a three-field unit located in Bohai Bay, offshore China. Huffco retained preferred shares of Newfield China that provided for dividend payments. During the third quarter of 2013, we purchased the outstanding preferred shares of Newfield China from Huffco for approximately $20 million, which was recorded as a charge against retained earnings.

15. Subsequent Events:

In October 2014, we completed the redemption of our $600 million aggregate principal of 7 % Senior Subordinated Notes due 2018. The transaction included a premium payment of approximately $14 million.

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

Overview

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

To maintain and grow our production and cash flows, we must continue to develop existing proved reserves and locate or acquire new oil and natural gas reserves to replace those reserves being produced. Our revenues, profitability and future growth depend substantially on prevailing prices for oil, natural gas and NGLs and on our ability to find, develop and acquire oil and natural gas reserves that are economically recoverable. Prices for oil, natural gas and NGLs fluctuate widely and affect:

- the amount of cash flows available for capital expenditures;

- our ability to borrow and raise additional capital; and

- the quantity of oil, natural gas and NGLs that we can economically produce.

Discontinued Operations

During the second quarter of 2013, our international businesses met the criteria to be classified as held for sale and reported as discontinued operations. As such, the results of operations for our international businesses are reflected as discontinued operations and discussed further in Note 3, "Discontinued Operations," to our consolidated financial statements appearing earlier in this report.

Malaysia. In February 2014, Newfield International Holdings Inc., a wholly-owned subsidiary of the Company, closed the sale of its Malaysia business to SapuraKencana Petroleum Berhad, a Malaysian public company, for approximately $898 million (subject to customary purchase price adjustments). See Note 3, "Discontinued Operations," to our consolidated financial statements appearing earlier in this report for additional information regarding the sale of our Malaysia business.

China. 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. In August 2014, the LF-7 topside facilities were installed, and we began drilling our first well. We expect to achieve first oil production in the fourth quarter of 2014 and continue to work with potential purchasers of our China business.

Results of Continuing Operations

Our continuing operations consist of exploration, development and production activities in the United States.

Revenues. Our revenues are primarily from the sale of oil, natural gas and NGLs and may vary significantly from period to period as a result of changes in commodity prices or volume of production sold.

Revenues from continuing operations of $610 million for the third quarter of 2014 were 26% higher than the comparable period of 2013. Oil revenue generated 52% of the favorable revenue variance, primarily due to increased production, partially offset by lower prices. Oil production increased in our Mid-Continent, onshore Gulf Coast and Rocky Mountains regions by 50%, 35% and 23%, respectively. Approximately 21% of the revenue increase was attributable to increases in NGL production in our onshore Gulf Coast, Mid-Continent and Rocky Mountains regions of 66%, 63% and 47%, respectively. The combination of a 6% increase in natural gas production and a 19% increase

in realized natural gas prices during the period generated 21% of the total favorable revenue variance.

Revenues of $1.8 billion for the first nine months of 2014 were 37% higher than the comparable period of 2013. Approximately 62% of the increase was attributable to increases in oil production in our onshore Gulf Coast, Mid-Continent and Rocky Mountains regions of 50%, 39% and 29%, respectively. Increased NGL production in the onshore Gulf Coast, Mid-Continent and Rocky Mountains regions of 66%, 65% and 40%, respectively, during the nine months ended September 30, 2014 generated approximately 14% of the total revenue variance. The combination of a 3% increase in natural gas production and a 26% increase in realized natural gas prices during the period generated 18% of the total favorable revenue variance. The following table reflects our production from continuing operations and average realized commodity prices.

	Three Months Ended September 30,		Percentage Increase		Nine Months Ended September 30,		Percentage Increase	
	2014	2013	(Decrease)		2014	2013	(Decrease)	
Production:[1]								
Crude oil and condensate (MBbls)	4,797	3,698	30	%	13,453	10,062	34	%
Natural gas (Bcf)	31.7	29.8	6	%	90.2	87.9	3	%
NGLs (MBbls)	2,242	1,390	61	%	5,945	3,675	62	%
Total (MBOE)	12,325	10,053	23	%	34,430	28,382	21	%
Average Realized Prices:[2]								
Crude oil and condensate (per Bbl)	$85.07	$93.02	(9	)%	$87.22	$87.17	—	%
Natural gas (per Mcf)	3.85	3.23	19	%	4.26	3.37	26	%
NGLs (per Bbl)	34.16	30.90	11	%	34.24	29.64	16	%
Crude oil equivalent (per BOE)	49.49	48.05	3	%	51.43	45.18	14	%

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(1) Excludes natural gas produced and consumed in operations of 2.0 Bcf and 1.9 Bcf during the three months ended September 30, 2014 and 2013, respectively, and 6.4 Bcf and 6.6 Bcf during the nine months ended September 30, 2014 and 2013, respectively.

(2) Had we included the realized effects of derivative contracts, the average realized prices would have been as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Crude oil and condensate (per Bbl)	$81.41	$89.72	$82.03	$86.28
Natural gas (per Mcf)	3.79	3.88	3.86	3.96

Production. Our third quarter 2014 total production from continuing operations increased 2,272 MBOE, or 23%, compared to third quarter of 2013 primarily due to increased liquids production from the success of our liquids-focused drilling programs in all three of our operating regions. Natural gas production increased 6% due to associated gas production generated by our liquids-focused drilling programs.

