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

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

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

For the Quarterly Period Ended March 31, 2014
OR

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

For the Transition Period from to .

Commission File Number: 1-12534

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

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

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

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

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

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

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

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

(Do not check if a smaller reporting company)

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

As of April 28, 2014, there were 136,340,454 shares of the registrant's common stock, par value $0.01 per share, outstanding.

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

	March 31, 2014	December 31, 2013
ASSETS		
Current assets:		
Cash and cash equivalents	$107	$95
Restricted cash	—	90
Accounts receivable	384	474
Inventories	41	163
Deferred taxes	20	22
Other current assets	35	57
Total current assets	587	901
Oil and gas properties, at cost, based on the full cost method of accounting for oil and gas properties ($1,365 and $1,300 were excluded from amortization at March 31, 2014 and December 31, 2013, respectively)	15,295	16,407
Less — accumulated depreciation, depletion and amortization	(7,483)	(8,306)
Total oil and gas properties, net	7,812	8,101
Other property and equipment, net	176	174
Derivative assets	17	26
Long-term investments	25	63
Deferred taxes	—	19
Other assets	34	37
Total assets	$8,651	$9,321
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$59	$76
Accrued liabilities	728	978
Deferred liabilities	—	90
Advances from joint owners	16	30
Asset retirement obligations	4	54
Derivative liabilities	108	62
Total current liabilities	915	1,290
Other liabilities	30	38
Derivative liabilities	2	—
Long-term debt	3,046	3,694
Asset retirement obligations	107	201
Deferred taxes	1,301	1,142
Total long-term liabilities	4,486	5,075
Commitments and contingencies (Note 12)		
Stockholders' equity:		
Preferred stock ($0.01 par value, 5,000,000 shares authorized; no shares issued)	—	—

Common stock ($0.01 par value, 200,000,000 shares authorized at March 31, 2014 and December 31, 2013; 136,692,531 and 136,682,631 shares issued at March 31, 2014 and December 31, 2013, respectively)	1	1
Additional paid-in capital	1,546	1,539
Treasury stock (at cost, 365,226 and 460,914 shares at March 31, 2014 and December 31, 2013, respectively)	(10)	(13)
Accumulated other comprehensive gain (loss)	2	2
Retained earnings	1,711	1,427
Total stockholders' equity	3,250	2,956
Total liabilities and stockholders' equity	$8,651	$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 March 31, 2014	2013
Oil, gas and NGL revenues	$553	$370
Operating expenses:		
Lease operating	111	88
Production and other taxes	25	12
Depreciation, depletion and amortization	188	147
General and administrative	56	45
Total operating expenses	380	292
Income from operations	173	78
Other income (expense):		
Interest expense	(51)	(51)
Capitalized interest	13	14
Commodity derivative income (expense)	(96)	(84)
Other, net	2	2
Total other income (expense)	(132)	(119)
Income (loss) from continuing operations before income taxes	41	(41)
Income tax provision (benefit):		
Current	—	—
Deferred	17	(16)
Total income tax provision (benefit)	17	(16)
Income (loss) from continuing operations	24	(25)
Income (loss) from discontinued operations, net of tax	260	17
Net income (loss)	$284	$(8)
Earnings (loss) per share:		
Basic:		
Income (loss) from continuing operations	$0.17	$(0.19)
Income (loss) from discontinued operations	1.91	0.13
Basic earnings (loss) per share	$2.08	$(0.06)
Diluted:		
Income (loss) from continuing operations	$0.17	$(0.19)
Income (loss) from discontinued operations	1.90	0.13
Diluted earnings (loss) per share	$2.07	$(0.06)
Weighted-average number of shares outstanding for basic earnings (loss) per share	136	135
Weighted-average number of shares outstanding for diluted earnings (loss) per share	137	135

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 March 31,	
	2014	2013
Net income (loss)	$284	$(8)
Other comprehensive income (loss):		
Unrealized gain (loss) on investments, net of tax	—	2
Other comprehensive income (loss), net of tax	—	2
Comprehensive income (loss)	$284	$(6)

