SOUTHWESTERN ENERGY CO
Form 10-Q
October 20, 2016
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-Q

(Mark One)
[X] Quarterly Report pursuant to Section 13 or 15(d) of the Securities

Exchange Act of 1934

For the quarterly period ended September 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: 001-08246
Southwestern Energy Company
(Exact name of registrant as specified in its charter)

Delaware	71-0205415
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

10000 Energy Drive

Spring, Texas	77389
(Address of principal executive offices)	(Zip Code)

(832) 796-1000
(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 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 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 Accelerated filer Non-accelerated filer 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
Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date:

Class	Outstanding as of October 18, 2016
Common Stock, Par Value $0.01	495,453,279

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SOUTHWESTERN ENERGY COMPANY

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FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2016

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CAUTIONARY STATEMENT ABOUT FORWARD-LOOKING STATEMENTS

All statements, other than historical fact or present financial information, may be deemed to be forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). All statements that address activities, outcomes and other matters that should or may occur in the future, including, without limitation, statements regarding the financial position, business strategy, production and reserve growth and other plans and objectives for our future

operations, are forward-looking statements. Although we believe the expectations expressed in such forward-looking statements are based on reasonable assumptions, such statements are not guarantees of future performance. We have no obligation and make no undertaking to publicly update or revise any forward-looking statements, except as may be required by law.

Forward-looking statements include the items identified in the preceding paragraph, information concerning possible or assumed future results of operations and other statements in this Quarterly Report on Form 10-Q identified by words such as “anticipate,” “intend,” “plan,” “project,” “estimate,” “continue,” “potential,” “should,” “could,” “may,” “will,” “
“guidance,” “outlook,” “effort,” “expect,” “believe,” “predict,” “budget,” “projection,” “goal,” “forecast,” “target” or similar w

You should not place undue reliance on forward-looking statements. They are subject to known and unknown risks, uncertainties and other factors that may affect our operations, markets, products, services and prices and cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. In addition to any assumptions and other factors referred to specifically in connection with forward-looking statements, risks, uncertainties and factors that could cause our actual results to differ materially from those indicated in any forward-looking statement include, but are not limited to:

- the timing and extent of changes in market conditions and prices for natural gas, oil and natural gas liquids (“NGLs”) (including regional basis differentials);
- our ability to fund our planned capital investments;
- a change in our credit rating;
- the extent to which lower commodity prices impact our ability to service or refinance our existing debt;
- the impact of volatility in the financial markets or other global economic factors;
- difficulties in appropriately allocating capital and resources among our strategic opportunities;
- the timing and extent of our success in discovering, developing, producing and estimating reserves;
- our ability to maintain leases that may expire if production is not established or profitability maintained;
- our ability to realize the expected benefits from recent acquisitions;
- our ability to transport our production to the most favorable markets or at all;
- the impact of government regulation, including the ability to obtain and maintain permits, any increase in severance or similar taxes, and legislation relating to hydraulic fracturing, climate and over-the-counter derivatives;
- the impact of the adverse outcome of any material litigation against us;
- the effects of weather;
- increased competition and regulation;
- the financial impact of accounting regulations and critical accounting policies;
- the comparative cost of alternative fuels;
- credit risk relating to the risk of loss as a result of non-performance by our counterparties; and
- any other factors listed in the reports we have filed and may file with the Securities and Exchange Commission (“SEC”).

Should one or more of the risks or uncertainties described above or elsewhere in this Quarterly Report occur, or should underlying assumptions prove incorrect, our actual results and plans could differ materially from those expressed in any forward-looking statements. We specifically disclaim all responsibility to publicly update any information contained in a forward-looking statement or any forward-looking statement in its entirety and therefore disclaim any resulting liability for potentially related damages.

All forward-looking statements attributable to us are expressly qualified in their entirety by this cautionary statement.

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PART I – FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS.

SOUTHWESTERN ENERGY COMPANY AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

	For the three months ended September 30,		For the nine months ended September 30,	
	2016	2015	2016	2015
	(in millions, except share/per share amounts)			
Operating Revenues:				
Gas sales	$ 340	$ 458	$ 906	$ 1,540
Oil sales	19	19	50	60
NGL sales	22	14	59	47
Marketing	237	216	631	663
Gas gathering	33	42	106	136
	651	749	1,752	2,446
Operating Costs and Expenses:				
Marketing purchases	234	213	627	654
Operating expenses	139	176	455	507
General and administrative expenses	61	60	171	188
Restructuring charges	2	–	77	–
Depreciation, depletion and amortization	99	275	349	876
Impairment of natural gas and oil properties	817	2,839	2,321	4,374
(Gain) loss on sale of assets, net	–	1	–	(276)
Taxes, other than income taxes	24	27	69	84
	1,376	3,591	4,069	6,407
Operating Loss	(725)	(2,842)	(2,317)	(3,961)
Interest Expense:				
Interest on debt	59	51	168	153
Other interest charges	8	2	12	54
Interest capitalized	(41)	(53)	(123)	(155)
	26	–	57	52
Gain (Loss) on Derivatives	71	15	(28)	30
Loss on Early Extinguishment of Debt	(51)	–	(51)	–

Other Income, Net	3	–	–	2
Loss Before Income Taxes	(728)	(2,827)	(2,453)	(3,981)
Provision (Benefit) for Income Taxes:				
Current	–	–	–	7
Deferred	(20)	(1,088)	(20)	(1,539)
	(20)	(1,088)	(20)	(1,532)
Net Loss	$ (708)	$ (1,739)	$ (2,433)	$ (2,449)
Mandatory convertible preferred stock dividend	27	27	81	79
Net Loss Attributable to Common Stock	$ (735)	$ (1,766)	$ (2,514)	$ (2,528)
Loss Per Common Share:				
Basic	$ (1.52)	$ (4.62)	$ (6.02)	$ (6.65)
Diluted	$ (1.52)	$ (4.62)	$ (6.02)	$ (6.65)
Weighted Average Common Shares Outstanding:				
Basic	482,485,150	382,098,080	417,222,661	379,909,748
Diluted	482,485,150	382,098,080	417,222,661	379,909,748

The accompanying notes are an integral part of these

unaudited condensed consolidated financial statements.

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SOUTHWESTERN ENERGY COMPANY AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(Unaudited)

	For the three months ended September 30,		For the nine months ended September 30,	
	2016	2015	2016	2015
	(in millions)			
Net loss	$ (708)	$ (1,739)	$ (2,433)	$ (2,449)
Change in derivatives:				
Settlements (1)	–	(31)	–	(89)
Ineffectiveness	–	1	–	1
Change in fair value of derivative instruments (2)	–	8	–	21
Total change in derivatives	–	(22)	–	(67)
Change in value of pension and other postretirement liabilities:				
Amortization of prior service cost and net loss included in net periodic pension cost (3)	1	1	1	1
Net gain incurred in period (4)	1	–	5	–
Change in currency translation adjustment	–	(5)	3	(9)
Comprehensive loss	$ (706)	$ (1,765)	$ (2,424)	$ (2,524)

(1) Net of ($19) million and ($56) million in taxes for the three and nine months ended September 30, 2015, respectively.
(2) Net of $5 million and $13 million in taxes for the three and nine months ended September 30, 2015, respectively.
(3) Net of $1 million in taxes for the nine months ended September 30, 2016 and 2015.
(4) Net of $1 million and $2 million in taxes for the three and nine months ended September 30, 2016, respectively.

The accompanying notes are an integral part of these

unaudited condensed consolidated financial statements.

