PIONEER NATURAL RESOURCES CO
Form 10-Q
July 28, 2016
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

ý QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2016
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: 1-13245

PIONEER NATURAL RESOURCES COMPANY
(Exact name of Registrant as specified in its charter)

Delaware	75-2702753
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
5205 N. O'Connor Blvd., Suite 200, Irving, Texas	75039
(Address of principal executive offices)	(Zip Code)

(972) 444-9001
(Registrant's telephone number, including area code)
Not applicable
(Former name, former address and former fiscal year, if changed since last report)

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 ý 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 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
Yes ý 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.

Large accelerated filer ý	Accelerated filer ¨
Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company ¨

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

Number of shares of Common Stock outstanding as of July 25, 2016	169,607,877

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Cautionary Statement Concerning Forward-Looking Statements

The information in this Quarterly Report on Form 10-Q (this "Report") contains forward-looking statements that involve risks and uncertainties. When used in this document, the words "believes," "plans," "expects," "anticipates," "forecasts," "intends," "continue," "may," "will," "could," "should," "future," "potential," "estimate" or the negative of such terms and similar expressions as they relate to Pioneer Natural Resources Company ("Pioneer" or the "Company") are intended to identify forward-looking statements, which are generally not historical in nature. The forward-looking statements are based on the Company's current expectations, assumptions, estimates and projections about the Company and the industry in which the Company operates. Although the Company believes that the expectations and assumptions reflected in the forward-looking statements are reasonable as and when made, they involve risks and uncertainties that are difficult to predict and, in many cases, beyond the Company's control.

These risks and uncertainties include, among other things, volatility of commodity prices, product supply and demand, competition, the ability to obtain environmental and other permits and the timing thereof, other government regulation or action, the ability to obtain approvals from third parties and negotiate agreements with third parties on mutually acceptable terms, completion of planned acquisitions, litigation, the costs and results of drilling and operations, availability of equipment, services, resources and personnel required to perform the Company's drilling and operating activities, access to and availability of transportation, processing, fractionation and refining facilities, Pioneer's ability to replace reserves, implement its business plans or complete its development activities as scheduled, access to and cost of capital, the financial strength of counterparties to Pioneer's credit facility, investment instruments, derivative contracts and the purchasers of Pioneer's oil, NGL and gas production, uncertainties about estimates of reserves, identification of drilling locations and the ability to add proved reserves in the future, the assumptions underlying production forecasts, quality of technical data, environmental and weather risks, including the possible impacts of climate change, the risks associated with the ownership and operation of the Company's industrial sand mining and oilfield services businesses, and acts of war or terrorism. These and other risks are described in the Company's Annual Report on Form 10-K, this and other Quarterly Reports on Form 10-Q and other filings with the United States Securities and Exchange Commission. In addition, the Company may be subject to currently unforeseen risks that may have a materially adverse effect on it. Accordingly, no assurances can be given that the actual events and results will not be materially different than the anticipated results described in the forward-looking statements. See "Part I, Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations," "Part 1, Item 3. Quantitative and Qualitative Disclosures About Market Risk" and "Part II, Item 1A. Risk Factors" in this Report and "Part I, Item 1. Business — Competition, Markets and Regulations," "Part I, Item 1A. Risk Factors," "Part II, Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Part II, Item 7A. Quantitative and Qualitative Disclosures About Market Risk" in the Company's Annual Report on Form 10-K for the year ended December 31, 2015 for a description of various factors that could materially affect the ability of Pioneer to achieve the anticipated results described in the forward-looking statements. Readers are cautioned not to place undue reliance on forward-looking statements, which speak only as of the date hereof. The Company undertakes no duty to publicly update these statements except as required by law.

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Definitions of Certain Terms and Conventions Used Herein

Within this Report, the following terms and conventions have specific meanings:

