

NEWFIELD EXPLORATION CO /DE/  
Form 10-Q  
July 26, 2013

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, 2013

OR

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

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

Commission File Number: 1-12534

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

Delaware  
(State or other jurisdiction of  
incorporation or organization)

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

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

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

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

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

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

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

(Do not check if a smaller reporting company)

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

As of July 22, 2013, there were 135,686,016 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, 2013	December 31, 2012
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$51	\$88
Accounts receivable	476	452
Inventories	106	132
Derivative assets	65	125
Other current assets	61	69
Total current assets	759	866
Property and equipment, at cost, based on the full cost method of accounting for oil and gas properties (\$1,599 and \$1,485 were excluded from amortization at June 30, 2013 and December 31, 2012, respectively)	15,297	14,346
Less — accumulated depreciation, depletion and amortization	(7,878)	(7,444)
Total property and equipment, net	7,419	6,902
Derivative assets	60	17
Long-term investments	62	58
Deferred taxes	37	24
Other assets	44	45
Total assets	\$8,381	\$7,912
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$57	\$69
Accrued liabilities	849	801
Advances from joint owners	36	31
Asset retirement obligations	7	10
Derivative liabilities	6	6
Deferred taxes	21	42
Total current liabilities	976	959
Other liabilities	42	47
Derivative liabilities	—	15
Long-term debt	3,276	3,045
Asset retirement obligations	140	132
Deferred taxes	1,040	934
Total long-term liabilities	4,498	4,173
Commitments and contingencies (Note 13)	—	—
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, 2013 and December 31, 2012; 136,668,275 and 136,530,907 shares issued at June 30, 2013 and December 31, 2012, respectively)

Additional paid-in capital	1,536	1,522
Treasury stock (at cost, 991,707 and 1,216,591 shares at June 30, 2013 and December 31, 2012, respectively)	(29	) (36
Accumulated other comprehensive loss	(4	) (7
Retained earnings	1,403	1,300
Total stockholders' equity	2,907	2,780
Total liabilities and stockholders' equity	\$8,381	\$7,912

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,	
	2013	2012	2013	2012
Oil, gas and NGL revenues	\$435	\$350	\$805	\$753
Operating expenses:				
Lease operating	107	103	195	205
Production and other taxes	21	15	33	36
Depreciation, depletion and amortization	164	172	311	338
General and administrative	54	59	99	104
Total operating expenses	346	349	638	683
Income from operations	89	1	167	70
Other income (expense):				
Interest expense	(50 )	(49 )	(101 )	(100 )
Capitalized interest	13	18	27	36
Commodity derivative income (expense)	117	135	33	159
Other	2	(4 )	4	(2 )
Total other income (expense)	82	100	(37 )	93
Income from continuing operations before income taxes	171	101	130	163
Income tax provision (benefit):				
Current	—	—	—	5
Deferred	65	37	49	55
Total income tax provision (benefit)	65	37	49	60
Income from continuing operations	106	64	81	103
Income from discontinued operations, net of tax	5	71	22	148
Net income	\$111	\$135	\$103	\$251
Earnings per share:				
Basic:				
Income from continuing operations	\$0.78	\$0.47	\$0.60	\$0.76
Income from discontinued operations	0.04	0.53	0.16	1.10
Basic earnings per share	\$0.82	\$1.00	\$0.76	\$1.86
Diluted:				
Income from continuing operations	\$0.78	\$0.47	\$0.60	\$0.76
Income from discontinued operations	0.04	0.53	0.16	1.09
Diluted earnings per share	\$0.82	\$1.00	\$0.76	\$1.85
Weighted-average number of shares outstanding for basic earnings per share	135	134	135	134
	136	135	136	135

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

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,	
	2013	2012	2013	2012
Net income	\$111	\$135	\$103	\$251
Other comprehensive income:				
Unrealized gain on investments, net of tax	1	—	3	2
Other comprehensive income, net of tax	1	—	3	2
Comprehensive income	\$112	\$135	\$106	\$253

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,	
	2013	2012
Cash flows from operating activities:		
Net income	\$ 103	\$ 251
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, depletion and amortization	439	465
Deferred tax provision (benefit)	68	54
Stock-based compensation	17	17
Commodity derivative (income) expense	(33	) (159
Cash receipts on derivative settlements, net	35	86
Other non-cash charges	4	3
Changes in operating assets and liabilities:		
(Increase) decrease in accounts receivable	(14	) (5
(Increase) decrease in inventories	20	(12
(Increase) decrease in other current assets	8	(20
(Increase) decrease in other assets	2	(1
(Increase) decrease in accounts payable and accrued liabilities	(40	) (76
Increase (decrease) in advances from joint owners	5	(26
(Increase) decrease in other liabilities	(4	) (2
Net cash provided by operating activities	610	575
Cash flows from investing activities:		
Additions to oil and gas properties	(876	) (875
Acquisitions of oil and gas properties	(3	) (9
Proceeds from sales of oil and gas properties	19	329
Additions to other property and equipment	(14	) (13
Redemption of investments	1	—
Net cash used in investing activities	(873	) (568
Cash flows from financing activities:		
Proceeds from borrowings under credit arrangements	1,425	1,663
Repayments of borrowings under credit arrangements	(1,194	) (1,749
Proceeds from issuance of senior notes	—	1,000
Debt issue costs	(4	) (10
Repayment of senior subordinated notes	—	(325
Proceeds from issuances of common stock	1	—
Purchases of treasury stock, net	(2	) (6
Net cash provided by financing activities	226	573
Increase (decrease) in cash and cash equivalents	(37	) 580
Cash and cash equivalents, beginning of period	88	76
Cash and cash equivalents, end of period	\$ 51	\$ 656