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SOUTHWESTERN ENERGY COMPANY AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)

	September 30, 2016	December 31, 2015
ASSETS	(in millions)	
Current assets:		
Cash and cash equivalents	$ 1,474	$ 15
Accounts receivable, net	274	327
Derivative assets	93	3
Other current assets	48	48
Total current assets	1,889	393
Natural gas and oil properties, using the full cost method, including $2,189 million as of September 30, 2016 and $3,727 million as of December 31, 2015 excluded from amortization	22,421	22,478
Gathering systems	1,281	1,280
Other	588	606
Less: Accumulated depreciation, depletion and amortization	(19,501)	(16,821)
Total property and equipment, net	4,789	7,543
Other long-term assets	212	150
TOTAL ASSETS	$ 6,890	$ 8,086
LIABILITIES AND EQUITY		
Current liabilities:		
Short-term debt	$ 1	$ 1
Accounts payable	423	513
Taxes payable	47	64
Interest payable	31	75
Dividends payable	27	27
Derivative liabilities	100	3
Other current liabilities	20	24
Total current liabilities	649	707
Long-term debt	4,651	4,704
Pension and other postretirement liabilities	51	50
Other long-term liabilities	416	343
Total long-term liabilities	5,118	5,097
Commitments and contingencies (Note 11)		
Equity:		
Common stock, $0.01 par value; 1,250,000,000 shares authorized; issued 493,446,371 shares as of September 30, 2016 (does not include 2,043,780 shares issued on October 17, 2016, on account of a dividend declared on September 21, 2016) and 390,138,549 as of December 31, 2015	5	4
Preferred stock, $0.01 par value, 10,000,000 shares authorized, 6.25% Series B Mandatory Convertible, $1,000 per share liquidation preference, 1,725,000 shares issued and outstanding	–	–

as of September 30, 2016 and December 31, 2015, conversion in January 2018		
Additional paid-in capital	4,673	3,409
Accumulated deficit	(3,515)	(1,082)
Accumulated other comprehensive loss	(39)	(48)
Common stock in treasury, 31,269 shares as of September 30, 2016 and 47,149 shares as of December 31, 2015	(1)	(1)
Total equity	1,123	2,282
TOTAL LIABILITIES AND EQUITY	$ 6,890	$ 8,086

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

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SOUTHWESTERN ENERGY COMPANY AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	For the nine months ended September 30,	
	2016	2015
	(in millions)	
Cash Flows From Operating Activities		
Net loss	$ (2,433)	$ (2,449)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation, depletion and amortization	349	877
Impairment of natural gas and oil properties	2,321	4,374
Amortization of debt issuance costs	12	50
Deferred income taxes	(20)	(1,539)
Loss on derivatives, net of settlement	48	105
Stock-based compensation	24	18
Gain on sale of assets, net	–	(276)
Restructuring charges	30	–
Loss on early extinguishment of debt	51	–
Other	5	2
Change in assets and liabilities:		
Accounts receivable	53	175
Accounts payable	(72)	(55)
Taxes payable	(17)	(43)
Interest payable	(14)	(1)
Other assets and liabilities	–	(11)
Net cash provided by operating activities	337	1,227
Cash Flows From Investing Activities		
Capital investments	(391)	(1,392)
Acquisitions	–	(582)
Proceeds from sale of property and equipment	434	704
Other	–	7
Net cash provided by (used in) investing activities	43	(1,263)
Cash Flows From Financing Activities		
Payments on current portion of long-term debt	(1)	(1)
Payments on long-term debt	(1,175)	(500)
Payments on short-term debt	–	(4,500)
Payments on revolving credit facility	(3,268)	(2,168)

Borrowings under revolving credit facility	3,152	2,148
Payments on commercial paper	(242)	(5,179)
Borrowings under commercial paper	242	5,699
Change in bank drafts outstanding	(19)	26
Proceeds from issuance of long-term debt	1,191	2,200
Debt issuance costs	(17)	(17)
Proceeds from issuance of common stock	1,247	669
Proceeds from issuance of mandatory convertible preferred stock	–	1,673
Preferred stock dividend	(27)	(52)
Other	(4)	–
Net cash provided by (used in) financing activities	1,079	(2)
Increase (decrease) in cash and cash equivalents	1,459	(38)
Cash and cash equivalents at beginning of year	15	53
Cash and cash equivalents at end of period	$ 1,474	$ 15

The accompanying notes are an integral part of these

unaudited condensed consolidated financial statements.

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SOUTHWESTERN ENERGY COMPANY AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
(Unaudited)

	Common Stock		Preferred Stock	Additional		Accumulated Other	Common Stock in	
	Shares Issued	Amount	Shares	Paid-In Capital	Accumulated Deficit	Comprehensive Income (Loss)	Treasury	Total
	(in millions, except share amounts)							
Balance at December 31, 2015	390,138,549	$ 4	1,725,000	$ 3,409	$ (1,082)	$ (48)	$ (1)	$ 2,282
Comprehensive loss:								
Net loss	–	–	–	–	(2,433)	–	–	(2,433)
Other comprehensive income	–	–	–	–	–	9	–	9
Total comprehensive loss	–	–	–	–	–	–	–	(2,424)
Stock-based compensation	–	–	–	50	–	–	–	50
Preferred stock dividend(1)	5,124,856	–	–	(27)	–	–	–	(27)
Issuance of common stock	98,900,000	1	–	1,246	–	–	–	1,247
Issuance of restricted stock	85,305	–	–	–	–	–	–	–
Cancellation of restricted stock	(137,629)	–	–	–	–	–	–	–
Tax withholding – stock compensation	(664,710)	–	–	(5)	–	–	–	(5)
Balance at September 30, 2016	493,446,371	$ 5	1,725,000	$ 4,673	$ (3,515)	$ (39)	$ (1)	$ 1,123

(1) Does not include 2,043,780 shares issued on October 17, 2016, on account of a dividend declared on September 21, 2016, distributed to holders of the Company's mandatory convertible preferred stock.

The accompanying notes are an integral part of these

unaudited condensed consolidated financial statements.

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SOUTHWESTERN ENERGY COMPANY AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(1) BASIS OF PRESENTATION

Southwestern Energy Company (including its subsidiaries, collectively "Southwestern" or the "Company") is an independent energy company engaged in natural gas and oil exploration, development and production ("E&P"). The Company is also focused on creating and capturing additional value through its natural gas gathering and marketing businesses ("Midstream"). Southwestern conducts most of its businesses through subsidiaries and operates principally in two segments: E&P and Midstream.

Exploration and Production. Southwestern's primary business is the exploration for and production of natural gas and oil, with current operations principally focused on the development of unconventional natural gas reservoirs located in Pennsylvania, West Virginia and Arkansas. The Company's operations in northeast Pennsylvania, herein referred to as "Northeast Appalachia," are primarily focused on the unconventional natural gas reservoir known as the Marcellus Shale. Operations in West Virginia and southwest Pennsylvania, herein referred to as "Southwest Appalachia," are focused on the Marcellus Shale, the Utica and the Upper Devonian unconventional natural gas and oil reservoirs. Collectively, Southwestern refers to its properties located in Pennsylvania and West Virginia as the "Appalachian Basin." The Company's operations in Arkansas are primarily focused on an unconventional natural gas reservoir known as the Fayetteville Shale. Southwestern has exploration and production activities ongoing in Colorado and Louisiana, along with other areas in which it is currently exploring for new development opportunities. The Company also has drilling rigs located in Pennsylvania, West Virginia and Arkansas and provides oilfield products and services, principally serving its E&P operations.

Midstream. Through the Company's affiliated midstream subsidiaries, Southwestern engages in natural gas gathering activities in Arkansas and Louisiana. These activities primarily support the Company's E&P operations and generate revenue from fees associated with the gathering of natural gas. Southwestern's marketing activities capture opportunities that arise through the marketing and transportation of the natural gas, oil and NGLs produced in its E&P operations.

The accompanying unaudited condensed consolidated financial statements were prepared using accounting principles generally accepted in the United States of America ("GAAP") for interim financial information and in accordance with the rules and regulations of the Securities and Exchange Commission. Certain information relating to the Company's organization and footnote disclosures normally included in financial statements prepared in accordance with GAAP have been appropriately condensed or omitted in this Quarterly Report. The Company believes the disclosures made are adequate to make the information presented not misleading.

The unaudited condensed consolidated financial statements contained in this report include all normal and recurring material adjustments that, in the opinion of management, are necessary for a fair statement of the financial position, results of operations and cash flows for the interim periods presented herein. It is recommended that these unaudited condensed consolidated financial statements be read in conjunction with the consolidated financial statements and the notes thereto included in the Company's Annual Report for the year ended December 31, 2015 ("2015 Annual Report").

The Company's significant accounting policies, which have been reviewed and approved by the Audit Committee of the Company's Board of Directors, are summarized in Note 1 in the Notes to the Consolidated Financial Statements included in the Company's 2015 Annual Report.

Certain reclassifications have been made to the prior year financial statements to conform to the 2016 presentation. The effects of the reclassifications were not material to the Company's unaudited condensed consolidated financial statements.

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(2) CASH AND CASH EQUIVALENTS

The following table presents a summary of cash and cash equivalents as of September 30, 2016 and December 31, 2015:

	September 30, 2016	December 31, 2015
	(in millions)	
Cash	$ 31	$ 15
Marketable securities (1)	1,443	–
Total cash and cash equivalents	$ 1,474	$ 15

(1) Consists of government stable value money market funds.