- "Bbl" means a standard barrel containing 42 United States gallons.
- "BOE" means a barrel of oil equivalent and is a standard convention used to express oil and gas volumes on a comparable oil equivalent basis. Gas equivalents are determined under the relative energy content method by using the ratio of six thousand cubic feet of gas to one Bbl of oil or natural gas liquid.
- "BOEPD" means BOE per day.
- "Btu" means British thermal unit, which is a measure of the amount of energy required to raise the temperature of one pound of water one degree Fahrenheit.
- "Conway" means the daily average natural gas liquids components as priced in Oil Price Information Service ("OPIS") in the table "U.S. and Canada LP – Gas Weekly Averages" at Conway, Kansas.
- "DD&A" means depletion, depreciation and amortization.
- "GAAP" means accounting principles that are generally accepted in the United States of America.
- "LIBOR" means London Interbank Offered Rate, which is a market rate of interest.
- "Mcf" means one thousand cubic feet and is a measure of gas volume.
- "MMBtu" means one million Btus.
- "Mont Belvieu" means the daily average natural gas liquids components as priced in OPIS in the table "U.S. and Canada LP – Gas Weekly Averages" at Mont Belvieu, Texas.
- "NGL" means natural gas liquid.
- "NYMEX" means the New York Mercantile Exchange.
- "Pioneer" or the "Company" means Pioneer Natural Resources Company and its subsidiaries.
- "Proved reserves" mean the quantities of oil and gas, which, by analysis of geoscience and engineering data, can be estimated with reasonable certainty to be economically producible – from a given date forward, from known reservoirs, and under existing economic conditions, operating methods, and government regulations – prior to the time at which contracts providing the right to operate expire, unless evidence indicates that renewal is reasonably certain, regardless of whether deterministic or probabilistic methods are used for the estimation. The project to extract the hydrocarbons must have commenced or the operator must be reasonably certain that it will commence the project within a reasonable time.

(i) The area of the reservoir considered as proved includes: (A) The area identified by drilling and limited by fluid contacts, if any, and (B) Adjacent undrilled portions of the reservoir that can, with reasonable certainty, be judged to be continuous with it and to contain economically producible oil or gas on the basis of available geoscience and engineering data.

(ii) In the absence of data on fluid contacts, proved quantities in a reservoir are limited by the lowest known hydrocarbons ("LKH") as seen in a well penetration unless geoscience, engineering, or performance data and reliable technology establishes a lower contact with reasonable certainty.

(iii) Where direct observation from well penetrations has defined a highest known oil ("HKO") elevation and the potential exists for an associated gas cap, proved oil reserves may be assigned in the structurally higher portions of the reservoir only if geoscience, engineering, or performance data and reliable technology establish the higher contact with reasonable certainty.

(iv) Reserves which can be produced economically through application of improved recovery techniques (including, but not limited to, fluid injection) are included in the proved classification when: (A) Successful testing by a pilot project in an area of the reservoir with properties no more favorable than in the reservoir as a whole, the operation of an installed program in the reservoir or an analogous reservoir, or other evidence using reliable technology establishes the reasonable certainty of the engineering analysis on which the project or program was based; and (B) The project has been approved for development by all necessary parties and entities, including governmental entities.

(v) Existing economic conditions include prices and costs at which economic producibility from a reservoir is to be determined. The price shall be the average during the 12-month period prior to the ending date of the period covered by the report, determined as an unweighted arithmetic average of the first-day-of-the-month price for each month within such period, unless prices are defined by contractual arrangements, excluding escalations based upon future conditions.

- "U.S." means United States.
- With respect to information on the working interest in wells, drilling locations and acreage, "net" wells, drilling locations and acres are determined by multiplying "gross" wells, drilling locations and acres by the Company's working interest in such wells, drilling locations or acres. Unless otherwise specified, wells, drilling locations and acreage statistics quoted herein represent gross wells, drilling locations or acres.
- Unless otherwise indicated, all currency amounts are expressed in U.S. dollars.

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PART I. FINANCIAL INFORMATION
Item 1. Financial Statements
PIONEER NATURAL RESOURCES COMPANY
CONSOLIDATED BALANCE SHEETS
(in millions)

	June 30, 2016 (Unaudited)	December 31, 2015
ASSETS		
Current assets:		
Cash and cash equivalents	$ 1,825	$ 1,391
Short-term investments	1,473	—
Accounts receivable:		
Trade, net	434	384
Due from affiliates	—	1
Income taxes receivable	4	43
Inventories	165	155
Prepaid expenses	18	17
Notes receivable	501	498
Derivatives	273	694
Other	6	11
Total current assets	4,699	3,194
Property, plant and equipment, at cost:		
Oil and gas properties, using the successful efforts method of accounting:		
Proved properties	17,546	16,631
Unproved properties	137	169
Accumulated depletion, depreciation and amortization	(7,491)	(6,778)
Total property, plant and equipment	10,192	10,022
Long-term investments	23	—
Goodwill	272	272
Other property and equipment, net	1,525	1,523
Derivatives	12	64
Other, net	85	79
	$ 16,808	$ 15,154

The financial information included as of June 30, 2016 has been prepared by management without audit by independent registered public accountants.
The accompanying notes are an integral part of these consolidated financial statements.