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 Income (Loss)	Total Stockholders' Equity
	Shares	Amount	Shares	Amount				
Balance, December 31, 2012	136.5	\$1	(1.2 )	\$(36 )	\$1,522	\$1,300	\$ (7 )	\$2,780
Issuances of common stock	0.2	—			1			1
Stock-based compensation					22			22
Treasury stock, net			0.2	7	(9 )			(2 )
Net income						103		103
Other comprehensive income, net of tax							3	3
Balance, June 30, 2013	136.7	\$1	(1.0 )	\$(29 )	\$1,536	\$1,403	\$ (4 )	\$2,907

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

NEWFIELD EXPLORATION COMPANY  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(Unaudited)

1. Organization and Summary of Significant Accounting Policies:

Organization and Principles of Consolidation

We are an independent energy company engaged in the exploration, development and production of crude oil, natural gas and natural gas liquids (NGLs). Our principal domestic areas of operation include the Mid-Continent, the Rocky Mountains and the onshore Gulf Coast. Internationally, we focus on offshore oil developments in Malaysia and China.

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

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

These consolidated financial statements and notes should be read in conjunction with our audited consolidated financial statements and the notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2012.

Discontinued Operations

Following our decision to evaluate strategic alternatives for our businesses in Malaysia and China and the resulting assets-held-for-sale classification in the second quarter of 2013, the results of our international operations are reflected separately as discontinued operations in the consolidated statement of operations on a line immediately after “Income from continuing operations.” See Note 3, “Discontinued Operations,” for additional disclosures. These financial statements and notes are inclusive of our international operations unless otherwise noted.

Dependence on Commodity Prices

As an independent oil and natural gas producer, our revenue, profitability and future rate of growth are substantially dependent on prevailing prices for oil, natural gas and NGLs. Historically, the energy markets have been very volatile, and there can be no assurance that commodity prices will not be subject to wide fluctuations in the future. A substantial or extended decline in commodity prices could have a material adverse effect on our financial position, results of operations, cash flows and access to capital and on the quantities of oil, natural gas and NGL reserves that we can economically produce.

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 financial estimates are associated with our estimated proved oil, natural gas and NGL reserves and the fair value of our derivative positions.

#### Investments

Investments consist of debt and equity securities, as well as auction rate securities, a majority of which are classified as “available-for-sale” and stated at fair value. Accordingly, unrealized gains and losses and the related deferred income tax effects are excluded from earnings and reported as a separate component within the consolidated statement of comprehensive income.

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NEWFIELD EXPLORATION COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

(Unaudited)

Realized gains or losses are computed based on specific identification of the securities sold. We regularly assess our investments for impairment and consider any impairment to be other than temporary if we intend to sell the security, it is more likely than not that we will be required to sell the security, or we do not expect to recover our cost of the security. We realized interest income and net gains on our investment securities of approximately \$0.7 million and \$0.3 million for each of the three-month periods ended June 30, 2013 and 2012, respectively, and approximately \$2 million and \$1 million for each of the six-month periods ended June 30, 2013 and 2012, respectively.

#### Inventories

Inventories primarily consist of tubular goods and well equipment held for use in our oil and natural gas operations and oil produced but not sold in our offshore operations in Malaysia and China. See Note 3, "Discontinued Operations" for details on our international crude oil inventory. Tubular goods and well equipment inventories are carried at the lower of cost or market.

#### 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 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 \$37 million and \$27 million of internal costs during the three-month periods ended June 30, 2013 and 2012, respectively, and \$73 million and \$58 million during the six-month periods ended June 30, 2013 and 2012, respectively. Interest expense related to unproved properties also is capitalized into oil and gas properties.

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

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

the present value (10% per annum discount rate) of estimated future net revenues from proved reserves using oil, natural gas and NGL reserve estimation requirements, which require use of the unweighted average first-day-of-the-month commodity prices for the prior 12 months, adjusted for market differentials (SEC pricing), applicable to our reserves (including the effects of hedging contracts that are designated for hedge accounting, if any); plus

the cost of properties not included in the costs being amortized, if any; less

related income tax effects.

If net capitalized costs of oil and gas properties exceed the cost center ceiling, we are subject to a ceiling test writedown to the extent of such excess. If required, a ceiling test writedown reduces earnings and stockholders' equity

in the period of occurrence and, holding other factors constant, results in lower depreciation, depletion and amortization expense in future periods.