(3) REDUCTION IN WORKFORCE

In January 2016, the Company announced a 40% workforce reduction of approximately 1,100 employees as a result of lower anticipated drilling activity. This reduction was substantially completed in the first quarter of 2016. In April 2016, the Company also partially restructured executive management, which was substantially completed in the second quarter of 2016.

The following table presents a summary of the restructuring charges for the three and nine months ended September 30, 2016:

	For the three months ended September 30,	For the nine months ended September 30, 2016

	2016	
	(in millions)	
Severance (including payroll taxes) (1)	$ –	$ 44
Stock-based compensation (2)	–	24
Pension and other postretirement benefits (3)	2	5
Other benefits	–	3
Outplacement services, other	–	1
Total restructuring charges (4)	$ 2	$ 77

(1)Includes $1 million related to executive management restructuring for the nine months ended September 30, 2016.

(2) Includes $3 million related to executive management restructuring for the nine months ended September 30, 2016.

(3) Includes non-cash charges related to the curtailment and settlement of the pension and other postretirement benefit plans. See Note 12 for additional details regarding the Company's retirement and employee benefit plans.

(4) Total restructuring charges were $2 million for the Company's E&P segment for the three months ended September 30, 2016. For the nine months ended September 30, 2016, restructuring charges were $74 million and $3 million for the Company's E&P and Midstream segments, respectively.

The following table presents a summary of liabilities associated with the Company's restructuring activities for the three months ended September 30, 2016, which are reflected in accounts payable on the unaudited condensed consolidated balance sheet (in millions):

Liability at June 30, 2016	$ 2
Additions	–
Distributions	(1)
Liability at September 30, 2016	$ 1

Severance payments and other separation costs related to restructuring will be completed by the end of the fourth quarter and are not expected to be material.

(4) ACQUISITIONS AND DIVESTITURES

In September 2016, the Company sold approximately 55,000 net acres in West Virginia to Antero Resources Corporation for approximately $426 million, which reflects customary adjustments at closing and is subject to

customary post-closing adjustments. Under full cost accounting rules, the Company accounted for the sale of these oil and natural gas properties as adjustments to capitalized costs, with no recognition of gain or loss as the sales did not involve a

significant change in proved reserves or significantly alter the relationship between costs and proved reserves. In September 2016, $48 million of the net proceeds was used to repay borrowings under the Company's term loan entered into in November 2015. The Company intends to use the remaining net proceeds from the sale for general corporate purposes, including to fund capital projects.

In May 2015, the Company sold conventional oil and gas assets located in East Texas and the Arkoma Basin for approximately $211 million. The Company also accounted for the sale of these oil and natural gas properties as adjustments to capitalized costs, with no recognition of gain or loss as the sales did not involve a significant change in proved reserves or significantly alter the relationship between costs and proved reserves. The proceeds from the transaction were used to reduce the Company's debt. Approximately $205 million of the proceeds received were recorded as a reduction of the capitalized costs of the Company's natural gas and oil properties in the United States pursuant to the full cost method of accounting.

In April 2015, the Company sold its gathering assets located in Bradford and Lycoming counties in northeast Pennsylvania to Howard Midstream Energy Partners, LLC for an adjusted sales price of approximately $489 million. The net book value of these assets was $206 million and was held in the Midstream segment as of the closing date. A gain on sale of $283 million was recognized and was included in gain on sale of assets, net on the unaudited condensed consolidated statement of operations. The assets included approximately 100 miles of natural gas gathering pipelines, with nearly 600 million cubic feet per day of capacity. The proceeds from the transaction were used to substantially repay borrowings under the Company's $500 million term loan facility that would have matured in December 2016.

In January 2015, the Company completed an acquisition of certain natural gas and oil assets including approximately 46,700 net acres in northeast Pennsylvania from WPX Energy, Inc. for an adjusted purchase price of $270 million (the "WPX Property Acquisition"). This acreage was producing approximately 50 million net cubic feet of gas per day from 63 operated horizontal wells as of December 2014. As part of this transaction, the Company assumed firm transportation capacity of 260 million cubic feet of gas per day predominantly on the Millennium pipeline. The firm transport is being amortized over 19 years. As of September 30, 2016 and December 31, 2015 the Company has amortized $15 million and $8 million, respectively. This transaction was funded with the revolving credit facility and was accounted for as a business combination.

In January 2015, the Company completed an acquisition of certain natural gas and oil assets from Statoil ASA including approximately 30,000 net acres in West Virginia and southwest Pennsylvania for $357 million, which was comprised of approximately 20% of Statoil's interests in the properties (the "Statoil Property Acquisition"). All of these assets were also assets in which the Company had acquired interests under the Chesapeake Property Acquisition, as defined below. This transaction was funded with the revolving credit facility and was accounted for as a business combination. The Company allocated the purchase price to natural gas and oil properties, based on the respective fair values of the assets acquired.

In December 2014, the Company completed an acquisition of certain oil and gas assets from Chesapeake Energy Corporation covering approximately 413,000 net acres in West Virginia and southwest Pennsylvania targeting natural gas, NGLs and crude oil contained in the Upper Devonian, Marcellus and Utica Shales for approximately $5.0 billion (the “Chesapeake Property Acquisition”). The transaction was temporarily financed using a $4.5 billion 364-day senior unsecured bridge term loan credit facility and a $500 million two-year unsecured term loan. The Company repaid all principal and interest outstanding on the $4.5 billion bridge facility in January 2015 after permanent financing was finalized and, as a result, expensed $47 million of short-term unamortized debt issuance costs related to the bridge facility in January 2015, recognized in other interest charges on the unaudited condensed consolidated statement of operations. The term loan facility was repaid in full in April 2015 with proceeds from the divestiture of the Company’s northeastern Pennsylvania gathering assets and borrowings under the revolving credit facility.

(5) NATURAL GAS AND OIL PROPERTIES

The Company utilizes the full cost method of accounting for costs related to the exploration, development and acquisition of natural gas and oil properties. Under this method, all such costs (productive and nonproductive), including salaries, benefits and other internal costs directly attributable to these activities are capitalized on a country-by-country basis and amortized over the estimated lives of the properties using the units-of-production method. These capitalized costs are subject to a ceiling test that limits such pooled costs, net of applicable deferred taxes, to the aggregate of the present value of future net revenues attributable to proved natural gas, oil and NGL reserves discounted at 10% (standardized measure) plus the lower of cost or market value of unproved properties. Any costs in excess of the ceiling are written off as a non-cash expense. The expense may not be reversed in future periods, even though higher

natural gas, oil and NGL prices may subsequently increase the ceiling. Companies using the full cost method are required to use the average quoted price from the first day of each month from the previous 12 months, including the impact of derivatives designated for hedge accounting, to calculate the ceiling value of their reserves.

Using the average quoted price from the first day of each month from the previous 12 months for Henry Hub natural gas of $2.28 per MMBtu, West Texas Intermediate oil of $38.17 per barrel and NGLs of $6.46 per barrel, adjusted for market differentials, the Company's net book value of its United States natural gas and oil properties exceeded the ceiling by $506 million (net of tax) at September 30, 2016 and resulted in a non-cash ceiling test impairment. The Company had no hedge positions that were designated for hedge accounting as of September 30, 2016. Decreases in market prices as well as changes in production rates, levels of reserves, evaluation of costs excluded from amortization, future development costs and production costs could result in future ceiling test impairments.

Using the average quoted price from the first day of each month from the previous 12 months for Henry Hub natural gas of $3.06 per MMBtu, West Texas Intermediate oil of $55.73 per barrel and NGLs of $8.62 per barrel, adjusted for market differentials, the net book value of the Company's United States natural gas and oil properties exceeded the ceiling by $1,746 million (net of tax) at September 30, 2015 and resulted in a non-cash ceiling test impairment. Cash flow hedges of natural gas production in place increased the ceiling amount by approximately $40 million as of September 30, 2015. In the first and second quarters of 2016, the Company's net book value of its United States and Canada natural gas and oil properties exceeded the ceiling by approximately $641 million (net of tax) at March 31, 2016 and $297 million (net of tax) at June 30, 2016, resulting in non-cash ceiling test impairments in each quarter.