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PIONEER NATURAL RESOURCES COMPANY
CONSOLIDATED BALANCE SHEETS (continued)
(in millions, except share data)

	June 30, 2016 (Unaudited)	December 31, 2015
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable:		
Trade	$ 674	$ 798
Due to affiliates	67	85
Interest payable	84	65
Income taxes payable	—	2
Current portion of long-term debt	939	448
Derivatives	8	—
Other	59	64
Total current liabilities	1,831	1,462
Long-term debt	2,725	3,207
Derivatives	43	1
Deferred income taxes	1,494	1,776
Other liabilities	329	333
Equity:		
Common stock, $.01 par value; 500,000,000 shares authorized; 173,187,409 and 152,775,920 shares issued as of June 30, 2016 and December 31, 2015, respectively	2	2
Additional paid-in capital	8,843	6,267
Treasury stock at cost: 3,585,628 and 3,396,220 shares as of June 30, 2016 and December 31, 2015, respectively	(222)	(199)
Retained earnings	1,756	2,298
Total equity attributable to common stockholders	10,379	8,368
Noncontrolling interests in consolidated subsidiaries	7	7
Total equity	10,386	8,375
Commitments and contingencies		
	$ 16,808	$ 15,154

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PIONEER NATURAL RESOURCES COMPANY
CONSOLIDATED STATEMENTS OF OPERATIONS
(in millions, except per share data)
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Revenues and other income:				
Oil and gas	$613	$596	$1,022	$1,113
Sales of purchased oil and gas	395	236	618	339
Interest and other	6	7	13	14
Derivative gains (losses), net	(229)	(197)	(186)	44
Gain on disposition of assets, net	1	2	3	3
	786	644	1,470	1,513
Costs and expenses:				
Oil and gas production	141	163	297	343
Production and ad valorem taxes	36	37	65	76
Depletion, depreciation and amortization	384	329	737	639
Purchased oil and gas	410	237	653	345
Impairment of oil and gas properties	—	—	32	138
Exploration and abandonments	18	28	77	54
General and administrative	80	83	154	165
Accretion of discount on asset retirement obligations	5	3	9	6
Interest	56	46	111	92
Other	67	58	154	107
	1,197	984	2,289	1,965
Loss from continuing operations before income taxes	(411)	(340)	(819)	(452)
Income tax benefit	143	123	284	160
Loss from continuing operations	(268)	(217)	(535)	(292)
Loss from discontinued operations, net of tax	—	(1)	—	(4)
Net loss attributable to common stockholders	$(268)	$(218)	$(535)	$(296)
Basic and diluted earnings per share attributable to common stockholders:				
Loss from continuing operations	$(1.63)	$(1.45)	$(3.28)	$(1.95)
Loss from discontinued operations	—	(0.01)	—	(0.03)
Net loss	$(1.63)	$(1.46)	$(3.28)	$(1.98)
Basic and diluted weighted average shares outstanding	164	149	163	149
Dividends declared per share	$—	$—	$0.04	$0.04

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PIONEER NATURAL RESOURCES COMPANY
CONSOLIDATED STATEMENT OF EQUITY
(in millions, except share data and dividends per share)
(Unaudited)

	Equity Attributable To Common Stockholders						
	Shares Outstanding	Common Stock	Additional Paid-in Capital	Treasury Stock	Retained Earnings	Noncontrolling Interests	Total Equity
	(in thousands)						
Balance as of December 31, 2015	149,380	$2	$ 6,267	$ (199)	$ 2,298	$ 7	$ 8,375
Issuance of common stock	19,838	—	2,534	—	—	—	2,534
Dividends declared ($0.04 per share)	—	—	—	—	(7)	—	(7)
Purchases of treasury stock	(189)	—	—	(23)	—	—	(23)
Tax provision related to stock-based compensation	—	—	(2)	—	—	—	(2)
Compensation costs:							
Vested compensation awards, net	573	—	—	—	—	—	—
Compensation costs included in net loss	—	—	44	—	—	—	44
Net loss	—	—	—	—	(535)	—	(535)
Balance as of June 30, 2016	169,602	$2	$ 8,843	$ (222)	$ 1,756	$ 7	$ 10,386

The financial information included herein has been prepared by management
without audit by independent registered public accountants.
The accompanying notes are an integral part of these consolidated financial statements.