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

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

	Three Months Ended March 31, 2014	2013
Cash flows from operating activities:		
Net income (loss)	$284	$(8)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation, depletion and amortization	224	222
Deferred tax provision (benefit)	161	(13)
Stock-based compensation	11	9
Commodity derivative (income) expense	96	84
Cash receipts (payments) related to derivative contracts, net	(39)	27
Gain on sale of Malaysia business	(388)	—
Other, net	(4)	2
Changes in operating assets and liabilities:		
(Increase) decrease in accounts receivable	51	60
(Increase) decrease in inventories	(6)	11
(Increase) decrease in other current assets	(7)	10
(Increase) decrease in other assets	—	2
Increase (decrease) in accounts payable and accrued liabilities	(6)	(55)
Increase (decrease) in advances from joint owners	(13)	10
Increase (decrease) in other liabilities	1	(2)
Net cash provided by operating activities	365	359
Cash flows from investing activities:		
Additions to oil and gas properties	(553)	(399)
Proceeds from sales of oil and gas properties	10	4
Proceeds received from sale of Malaysia business, net	809	—
Additions to other property and equipment	(8)	(4)
Redemptions of investments	39	—
Net cash provided by (used in) investing activities	297	(399)
Cash flows from financing activities:		
Proceeds from borrowings under credit arrangements	562	532
Repayments of borrowings under credit arrangements	(1,211)	(532)
Purchases of treasury stock, net	(1)	(4)
Net cash used in financing activities	(650)	(4)
Increase (decrease) in cash and cash equivalents	12	(44)
Cash and cash equivalents, beginning of period	95	88
Cash and cash equivalents, end of period	$107	$44

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	—	—			—			—
Stock-based compensation					11			11
Treasury stock, net			0.1	3	(4)			(1)
Net income						284		284
Balance, March 31, 2014	136.7	$1	(0.4)	$(10)	$1,546	$1,711	$ 2	$3,250

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 on February 10, 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.

Reclassifications

Certain reclassifications have been made to prior years' reported amounts in order to conform to the current year presentation. These reclassifications, including those related to our discontinued operations disclosed in Note 3, "Discontinued Operations," did not impact our net income (loss), stockholders' equity or cash flows.

Restricted Cash and Deferred Liabilities

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

Oil and Gas Properties

We use the full cost method of accounting for our oil and gas producing activities. Under this method, all costs incurred in the acquisition, exploration and development of oil and gas properties, including salaries, benefits, interest and other internal costs directly attributable to these activities, are capitalized into cost centers that are established on a country-by-country basis. We capitalized approximately $54 million and $50 million of interest and direct internal costs during the three-month periods ended March 31, 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 quarter ended March 31, 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 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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NEWFIELD EXPLORATION COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
(Unaudited)

2. Earnings Per Share:

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

	Three Months Ended March 31,	
	2014	2013
	(In millions, except per share data)	
Income (numerator):		
Income (loss) from continuing operations	$24	$(25)
Income (loss) from discontinued operations, net of tax	260	17
Net income (loss)	$284	$(8)
Weighted-average shares (denominator):		
Weighted-average shares — basic	136	135
Dilution effect of stock options and unvested restricted stock and restricted stock units outstanding at end of period(1) (2)	1	—
Weighted-average shares — diluted	137	135
Earnings (loss) per share:		
Basic:		
Income (loss) from continuing operations	$0.17	$(0.19)
Income (loss) from discontinued operations	1.91	0.13
Basic earnings (loss) per share	$2.08	$(0.06)
Diluted:		
Income (loss) from continuing operations	$0.17	$(0.19)
Income (loss) from discontinued operations	1.90	0.13
Diluted earnings (loss) per share	$2.07	$(0.06)

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(1) Excludes 1.5 million shares of unvested restricted stock or restricted stock units and stock options for the three months ended March 31, 2014 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 March 31, 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 0.6 million shares for the three months ended March 31, 2013.

3. Discontinued Operations:

Malaysia Update

On February 10, 2014, Newfield International Holding Inc., a wholly-owned subsidiary of the Company, closed the stock purchase agreement to sell our Malaysia business to SapuraKencana Petroleum Berhad, a Malaysian public company, for $898 million (subject to customary purchase price adjustments). We recorded a gain in the first quarter of 2014 of approximately $388 million ($249 million, after tax). As of March 31, 2014, we had accounts receivable of $15 million related to the sale, which we expect to receive in the final post-close settlement scheduled to occur in the second quarter of 2014.

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. We are now in the process of completing our underwater inspections of the jacket to assess the extent of the damage. Plans are underway to repair the damage to the jacket mid-year 2014, and we plan to install the LF-7 topside facilities in the third quarter of 2014. We expect to achieve first oil production in late 2014. We continue to pursue the sale of our China business. After reevaluating the criteria to be classified as discontinued operations, we believe that our China operations continue to meet the "held-for-sale" criteria and therefore remain in discontinued operations as of March 31, 2014. We will continue to monitor the facts and circumstances surrounding the completion of the production facilities and the continued classification of our China business as discontinued operations.