For the nine months ended September 30, 2014, total production from continuing operations increased 21% compared to the same period of 2013, driven by a combined 41% increase in liquids production in all three of our operating regions.

Operating Expenses. The following tables present information about our operating expenses for our continuing operations.

Three months ended September 30, 2014 and 2013

	Unit-of-Production Three Months Ended September 30,		Percentage Increase		Total Amount Three Months Ended September 30,		Percentage Increase	
	2014	2013	(Decrease)		2014	2013	(Decrease)	
	(Per BOE)				(In millions)			
Lease operating	$10.21	$10.27	(1	)%	$126	$104	22	%
Production and other taxes	2.47	1.82	36	%	31	19	67	%
Depreciation, depletion and amortization	18.50	17.10	8	%	228	171	33	%

General and administrative	3.97	6.08	(35)%	48	61	(20)%
Other	0.62	—	100 %	8	—	100 %
Total operating expenses	$35.77	$35.27	1 %	$441	$355	24 %

Our operating expenses for continuing operations for the three months ended September 30, 2014 were relatively flat over the same period of 2013 stated on a per BOE basis. The primary offsetting components within our operating expenses are as follows:

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- Production and other taxes increased $12 million or 67% in comparison to the third quarter of 2013. Higher product revenues resulted in an increase of approximately $8 million. Additionally, production tax credits of approximately $4 million were received during the third quarter of 2013, primarily in our Mid-Continent region.

- Total depreciation, depletion and amortization (DD&A) increased 33% primarily due to a 23% increase in production during the third quarter of 2014 compared to the third quarter of 2013, combined with an 8% increase in the cost per unit-of-production.

- General and administrative (G&A) expenses per BOE decreased 35% during the third quarter of 2014 compared to the third quarter of 2013. Approximately one half of this per BOE decrease relates to increased production volumes. The remaining decrease is primarily related to higher third quarter 2013 employee-related expenses associated with our stock-based liability award programs. Our stock-based employee-related expenses decreased $17 million period over period but were partially offset by amounts capitalized or recorded as lease operating expense (LOE). For the three months ended September 30, 2014, we capitalized $23 million ($1.89 per BOE) of direct internal costs as compared to $27 million ($2.68 per BOE) during the comparable quarter of 2013. This decrease in capitalization is primarily related to reduced costs associated with the stock-based liability awards and increased production.

- Other operating expense increased $8 million due to other costs related to our operations, such as legal settlements and losses on materials and supplies inventory during the period.

Nine months ended September 30, 2014 and 2013

	Unit-of-Production Nine Months Ended September 30,		Percentage Increase (Decrease)		Total Amount Nine Months Ended September 30,		Percentage Increase (Decrease)	
	2014	2013			2014	2013		
	(Per BOE)				(In millions)			
Lease operating	$10.34	$10.56	(2	)%	$356	$299	19	%
Production and other taxes	2.47	1.82	36	%	85	52	65	%
Depreciation, depletion and amortization	18.23	17.00	7	%	628	482	30	%
General and administrative	5.01	5.63	(11	)%	172	160	8	%
Other	0.22	—	100	%	8	—	100	%
Total operating expenses	$36.27	$35.01	4	%	$1,249	$993	26	%

Our total operating expenses for continuing operations for the nine months ended September 30, 2014 increased 4% as compared to the same period of 2013 stated on a per BOE basis. The primary reasons for the increase follow:

- As a percent of revenue, production and other taxes was 4.8% and 4.0% for the nine-month periods ended September 30, 2014 and 2013, respectively. The increase is primarily due to non-recurring production tax credits in our Rocky Mountains and Mid-Continent regions recorded during the first nine months of 2013. On a per BOE basis, the increase of 36% was driven by an increase in liquids production as a percent of total production and the associated increase in average revenue per BOE produced from $45.18 for the nine months ended September 30, 2013, to $51.43 for the same period in 2014.

- Total depreciation, depletion and amortization increased 30% primarily due to a 21% increase in production during the first nine months of 2014 compared to the comparable period of 2013, combined with a 7% increase in the cost per unit-of-production.

- General and administrative expense per BOE decreased 11% during the first nine months of 2014 compared to the comparable period in 2013, primarily due to increased production. G&A expenses increased $12 million primarily

due to increased employee-related expenses associated with our stock-based liability award programs as a result of the 51% increase in our stock price during the first nine months of 2014. Our stock-based expenses increased $51 million period over period but were partially offset by amounts capitalized or recorded as LOE. Also offsetting the increased stock-based awards is a decrease of approximately $9 million in labor costs relating primarily to the centralization of certain functions during 2013. For the nine months ended September 30, 2014, we capitalized $109 million ($3.17 per BOE) of direct internal costs as compared to $80 million ($2.83 per BOE) during the comparable period of 2013. This increase is primarily related to capitalization of a portion of the costs associated with the stock-based liability awards.

- Other operating expense increased $8 million due to other costs related to our operations, such as legal settlements and losses on materials and supplies inventory during the period.