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PIONEER NATURAL RESOURCES COMPANY
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in millions)
(Unaudited)

	Six Months Ended June 30, 2016	Six Months Ended June 30, 2015
Cash flows from operating activities:		
Net loss	$(535)	$(296)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depletion, depreciation and amortization	737	639
Impairment of oil and gas properties	32	138
Impairment of inventory and other property and equipment	5	9
Exploration expenses, including dry holes	40	15
Deferred income taxes	(284)	(161)
Gain on disposition of assets, net	(3)	(3)
Accretion of discount on asset retirement obligations	9	6
Discontinued operations	—	(3)
Interest expense	9	9
Derivative related activity	535	312
Amortization of stock-based compensation	44	47
Other	36	(6)
Change in operating assets and liabilities:		
Accounts receivable, net	(51)	49
Income taxes receivable	39	1
Inventories	(12)	(44)
Prepaid expenses	(1)	(1)
Derivatives	(12)	—
Other current assets	1	(8)
Accounts payable	(60)	(275)
Interest payable	20	22
Income taxes payable	(2)	(1)
Other current liabilities	(26)	(17)
Net cash provided by operating activities	521	432
Cash flows from investing activities:		
Proceeds from disposition of assets, net of cash sold	2	7
Proceeds from investment securities	1	—
Purchase of investment securities	(1,495)	—
Additions to oil and gas properties	(971)	(1,083)
Additions to other assets and other property and equipment, net	(126)	(130)
Net cash used in investing activities	(2,589)	(1,206)
Cash flows from financing activities:		
Proceeds from issuance of common stock, net of issuance costs	2,534	—
Distributions to noncontrolling interests	—	(1)
Purchases of treasury stock	(23)	(31)
Tax (provision) benefits related to stock-based compensation	(2)	6
Dividends paid	(7)	(6)
Net cash provided by (used in) financing activities	2,502	(32)

Net increase (decrease) in cash and cash equivalents	434	(806)
Cash and cash equivalents, beginning of period	1,391	1,025
Cash and cash equivalents, end of period	$1,825	$219

The financial information included herein has been prepared by management
without audit by independent registered public accountants.

The accompanying notes are an integral part of these consolidated financial statements.

PIONEER NATURAL RESOURCES COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2016
(Unaudited)

NOTE A. Organization and Nature of Operations

Pioneer Natural Resources Company ("Pioneer" or the "Company") is a Delaware corporation whose common stock is listed and traded on the New York Stock Exchange. The Company is a large independent oil and gas exploration and production company operating in the United States, with operations primarily in the Permian Basin in West Texas, the Eagle Ford Shale play in South Texas, the Raton field in southeast Colorado and the West Panhandle field in the Texas Panhandle.

NOTE B. Basis of Presentation

Presentation. In the opinion of management, the consolidated financial statements of the Company as of June 30, 2016 and for the three and six months ended June 30, 2016 and 2015 include all adjustments and accruals, consisting only of normal, recurring accrual adjustments, which are necessary for a fair presentation of the results for the interim periods. These interim results are not necessarily indicative of results for a full year.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles in the United States ("GAAP") have been condensed in or omitted from this report pursuant to the rules and regulations of the United States Securities and Exchange Commission (the "SEC"). These consolidated financial statements should be read together with the consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2015.

Certain reclassifications have been made to the 2015 financial statement and footnote amounts in order to conform to the 2016 presentation.

Restructuring. In February 2016, the Company announced plans to restructure its pressure pumping operations in South Texas, including relocating its two Eagle Ford Shale pressure pumping fleets to the Spraberry/Wolfcamp area. In connection therewith, the Company offered severance to certain employees and relocated a number of other employees from its South Texas locations to its operations in the Permian Basin. This initiative was substantially complete as of June 30, 2016.

In connection therewith, during the three and six months ended June 30, 2016, the Company recognized $1 million and $4 million, respectively, of restructuring charges in other expense in the accompanying consolidated statements of operations. The restructuring charges for the six months ended June 30, 2016 included approximately $3 million in cash employee severance costs and $1 million in employee relocation and other costs.

In May 2015, the Company announced plans to restructure its operations in Colorado, including closing its office in Denver, Colorado and eliminating its Trinidad-based pressure pumping operations. The restructuring plan was substantially complete as of December 31, 2015. In connection therewith, during the three and six months ended June 30, 2015, the Company recognized $15 million of restructuring charges in other expense in the accompanying consolidated statements of operations.

As of June 30, 2016, the Company had $3 million of restructuring liabilities recorded in other current and noncurrent liabilities in the accompanying consolidated balance sheet, primarily related to future lease obligations associated with its Denver, Colorado office.

Issuance of common stock. In the second quarter of 2016, the Company issued 6.0 million shares of common stock and received cash proceeds of $937 million, net of associated underwriting and offering expenses. In the first quarter of 2016, the Company issued 13.8 million shares of common stock and received cash proceeds of $1.6 billion, net of associated underwriting and offering expenses.