The risk that we will be required to writedown the carrying value of our oil and gas properties increases when oil, natural gas and NGL prices decrease significantly for a prolonged period of time or if we have substantial downward revisions in our estimated proved reserves. At June 30, 2013, the ceiling value of our reserves was calculated based upon SEC pricing of \$3.44 per MMBtu for natural gas and \$91.53 per barrel of oil. Using these prices, the cost center ceiling with respect to our domestic full cost pool exceeded the net capitalized costs of the respective cost centers. As such, no ceiling test writedown was required at June 30, 2013. If there are further declines in SEC pricing of oil and natural gas subsequent to June 30, 2013, we may be required to record a ceiling test writedown in future periods.

At December 31, 2012, the ceiling value of our reserves was calculated based upon SEC pricing of \$2.76 per MMBtu for natural gas and \$94.84 per barrel of oil. Using these prices, the unamortized net capitalized costs of our domestic oil and gas properties exceeded the ceiling amount by, and caused a writedown of, approximately \$1.5 billion (\$948 million, after-tax).



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NEWFIELD EXPLORATION COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

(Unaudited)

## Other Property and Equipment

Furniture, fixtures and equipment are recorded at cost and depreciated using the straight-line method over their estimated useful lives, which range from three to seven years. Gathering systems and equipment are recorded at cost and depreciated using the straight-line method over their estimated useful lives of 25 years.

## Segment Reporting

Our continuing operations are comprised of a single business segment, the domestic exploration, development and production of oil and natural gas. Prior to classifying our international businesses as held-for-sale and discontinued operations, we reported business segments for Malaysia and China.

## Accounting for Asset Retirement Obligations

The change in our asset retirement obligation (ARO) is set forth below (in millions):

Balance at January 1, 2013	\$142	
Accretion expense	5	
Additions	4	
Revisions	2	
Settlements	(6	)
Balance at June 30, 2013	147	
Less: Current portion of ARO at June 30, 2013	(7	)
Total long-term ARO at June 30, 2013	\$140	

## Derivative Financial Instruments

Our derivative financial instruments are recorded on the consolidated balance sheet at fair value with changes in the derivative's fair value recognized in current earnings. All of the derivative instruments that we utilize are to manage the price risk attributable to our expected oil and gas production. We have elected not to designate price-risk management activities as accounting hedges.

The related cash flow impact of our derivative activities is reflected as cash flows from operating activities. See Note 5, "Derivative Financial Instruments," for a more detailed discussion of our derivative activities.

## Offsetting Assets and Liabilities

Our derivative financial instruments are subject to master netting arrangements and are reflected on our consolidated balance sheet accordingly. See Note 5, "Derivative Financial Instruments," for details regarding the gross amounts, as well as the impact of our netting arrangements on our net derivative position. We have only offset assets and liabilities in relation to our derivative financial instruments. We do not have any gross amounts that are subject to a master netting arrangement that are not offset in our consolidated balance sheet.

## New Accounting Requirements

In December 2011, the FASB issued guidance regarding the disclosure of offsetting assets and liabilities. The guidance requires disclosure of both gross and net information about instruments and transactions eligible for offset arrangement. The guidance is effective for interim and annual periods beginning on or after January 1, 2013. We adopted the guidance in the quarter ended March 31, 2013. Adoption of the additional disclosures regarding offsetting assets and liabilities did not have a material impact on our financial position or results of operations.

In February 2013, the FASB issued guidance regarding the reporting of amounts reclassified out of accumulated other comprehensive income. The guidance is effective for interim and annual periods beginning after December 15, 2012. We

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## NEWFIELD EXPLORATION COMPANY

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

(Unaudited)

adopted the guidance in the quarter ended March 31, 2013. Adoption of the new reporting guidance did not have a material impact on our financial position or results of operations as we did not have reclassifications during the periods presented.

## 2. Earnings Per Share:

Basic earnings per share (EPS) is calculated by dividing net income (the numerator) by the weighted-average number of shares of common stock (excluding unvested restricted stock and restricted stock units) outstanding during the period (the denominator). Diluted earnings per share incorporates the dilutive impact of outstanding stock options and unvested restricted stock and restricted stock units (using the treasury stock method). Under the treasury stock method, the amount the employee must pay for exercising stock options, the amount of unrecognized compensation expense related to unvested stock-based compensation grants and the amount of excess tax benefits that would be recorded when the award becomes deductible are assumed to be used to repurchase shares. See Note 11, "Stock-Based Compensation."

The following is the calculation of basic and diluted weighted-average shares outstanding and EPS for the indicated periods:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
	(In millions, except per share data)			
Income (numerator):				
Income from continuing operations	\$ 106	\$ 64	\$ 81	\$ 103
Income from discontinued operations, net of tax	5	71	22	148
Net income — basic and diluted	\$ 111	\$ 135	\$ 103	\$ 251
Weighted-average shares (denominator):				
Weighted-average shares — basic	135	134	135	134
Dilution effect of stock options and unvested restricted stock and restricted stock units outstanding at end of period <sup>(1)</sup>	1	1	1	1
Weighted-average shares — diluted	136	135	136	135
Earnings per share:				
Basic:				
Income from continuing operations	\$ 0.78	\$ 0.47	\$ 0.60	\$ 0.76
Income from discontinued operations	0.04	0.53	0.16	1.10
Basic earnings per share	\$ 0.82	\$ 1.00	\$ 0.76	\$ 1.86
Diluted:				
Income from continuing operations	\$ 0.78	\$ 0.47	\$ 0.60	\$ 0.76
Income from discontinued operations	0.04	0.53	0.16	1.09
Diluted earnings per share	\$ 0.82	\$ 1.00	\$ 0.76	\$ 1.85

(1)

Excludes 3.4 million and 3.7 million shares of unvested restricted stock or restricted stock units and stock options for the three- and six-month periods ended June 30, 2013, respectively, and 3.0 million shares for the three- and six-month periods ended June 30, 2012 because including the effect would have been anti-dilutive.