Interest Expense. The following table presents information about interest expense. Interest expense associated with unproved oil and gas properties is capitalized into oil and gas properties.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
	(In millions)			
Gross interest expense:				
Credit arrangements	$2	$3	$7	$7
Senior notes	26	26	76	76
Senior subordinated notes	23	23	70	70
Total gross interest expense	51	52	153	153
Capitalized interest	(13)	(13)	(39)	(40)
Net interest expense	$38	$39	$114	$113

Commodity Derivative Income (Expense). The fluctuations in commodity derivative income (expense) from period to period are due to the volatility of oil and natural gas prices and changes in our outstanding derivative instruments during these periods.

Taxes. The effective tax rates for the three months ended September 30, 2014 and 2013 were 35.8% and 32.9%, respectively. The effective tax rates for the nine months ended September 30, 2014 and 2013 were 37.0% and 38.2%, respectively. Unrealized derivative gains and losses are treated differently 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.

Results of Discontinued Operations - Malaysia and China

Revenues and Liftings. Our international revenues are primarily from the sale of crude oil. Substantially all of the crude oil from our offshore operations is produced into FPSOs and “lifted” and sold periodically as barge quantities are accumulated. Revenues are recorded when oil is lifted and sold, not when it is produced into FPSOs or onshore storage terminals. As a result, the timing of liftings may impact period-to-period results. In February 2014, we closed the sale of our Malaysia business. See Note 3, “Discontinued Operations,” to our consolidated financial statements appearing earlier in this report for additional information regarding the sale.

Revenues during the third quarter and nine-month period ended September 30, 2014 were significantly lower due to the sale of our Malaysia business in February 2014. Additionally, China production declined in the third quarter of 2014 compared to the same period of 2013 due to the temporary shut-in of production in Bohai Bay by the operator during the third quarter for scheduled repairs and maintenance activities. Production resumed during the third quarter of 2014; however, sufficient volumes had not accumulated for a lifting as of September 30, 2014. We expect that liftings from Bohai Bay will resume in the fourth quarter of 2014. The following table reflects our production from discontinued operations and average realized commodity prices.

	Three Months Ended September 30,		Percentage Increase (Decrease)	Nine Months Ended September 30,		Percentage Increase (Decrease)
	2014	2013		2014	2013	
Production/Liftings:[1]						
Crude oil and condensate (MBbls)	—	1,655	(100)%	1,024	6,009	(83)%
Natural gas (Bcf)	—	0.1	(100)%	—	0.3	(100)%

Total (MBOE)	—	1,669	(100)%	1,024	6,062	(83)%
Average Realized Prices:						
Crude oil and condensate (per Bbl)	$—	$114.12	(100)%	$109.36	$109.41	— %
Natural gas (per Mcf)	—	3.58	(100)%	—	3.71	(100)%
Crude oil equivalent (per BOE)	—	113.30	(100)%	109.36	108.64	1 %

(1) Represents our net share of volumes sold regardless of when produced.

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Operating Expenses. The following tables present information about our operating expenses for our discontinued operations.

Three months ended September 30, 2014 and 2013

	Unit-of-Production Three Months Ended September 30,		Percentage Increase (Decrease)	Total Amount Three Months Ended September 30,		Percentage Increase (Decrease)
	2014	2013		2014	2013	
	(Per BOE)			(In millions)		
Lease operating	$—	$15.27	(100)%	$1	$26	(96)%
Production and other taxes	—	27.60	(100)%	1	46	(98)%
Depreciation, depletion and amortization	—	31.38	(100)%	—	52	(100)%
General and administrative	—	2.49	(100)%	—	4	(100)%
Total operating expenses	$—	$76.74	(100)%	$2	$128	(98)%

Nine months ended September 30, 2014 and 2013

	Unit-of-Production Nine Months Ended September 30,		Percentage Increase (Decrease)	Total Amount Nine Months Ended September 30,		Percentage Increase (Decrease)
	2014	2013		2014	2013	
	(Per BOE)			(In millions)		
Lease operating	$15.75	$15.63	1 %	$16	$95	(83)%
Production and other taxes	29.46	35.31	(17)%	30	214	(86)%
Depreciation, depletion and amortization	36.27	30.02	21 %	37	182	(80)%
General and administrative	—	1.66	(100)%	—	10	(100)%
Total operating expenses	$81.48	$82.62	(1)%	$83	$501	(83)%

Our total operating expenses for discontinued operations for the three and nine months ended September 30, 2014 decreased $126 million and $418 million, respectively, compared to the same periods of 2013. These expenses declined primarily as a result of the sale of our Malaysia business in February 2014, combined with the temporary shut-in of Bohai Bay production in China for scheduled repairs and maintenance activities during the third quarter of 2014 by the operator.

Liquidity and Capital Resources

The following discussion is inclusive of both our continuing and discontinued operations, unless otherwise noted.

We must find new and develop existing reserves to maintain and grow our production and cash flows. We accomplish this through drilling programs and property acquisitions, which require substantial capital expenditures. Lower prices for oil, natural gas and NGLs may reduce the amount of oil and gas that we can economically produce and can also affect the amount of cash flow available for capital expenditures and our ability to borrow and raise additional capital, as further described below.