New accounting pronouncements. In June 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-13, "Financial Instruments - Credit Losses." ASU 2016-13 changes the impairment model for most financial assets and certain other instruments, including trade and other receivables, held-to-maturity debt securities and loans, and requires entities to use a new forward-looking expected loss model that will result in the earlier recognition of allowance for losses. This update is effective for fiscal years beginning after

December 15, 2019, including interim periods within those fiscal years. Early adoption is permitted for a fiscal year beginning after December 15, 2018, including interim periods within that fiscal year. Entities will apply the standard's provisions as a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in which the guidance is adopted. The Company is evaluating the new guidance and does not believe this standard will have a material impact on its consolidated financial statements.

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In March 2016, the FASB issued ASU 2016-09, "Improvements to Employee Share-Based Payment Accounting." ASU 2016-09 simplifies several aspects of the accounting for share-based payment transactions, including accounting for income taxes, forfeitures and statutory tax withholding requirements, as well as certain classification changes in the statement of cash flows. This update is effective for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years. Early adoption is permitted. The Company is evaluating the new guidance and has not determined the impact this standard may have on its consolidated financial statements.

In February 2016, FASB issued ASU 2016-02, "Leases." ASU 2016-02 requires the recognition of lease assets and lease liabilities by lessees for those leases currently classified as operating leases and makes certain changes to the way lease expenses are accounted for. This update is effective for fiscal years beginning after December 15, 2018 and for interim periods beginning the following year. This update should be applied using a modified retrospective approach, and early adoption is permitted. The Company is evaluating the new guidance and has not determined the impact this standard may have on its consolidated financial statements.

In January 2016, the FASB issued ASU 2016-01, "Recognition and Measurement of Financial Assets and Financial Liabilities." ASU 2016-01 changes certain guidance related to the recognition, measurement, presentation and disclosure of financial instruments. This update is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. Early adoption is not permitted for the majority of the update, but is permitted for two of its provisions. The Company is evaluating the new guidance and has not determined the impact this standard may have on its consolidated financial statements.

In May 2014, the FASB issued ASU 2014-09, "Revenue from Contracts with Customers (Topic 606)," which supersedes the revenue recognition requirements in Accounting Standards Codification ("ASC") Topic 605, "Revenue Recognition," and most industry-specific guidance. ASU 2014-09 is based on the principle that revenue is recognized to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. ASU 2014-09 also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts. In August 2015, the FASB issued ASU 2015-14, which defers the effective date of ASU 2014-09 for one year to fiscal years beginning after December 15, 2017. Early adoption is permitted for fiscal years beginning after December 15, 2016. In May 2016, the FASB issued ASU 2016-11, which rescinds guidance from the SEC on accounting for gas balancing arrangements and will eliminate the use of the entitlements method. Entities have the option of using either a full retrospective or modified approach to adopt the new standards. The Company is evaluating the new guidance and has not determined the impact this standard may have on its consolidated financial statements or decided upon its method of adoption.

NOTE C. Divestitures

EFS Midstream. In July 2015, the Company closed on the sale of its 50.1 percent equity interest in EFS Midstream LLC ("EFS Midstream") to an unaffiliated third party, with the Company receiving total consideration of $1.0 billion, of which $530 million was received in cash at closing and the remaining $501 million was in the form of a note, which was payable to the Company one year from closing. The note receivable was paid in full in July 2016. See Note O for additional information on the payment of the note receivable.

NOTE D. Fair Value Measurements

Fair value is defined as the price that would be received to sell an asset or the price paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements are based upon inputs that market participants use in pricing an asset or liability, which are characterized according to a hierarchy that prioritizes those inputs based on the degree to which they are observable. Observable inputs represent market data obtained from independent sources, whereas unobservable inputs reflect a company's own market assumptions, which are used if observable inputs are not reasonably available without undue cost and effort. The three input levels of the fair value hierarchy are as follows:

- Level 1 – quoted prices for identical assets or liabilities in active markets.
- Level 2 – quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability (e.g., interest rates) and inputs derived principally from or corroborated by observable market data by correlation or other means.
- Level 3 – unobservable inputs for the asset or liability.

Assets and liabilities measured at fair value on a recurring basis. The fair value input hierarchy level to which an asset or liability measurement in its entirety falls is determined based on the lowest level input that is significant to the measurement in its entirety.