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NEWFIELD EXPLORATION COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

(Unaudited)

## 3. Discontinued Operations:

In February 2013, we announced our decision to explore strategic alternatives for our international businesses. In accordance with specific accounting requirements, we did not meet the criteria to classify our international businesses as held-for-sale until the second quarter of 2013. As a result, our Malaysia and China operations are classified as discontinued operations at June 30, 2013, and the historical results of operations for our international operations are reflected in our financial statements as “discontinued operations.”

The following table summarizes the financial results of our discontinued operations for the following periods:

	Three Months Ended		Six Months Ended		
	June 30, 2013	2012	June 30, 2013	2012	
	(In millions)				
Oil and gas revenues	\$188	\$277	\$470	\$552	
Operating expenses	159	166	373	314	
Income from discontinued operations	29	111	97	238	
Other income (expense)	(1	) 2	(1	) —	
Income from discontinued operations before income taxes	28	113	96	238	
Income tax provision (benefit):					
Current	6	47	55	91	
Deferred	17	(5	) 19	(1	)
Total income tax provision	23	42	74	90	
Income from discontinued operations, net of tax	\$5	\$71	\$22	\$148	

## Income Taxes

The effective tax rates for our discontinued operations for the three months ended June 30, 2013 and 2012 were 81.1% and 37.3%, respectively. The effective tax rates for the six months ended June 30, 2013 and 2012 were 76.7% and 37.7%, respectively. Historically, our international effective tax rate was approximately 37%. However, the effective tax rates for the three and six months ended June 30, 2013 were affected by our fourth quarter 2012 decision to repatriate earnings from our foreign operations.

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## NEWFIELD EXPLORATION COMPANY

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

(Unaudited)

A summary of assets and liabilities included in our consolidated balance sheet attributable to discontinued operations follows:

	June 30, 2013	December 31, 2012
	(In millions)	
Current assets:		
Cash and cash equivalents	\$42	\$76
Accounts receivable	231	207
Inventories	72	91
Other current assets	37	31
Total current assets	382	405
Noncurrent assets:		
Oil and gas properties, net of accumulated depreciation, depletion and amortization of \$964 and \$843 as of June 30, 2013 and December 31, 2012, respectively	850	781
Deferred taxes	37	24
Other assets	4	4
Total noncurrent assets	891	809
Total assets	\$1,273	\$1,214
Current liabilities:		
Accounts payable	\$54	\$50
Accrued liabilities	299	269
Other current liabilities	21	21
Total current liabilities	374	340
Noncurrent liabilities:		
Asset retirement obligations	39	38
Deferred taxes	75	41
Other liabilities	17	23
Total noncurrent liabilities	131	102
Total liabilities	\$505	\$442

## Crude Oil Inventories

Substantially all of the crude oil from our offshore operations in Malaysia and China is produced into floating production, storage and off-loading vessels (FPSOs) or onshore storage terminals and "lifted" and sold periodically as barge quantities are accumulated. The product inventory from our international operations consisted of approximately 508,000 barrels and 744,000 barrels of crude oil valued at cost of \$41 million and \$64 million at June 30, 2013 and December 31, 2012, respectively, and are included in the "Inventories" line item in the preceding table and our consolidated balance sheet. Cost for purposes of the carrying value of oil inventory is the sum of production costs and depletion expense.

## Oil and Gas Properties

We use the full cost method of accounting for our oil and gas activities. At June 30, 2013, the oil and gas properties associated with our discontinued operations included \$116 million not subject to amortization, comprised of \$45 million incurred prior to 2011, \$6 million incurred in 2011, \$24 million incurred in 2012 and \$41 million incurred in 2013. The cost center ceilings with respect to our Malaysia and China full cost pools exceeded the net capitalized costs of the respective cost centers at December 31, 2012 and June 30, 2013, and as such, no ceiling test writedowns were required.

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## NEWFIELD EXPLORATION COMPANY

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

(Unaudited)

## 4. Oil and Gas Assets:

## Property and Equipment

Property and equipment consisted of the following:

	June 30, 2013 (In millions)	December 31, 2012
Oil and gas properties:		
Subject to amortization	\$13,466	\$12,647
Not subject to amortization	1,599	1,485
Gross oil and gas properties	15,065	14,132
Accumulated depreciation, depletion and amortization	(7,800	) (7,378
Net oil and gas properties	7,265	6,754
Other property and equipment:		
Furniture, fixtures and equipment	145	141
Gathering systems and equipment	87	73
Accumulated depreciation and amortization	(78	) (66
Net other property and equipment	154	148
Total property and equipment, net	\$7,419	\$6,902

The following is a summary of our oil and gas properties not subject to amortization as of June 30, 2013. We believe that our evaluation activities related to substantially all of our conventional properties not subject to amortization will be completed within four years. Because of the size of our unconventional resource plays, the entire evaluation can take significantly longer than four years. At June 30, 2013, approximately 88% of our oil and gas properties not subject to amortization were associated with unconventional resource plays.