We establish a capital budget at the beginning of each calendar year and review it during the course of the year. Our capital budgets (excluding acquisitions) are created based upon our estimate of internally generated sources of cash, as

well as the available borrowing capacity of our revolving credit facility. Our 2014 budget is being financed through our cash flows from operations, proceeds from our first quarter 2014 Malaysia sale and the use of our credit facility. A significant portion of our remaining expected 2014 domestic oil and gas production (excluding NGLs) is protected from price volatility through the use of derivative contracts. Our 2014 capital budget for our continuing operations, excluding estimated capitalized interest and overhead of approximately $211 million, is expected to be approximately $1.75 billion and focuses on liquids-rich projects with higher returns. During 2014, we intend to invest approximately $149 million in China, a portion of which we expect to recover through insurance related to the August 2013 LF-7 topside installation incident. We anticipate that our 2014 capital investment levels will exceed our estimate of cash flows from operations. As a result, we used proceeds from our recent Malaysia sale to fund our capital expenditures during the first half of the year and our credit arrangements to fund the expected remaining shortfall.

Actual capital expenditure levels may vary significantly due to many factors, including drilling results; oil, natural gas and NGL prices; industry conditions; the prices and availability of goods and services; and the extent to which properties are acquired or non-strategic assets sold. We continue to screen for attractive acquisition opportunities; however, the timing and size of acquisitions are unpredictable. We believe we have the operational flexibility to react quickly with our capital expenditures to changes in circumstances and our cash flows from operations.

We continuously monitor our liquidity needs, coordinate our capital expenditure program with our expected cash flows and projected debt-repayment schedule, and evaluate our available funding alternatives in light of current and expected economic conditions. We believe that our liquidity position and ability to generate cash flows from our asset portfolio will be adequate to fund 2014 operations and continue to meet our other obligations.

On September 19, 2014, we closed on the sale of our Granite Wash assets for approximately $588 million, subject to customary purchase price adjustments. See Note 4, “Oil and Gas Assets,” to our consolidated financial statements appearing earlier in this report for additional information regarding the sale.

Credit Arrangements and Other Financing Activities. We maintain a revolving credit facility of $1.4 billion that matures in June 2018, as well as money market lines of credit of $195 million. In September 2014, we called for the redemption of our $600 million aggregate principal of 7 % Senior Subordinated Notes due 2018. In October 2014, we completed the redemption of these Notes. The transaction included a premium payment of approximately $14 million. We have no scheduled maturities of senior notes or senior subordinated notes until 2020. For a more detailed description of the terms of our credit arrangements and senior and senior subordinated notes, please see Note 9, “Debt,” to our consolidated financial statements appearing earlier in this report.

As of October 28, 2014, we had outstanding borrowings of $295 million and available borrowing capacity of approximately $1.1 billion under our revolving credit facility. We did not have any outstanding borrowings under our money market lines of credit.

Working Capital. Our working capital balance fluctuates as a result of the timing and amount of borrowings or repayments under our credit arrangements, changes in the fair value of our outstanding commodity derivative instruments as well as the timing of receiving reimbursement of amounts paid by us for the benefit of joint venture partners. Without the effects of commodity derivative instruments, we typically have a working capital deficit or a relatively small amount of positive working capital.

At September 30, 2014, we had negative working capital of $19 million compared to negative working capital of $389 million at December 31, 2013. The changes in our working capital are primarily a result of proceeds received from the Granite Wash asset sale in September 2014 and the sale of our Malaysia business in February 2014. The remaining change is due to the timing of the collection of receivables; changes in the fair value of our derivative positions; the timing of crude oil liftings in our discontinued operations; drilling activities; payments made by us to vendors and other operators; and the timing and amount of advances received from our joint operations.

Cash Flows from Operations. Our primary source of capital and liquidity is cash flows from operations, which are primarily affected by the sale of our oil, natural gas and NGLs, as well as commodity prices, net of the effects of derivative contract settlements and changes in working capital.

Our net cash flows from operations were $1.1 billion (includes $55 million of cash flows from discontinued operations) for the nine months ended September 30, 2014, which is consistent with net cash flows from operations of $1.1 billion (includes $331 million of cash flows from discontinued operations) for the same period in 2013.

Cash Flows from Investing Activities. Net cash used in investing activities for the nine months ended September 30, 2014 was $114 million compared to $1.5 billion for the same period in 2013. The decrease in 2014 is due to proceeds received from the sale of our Malaysia business and Granite Wash assets, and redemption of investments, partially offset by increased capital expenditures in 2014 compared to 2013.

Cash Flows from Financing Activities. Net cash used in financing activities for the nine months ended September 30, 2014 was $655 million compared to net cash provided by financing activities of $410 million for the same period in 2013. During the nine months ended September 30, 2014, we reduced our outstanding borrowings under our revolving credit facility by $649 million using the proceeds received from the sale of our Malaysia business and Granite Wash assets.

Capital Expenditures. Our capital investments for continuing operations for the first nine months of 2014 increased 12% as compared to the same period of 2013, whereas capital investments for discontinued operations decreased 58% for the comparable

periods, primarily due to the sale of our Malaysia business in February 2014. These amounts exclude non-cash asset retirement obligations and capitalized interest and direct internal costs.