The following table presents the Company's assets and liabilities that are measured at fair value on a recurring basis as of June 30, 2016 for each of the fair value hierarchy levels:

	Fair Value Measurement at June 30, 2016 Using			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Fair Value at June 30, 2016
	(in millions)			
Assets:				
Commodity derivatives	$—	$ 285	$ —	$ 285
Deferred compensation plan assets	78	—	—	78
Total assets	78	285	—	363
Liabilities:				
Commodity derivatives	—	42	—	42
Interest rate derivatives	—	9	—	9
Total liabilities	—	51	—	51
Total recurring fair value measurements	$78	$ 234	$ —	$ 312

Commodity derivatives. The Company's commodity derivatives represent oil, natural gas liquids ("NGL") and gas swap contracts, collar contracts and collar contracts with short puts. The asset and liability measurements for the Company's commodity derivative contracts represent Level 2 inputs in the hierarchy. The Company utilizes discounted cash flow and option-pricing models for valuing its commodity derivatives.

The asset and liability values attributable to the Company's commodity derivatives were determined based on inputs that include (i) the contracted notional volumes, (ii) independent active market price quotes, (iii) the applicable estimated credit-adjusted risk-free rate yield curve and (iv) the implied rate of volatility inherent in the collar contracts and collar contracts with short puts, which is based on active and independent market-quoted volatility factors.

Deferred compensation plan assets. The Company's deferred compensation plan assets represent investments in equity and mutual fund securities that are actively traded on major exchanges. These investments are measured based on observable prices on major exchanges. As of June 30, 2016, the significant inputs to these asset values represented Level 1 independent active exchange market price inputs.

Interest rate derivatives. The Company's interest rate derivative liabilities represent interest rate swap contracts. The Company utilizes discounted cash flow models for valuing its interest rate derivatives. The derivative values attributable to the Company's interest rate derivative contracts are based on (i) the contracted notional amounts, (ii) forward active market-quoted London Interbank Offered Rate ("LIBOR") and (iii) the applicable credit-adjusted risk-free rate yield curve. The Company's interest rate derivative fair value measurements represent Level 2 inputs in the hierarchy.

Assets and liabilities measured at fair value on a nonrecurring basis. Certain assets and liabilities are measured at fair value on a nonrecurring basis. These assets and liabilities are not measured at fair value on an ongoing basis, but are subject to fair value adjustments in certain circumstances. These assets and liabilities can include inventory, proved and unproved oil and gas properties and other long-lived assets that are written down to fair value when they are impaired or held for sale. The Company recognized noncash impairment charges of $5 million and $9 million for the the six months ended June 30, 2016 and 2015, respectively, attributable to inventory and other property and equipment.

Proved oil and gas properties. As a result of the Company's proved property impairment assessments, the Company recognized pretax, noncash impairment charges to reduce the carrying values of (i) the West Panhandle field during the three months ended March 31, 2016 and (ii) the Eagle Ford Shale field, the West Panhandle field and the South Texas - Other field during the year ended December 31, 2015 to their estimated fair values.

The Company calculated the fair values of the West Panhandle field, the Eagle Ford Shale field and the South Texas - Other field using a discounted future cash flow model. Significant Level 3 assumptions associated with the calculations included management's longer-term commodity price outlooks ("Management's Price Outlooks") and management's outlooks for (i) production costs, (ii) capital expenditures, (iii) production and (iv) estimated proved reserves and risk-adjusted probable reserves. Management's Price Outlooks are developed based on third-party longer-term commodity futures price outlooks as of each measurement date. The expected future net cash flows were discounted using an annual rate of 10 percent to determine estimated fair value.

The following table presents the fair value and fair value adjustments (in millions) for the Company's 2016 and 2015 proved property impairments, as well as the average oil price per barrel ("Bbl") and gas price per British thermal unit ("MMBtu") utilized in respective Management's Price Outlooks:

				Management's Price Outlooks	
	Impairment Date	Fair Value	Fair Value Adjustment	Oil	Gas
West Panhandle	March 2016	$ 33	$ (32)	$49.77	$3.24
South Texas - Eagle Ford Shale	December 2015	$ 483	$ (846)	$52.82	$3.34
South Texas - Other	September 2015	$ 88	$ (72)	$57.41	$3.46
West Panhandle	March 2015	$ 61	$ (138)	$65.02	$3.83

It is reasonably possible that the estimate of undiscounted future net cash flows attributable to these or other properties may change in the future resulting in the need to impair their carrying values. The primary factors that may affect estimates of future cash flows are (i) future adjustments, both positive and negative, to proved and risk-adjusted probable and possible oil and gas reserves, (ii) results of future drilling activities, (iii) Management's Price Outlooks and (iv) increases or decreases in production and capital costs associated with these reserves.