	Costs Incurred In				Total
	2013	2012	2011	2010 and Prior	
	(In millions)				
Acquisition costs	\$37	\$114	\$264	\$381	\$796
Exploration costs	418	70	18	36	542
Development costs	—	31	39	—	70
Fee mineral interests	—	—	—	23	23
Capitalized interest	27	67	74	—	168
Total oil and gas properties not subject to amortization	\$482	\$282	\$395	\$440	\$1,599

## Gulf of Mexico Asset Sale

In October 2012, we closed on the sale of our remaining assets in the Gulf of Mexico to W&T Offshore, Inc. for approximately \$208 million, subject to customary post-closing adjustments. The sale of our remaining assets in the Gulf of Mexico 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 Gulf of Mexico operations through the date of sale.





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NEWFIELD EXPLORATION COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

(Unaudited)

Other Asset Sales

During the six months ended June 30, 2013 and the year ended December 31, 2012, we sold certain oil and gas properties for proceeds of approximately \$19 million and \$630 million (includes Gulf of Mexico asset sale discussed above), respectively. The cash flows and results of operations for the assets included in a sale are included in our consolidated financial statements up to the date of sale. All of the proceeds associated with our asset sales were recorded as adjustments to our domestic full cost pool.

5. Derivative Financial Instruments:

Commodity Derivative Instruments

We utilize the following derivative strategies, which consist of either a single derivative instrument or a combination of instruments, to hedge against the variability in cash flows associated with the forecasted sale of our future oil and natural gas production domestically:

fixed-price swaps (swap). With respect to a swap position, the counterparty is required to make a payment to us if the settlement price for any settlement period is less than the swap strike price, and we are required to make a payment to the counterparty if the settlement price for any settlement period is greater than the swap strike price;

collars (combination of purchased put options (floor) and sold call options (ceiling)). For a collar position, the counterparty is required to make a payment to us if the settlement price for any settlement period is below the floor strike price while we are required to make payment to the counterparty if the settlement price for any settlement period is above the ceiling strike price. Neither party is required to make a payment to the other party if the settlement price for any settlement period is equal to or greater than the floor strike price and equal to or less than the ceiling strike price;

fixed-price swaps with sold puts. A swap with a sold put position consists of a standard swap position plus a put sold by us with a strike price below the associated fixed-price swap. This structure enables us to increase the fixed-price swap with the value received through the sale of the put. If the settlement price for any settlement period falls equal to or below the put strike price, then we will only receive the difference between the swap price and the put strike price. If the settlement price is greater than the put strike price, the result is the same as it would have been with a standard swap only; and

collars with sold puts. A collar with a sold put position consists of a standard collar position plus a put sold by us with a strike price below the floor strike price of the collar. This structure enables us to improve the collar strike prices with the value received through the sale of the additional put. If the settlement price for any settlement period falls equal to or below the additional put strike price, then we will receive the difference between the floor strike price and the additional put strike price. If the settlement price is greater than the additional put strike price, the result is the same as it would have been with a standard collar only.

While the use of these derivative instruments limits the downside risk of adverse commodity price movements, their use also may limit future income from favorable commodity price movements.

Substantially all of 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, in the case of collars and sold puts, the remaining term of options. The calculation of the fair value of

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

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## NEWFIELD EXPLORATION COMPANY

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

(Unaudited)

At June 30, 2013, we had outstanding positions with respect to our future production 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)	Floors (Weighted Average)	Ceilings (Weighted Average)	
2013:						
Fixed-price swaps	27,600	\$4.08	—	—	—	\$12
Collars with sold puts <sup>(A)</sup>	17,810	3.45	\$3.98	\$5.36	\$6.30	19
Collars with sold puts	4,575	—	3.00	3.75	4.75	1
2014:						
Fixed-price swaps	85,775	3.98	—	—	—	6
Collars	23,725	—	—	3.75	4.62	3
2015:						
Fixed-price swaps	49,275	4.28	—	—	—	7
Collars	38,325	—	—	3.93	4.74	4
Total						\$52

During the first quarter of 2012, natural gas spot market prices were below the puts we sold on our collar with sold put positions for April through December 2012 and the full-year 2013, exposing us further to the softening natural gas spot market. As a result, during the first quarter of 2012, we entered into additional swap positions in the over-the-counter market that effectively prevented any further erosion in the value of our natural gas collar with sold put positions. The new swap positions added during the first quarter of 2012 were for the same volumes as (A) our full-year 2013 collar with sold put positions. The economics from the combination of these additional swap positions and our natural gas collar with sold put positions will result in an effective average fixed price of \$4.83 per MMBtu as long as natural gas spot prices for the respective time periods settle below the puts we sold on our collar with sold put positions. In the event natural gas spot prices settle above the ceilings on our associated collar with sold put positions, we would not recover the difference through the sale of our production as we would realize losses on both instruments discussed above.