	Nine Months Ended September 30,	
	2014	2013
	(In millions)	
Continuing operations:		
Exploitation and development	$991	$940
Exploration (exclusive of exploitation and leasehold)	236	141
Acquisitions	21	64
Leasing proved and unproved property (leasehold)	75	25
Pipeline spending	7	15
Plug and abandonment settlements	5	8
Total continuing operations	1,335	1,193
Discontinued operations	109	260
Total	$1,444	$1,453

Commitments under Joint Operating Agreements. Most of our properties are operated through joint ventures under joint operating or similar agreements. Typically, the operator under a joint operating agreement enters into contracts, such as drilling contracts, for the benefit of all joint venture partners. Through the joint operating agreement, the non-operators reimburse, and in some cases advance, the funds necessary to meet the contractual obligations entered into by the operator. These obligations are typically shared on a “working interest” basis. The joint operating agreement provides remedies to the operator if a non-operator does not satisfy its share of the contractual obligations. Occasionally, the operator is permitted by the joint operating agreement to enter into lease obligations and other contractual commitments that are then passed on to the non-operating joint interest owners as lease operating expenses, frequently without any identification as to the long-term nature of any commitments underlying such expenses.

Contractual Obligations

We have various contractual obligations in the normal course of our operations. For further information, please see “Management's Discussion and Analysis of Financial Condition and Results of Operations - Contractual Obligations” in our Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2014. There have been no material changes to these disclosures during the second or third quarters of 2014.

Oil and Gas Derivatives

We use derivative contracts to manage the variability in cash flows caused by commodity price fluctuations associated with our anticipated future oil and gas production for the next 24 to 36 months. As of September 30, 2014, we had no outstanding derivative contracts related to our NGL production or production associated with our discontinued operations. In addition, we may use basis contracts to manage volatilities in the differential between the NYMEX Henry Hub posted prices and those of our physical pricing points. We do not use derivative instruments for trading purposes.

See the discussion and tables in Note 5, “Derivative Financial Instruments,” and Note 8, “Fair Value Measurements,” to our consolidated financial statements appearing earlier in this report for additional information regarding the accounting applicable to our oil and gas derivative contracts, a listing of open positions and the estimated fair market value of those positions as of September 30, 2014.

Between October 1, 2014 and October 28, 2014, we entered into additional crude oil derivative contracts. A listing of all of our crude oil derivative contracts as of October 28, 2014 are as follows:

Crude Oil

		NYMEX Contract Price Per Bbl			
				Collars	
Period and Type of Instrument [1]	Volume in MBbls	Swaps (Weighted Average)	Sold Puts (Weighted Average)	Floors (Weighted Average)	Ceilings (Weighted Average)
2014:					
Fixed-price swaps	2,116	$89.94	$—	$—	$—
Fixed-price swaps with sold puts:	1,472				
Fixed-price swaps		95.16	—	—	—
Sold puts		—	75.00	—	—
Collars with sold puts:	552				
Collars		—	—	90.83	102.93
Sold puts		—	75.83	—	—
2015:					
Fixed-price swaps	2,275	90.20			
Fixed-price swaps with sold puts:	15,019				
Fixed-price swaps		90.02	—	—	—
Sold puts		—	71.67	—	—
Collars with sold puts:	730				
Collars		—	—	90.00	104.00
Sold puts		—	75.00	—	—
2016:					
Fixed-price swaps with sold puts:	10,060				
Fixed-price swaps		89.98	—	—	—
Sold puts		—	74.14	—	—
Collars with sold puts:	6,220				
Collars		—	—	90.00	96.15
Sold puts		—	75.00	—	—
Swaptions [2]	—	91.00	—	—	—
2017:					
Fixed-price swaps with sold puts:	4,468				
Fixed-price swaps		88.37	—	—	—
Sold puts		—	73.28	—	—
Collars with sold puts:	2,080				
Collars		—	—	90.00	95.59
Sold puts		—	75.00	—	—

(1) Periodically, we sell put options against previously entered into fixed-price swaps or collars in order to enhance the price of new positions. As such, put option contracts may be entered into at different times and with different counterparties as compared to our open fixed-price swap or collar contracts. However, we do not sell put options for volumes in excess of our open fixed-price swap or collar contracts.

(2) During the third quarter of 2014, we sold crude oil swaption contracts, that if exercised on their expiration date in the first quarter of 2015, would hedge 732 MBbls of calendar-year 2016 production. These contracts give the counterparties the option to enter into swap contracts with us at $91.00/Bbl for calendar-year 2016.

Accounting for Derivative Activities. We do not designate future price-risk management activities as accounting hedges. Because derivative contracts not designated for hedge accounting are accounted for on a mark-to-market basis, we have in the past experienced, and are likely in the future to experience non-cash volatility in our reported earnings during periods of commodity price volatility. As of September 30, 2014, we had net derivative assets of $103 million, of which 61%, based on total contracted volumes, was measured based upon our valuation model (i.e. Black-Scholes) and, as such, were classified as a Level 3 fair value measurement. We value these contracts using a model that considers various inputs including the following:

•quoted forward prices for commodities;
•time value;
•volatility factors;
•counterparty credit risk; and
•current market and contractual prices for the underlying instruments.

As a result, the value of these contracts at their respective settlement dates could be significantly different than their fair value as of September 30, 2014. We use credit default swap values to assess the impact of non-performance risk when evaluating both our liabilities to and receivables from counterparties. See "— Critical Accounting Policies and Estimates — Commodity Derivative Activities" in Item 7 of our Annual Report on Form 10-K for the year ended December 31, 2013 and Note 5, "Derivative Financial Instruments," and Note 8, "Fair Value Measurements," to our consolidated financial statements appearing earlier in this report for additional discussion of the accounting applicable to our oil and gas derivative contracts.