(6) EARNINGS PER SHARE

Basic earnings per common share is computed by dividing net income (loss) attributable to common stock by the weighted average number of common shares outstanding during the reportable period. The diluted earnings per share calculation adds to the weighted average number of common shares outstanding: the incremental shares that would have been outstanding assuming the exercise of dilutive stock options, the vesting of unvested restricted shares of common stock, performance units, the assumed conversion of mandatory convertible preferred stock and the shares of common stock declared as a preferred stock dividend. An antidilutive impact is an increase in earnings per share or a reduction in net loss per share resulting from the conversion, exercise, or contingent issuance of certain securities.

In July 2016, the Company completed an underwritten public offering of 98,900,000 shares of its common stock, with an offering price to the public of $13.00 per share. Net proceeds, after underwriting discount and offering expenses, from the common stock offering were approximately $1,247 million. The proceeds from the offering were used to repay $375 million of the $750 million term loan entered into in November 2015 and to settle certain tender offers by purchasing an aggregate principal amount of approximately $700 million of the Company's outstanding senior notes due in the first quarter of 2018. The remaining proceeds of the offering will be used for general corporate purposes.

In January 2015, the Company completed concurrent underwritten public offerings of 30,000,000 shares of its common stock and 34,500,000 depositary shares (both share counts include shares issued as a result of the underwriters exercising their options to purchase additional shares). The common stock offering was priced at $23.00 per share. Net proceeds, after underwriting discount and expenses, from the common stock offering were approximately $669 million. Net proceeds, after underwriting discount and expenses, from the depositary share offering were approximately $1.7 billion. Each depositary share represents a 1/20th interest in a share of the Company's mandatory convertible preferred stock, with a liquidation preference of $1,000 per share (equivalent to a $50 liquidation preference per depositary share). The proceeds from the offerings were used to partially repay borrowings under the Company's $4.5 billion 364-day bridge facility with the remaining balance of the bridge facility fully repaid with proceeds from the Company's January 2015 public offering of $2.2 billion in long-term senior notes.

The mandatory convertible preferred stock entitles the holder to a proportional fractional interest in the rights and preferences of the convertible preferred stock, including conversion, dividend, liquidation and voting rights. Unless converted earlier at the option of the holders, on or around January 15, 2018 each share of convertible preferred stock will automatically convert into between 37.0028 and 43.4782 shares of the Company's common stock (and, correspondingly, each depositary share will convert into between 1.85014 and 2.17391 shares of the Company's common stock), subject to customary anti-dilution adjustments, depending on the volume-weighted average price of the Company's common stock over a 20 trading day averaging period immediately prior to that date. The total potential shares of common stock resulting from the conversion will range from 63,829,830 to 74,999,895 shares.

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The mandatory convertible preferred stock has the non-forfeitable right to participate on an as-converted basis at the conversion rate then in effect in any common stock dividends declared and as such, is considered a participating security. Accordingly, it is included in the computation of basic and diluted earnings per share, pursuant to the two-class method. In the calculation of basic earnings per share attributable to common shareholders, participating securities are allocated earnings based on actual dividend distributions received plus a proportionate share of undistributed net income attributable to common shareholders, if any, after recognizing distributed earnings. The Company's participating securities do not participate in undistributed net losses because they are not contractually obligated to do so.

On September 21, 2016, the Company declared its quarterly dividend, payable to holders of the mandatory convertible preferred stock, and announced that it would pay the quarterly dividend in common stock, in lieu of cash, to the extent permitted by the certificate of designations for the Series B preferred stock. The Company issued 2,043,780 shares of common stock on October 17, 2016 in payment for the dividend. Dividends declared in the first and second quarters of 2016 were settled in common stock, while the dividend declared in December 2015 was paid in cash in January 2016.

The following table presents the computation of earnings per share for the three and nine months ended September 30, 2016 and 2015:

	For the three months ended September 30,		For the nine months ended September 30,	
	2016	2015	2016	2015
	(in millions, except share/per share amounts)			
Net loss	$ (708)	$ (1,739)	$ (2,433)	$ (2,449)
Mandatory convertible preferred stock dividend	27	27	81	79
Net loss attributable to common stock	$ (735)	$ (1,766)	$ (2,514)	$ (2,528)
Number of common shares:				
Weighted average outstanding	482,485,150	382,098,080	417,222,661	379,909,748
Issued upon assumed exercise of outstanding stock options (1)	–	–	–	–
Effect of issuance of non-vested restricted common stock (2)	–	–	–	–
Effect of issuance of non-vested performance units (3)	–	–	–	–
	–	–	–	–

Effect of issuance of mandatory convertible preferred stock (4)				
Effect of declaration of preferred stock dividends (5)	–	–	–	–
Weighted average and potential dilutive outstanding	482,485,150	382,098,080	417,222,661	379,909,748
Loss per common share:				
Basic	$ (1.52)	$ (4.62)	$ (6.02)	$ (6.65)
Diluted	$ (1.52)	$ (4.62)	$ (6.02)	$ (6.65)

(1) Due to the net loss for the three and nine months ended September 30, 2016 and 2015, the unvested stock options were not recognized in diluted earnings per share calculations as they would have had an antidilutive effect. Options for 3,409,596 shares and 3,714,095 shares were excluded from the calculation of diluted shares for the three and nine months ended September 30, 2016, respectively, because they would have had an antidilutive effect. Options for 3,796,778 shares and 3,778,140 shares were excluded from the calculation of diluted shares for the three and nine months ended September 30, 2015, respectively, because they would have had an antidilutive effect.

(2) Due to the net loss for the three and nine months ended September 30, 2016 and 2015, the unvested share-based payments were not recognized in diluted earnings per share calculations as they would have had an antidilutive effect. The calculation excluded 599,372 shares and 993,576 shares of restricted stock for the three and nine months ended September 30, 2016, respectively, because they would have had an antidilutive effect. The calculation excluded 1,469,380 shares and 1,472,379 shares of restricted stock for the three and nine months ended September 30, 2015, respectively, because they would have had an antidilutive effect.

(3) Due to the net loss for the three and nine months ended September 30, 2016, 935,330 shares and 762,171 shares, respectively, of performance units were excluded from the calculation of diluted earnings per share as they would have had an antidilutive effect. Due to the net loss for the three and nine months ended September 30, 2015, the calculation excluded 89,802 shares and 135,836 shares, respectively, of performance units as they would have had an antidilutive effect.

(4) Due to the net loss for the three and nine months ended September 30, 2016, 74,999,895 of weighted average common shares issuable upon the assumed conversion of the mandatory convertible preferred stock were excluded from the diluted earnings per share calculation as they would have had an antidilutive effect. Due to the net loss for the three and nine months ended September 30, 2015, 74,999,895 and 69,505,397 of weighted average common shares issuable upon the assumed conversion of the mandatory convertible preferred stock were excluded from the diluted earnings per share calculation, respectively, as they would have had an antidilutive effect.

(5) Due to the net loss for the three months ended September 30, 2016, the 2,043,780 shares of common stock declared as preferred stock dividends were excluded from the diluted earnings per share calculations as they would have had an antidilutive effect.

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(7) DERIVATIVES AND RISK MANAGEMENT

The Company is exposed to volatility in market prices and basis differentials for natural gas, oil and NGLs which impacts the predictability of its cash flows related to the sale of those commodities. These risks are managed by the Company's use of certain derivative financial instruments. As of September 30, 2016, the Company's derivative financial instruments consisted of fixed price swaps, purchased put options, two-way costless collars, three-way costless collars, basis swaps, sold call options and interest rate swaps. The Company had basis swaps and sold call options as of December 31, 2015. A description of the Company's derivative financial instruments is provided below:

Fixed price swaps	The Company receives a fixed price for the contract and pays a floating market price to the counterparty.
Purchased put options	The Company purchases put options from the counterparty by payment of a cash premium. If the market price is lower than the put's strike price at the time of settlement, the Company receives from the counterparty such difference on purchased put options. If the market price settles above the put's strike price, no payment is due from either party.
Two-way costless collars	Arrangements that contain a fixed floor price (purchased put option) and a fixed ceiling price (sold call option) which, in aggregate, have no net cost. At the contract settlement date, (1) if the index price is higher than the ceiling price, the Company pays the counterparty the difference between the index price and ceiling price, (2) if the index price is between the floor price and the ceiling price, no payments are due from either party, and (3) if the index price is below the floor price, the Company will receive the difference between the floor price and the index price.
Three-way costless collars	Arrangements that contain a purchased put option, a sold call option and a sold put option which, in aggregate, have no net cost. At the contract settlement date, (1) if the index price is higher than the ceiling price, the Company pays the counterparty the difference between the index price and ceiling price, (2) if the index price is between the middle strike price and the ceiling price, no payments are due from either party, (3) if the index is between the lowest strike price and the middle strike price, the Company will receive the difference between the middle strike price and the index price, and (4) if the index price is below the floor price, the Company will receive the difference between the purchased put strike price and the sold put strike price.
Basis swaps	Arrangements that guarantee a price differential for natural gas from a specified delivery point. The Company receives a payment from the counterparty if the price differential is greater than the stated terms of the contract and pays the counterparty if the price differential is less than the stated terms of the contract.
Sold call options	The Company sells call options in exchange for a premium. If the market price exceeds the strike price of the call option at the time of settlement, the Company pays the counterparty such excess on sold call options. If the market price settles below the call's strike price, no payment is due from either party.
Interest rate swaps	Interest rate swaps are used to fix or float interest rates on existing or anticipated indebtedness. The purpose of these instruments is to manage the Company's existing or anticipated exposure to unfavorable

interest rate changes.