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## NEWFIELD EXPLORATION COMPANY

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

(Unaudited)

## Crude Oil

Period and Type of Instrument	Volume in MBbls	NYMEX Contract Price Per Bbl				Estimated Fair Value Asset (Liability) (In millions)
		Swaps (Weighted Average)	Sold Puts (Weighted Average)	Floors (Weighted Average)	Ceilings (Weighted Average)	
2013:						
Fixed-price swaps	489	\$89.67	—	—	—	\$(3 )
Fixed-price swaps with sold puts	1,840	97.49	\$75.00	—	—	5
Collars with sold puts	4,815	—	80.00	\$95.00	\$115.20	15
2014:						
Fixed-price swaps	5,757	89.74	—	—	—	—
Fixed-price swaps with sold puts	4,745	95.00	75.00	—	—	16
Collars with sold puts	2,190	—	75.83	90.83	102.93	4
2015:						
Fixed-price swaps	6,567	90.39	—	—	—	30
Total						\$67

## Additional Disclosures about Derivative Instruments and Hedging Activities

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

	Derivative Assets				Derivative Liabilities			
	Gross Fair Value	Offset in Balance Sheet	Balance Sheet Location		Gross Fair Value	Offset in Balance Sheet	Balance Sheet Location	
	(In millions)		Current	Noncurrent	(In millions)		Current	Noncurrent
June 30, 2013								
Natural gas positions	\$62	\$(7 )	\$42	\$13	\$(10 )	\$7	\$(3 )	\$—
Oil positions	83	(13 )	23	47	(16 )	13	(3 )	—
Total	\$145	\$(20 )	\$65	\$60	\$(26 )	\$20	\$(6 )	\$—
December 31, 2012								
Natural gas positions	\$86	\$(5 )	\$79	\$2	\$(16 )	\$5	\$(4 )	\$(7 )
Oil positions	77	(16 )	46	15	(26 )	16	(2 )	(8 )
Total	\$163	\$(21 )	\$125	\$17	\$(42 )	\$21	\$(6 )	\$(15 )

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## NEWFIELD EXPLORATION COMPANY

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

(Unaudited)

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

	Three Months Ended		Six Months Ended	
	June 30, 2013	2012	June 30, 2013	2012
	(In millions)			
Derivatives not designated as hedging instruments:				
Realized gain (loss) on natural gas positions	\$5	\$54	\$32	\$98
Realized gain (loss) on oil positions	3	—	3	(7)
Realized gain (loss) on basis positions	—	(2)	—	(5)
Total realized gain (loss)	8	52	35	86
Unrealized gain (loss) on natural gas positions	70	(88)	(18)	(83)
Unrealized gain (loss) on oil positions	39	169	16	151
Unrealized gain (loss) on basis positions	—	2	—	5
Total unrealized gain (loss)	109	83	(2)	73
Total	\$117	\$135	\$33	\$159

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 June 30, 2013, eight of our 15 counterparties accounted for approximately 85% of our estimated future hedged production, with no single counterparty accounting for more than 17% of that production.

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:

	June 30, 2013	December 31, 2012
	(In millions)	
Revenue	\$293	\$291
Joint interest	173	154
Other	11	8
Reserve for doubtful accounts	(1)	(1)
Total accounts receivable	\$476	\$452



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## NEWFIELD EXPLORATION COMPANY

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

(Unaudited)

## 7. Accrued Liabilities:

Accrued liabilities consisted of the following:

	June 30, 2013	December 31, 2012
	(In millions)	
Revenue payable	\$124	\$95
Accrued capital costs	425	355
Accrued lease operating expenses	83	95
Employee incentive expense	26	50
Accrued interest on debt	43	43
Taxes payable	107	108
Other	41	55
Total accrued liabilities	\$849	\$801

## 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. 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 supported by observable levels at which transactions are executed in the marketplace. Instruments in this category include non-exchange traded derivatives such as over-the-counter commodity fixed-price swaps and certain investments.
- Level 2: Measured based on prices or valuation models that require inputs that are both significant to the fair value measurement and less observable from objective sources (i.e., supported by little or no market activity). 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, as well as other relevant economic measures. Our valuation methodology for investments is a discounted cash flow model that considers various inputs including: (a) the coupon rate specified under the debt instruments, (b) the current credit ratings of the underlying issuers, (c) collateral characteristics and (d) risk-adjusted discount rates. Level 3 instruments primarily include derivative instruments, such as commodity options (price collars and sold puts) and other financial investments. Although we utilize third-party broker quotes to assess the reasonableness of our prices and valuation techniques for derivative instruments, we do not have sufficient corroborating market evidence to support classifying these assets and liabilities as Level 2.



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 levels.