New Accounting Requirements

In August 2014, the FASB issued guidance regarding disclosures of uncertainties about an entity's ability to continue as a going concern. The guidance applies prospectively to all entities, requiring management to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the entity's ability to continue as a going concern and disclose certain information when substantial doubt is raised. The guidance is effective for interim and annual periods beginning on or after December 15, 2016. We do not expect adoption of this guidance to have a material impact on our financial position or results of operations.

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.

Forward-Looking Information

This report contains “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended (Exchange Act). All statements, other than statements of historical facts included in this report, are forward-looking, including information relating to anticipated future events or results, such as planned capital expenditures, the availability and sources of capital resources to fund capital expenditures and other plans and objectives for future operations. Forward-looking statements are typically identified by use of terms such as “may,” “believe,” “expect,” “anticipate,” “intend,” “estimate,” “proje “target,” “goal,” “plan,” “should,” “will,” “predict,” “potential” and similar expressions that convey the uncertainty of future ev or outcomes. Although we believe that these expectations are reasonable, this information is based upon assumptions and anticipated results that are subject to numerous uncertainties and risks. Actual results may vary significantly from those anticipated due to many factors, including:

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- oil, natural gas and NGL prices;
- operating hazards inherent in the exploration for and production of oil and natural gas;
- general economic, financial, industry or business trends or conditions;
- the impact of, and changes in, legislation, law and governmental regulations, including those related to hydraulic fracturing and climate change;
- land, legal and ownership complexities inherent in the U.S. oil and gas industry;
- the impact of regulatory approvals;
- the availability and volatility of the securities, capital or credit markets and the cost of capital to fund our operations and business strategies;
- the ability and willingness of current or potential lenders, derivative contract counterparties, customers and working interest owners to fulfill their obligations to us or to enter into transactions with us in the future on terms that are acceptable to us;
- the prices and quantities of commodities reflected in our commodity derivative arrangements as compared to the actual prices or quantities of commodities we produce or use;
- the volatility and liquidity in the commodity futures and commodity and financial derivatives markets;
- the availability of storage, transportation and refining capacity for the crude oil we produce in the Uinta Basin;
- drilling risks and results;
- the prices of goods and services;
- the availability of drilling rigs and other support services;
- global events that may impact our domestic and international operating contracts, markets and prices;
- labor conditions;
- weather conditions;
- environmental liabilities that are not covered by an effective indemnity or insurance;
- competitive conditions;
- terrorism or civil or political unrest in a region or country;
- our ability to monetize non-strategic assets, pay debt and the impact of changes in our investment ratings;
- electronic, cyber or physical security breaches;
- changes in tax rates;
- inflation rates;
- financial counterparty risk;
- uncertainties and changes in estimates of reserves;
- the effect of worldwide energy conservation measures;
- the price and availability of, and demand for, competing energy sources;
- the availability (or lack thereof) of acquisition, disposition or combination opportunities; and

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- the additional factors discussed elsewhere in our public filings and press releases, including the factors discussed in "Risk Factors" and "Management's Discussion and Analysis of Financial Condition and Results of Operations—Critical Accounting Policies and Estimates" included in our 2013 Annual Report on Form 10-K.

All forward-looking statements in this report, as well as all other written and oral forward-looking statements attributable to us or persons acting on our behalf, are expressly qualified in their entirety by the cautionary statements contained in this section and elsewhere in this report. These factors are not necessarily all of the important factors that could affect us. Use caution and common sense when considering these forward-looking statements. Unless securities laws require us to do so, we do not undertake any obligation to publicly correct or update any forward-looking statements whether as a result of changes in internal estimates or expectations, new information, subsequent events or circumstances or otherwise.

Commonly Used Oil and Gas Terms

Below are explanations of some commonly used terms in the oil and gas business and in this report.

Barrel or Bbl. One stock tank barrel or 42 U.S. gallons liquid volume.

Basis risk. The risk associated with the sales point price for oil or gas production varying from the reference (or settlement) price for a particular derivative transaction.

Bcf. Billion cubic feet.

BOE. One barrel of oil equivalent determined using the ratio of six Mcf of natural gas to one barrel of crude oil or condensate or 42 gallons for NGLs.

Btu. British thermal unit, which is the heat required to raise the temperature of a one-pound mass of water from 58.5 to 59.5 degrees Fahrenheit.

Development well. A well drilled within the proved area of an oil or gas reservoir to the depth of a stratigraphic horizon known to be productive.

Exploitation well. An exploration well drilled to find and produce probable reserves. Exploitation wells typically have less risk and less reserve potential and typically may be drilled at a lower cost than other exploration wells. For internal reporting and budgeting purposes, we combine exploitation and development activities.

Exploration well. An exploration well is a well drilled to find a new field or new reservoir. Generally, an exploratory well is any well that is not a development well, an extension well, a service well or a stratigraphic test well. For internal reporting and budgeting purposes, we exclude exploitation activities from exploration activities.

Field. An area consisting of a single reservoir or multiple reservoirs all grouped on or related to the same individual geological structural feature or stratigraphic condition.