The Company utilizes counterparties for its derivative instruments that it believes are creditworthy at the time the transactions are entered into and the Company closely monitors the credit ratings of these counterparties. Additionally, the Company performs both quantitative and qualitative assessments of these counterparties based on their credit ratings and credit default swap rates where applicable. However, the events in the financial markets in recent years demonstrate there can be no assurance that a counterparty will be able to meet its obligations to the Company.

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The following table provides information about the Company's financial instruments that are sensitive to changes in commodity prices and that are used to protect the Company's exposure. None of the financial instruments below are designated for hedge accounting treatment. The table presents the notional amount in Bcf, the weighted average contract prices and the fair value by expected maturity dates as of September 30, 2016.

		Weighted Average Price per MMBtu					
	Volume (Bcf)	Swaps	Sold Puts	Purchased Puts	Sold Calls	Basis Differential	Fair value at September 30, 2016 ($ in millions)
Financial protection on production							
2016							
Fixed price swaps	51	$ 2.81	$ –	$ –	$ –	$ –	$ (8)
Purchased put options	4	$ –	$ –	$ 2.34	$ –	$ –	$ –
Two-way costless-collars	40	$ –	$ –	$ 2.93	$ 3.33	$ –	$ 2
Three-way costless-collars	5	$ –	$ 2.30	$ 3.00	$ 3.25	$ –	$ –
Basis swaps	16	$ –	$ –	$ –	$ –	$ 0.02	$ 18
Total	116						$ 12
2017							
Fixed price swaps	296	$ 3.04	$ –	$ –	$ –	$ –	$ (9)
Two-way costless-collars	103	$ –	$ –	$ 2.94	$ 3.38	$ –	$ (1)
Three-way costless-collars	135	$ –	$ 2.29	$ 2.97	$ 3.30	$ –	$ (5)
Basis swaps	76	$ –	$ –	$ –	$ –	$ (0.59)	$ 13
Total	610						$ (2)
2018							
Two-way costless-collars	14	$ –	$ –	$ 3.00	$ 3.46	$ –	$ (1)
Three-way costless-collars	73	$ –	$ 2.28	$ 2.93	$ 3.37	$ –	$ 4
Basis swaps	2	$ –	$ –	$ –	$ –	$ 0.83	$ (1)
Total	89						$ 2
Sold call options							
2016	30	$ –	$ –	$ –	$ 5.00	$ –	$ –
2017	86	$ –	$ –	$ –	$ 3.25	$ –	$ (23)
2018	63	$ –	$ –	$ –	$ 3.50	$ –	$ (13)
2019	52	$ –	$ –	$ –	$ 3.50	$ –	$ (11)
2020	32	$ –	$ –	$ –	$ 3.75	$ –	$ (7)
Total	263						$ (54)

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The balance sheet classification of the assets and liabilities related to derivative financial instruments (none of which are designated for hedge accounting) are summarized below as of September 30, 2016 and December 31, 2015:

	Derivative Assets Balance Sheet Classification	Fair Value	
		September 30, 2016	December 31, 2015
		(in millions)	
Derivatives not designated as hedging instruments:			
Fixed price swaps	Derivative assets	$ 9	$ –
Two-way costless collars	Derivative assets	20	–
Three-way costless collars	Derivative assets	27	–
Basis swaps	Derivative assets	37	3
Fixed price swaps	Other long-term assets	1	–
Two-way costless collars	Other long-term assets	14	–
Three-way costless collars	Other long-term assets	42	–
Basis swaps	Other long-term assets	4	–
Total derivative assets		$ 154	$ 3

	Derivative Liabilities Balance Sheet Classification	Fair Value	
		September 30, 2016	December 31, 2015
		(in millions)	
Derivatives not designated as hedging instruments:			
Fixed price swaps	Derivative liabilities	$ 23	$ –
Two-way costless collars	Derivative liabilities	20	–
Three-way costless collars	Derivative liabilities	29	–
Basis swaps	Derivative liabilities	10	–
Sold call options	Derivative liabilities	15	–
Interest rate swaps	Derivative liabilities	3	3
Fixed price swaps	Other long-term liabilities	4	–
Two-way costless collars	Other long-term liabilities	14	–
Three-way costless collars	Other long-term liabilities	41	–
Basis swaps	Other long-term liabilities	1	–
Sold call options	Other long-term liabilities	39	–
Interest rate swaps	Other long-term liabilities	5	2
Total derivative liabilities		$ 204	$ 5

At September 30, 2016, the net fair value of the Company's financial instruments related to natural gas was a $42 million liability. The net fair value of the Company's interest rate swaps was an $8 million liability at September 30, 2016.

Derivative Contracts not Designated for Hedge Accounting

As of September 30, 2016, the Company had no positions designated for hedge accounting treatment. Gains and losses on derivatives that are not designated for hedge accounting treatment, or that do not meet hedge accounting requirements, are recorded as a component of gain (loss) on derivatives on the unaudited condensed consolidated statements of operations. Accordingly, the gain (loss) on derivatives component of the statements of operations reflects the gains and losses on both settled and unsettled derivatives. The Company calculates gains and losses on settled derivatives as the summation of gains and losses on positions which have settled within the reporting period. Only the settled gains and losses are included in the Company's realized commodity price calculations.

The Company is a party to interest rate swaps that were entered into to mitigate the Company's exposure to volatility in interest rates. The interest rate swaps have a notional amount of $170 million and expire in June 2020. The Company did not designate the interest rate swaps for hedge accounting treatment. Changes in the fair value of the interest rate swaps are included in gain (loss) on derivatives on the unaudited condensed consolidated statements of operations.

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The following tables summarize the before tax effect of fixed price swaps, purchased put options, two-way costless collars, three-way costless collars, basis swaps, sold call options and interest rate swaps not designated for hedge accounting on the unaudited condensed consolidated statements of operations for the three and nine months ended September 30, 2016 and 2015:

Derivative Instrument	Consolidated Statement of Operations Classification of Gain (Loss) on Derivatives, Unsettled	Gain (Loss) on Derivatives, Unsettled Recognized in Earnings			
		For the three months ended September 30,		For the nine months ended September 30,	
		2016	2015	2016	2015
		(in millions)			
Fixed price swaps	Gain (Loss) on Derivatives	$ 23	$ (37)	$ (17)	$ (110)
Purchased put options	Gain (Loss) on Derivatives	–	–	–	–
Two-way costless collars	Gain (Loss) on Derivatives	5	–	–	–
Three-way costless collars	Gain (Loss) on Derivatives	1	–	(1)	–
Basis swaps	Gain (Loss) on Derivatives	31	1	27	(4)
Sold call options	Gain (Loss) on Derivatives	21	3	(54)	11
Interest rate swaps	Gain (Loss) on Derivatives	–	(1)	(3)	(2)
Total gain (loss) on unsettled derivatives		$ 81	$ (34)	$ (48)	$ (105)

Derivative Instrument	Consolidated Statement of Operations Classification of Gain (Loss) on Derivatives, Settled	Gain (Loss) on Derivatives, Settled (1) Recognized in Earnings			
		For the three months ended September 30,		For the nine months ended September 30,	
		2016	2015	2016	2015
		(in millions)			
Fixed price swaps	Gain (Loss) on Derivatives	$ (9)	$ 49	$ 7	$ 143
Purchased put options	Gain (Loss) on Derivatives	–	–	11	–
Basis swaps	Gain (Loss) on Derivatives	–	–	4	(6)
Interest rate swaps	Gain (Loss) on Derivatives	(1)	–	(2)	(2)
Total gain (loss) on settled derivatives (2)		$ (10)	$ 49	$ 20	$ 135
Total gain (loss) on derivatives		$ 71	$ 15	$ (28)	$ 30

(1) The Company calculates gain (loss) on derivatives, settled, as the summation of gains and losses on positions that have settled within the period.
(2) Excluding interest rate swaps, these amounts are included, along with gas sales revenues, in the calculation of the Company’s realized natural gas price.

