

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

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

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

For the Quarterly Period Ended June 30, 2014

OR

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

For the Transition Period from \_\_\_\_\_ to \_\_\_\_\_ .

Commission File Number: 1-12534

NEWFIELD EXPLORATION COMPANY  
(Exact name of registrant as specified in its charter)  
Delaware  
(State or other jurisdiction of  
incorporation or organization)

72-1133047  
(I.R.S. Employer  
Identification Number)

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

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

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

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

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

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

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(Do not check if a smaller reporting company)

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

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

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NEWFIELD EXPLORATION COMPANY  
CONSOLIDATED BALANCE SHEET

(In millions, except share data)

(Unaudited)

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

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Common stock (\$0.01 par value, 200,000,000 shares authorized at June 30, 2014 and December 31, 2013; 136,828,201 and 136,682,631 shares issued at June 30, 2014 and December 31, 2013, respectively)

Additional paid-in capital	1,556	1,539
Treasury stock (at cost, 206,109 and 460,914 shares at June 30, 2014 and December 31, 2013, respectively)	(6	) (13
Accumulated other comprehensive gain (loss)	2	2
Retained earnings	1,689	1,427
Total stockholders' equity	3,242	2,956
Total liabilities and stockholders' equity	\$8,956	\$9,321

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

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NEWFIELD EXPLORATION COMPANY  
CONSOLIDATED STATEMENT OF OPERATIONS

(In millions, except per share data)  
(Unaudited)

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

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

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NEWFIELD EXPLORATION COMPANY  
 CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(In millions)

(Unaudited)

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

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



NEWFIELD EXPLORATION COMPANY  
CONSOLIDATED STATEMENT OF CASH FLOWS

(In millions)

(Unaudited)

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

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



NEWFIELD EXPLORATION COMPANY  
CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY

(In millions)

(Unaudited)

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

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

NEWFIELD EXPLORATION COMPANY  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(Unaudited)

1. Organization and Summary of Significant Accounting Policies:

Organization and Principles of Consolidation

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

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

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

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

Discontinued Operations

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

Use of Estimates

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

## Reclassifications

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

## Restricted Cash and Deferred Liabilities

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

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NEWFIELD EXPLORATION COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

(Unaudited)

Oil and Gas Properties

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

Proceeds from the sale of oil and gas properties are applied to reduce the costs in the applicable cost center unless the reduction would significantly alter the relationship between capitalized costs and proved reserves, in which case a gain or loss is recognized. During the fi