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## NEWFIELD EXPLORATION COMPANY

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

(Unaudited)

## Fair Value of Investments and Derivative Instruments

The following table summarizes the valuation of our financial assets (liabilities) of our continuing operations by measurement levels:

	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, 2012:				
Money market fund investments	\$22	\$—	\$—	\$22
Deferred compensation plan assets	6	—	—	6
Investments available-for-sale:				
Equity securities	7	—	—	7
Auction rate securities	—	—	36	36
Oil and gas derivative swap contracts	—	6	—	6
Oil and gas derivative option contracts	—	—	115	115
Total	\$35	\$6	\$151	\$192
As of June 30, 2013:				
Money market fund investments	\$1	\$—	\$—	\$1
Deferred compensation plan assets	7	—	—	7
Investments available-for-sale:				
Equity securities	8	—	—	8
Auction rate securities	—	—	39	39
Oil and gas derivative swap contracts	—	77	—	77
Oil and gas derivative option contracts	—	—	42	42
Total	\$16	\$77	\$81	\$174

The determination of the fair values above incorporates various factors, which include the impact of our non-performance risk on our liabilities, 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 June 30, 2013, we held \$39 million of auction rate securities maturing beginning in 2033 that are classified as a Level 3 fair value measurement. This amount reflects a decrease in the fair value of these investments since the time of purchase of \$6 million (\$4 million net of tax) recorded under the caption “Accumulated other comprehensive loss” on our consolidated balance sheet. As of December 31, 2012, we held \$36 million of auction rate securities, which reflected a decrease in the fair value of \$9 million (\$6 million net of tax) since the date of purchase. The debt instruments underlying our auction rate securities are mostly investment grade (rated BBB or better) and are guaranteed by the United States government or backed by private loan collateral. We do not believe the decrease in

the fair value of these securities is permanent because we currently intend to hold these investments until the auction succeeds, the issuer calls the securities or the securities mature. Our current available borrowing capacity under our credit arrangements provides us the liquidity to continue to hold these securities.

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## NEWFIELD EXPLORATION COMPANY

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

(Unaudited)

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 (In millions)	Derivatives	Total
Balance at January 1, 2012	\$32	\$71	\$103
Total realized or unrealized gains (losses):			
Included in earnings	—	157	157
Included in other comprehensive income (loss)	2	—	2
Purchases, issuances and settlements:			
Settlements	—	(43 )	(43 )
Transfers in and out of Level 3	—	—	—
Balance at June 30, 2012	\$34	\$185	\$219
Change in unrealized gains or losses included in earnings relating to investments and derivatives still held at June 30, 2012	\$—	\$141	\$141
Balance at January 1, 2013	\$36	\$115	\$151
Total realized or unrealized gains (losses):			
Included in earnings	—	(41 )	(41 )
Included in other comprehensive income (loss)	4	—	4
Purchases, issuances and settlements:			
Settlements	(1 )	(32 )	(33 )
Transfers in and out of Level 3	—	—	—
Balance at June 30, 2013	\$39	\$42	\$81
Change in unrealized gains or losses included in earnings relating to investments and derivatives still held at June 30, 2013	\$—	\$5	\$5

## 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 the hedge agreements, and the resulting estimated future cash inflows or outflows over the lives of the hedges are discounted to calculate the fair value of the derivative contracts. 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 changes in the fair value of our derivative contracts resulting from changes in counterparty credit risk as the counterparties for all of our hedging transactions have an “investment grade” credit rating.

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## NEWFIELD EXPLORATION COMPANY

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

(Unaudited)

Investments. We utilize a discounted cash flow model in the determination of the valuation of our auction rate securities classified as Level 3. This model considers various inputs including (a) the coupon rate specified under the debt instrument, (b) the current credit rating of the underlying issuers, (c) collateral characteristics and (d) risk-adjusted discount rates. The most significant unobservable factor in determining the fair value of these investments, is market liquidity. A significant change in the liquidity of the market for auction rate securities would lead to a corresponding change in the fair value measurement of these investments.

## 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	\$12	Option model	NYMEX oil price forward curve	\$88.22	—	\$96.56
			Oil price volatility curves	17.34	%	— 27.51 %
			Credit risk	0.01	%	— 1.33 %
Natural gas option contracts	\$30	Option model	NYMEX natural gas price forward curve	\$3.56	—	\$4.38
			Natural gas price volatility curves	19.52	%	— 35.09 %
			Credit risk	0.01	%	— 2.48 %

The underlying inputs in the determination of the valuation of our auction rate securities are developed by a third party and, therefore, not included in the quantitative analysis above.

## 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:

	June 30, 2013	December 31, 2012
	(In millions)	
5¾% Senior Notes due 2022	\$746	\$836
5 % Senior Notes due 2024	979	1,074
7 % Senior Subordinated Notes due 2018	624	630
6 % Senior Subordinated Notes due 2020	728	749

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## NEWFIELD EXPLORATION COMPANY

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

(Unaudited)

## 9. Debt:

As of the indicated dates, our debt consisted of the following:

	June 30, 2013	December 31, 2012
	(In millions)	
Senior unsecured debt:		
Revolving credit facility - LIBOR based loans	\$ 140	\$—
Money market lines of credit <sup>(1)</sup>	91	—
Total credit arrangements	231	—
5¾% Senior Notes due 2022	750	750
5 % Senior Notes due 2024	1,000	1,000
Total senior unsecured debt	1,981	1,750
7 % Senior Subordinated Notes due 2018	600	600
6 % Senior Subordinated Notes due 2020	700	700
Discount on notes	(5	) (5
Total long-term debt	\$3,276	\$3,045

(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.