Derivative Contracts Designated for Hedge Accounting

All derivatives are recognized in the balance sheet as either an asset or liability and are measured at fair value other than transactions for which normal purchase/normal sale is applied. Certain criteria must be satisfied in order for derivative financial instruments to be designated for hedge accounting. Accounting guidance for qualifying hedges allows an unsettled derivative's unrealized gains and losses to be recorded either in earnings or as a component of other comprehensive income until settled. In the period of settlement, the Company recognizes the gains and losses from these qualifying hedges in gas sales revenues. As of September 30, 2016, the Company had no positions designated for hedge accounting treatment. In 2015, the Company had certain fixed price swaps that were designated for hedge accounting. For the three and nine months ended September 30, 2015, the Company reported pre-tax gains in other comprehensive income of $14 million and $35 million, respectively, related to the effective portion of our unsettled fixed price swaps. The ineffective portion of those fixed price swaps was recognized in earnings and had an inconsequential impact to the unaudited condensed consolidated statement of operations for the three and nine months ended September 30, 2015. For the three and nine months ended September 30, 2015, pre-tax gains of $50 million and $145 million, respectively, on settled fixed price swaps were transferred from other comprehensive income into gas sales revenues in the consolidated statements of operations.

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(8) RECLASSIFICATIONS FROM ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

The following tables detail the components of accumulated other comprehensive income (loss) and the related tax effects for the nine months ended September 30, 2016:

	September 30, 2016		
	Pension and Other Postretirement	Foreign Currency	Total
	(in millions) (1)		
Beginning balance at December 31, 2015	$ (25)	$ (23)	$ (48)
Other comprehensive income before reclassifications	5	3	8
Amounts reclassified from/to other comprehensive income (loss) (2)	1	–	1
Net current-period other comprehensive income (loss)	6	3	9
Ending balance at September 30, 2016	$ (19)	$ (20)	$ (39)

(1) All amounts are net of tax.
(2) See separate table below for details about these reclassifications.
1

Details about Accumulated Other Comprehensive Income	Affected Line Item in the Consolidated Statement of Operations	Amount Reclassified from Accumulated Other Comprehensive Income For the nine months ended September 30, 2016 (in millions)

Pension and other postretirement			
Amortization of prior service cost and net loss (1)	General and administrative expenses	$	2
	Provision (benefit) for income taxes		1
Total reclassifications for the period	Net loss	$	1

(1) See Note 12 for additional details regarding the Company's retirement and employee benefit plans.

(9) FAIR VALUE MEASUREMENTS

The carrying amounts and estimated fair values of the Company's financial instruments as of September 30, 2016 and December 31, 2015 were as follows:

	September 30, 2016		December 31, 2015	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(in millions)			
Cash and cash equivalents	$ 1,474	$ 1,474	$ 15	$ 15
Credit facility	–	–	116	116
Term loan facility due December 2020 (1)	325	325	747	747
Term loan facility due December 2020 (1)	1,180	1,180	–	–
Senior notes	3,147	3,093	3,842	2,651
Derivative instruments, net	(50)	(50)	(2)	(2)

(1) The maturity date will accelerate to October 2019 if, by that date, the Company has not amended, redeemed or refinanced at least $765 million of its 2020 Senior Notes.

The carrying values of cash and cash equivalents, accounts receivable, other current assets, accounts payable and other current liabilities on the unaudited condensed consolidated balance sheets approximate fair value because of their short-term nature. For debt and derivative instruments, the following methods and assumptions were used to estimate fair value:

Debt: The fair values of the Company's senior notes were based on the market value of the Company's publicly traded debt as determined based on the yield of the Company's senior notes.

The carrying values of the borrowings under the Company's term loan facilities approximate fair value because the interest rate is variable and reflective of market rates. The Company considers the fair value of its debt to be a Level 2 measurement on the fair value hierarchy.

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Derivative Instruments: The fair value of all derivative instruments is the amount at which the instrument could be exchanged currently between willing parties. The amounts are based on quoted market prices, best estimates obtained from counterparties and an option pricing model, when necessary, for price option contracts.

The fair value hierarchy prioritizes the inputs to valuation techniques used to measure fair value. As presented in the tables below, this hierarchy consists of three broad levels:

Level 1 valuations - Consist of unadjusted quoted prices in active markets for identical assets and liabilities and have the highest priority.

Level 2 valuations - Consist of quoted market information for the calculation of fair market value.

Level 3 valuations - Consist of internal estimates and have the lowest priority.

The Company has classified its derivatives into these levels depending upon the data utilized to determine their fair values. The Company's fixed price swaps (Level 2) are estimated using third-party discounted cash flow calculations using the NYMEX futures index. The Company utilized discounted cash flow models for valuing its interest rate derivatives (Level 2). The net derivative values attributable to the Company's interest rate derivative contracts as of September 30, 2016 are based on (i) the contracted notional amounts, (ii) active market-quoted London Interbank Offered Rate ("LIBOR") yield curves and (iii) the applicable credit-adjusted risk-free rate yield curve. The Company's sold call options, purchased put options, two-way costless collars and three-way costless collars (Level 3) are valued using the Black-Scholes model, an industry standard option valuation model that takes into account inputs such as contract terms, including maturity, and market parameters, including assumptions of the NYMEX futures index, interest rates, volatility and credit worthiness. The Company's basis swaps (Level 3) are estimated using third-party calculations based upon forward commodity price curves.

Inputs to the Black-Scholes model, including the volatility input, which is the significant unobservable input for Level 3 fair value measurements, are obtained from a third-party pricing source, with independent verification of the most significant inputs on a monthly basis. An increase (decrease) in volatility would result in an increase (decrease) in fair value measurement, respectively.

Assets and liabilities measured at fair value on a recurring basis are summarized below (in millions):

	September 30, 2016			
	Fair Value Measurements Using:			
	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Assets (Liabilities) at Fair Value
Fixed price swap assets	$ –	$ 10	$ –	$ 10
Two-way costless collars assets	–	–	34	34
Three-way costless collars assets	–	–	69	69
Basis swap assets	–	–	41	41
Fixed price swap liabilities	–	(27)	–	(27)
Two-way costless collars liabilities	–	–	(34)	(34)
Three-way costless collars liabilities	–	–	(70)	(70)
Basis swap liabilities	–	–	(11)	(11)
Sold call option liabilities	–	–	(54)	(54)
Interest rate swap liabilities	–	(8)	–	(8)
Total	$ –	$ (25)	$ (25)	$ (50)

	December 31, 2015			
	Fair Value Measurements Using:			
	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Assets (Liabilities) at Fair Value
Basis swap assets	$ –	$ –	$ 3	$ 3
Interest rate swap liabilities	–	(5)	–	(5)
Total	$ –	$ (5)	$ 3	$ (2)

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The table below presents reconciliations for the change in net fair value of derivative assets and liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the three and nine months ended September 30, 2016 and 2015. The fair values of Level 3 derivative instruments are estimated using proprietary valuation models that utilize both market observable and unobservable parameters. Level 3 instruments presented in the table consist of net derivatives valued using pricing models incorporating assumptions that, in the Company's judgment, reflect reasonable assumptions a marketplace participant would have used as of September 30, 2016 and 2015.