Income from discontinued operations from our China business was $9 million ($3 million, net of tax) for the three months ended March 31, 2014. Income from discontinued operations from our China business was $13 million ($4 million, net of tax) for the three months ended March 31, 2013.

Financial Results of Discontinued Operations

	Three Months Ended March 31,	
	2014	2013
	(In millions)	
Oil and gas revenues[1]	$108	$281
Operating expenses	78	213
Income from discontinued operations	30	68
Gain on sale of Malaysia business	388	—
Income from discontinued operations before income taxes	418	68
Income tax provision (benefit):		
Current	14	48
Deferred	144	3
Total income tax provision (benefit)	158	51
Income from discontinued operations, net of tax	$260	$17

(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 are fully divested of our international businesses. The effective tax rate for our discontinued operations for the three months ended March 31, 2014 was 37.9% as the majority of our income from discontinued operations resulted from the gain on the sale of our Malaysia business, which was only taxable in the U.S. The effective tax rate for our discontinued operations for the three months ended March 31, 2013 was 74.8% due to our international earnings being taxed both in the U.S and the local country.

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

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

	March 31, 2014	December 31, 2013
	(In millions)	
Current assets:		
Cash and cash equivalents	$34	$84
Accounts receivable	61	200
Inventories	11	130
Other current assets	9	33
Total current assets	115	447
Noncurrent assets:		
Oil and gas properties, net of accumulated depreciation, depletion and amortization of $115 and $1,121 as of March 31, 2014 and December 31, 2013, respectively	455	989
Deferred taxes	—	19
Other assets	1	4
Total noncurrent assets	456	1,012
Total assets	$571	$1,459
Current liabilities:		
Accounts payable	$5	$38
Accrued liabilities	132	324
Asset retirement obligations	—	49
Other current liabilities	—	18
Total current liabilities	137	429
Noncurrent liabilities:		
Asset retirement obligations	2	86
Deferred taxes	104	129
Other liabilities	—	11
Total noncurrent liabilities	106	226
Total liabilities	$243	$655

Inventories

Substantially all of the crude oil from our international offshore operations is produced into floating production, storage and off-loading vessels (FPSOs) and “lifted” and sold periodically as barge quantities are accumulated. At December 31, 2013, the crude oil inventory from our Malaysia and China operations consisted of approximately 1.1 million barrels of crude oil valued at cost of $90 million and is included in the "Inventories" line item in the preceding table and in our consolidated balance sheet. Cost for purposes of the carrying value of oil inventory is the sum of production costs and depletion expense. The sale of our Malaysia business on February 10, 2014, reduced crude oil inventory to a de minimis amount. Remaining inventories at March 31, 2014, primarily consisted of tubular goods and well equipment for use in our oil and natural gas operations.

Oil and Gas Properties

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

Asset Retirement Obligations

During the quarter ended March 31, 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:

	March 31, 2014	December 31, 2013
	(In millions)	
Oil and gas properties:		
Subject to amortization	$13,930	$15,107
Not subject to amortization	1,365	1,300
Gross oil and gas properties	15,295	16,407
Accumulated depreciation, depletion and amortization	(7,483)	(8,306)
Net oil and gas properties	$7,812	$8,101
Other property and equipment:		
Furniture, fixtures and equipment	141	139
Gathering systems and equipment	108	104
Accumulated depreciation and amortization	(73)	(69)
Net other property and equipment	$176	$174

At March 31, 2014, approximately 91% of our oil and gas properties not subject to amortization were associated with unconventional resource plays. Because of the size of our unconventional resource plays, the entire evaluation can take significantly longer than four years. The following is a summary of our oil and gas properties not subject to amortization as of March 31, 2014.

	Costs Incurred In				
	2014	2013	2012	2011 and Prior	Total
	(In millions)				
Acquisition costs	$28	$199	$109	$474	$810
Exploration costs	159	114	2	10	285
Development costs	11	12	31	24	78
Fee mineral interests	—	1	—	23	24
Capitalized interest	13	53	67	35	168
Total oil and gas properties not subject to amortization	$211	$379	$209	$566	$1,365

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.

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

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 collars, sold puts and swaptions requires the use of an option-pricing model. See Note 8, "Fair Value Measurements."

At March 31, 2014, we had outstanding derivative positions as set forth in the tables below.