## Credit Arrangements

In April 2013, we entered into the second amendment to the credit facility, which allows the sale of the Company's international subsidiaries pursuant to certain terms and conditions. In June 2013, we entered into the third amendment of our Credit Agreement. This amendment extended the maturity date of the revolving credit facility from June 2016 to June 2018 and increased the borrowing capacity from \$1.25 billion to \$1.4 billion. We incurred \$4 million of deferred financing costs related to this amendment. As of June 30, 2013, 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 June 30, 2013) 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 June 30, 2013).

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 June 30, 2013). We incurred aggregate commitment fees under our current credit facility of approximately \$0.7 million and \$1.7 million for the three and six months ended June 30, 2013, respectively, which are recorded in "Interest expense" on our consolidated statement of operations. For the three and six months ended June 30, 2012, we incurred commitment fees under our current credit facility of approximately \$0.6 million and \$1.6 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 June 30, 2013, we were in compliance with all of our debt covenants.

As of June 30, 2013, we had \$70 million of undrawn 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 June 30, 2013). Additionally, as of June 30, 2013, we had \$2 million of other undrawn letters of credit outstanding.



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NEWFIELD EXPLORATION COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

(Unaudited)

Subject to compliance with the restrictive covenants in our credit facility, at June 30, 2013, we also had a total of \$104 million of available borrowing capacity under our money market lines of credit with various financial institutions, the availability of which is at the discretion of the financial institutions.

The credit facility includes events of default relating to customary matters, including, among other things, nonpayment of principal, interest or other amounts; violation of covenants; inaccuracy of representations and warranties in any material respect; a change of control; or certain other material adverse changes in our business. Our senior notes and senior subordinated notes also contain standard events of default. If any of the foregoing defaults were to occur, our lenders under the credit facility could terminate future lending commitments, and our lenders under both the credit facility and our notes could declare the outstanding borrowings due and payable. In addition, our credit facility, senior notes, senior subordinated notes and substantially all of our hedging arrangements contain provisions that provide for cross defaults and acceleration of those debt and hedging instruments in certain situations.

## 10. Income Taxes:

The provision 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 June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
	(In millions)			
Amount computed using the statutory rate	\$60	\$35	\$46	\$57
Increase (decrease) in taxes resulting from:				
State and local income taxes, net of federal effect	5	2	3	3
Total provision (benefit) for income taxes	\$65	\$37	\$49	\$60

The effective tax rates for continuing operations for the three months ended June 30, 2013 and 2012 were 38.1% and 37.0%, respectively. The effective tax rates for the six months ended June 30, 2013 and 2012 were 37.9% and 37.1%, respectively.

As of June 30, 2013, we did not have a liability for uncertain tax positions, and as such, we had not accrued related interest or penalties. The tax years 2009 through 2012 remain open to examination for federal income tax purposes and by the other major taxing jurisdictions to which we are subject.

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## NEWFIELD EXPLORATION COMPANY

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

(Unaudited)

## 11. Stock-Based Compensation:

All stock-based compensation equity awards to employees and non-employee directors are currently granted under the 2011 Omnibus Stock Plan. The fair value of grants is determined utilizing the Black-Scholes option-pricing model for stock options and a lattice-based model for our performance and market-based restricted stock and restricted stock units. In both February 2011 and February 2013, we also granted cash-settled restricted stock units to a limited number of employees. These awards were not issued under any of our plans as they will be settled in cash upon vesting and are accounted for as liability awards.

As of the dates indicated, our stock-based compensation consisted of the following:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
	(In millions)			
Total stock-based compensation	\$12	\$12	\$24	\$24
Capitalized in oil and gas properties	(4	) (3	) (7	) (7
Net stock-based compensation expense	\$8	\$9	\$17	\$17

As of June 30, 2013, we had approximately \$102 million of total unrecognized stock-based compensation expense related to unvested stock-based compensation awards. This compensation expense is expected to be recognized on a straight-line basis over the applicable remaining vesting periods. The full amount is expected to be recognized within four years.

Stock Options. The following table provides information about stock option activity:

	Number of Shares Underlying Options (In thousands)	Weighted- Average Exercise Price per Share	Weighted- Average Grant Date Fair Value per Share	Weighted- Average Remaining Contractual Life (In years)	Aggregate Intrinsic Value <sup>(1)</sup> (In millions)
Outstanding at December 31, 2012	901	\$38.06		3.3	\$1
Granted	—	—	\$—		
Exercised	(39	) 17.85			1
Forfeited	(73	) 37.12			
Outstanding at June 30, 2013	789	\$39.15		3.0	\$—
Exercisable at June 30, 2013	789	\$39.15		3.0	\$—

<sup>(1)</sup> 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 June 30, 2013, the last reported sales price of our common stock on the New York Stock Exchange was \$23.89 per share.



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Restricted Stock. The following table provides information about restricted stock and restricted stock unit activity:  
Service-Based