	For the three months ended September 30,		For the nine months ended September 30,	
	2016	2015	2016	2015
	(in millions)			
Balance at beginning of period	$ (83)	$ (5)	$ 3	$ (8)
Total gains (losses):				
Included in earnings	58	4	(13)	1
Purchases, issuances, and settlements:				
Settlements	–	–	(15)	6
Transfers into/out of Level 3	–	–	–	–
Balance at end of period	$ (25)	$ (1)	$ (25)	$ (1)
Change in gains (losses) included in earnings relating to derivatives still held as of September 30	$ 58	$ 4	$ (28)	$ 7

(10) DEBT

The components of debt as of September 30, 2016 and December 31, 2015 consisted of the following:

	September 30, 2016			
	Debt Instrument	Unamortized Issuance Cost	Unamortized Debt Discount	Total
	(in millions)			
Short-term debt:				
7.15% Senior Notes due June 2018	$ 1	$ –	$ –	$ 1
Total short-term debt	$ 1	$ –	$ –	$ 1
Long-term debt:				
Variable rate (2.960% at September 30, 2016) term loan facility, due December 2020 (1)	$ 327	$ (2)	$ –	$ 325
Variable rate (2.960% at September 30, 2016) term loan facility, due December 2020 (2)	1,191	(11)	–	1,180
7.35% Senior Notes due October 2017	15	–	–	15
7.125% Senior Notes due October 2017	25	–	–	25
3.30% Senior Notes due January 2018 (3) (4)	38	–	–	38
7.50% Senior Notes due February 2018 (3)	212	–	–	212
7.15% Senior Notes due June 2018	26	–	–	26
4.05% Senior Notes due January 2020 (4)	850	(5)	–	845
4.10% Senior Notes due March 2022	1,000	(5)	(1)	994
4.95% Senior Notes due January 2025 (4)	1,000	(7)	(2)	991
Total long-term debt	$ 4,684	$ (30)	$ (3)	$ 4,651
Total debt	$ 4,685	$ (30)	$ (3)	$ 4,652

(1) In July 2016, $375 million was repaid on the term loan facility, extending the maturity from November 2018 to December 2020, which will accelerate to October 2019 if, by that date, the Company has not amended, redeemed or refinanced at least $765 million of its 2020 Senior Notes. In September 2016, an additional $48 million was repaid.

(2) The maturity date will accelerate to October 2019 if, by that date, the Company has not amended, redeemed or refinanced at least $765 million of its 2020 Senior Notes.

(3)

In July 2016, the Company purchased approximately $312 million of the 3.30% Senior Notes due January 2018 and $388 million of the 7.50% Senior Notes due February 2018.

(4) In February and June 2016, Moody's and S&P downgraded certain senior notes, increasing the interest rates by 175 basis points effective July 2016. As a result of the downgrades, interest rates increased to 5.05% for the 2018 Notes, 5.80% for the 2020 Notes and 6.70% for the 2025 Notes.

	December 31, 2015			
	Debt Instrument	Unamortized Issuance Cost	Unamortized Debt Discount	Total
	(in millions)			
Short-term debt:				
7.15% Senior Notes due June 2018	$ 1	$ –	$ –	$ 1
Total short-term debt	$ 1	$ –	$ –	$ 1
Long-term debt:				
Variable rate (1.886% at December 31, 2015) credit facility, expires December 2018	$ 116	$ –	$ –	$ 116
Variable rate (1.775% at December 31, 2015) term loan facility, due November 2018	750	(3)	–	747
7.35% Senior Notes due October 2017	15	–	–	15
7.125% Senior Notes due October 2017	25	–	–	25
3.30% Senior Notes due January 2018	350	(2)	–	348
7.50% Senior Notes due February 2018	600	(2)	–	598
7.15% Senior Notes due June 2018	26	–	–	26
4.05% Senior Notes due January 2020	850	(5)	(1)	844
4.10% Senior Notes due March 2022	1,000	(5)	(1)	994
4.95% Senior Notes due January 2025	1,000	(7)	(2)	991
Total long-term debt	$ 4,732	$ (24)	$ (4)	$ 4,704
Total debt	$ 4,733	$ (24)	$ (4)	$ 4,705

2016 Credit Facility

In June 2016, the Company reduced its existing $2.0 billion unsecured revolving credit facility to $66 million and entered into a new credit agreement for $1,934 million, consisting of a $1,191 million secured term loan and a new $743 million unsecured revolving credit facility, which matures in December 2020. The maturity date will accelerate to October 2019 if, by that date, the Company has not amended, redeemed or refinanced at least $765 million of its 2020 Senior Notes. The $1,191 million secured term loan is fully drawn, with approximately $285 million of this balance used to pay down the previous revolving credit facility balance in its entirety. As of September 30, 2016, there were no borrowings under either revolving credit facility, however, there was $174 million in letters of credit outstanding against the 2016 revolving credit facility.

Loans under the 2016 credit agreement are subject to varying rates of interest based on whether the loan is a Eurodollar loan or an alternate base rate loan. Eurodollar loans bear interest at the Eurodollar rate, which is adjusted LIBOR plus applicable margins ranging from 1.750% to 2.500%. Alternate base rate loans bear interest at the alternate base rate plus the applicable margin ranging from 0.750% to 1.500%. The interest rate on the term loan

facility is determined based upon the Company's public debt ratings and was 250 basis points over the LIBOR as of September 30, 2016.

The new term loan and revolving credit facility contain financial covenants that impose certain restrictions on the Company. Under the new credit agreement, the Company must maintain a minimum interest coverage of 0.75x in 2016, increasing by 0.25x increments per year to 1.50x in 2019 and 2020. The Company is also subject to a minimum liquidity requirement of $300 million, which could be increased up to $500 million upon certain conditions, as well as an anti-hoarding provision, requiring unrestricted cash in excess of $100 million to pay down any amounts borrowed under the new revolving credit facility. The financial covenant with respect to minimum interest coverage consists of EBITDAX divided by consolidated interest expense. EBITDAX excludes the effects of interest expense, income taxes, depreciation, depletion and amortization, any non-cash impacts from impairments, certain non-cash hedging activities, stock-based compensation expense, non-cash gains or losses on asset sales, unamortized issuance cost, unamortized debt discount and certain restructuring costs. Collateral for the new secured term loan is principally the Company's E&P properties in the Fayetteville Shale area, and the new credit agreement requires a minimum collateral coverage ratio of 1.50x the new secured term loan. This collateral also may support all or a part of revolving credit extensions depending on restrictions in the Company's senior notes indentures.

As of September 30, 2016, the Company was in compliance with all of the covenants of this credit agreement. Although the Company does not anticipate any violations of the financial covenants, its ability to comply with these covenants is dependent upon the success of its exploration and development program and upon factors beyond the Company's control, such as the market prices for natural gas and oil.

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2013 Credit Facility

In December 2013, the Company entered into a credit agreement that exchanged its previous revolving credit facility. Under the revolving credit facility, the Company had a borrowing capacity of $2.0 billion. The revolving credit facility was unsecured and was not guaranteed by any subsidiaries. In June 2016, this credit facility was substantially exchanged for a new credit facility comprised of a $1,191 million secured term loan and a new $743 million revolving credit facility. The borrowing capacity of the original 2013 credit agreement was reduced from $2.0 billion to $66 million, remains unsecured and the maturity remains December 2018. As of September 30, 2016, there were no borrowings under this facility.

The existing unsecured 2013 revolving credit facility includes a financial covenant under which the Company may not have total debt in excess of 60% of its total adjusted book capital. This financial covenant with respect to capitalization percentages excludes the effects of any full cost ceiling impairments, certain hedging activities and the Company's pension and other postretirement liabilities.

2015 Term Facility

In November 2015, the Company entered into a $750 million unsecured three-year term loan credit agreement with various lenders that was utilized to repay borrowings under the revolving credit facility. The interest rate on the term loan facility is determined based upon the Company's public debt ratings from Moody's and S&P and was 250 basis points over LIBOR as of September 30, 2016. The term loan facility requires prepayment under certain circumstances from the net cash proceeds of sales of equity or certain assets and borrowings outside the ordinary course of business. In June 2016, the 2015 term loan agreement was amended to extend the maturity date upon a repayment threshold. As a result of the July 2016 equity offering, the Company repaid $375 million of the $750 million term loan, which had the effect of extending the term loan maturity from November 2018 to December 2020, which will accelerate to October 2019 if, by that date, the Company has not amended, redeemed or refinanced at least $765 million of its 2020 Senior Notes. As a result of the repayment, the Company expensed $3 million of unamortized debt issuance costs, recognized in other interest charges on the unaudited condensed consolidated statement of operations for the three and nine months ended September 30, 2016. In September 2016, the Company repaid an additional $48 million from the proceeds received from the closing of the sale of approximately 55,000 net acres in West Virginia to Antero Resources Corporation, resulting in an additional $0.4 million of interest expense related to unamortized debt issuance costs.