FPSO. A floating production, storage and off-loading vessel commonly used overseas to produce oil from locations where pipeline infrastructure is not available.

Liquids. Crude oil and NGLs.

Liquids-rich. Formations that contain crude oil or NGLs instead of, or as well as, natural gas.

MBbls. One thousand barrels of crude oil or other liquid hydrocarbons.

MBOE. One thousand barrels of oil equivalent.

Mcf. One thousand cubic feet of natural gas.

MMBtu. One million Btus.

MMMBtu. One billion Btus.

NGL. Natural gas liquid. Hydrocarbons which can be extracted from wet natural gas and become liquid under various combinations of increasing pressure and lower temperature. NGLs consist primarily of ethane, propane, butane and natural gasolines.

NYMEX. The New York Mercantile Exchange.

NYMEX Henry Hub. Henry Hub is the major exchange for pricing natural gas futures on the New York Mercantile Exchange. It is frequently referred to as the Henry Hub Index.

Proved reserves. Those quantities of oil and natural gas, which, by analysis of geoscience and engineering data, can be estimated with reasonable certainty to be economically producible – from a given date forward, from known reservoirs and under existing economic conditions, operating methods and government regulations — prior to the time at which contracts providing the right to operate expire, unless evidence indicates that renewal is reasonably certain, regardless of whether deterministic or probabilistic methods are used for the estimation. The project to extract the hydrocarbons must have commenced or the operator must be reasonably certain that it will commence the project within a reasonable time.

SEC pricing. The unweighted average first-day-of-the-month commodity price for crude oil (WTI) or natural gas (NYMEX) for the prior 12 months, adjusted for market differentials. The SEC provides a complete definition of prices in “Modernization of Oil and Gas Reporting” (Final Rule).

Working interest. The operating interest that gives the owner the right to drill, produce and conduct operating activities on the property and a share of production and requires the owner to pay a share of the costs of drilling and production operations.

WTI. West Texas Intermediate, a grade of crude oil.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

We are exposed to market risk from changes in oil, natural gas and NGL prices, interest rates and foreign currency exchange rates as discussed below.

Oil, Natural Gas and NGL Prices

Our decision on the quantity and price at which we choose to enter into derivative contracts is based in part on our view of current and future market conditions. While the use of derivative contracts limits the downside risk of adverse price movements, their use also may limit future benefits from favorable price movements. In addition, the use of derivative contracts may involve basis risk. All of our derivative transactions have been carried out in the over-the-counter market. The use of derivative contracts also 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. At September 30, 2014, 10 of our 16 counterparties accounted for approximately 85% of our contracted volumes with no single counterparty accounting for more than 15%. For a further discussion of our derivative activities, see the information under the caption “Oil and Gas Derivatives” in Item 2 appearing earlier in this report and the discussion and tables in Note 5, “Derivative Financial Instruments,” to our consolidated financial statements appearing earlier in this report. For further discussion of the types of derivative positions, refer to Note 5, “Derivative Financial Instruments” within Item 8 of our Annual Report on Form 10-K for the year ended December 31, 2013.

Interest Rates

We consider our interest rate exposure to be minimal because 100% of our obligations were at fixed rates as of September 30, 2014. A 10% increase in LIBOR would not impact our interest cost on debt outstanding as of September 30, 2014, but would affect the fair value of our outstanding debt, as well as interest costs associated with future debt issuances or borrowings under our revolving credit facility.

Foreign Currency Exchange Rates

The functional currency for all of our foreign operations is the U.S. dollar. To the extent that business transactions in these countries are not denominated in the respective country’s functional currency, we are exposed to foreign currency exchange risk. We consider our current risk exposure to exchange rate movements, based on net cash flows, to be immaterial. We did not have any open derivative contracts related to foreign currencies at September 30, 2014.

Item 4. Controls and Procedures

Disclosure Controls and Procedures

As of the end of the period covered by this report, we carried out an evaluation, under the supervision and with the participation of our Chief Executive Officer and our Chief Financial Officer, of the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) of the Securities Exchange Act of 1934). Based upon that evaluation, our Chief Executive Officer and our Chief Financial Officer concluded that our disclosure controls and procedures were effective as of September 30, 2014.

Changes in Internal Control over Financial Reporting

As of the end of the period covered by this report, we carried out an evaluation, under the supervision and with the participation of our Chief Executive Officer and our Chief Financial Officer, of our internal control over financial reporting to determine whether any changes occurred during the third quarter of 2014 that have materially affected, or

are reasonably likely to materially affect, our internal control over financial reporting. Based upon that evaluation, there were no changes in our internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II

Item 1. Legal Proceedings

Between February and December 2013, we voluntarily self-disclosed to the U.S. Environmental Protection Agency (EPA) certain potential federal air quality violations at our facilities located on state lands and on the Uintah & Ouray Indian Reservation in the Uinta Basin of northeast Utah. The self-disclosures were made after a voluntary internal environmental audit under the EPA's Self-Disclosure and Audit Policy. The potential violations related primarily to certain stationary internal combustion engines that are subject to certain air quality performance standards under 40 C.F.R. Part 60, Subpart JJJJ. The engines were installed as a result of our efforts to replace older, higher-emitting engines with new, lower-emitting engines. Subpart JJJJ requires us to conduct certain emission performance tests within a defined time period. We did not conduct all of the requisite tests on the new engines in a timely fashion and have now negotiated a settlement and resolution with the EPA by entering in to a Combined Complaint and Consent Agreement and Compliance Order on Consent. Those settlement documents require us to pay a monetary penalty of $246,000 and conduct testing for numerous engines. We anticipate the settlement documentation being finalized and the penalty being paid within the next 60 days. We also expect that we will be required to conduct the requisite performance testing over approximately the next 12 months. The violations did not contain any allegations of environmental spills, releases or pollution above permitted levels. We do not expect this resolution to have a material adverse effect on our financial position, cash flows or results of operations.