Unproved oil and gas properties. During March 2016, the Company recorded an impairment charge of $32 million to write-off the carrying value of its unproved royalty acreage in Alaska (reported in exploration and abandonments in the accompanying consolidated statements of operations) as a result of the operator curtailing operations in the area and Management's Price Outlooks.

Financial instruments not carried at fair value. Carrying values and fair values of financial instruments that are not carried at fair value in the accompanying consolidated balance sheets as of June 30, 2016 and December 31, 2015 are as follows:

	June 30, 2016		December 31, 2015	
	Carrying Value	Fair Value	Carrying Value	Fair Value
	(in millions)			
Commercial paper, corporate bonds and time deposits	$1,521	$1,521	$275	$275
Current portion of long-term debt	$939	$959	$448	$462

Long-term debt	$2,725	$2,999	$3,207	$3,206

Commercial paper, corporate bonds and time deposits. Periodically, the Company invests in commercial paper and corporate bonds with investment grade rated entities. The Company also periodically enters into time deposits with financial institutions. The investments are carried at amortized cost, which approximates fair value, and classified as held-to-maturity as the Company has the intent and ability to hold them until they mature. The net carrying value of held-to-maturity investments is adjusted for amortization of premiums and accretion of discounts to maturity over the life of the investments. Income related to these investments is recorded in interest and other income in the Company's consolidated statement of operations. The investments represent Level 2 inputs in the hierarchy. Commercial paper, corporate bonds and time deposits are included in cash and cash equivalents, short-

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term investments or long-term investments in the accompanying consolidated balance sheets based on their maturity dates. The following table provides the components of the Company's cash and cash equivalents and investments as of June 30, 2016:

	June 30, 2016				
Consolidated Balance Sheet Location	Cash	Commercial Paper	Corporate Bonds	Time Deposits	Total
	(in millions)				
Cash and cash equivalents	$1,800	$ 25	$ —	$ —	$1,825
Short-term investments	—	867	225	381	1,473
Long-term investments	—	—	23	—	23
	$1,800	$ 892	$ 248	$ 381	$3,321

Debt obligations. Current and noncurrent long-term debt includes the Company's credit facility and the Company's senior notes. The fair value of the Company's debt obligations is determined utilizing inputs that are Level 2 measurements in the fair value hierarchy. The fair value of the Company's credit facility is calculated using a discounted cash flow model based on (i) forecasted contractual interest and fee payments, (ii) forward active market-quoted United States Treasury Bill rates and (iii) the applicable credit-adjustments. The Company's senior notes represent debt securities that are not actively traded on major exchanges. The fair values of the Company's senior notes are based on their periodic values as quoted on the major exchanges.

The Company has other financial instruments consisting primarily of accounts receivables, prepaid expenses, notes receivable, payables and other current assets and liabilities that approximate fair value due to the nature of the instrument and their relatively short maturities. Non-financial assets and liabilities initially measured at fair value include assets acquired and liabilities assumed in a business combination, goodwill and asset retirement obligations.

NOTE E. Derivative Financial Instruments

The Company utilizes commodity swap contracts, collar contracts and collar contracts with short puts to (i) reduce the effect of price volatility on the commodities the Company produces and sells or consumes, (ii) support the Company's annual capital budgeting and expenditure plans and (iii) reduce commodity price risk associated with certain capital projects. The Company also, from time to time, utilizes interest rate contracts to reduce the effect of interest rate volatility on the Company's indebtedness.

Periodically, the Company may pay a premium to enter into commodity contracts. Premiums paid, if any, have been nominal in relation to the value of the underlying asset in the contract. The Company recognizes the nominal premium payments as an increase to the value of derivative assets when paid. All derivatives are adjusted to fair value as of each balance sheet date.

Oil production derivative activities. All material physical sales contracts governing the Company's oil production are tied directly to, or are highly correlated with, New York Mercantile Exchange ("NYMEX") West Texas Intermediate ("WTI") oil prices. The Company uses derivative contracts to manage oil price volatility and basis swap contracts to reduce basis risk between NYMEX prices and the actual index prices at which the oil is sold.