Natural Gas

Period and Type of Instrument	Volume in MMMBtus	NYMEX Contract Price Per MMBtu				Estimated Fair Value Asset (Liability) (In millions)
		Swaps (Weighted Average)	Sold Puts (Weighted Average)	Collars Floors (Weighted Average)	Ceilings (Weighted Average)	
2014:						
Fixed-price swaps	64,625	$3.98	—	—	—	$(30)
Collars	17,875	—	—	$3.75	$4.62	(3)
2015:						
Fixed-price swaps	49,275	4.28	—	—	—	4
Collars	38,325	—	—	3.93	4.74	1
Total						$(28)

Crude Oil

Period and Type of Instrument	Volume in MBbls	NYMEX Contract Price Per Bbl				Estimated Fair Value Asset (Liability) (In millions)
		Swaps (Weighted Average)	Sold Puts (Weighted Average)	Collars Floors (Weighted Average)	Ceilings (Weighted Average)	
2014:						
Fixed-price swaps	5,777	$89.96	—	—	—	$(44)
Fixed-price swaps with sold puts	4,400	95.16	$75.00	—	—	(13)
Collars with sold puts	1,650	—	75.83	$90.83	$102.93	(1)
2015:						
Fixed-price swaps	6,567	90.39	—	—	—	2
Fixed-price swaps with sold puts	6,621	90.13	69.17	—	—	(6)
Swaptions[(1)]	—	90.29	—	—	—	(4)
2016:						
Fixed-price swaps with sold puts	637	90.02	70.00	—	—	1
Total						$(65)

(1)

During the first quarter of 2014, we sold crude oil swaption contracts (options to exercise swap contracts) to counterparties that would potentially put 1,548 MBbls of oil under contract for calendar year 2015 if exercised on their expiration date in the second quarter of 2014. These contracts give the counterparties the option to enter into swap contracts with us at a weighted-average fixed price of $90.29 per barrel for the first three quarters of calendar year 2015.

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

Additional Disclosures about Derivative Instruments

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

	Derivative Assets				Derivative Liabilities			
	Gross Fair Value	Offset in Balance Sheet	Balance Sheet Location Current	Balance Sheet Location Noncurrent	Gross Fair Value	Offset in Balance Sheet	Balance Sheet Location Current	Balance Sheet Location Noncurrent
March 31, 2014	(In millions)				(In millions)			
Natural gas positions	$12	$—	$—	$12	$(40)	$—	$(40)	$—
Oil positions	15	(10)	—	5	(80)	10	(68)	(2)
Total	$27	$(10)	$—	$17	$(120)	$10	$(108)	$(2)
December 31, 2013								
Natural gas positions	$11	$(2)	$—	$9	$(22)	$2	$(20)	$—
Oil positions	26	(9)	—	17	(51)	9	(42)	—
Total	$37	$(11)	$—	$26	$(73)	$11	$(62)	$—

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

	Three Months Ended March 31, 2014	Three Months Ended March 31, 2013
	(In millions)	
Derivatives not designated as hedging instruments:		
Realized gain (loss) on natural gas positions	$(22)	$27
Realized gain (loss) on oil positions	(17)	—
Total realized gain (loss)(1)	(39)	27
Unrealized gain (loss) on natural gas positions	(17)	(88)
Unrealized gain (loss) on oil positions	(40)	(23)
Total unrealized gain (loss)	(57)	(111)
Total	$(96)	$(84)

(1) The total realized gain (loss) on commodity derivatives may differ from the cash receipts on derivative settlements as a result of the receipt or payment of premiums or due to the recognition of premiums previously received associated with derivatives settled during the period.

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 March 31, 2014, ten 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:

	March 31, 2014	December 31, 2013
	(In millions)	
Revenue	$222	$294
Joint interest	126	156
Other	37	25
Reserve for doubtful accounts	(1)	(1)
Total accounts receivable	$384	$474

7. Accrued Liabilities:

Accrued liabilities consisted of the following:

	March 31, 2014	December 31, 2013
	(In millions)	
Revenue payable	$187	$175
Accrued capital costs	365	458
Accrued lease operating expenses	27	71
Employee incentive expense	35	64
Accrued interest on debt	46	72
Taxes payable	29	93
Other	39	45
Total accrued liabilities	$728	$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 (price collars, sold puts and 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.

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 March 31, 2014:				
Money market fund investments	$74	$—	$—	$74
Deferred compensation plan assets	9	—	—	9
Equity securities available-for-sale	8	—	—	8
Oil and gas derivative swap contracts	—	(74)	—	(74)
Oil and gas derivative option contracts	—	—	(19)	(19)
	(10)	—	(19)	(29)

Stock-based compensation liability awards				
Total	$81	$(74)	$(38)	$(31)

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

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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 quarter ended March 31, 2014, we sold all auction rate securities that we held at December 31, 2013, for $39 million.

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