In early 2012, through a voluntary environmental audit, we discovered potential violations of section 404 of the Clean Water Act relating to possible unpermitted discharges of fill materials into certain wetlands and drainages in the Uinta Basin. The potential violations were discovered on certain Newfield locations and several locations acquired in 2011. In June 2012, we self-disclosed these potential violations to the U.S. Army Corps of Engineers (Corps), in accordance with the EPA’s Audit Policy and an interagency memorandum of understanding with the Corps. The Corps initially indicated to us that it would not pursue penalty charges, but instead would work with us to restore the unpermitted discharges and acquire the appropriate after-the-fact permits. The EPA later inquired with the Corps, and was informed about the potential violations. Thereafter, the EPA initiated an administrative enforcement action against Newfield. The EPA has evaluated the discharges and our proposed restoration and mitigation, and a negotiated settlement has been reached in principle. Newfield anticipates entering into a final administrative settlement in the near future involving restoration of much of the unpermitted discharges, off-site mitigation and the payment of a civil administrative penalty expected to be $175,000. We do not expect this administrative settlement to have a material adverse effect on our financial position, cash flows or results of operations.

We have been named as a defendant in a number of lawsuits and are involved in various other disputes, all arising in the ordinary course of our business, such as (a) claims from royalty owners for disputed royalty payments, (b) commercial disputes, (c) personal injury claims and (d) property damage claims. Although the outcome of these lawsuits and disputes cannot be predicted with certainty, we do not expect these matters to have a material adverse effect on our financial position, cash flows or results of operations. In addition, from time to time we receive notices of violation from governmental and regulatory authorities in areas in which we operate related to alleged violations of environmental statutes or rules and regulations promulgated thereunder. We cannot predict with certainty whether these notices of violation will result in fines or penalties, or if such fines or penalties are imposed, that they would exceed individually or in the aggregate $100,000. If any fines or penalties are in fact imposed that are greater than $100,000, then we will disclose such fact in our subsequent filings.

Item 1A. Risk Factors

There have been no material changes with respect to the risk factors previously reported in our Annual Report on Form 10-K for the year ended December 31, 2013 and updated in our Quarterly Report on Form 10-Q for the

quarterly period ended June 30, 2014.

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

The following table sets forth certain information with respect to repurchases of our common stock during the three months ended September 30, 2014.

Period	Total Number of Shares Purchased(1)	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number (or Approximate Dollar Value) of Shares that May Yet be Purchased under the Plans or Programs
July 1 — July 31, 2014	9,621	$36.32	—	—
August 1 — August 31, 2014	24,852	39.45	—	—
September 1 — September 30, 2014	212,598	41.00	—	—
Total	247,071	$40.66	—	—

(1) All of the shares repurchased were surrendered by employees to pay tax withholding upon the vesting of restricted stock awards and restricted stock units. These repurchases were not part of a publicly announced program to repurchase shares of our common stock.

Item 6. Exhibits

Exhibit Number	Description
3.1	Third Restated Certificate of Incorporation of Newfield Exploration Company dated December 14, 2011 (incorporated by reference to Exhibit 3.1 to Newfield's Annual Report on Form 10-K for the year ended December 31, 2011 (File No. 1-12534))
3.2	Amended and Restated Bylaws of Newfield (incorporated by reference to Exhibit 3.2 to Newfield's Current Report on Form 8-K filed with the SEC on July 25, 2013 (File No. 1-12534))
10.1	Retirement Agreement of Terry W. Rathert (incorporated by reference to Exhibit 10.1 to Newfield's Current Report on Form 8-K filed with the SEC on August 29, 2014 (File No. 1-12534))
*31.1	Certification of Chief Executive Officer of Newfield Exploration Company pursuant to 15 U.S.C. Section 7241, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
*31.2	Certification of Chief Financial Officer of Newfield Exploration Company pursuant to 15 U.S.C. Section 7241, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
*32.1	Certification of Chief Executive Officer of Newfield Exploration Company pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
*32.2	Certification of Chief Financial Officer of Newfield Exploration Company pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
*101.INS	XBRL Instance Document
*101.SCH	XBRL Schema Document
*101.CAL	XBRL Calculation Linkbase Document
*101.LAB	XBRL Label Linkbase Document
*101.PRE	XBRL Presentation Linkbase Document
*101.DEF	XBRL Definition Linkbase Document

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* Filed or furnished herewith.

SIGNATURE

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

	NEWFIELD EXPLORATION COMPANY
Date: October 29, 2014	By: /s/ LAWRENCE S. MASSARO Lawrence S. Massaro Executive Vice President and Chief Financial Officer (Principal Financial Officer)

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