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The following table sets forth the volumes per day associated with the Company's outstanding oil derivative contracts as of June 30, 2016 and the weighted average oil prices for those contracts:

	2016		Year Ending December 31,
	Third Quarter	Fourth Quarter	2017
Collar contracts:			
Volume (Bbl)	—	—	6,000
Price per Bbl:			
Ceiling	$—	$—	$ 70.40
Floor	$—	$—	$ 50.00
Collar contracts with short puts:			
Volume (Bbl) (a)	112,000	112,000	75,000
Price per Bbl:			
Ceiling	$75.94	$75.94	$ 61.72
Floor	$65.41	$65.41	$ 49.62
Short put	$47.03	$47.03	$ 41.41

(a) During June 2016, the Company paid $12 million to convert 15,000 Bbls per day of 2017 collar contracts with short puts into new 2017 collar contracts with short puts with a ceiling price of $60.00 per Bbl, a floor price of $45.00 per Bbl and a short put price of $40.00 per Bbl. During the period from July 1, 2016 through July 26, 2016, the Company paid $7 million to convert 8,000 Bbls per day of additional 2017 collar contracts with short puts into new 2017 collar contracts with short puts with a weighted average ceiling price of $60.75 per Bbl, a floor price of $45.00 per Bbl and a short put price of $40.00 per Bbl.

NGL production derivative activities. All material physical sales contracts governing the Company's NGL production are tied directly or indirectly to either Mont Belvieu or Conway NGL component product prices. The Company uses derivative contracts to manage the NGL component price volatility.

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The following table sets forth the volumes per day associated with the Company's outstanding NGL derivative contracts as of June 30, 2016 and the weighted average NGL prices for those contracts:

	2016		Year Ending December 31,
	Third Quarter	Fourth Quarter	2017
Propane swap contracts (a):			
Volume (Bbl) (b)	7,500	7,500	—
Price per Bbl	$21.57	$21.57	$ —
Ethane collar contracts (c):			
Volume (Bbl)	—	—	3,000
Price per Bbl:			
Ceiling	$—	$—	$ 11.83
Floor	$—	$—	$ 8.68
Ethane basis swap contracts (d):			
Volume (MMBtu)	2,768	2,768	—
Price differential ($/MMBtu)	$0.91	$0.91	$ —

(a) Represent derivative contracts that reduce the price volatility of propane forecasted for sale by the Company at Mont Belvieu, Texas and Conway, Kansas-posted prices.
(b) During the period from July 1, 2016 through July 26, 2016, the Company terminated propane swap contracts for 1,500 Bbls per day of September through December 2016 production for proceeds of $167 thousand.
(c) Represent collar contracts that reduce the price volatility of ethane forecasted for sale by the Company at Mont Belvieu, Texas-posted prices.
(d) Represent basis swap contracts that reduce the price volatility of ethane forecasted for sale by the Company at Mont Belvieu, Texas-posted prices. The basis swaps fix the basis differential on a NYMEX Henry Hub ("HH") MMBtu equivalent basis. The Company will receive the HH price plus the price differential on 2,768 MMBtu per day, which is equivalent to 1,000 Bbls per day of ethane.

Gas production derivative activities. All material physical sales contracts governing the Company's gas production are tied directly or indirectly to HH gas prices or regional index prices where the gas is sold. The Company uses derivative contracts to manage gas price volatility and basis swap contracts to reduce basis risk between HH prices and the actual index prices at which the gas is sold.

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The following table sets forth the volumes per day associated with the Company's outstanding gas derivative contracts as of June 30, 2016 and the weighted average gas prices for those contracts:

	2016		Year Ending December 31,	
	Third Quarter	Fourth Quarter	2017	2018
Swap contracts:				
Volume (MMBtu)	70,000	70,000	—	—
Price per MMBtu	$4.06	$4.06	$—	$—
Collar contracts with short puts:				
Volume (MMBtu) (a)	180,000	180,000	80,000	50,000
Price per MMBtu:				
Ceiling	$4.01	$4.01	$3.15	$3.40
Floor	$3.24	$3.24	$2.75	$2.75
Short put	$2.78	$2.78	$2.35	$2.25
Basis swap contracts:				
Gulf Coast index swap volume (b)	10,000	10,000	—	—
Price differential ($/MMBtu)	$—	$—	$—	$—
Mid-Continent index swap volume (b)	15,000	15,000	45,000	—
Price differential ($/MMBtu)	$(0.32)	$(0.32)	$(0.32)	$—
Permian Basin index swap volume (c)	—	34,946	9,863	—
Price differential ($/MMBtu)	$—	$0.41	$0.37	$—

(a) During the period from July 1, 2016 through July 26, 2016, the Company entered into additional gas collar contracts with short puts for 50,000 MMBtu per day of 2017 production with a ceiling price of $3.76 per MMBtu, a floor price of $3.00 per MMBtu and a short put price of