Senior Notes

In January 2015, the Company completed a public offering of $350 million aggregate principal amount of its 3.30% senior notes due 2018 (the "2018 Notes"), $850 million aggregate principal amount of its 4.05% senior notes due 2020 (the "2020 Notes") and $1.0 billion aggregate principal amount of its 4.95% senior notes due 2025 (the "2025 Notes" together with the 2018 and 2020 Notes, the "Notes"), with net proceeds from the offering totaling approximately $2.2 billion after underwriting discounts and offering expenses. The proceeds from this offering were used to repay the remaining principal and interest outstanding under the Company's $4.5 billion 364-day bridge term loan facility, which was first reduced with proceeds from the Company's concurrent underwritten public offerings of common and preferred stock, and were also used to repay a portion of amounts outstanding under the Company's revolving credit facility. As a result of this repayment, the Company expensed $47 million of short-term unamortized debt issuance costs related to the bridge facility in January 2015, recognized in other interest charges on the unaudited condensed consolidated statement of operations for the three months ended March 31, 2015. The Notes were sold to the public at a price of 99.949% of their face value for the 2018 Notes, 99.897% of their face value for the 2020 Notes and 99.782% of their face value for the 2025 Notes. The interest rates on the Notes are determined based upon the public bond ratings from Moody's and S&P. Downgrades on the Notes from either rating agency increase interest costs by 25 basis points per downgrade level and upgrades decrease interest costs by 25 basis points per upgrade level on the following semi-annual bond interest payment. In February and June 2016, Moody's and S&P downgraded the Notes, increasing the interest rates by 175 basis points effective July 2016. As a result of the downgrades, interest rates increased to 5.05% for the 2018 Notes, 5.80% for the 2020 Notes and 6.70% for the 2025 Notes. In the event of future downgrades, the coupons for this series of notes are capped at 5.30%, 6.05% and 6.95%, respectively. The first coupon payment to bondholders at the higher interest rates will be paid in January 2017.

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In July 2016, the Company used a portion of the proceeds from the July 2016 equity offering to settle certain tender offers by purchasing an aggregate principal amount of approximately $700 million of the Company's outstanding senior notes due in the first quarter of 2018, resulting in a loss of $51 million for the early retirement and redemption of these senior notes including $50 million of premiums paid. Additionally, the Company expensed $2 million of unamortized debt issuance costs and debt discounts, recognized in other interest charges.

(11) COMMITMENTS AND CONTINGENCIES

Operating Commitments and Contingencies

As of September 30, 2016, the Company's contractual obligations for demand and similar charges under firm transportation and gathering agreements to guarantee access capacity on natural gas and liquids pipelines and gathering systems totaled approximately $8.6 billion, $3.4 billion of which related to access capacity on future pipeline and gathering infrastructure projects that still require the granting of regulatory approvals and additional construction efforts. The Company also had guarantee obligations of up to $862 million of that amount. As of September 30, 2016, future payments under non-cancelable firm transportation and gathering agreements are as follows:

	Payments Due by Period					
	Total	Less than 1 Year	1 to 3 Years	3 to 5 Years	5 to 8 Years	More than 8 Years
	(in millions)					
Infrastructure currently in service	$ 5,157	$ 545	$ 1,140	$ 865	$ 851	$ 1,756
Pending regulatory approval and/or construction (1)	3,429	14	294	465	694	1,962
Total transportation charges	$ 8,586	$ 559	$ 1,434	$ 1,330	$ 1,545	$ 3,718

(1) Based on the estimated in-service dates as of September 30, 2016.

Environmental Risk

The Company is subject to laws and regulations relating to the protection of the environment. Environmental and cleanup related costs of a non-capital nature are accrued when it is both probable that a liability has been incurred and when the amount can be reasonably estimated. Management believes any future remediation or other compliance related costs will not have a material effect on the financial position or results of operations of the Company.

Litigation

The Company is subject to various litigation, claims and proceedings that have arisen in the ordinary course of business, such as for alleged breaches of contract, miscalculation of royalties, and pollution, contamination or nuisance. Management believes that such litigation, claims and proceedings, individually or in aggregate and after taking into account insurance, are not likely to have a material adverse impact on the Company's financial position, results of operations or cash flows. Many of these matters are in early stages, so the allegations and the damage theories have not been fully developed, and are all subject to inherent uncertainties; therefore, management's view may change in the future. If an unfavorable final outcome were to occur, there exists the possibility of a material impact on the Company's financial position, results of operations or cash flows for the period in which the effect becomes reasonably estimable. The Company accrues for such items when a liability is both probable and the amount can be reasonably estimated.

Berry-Helfand (Tovah Energy)

In February 2009, one of the Company's subsidiaries was added as a defendant in a case then styled Tovah Energy, LLC and Toby Berry-Helfand v. David Michael Grimes, et al., then pending in the 273rd District Court in Shelby County, Texas. The plaintiff alleged that the subsidiary used information provided by the plaintiff under a confidentiality agreement, which she claimed, among other things, breached the agreement and constituted a misappropriation of a trade secret. Following a trial in December 2010, the court awarded approximately $11 million in actual damages and approximately $24 million in disgorgement of profits. Both sides appealed, and in July 2013 the Texas Court of Appeals for the Twelfth District reversed on all claims except misappropriation of trade secrets, reduced the judgment to the actual damages award and ordered the case remanded for an award of attorneys' fees to the Company's subsidiary on one of the claims on which judgment was reversed. Both parties petitioned the Supreme Court of Texas for review. On June 10, 2016, the Supreme Court ruled that insufficient evidence supported the damage award and remanded the case for a new trial. The date for the new trial has not yet been set.

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The Company's subsidiary continues to deny that it breached any obligation or misappropriated any trade secret, the only two remaining claims. Based on the Company's understanding and judgment of the facts and merits of this case, and after considering the advice of counsel, the Company has determined that, although reasonably possible, a materially adverse final outcome to this action is not probable. As such, the Company has not accrued any amounts with respect to this action. The Company's assessment may change in the future depending on further court proceedings, and such a re-assessment could lead to the determination that the potential liability is probable and could be material to the Company's results of operations, financial position or cash flows.

Arkansas Royalty Litigation

Certain of the Company's subsidiaries are defendants in three cases, two filed in Arkansas state court in 2010 and 2013 and one in federal court in 2014, on behalf of putative classes of royalty owners on some of the Company's leases located in Arkansas. The chief complaint in all three cases is that one of the Company's subsidiaries underpaid the royalty owners by, among other things, deducting from royalty payments costs for gathering, transportation, and compression of natural gas in excess of what is permitted by the relevant leases. In September and October 2014, the judges in the two Arkansas state actions entered orders certifying classes of royalty owners who are citizens of Arkansas. The Company's subsidiaries have appealed those orders. Oral argument on both cases has been set for November 2016.

On November 17, 2015, the court in the federal case denied the plaintiff's motion to certify a class of royalty owners not included in either of the two state cases. On April 11, 2016, the court certified a broader class that includes Arkansas residents and citizens. The plaintiff in the federal case presented two alternative damages theories. Under one theory, plaintiffs have asserted that obligations to affiliates are not "incurred" and therefore the exploration and production subsidiary was not entitled to deduct any post-production costs; the federal court has granted partial summary judgment for the Company's subsidiaries on this theory. Under another theory, plaintiffs assert that the gathering and treating rates the Company deducted from royalty payments exceeded the affiliates' actual costs or otherwise were not reasonable. The plaintiffs have not disclosed a specific damage calculation for any putative class, but based on the class representative's disclosure regarding the calculation of claimed damages, class-wide damages could exceed $100 million. The Company has moved for summary judgement. A trial date has not been set.

In addition, in September 2015 three cases were filed in Arkansas state court on behalf of a total of 248 individually named plaintiffs. Each case asserts complaints that are in substance virtually identical to the above-described case. The Company and its subsidiaries have removed two of the cases to federal court, and those cases have been assigned to the court in which the above-described federal case is pending. All three cases have been stayed.

Management believes that, in all of the above cases, the deductions from royalty payments as calculated are permitted and intends to defend the cases vigorously. The Company’s assessment may change in the future due to the occurrence of certain events, such as adverse judgments, and such a re-assessment could lead to the determination that the potential liability is probable and could be material to the Company’s results of operations, financial position or cash flows.

Indemnifications

The Company provides certain indemnifications in relation to dispositions of assets. These indemnifications typically relate to disputes, litigation or tax matters existing at the date of disposition. No liability has been recognized in connection with these indemnifications.

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(12) PENSION PLAN AND OTHER POSTRETIREMENT BENEFITS

The Company has defined pension and postretirement benefit plans which cover substantially all of the Company's employees. Net periodic pension costs include the following components for the three and nine months ended September 30, 2016 and 2015:

	Pension Benefits			
	For the three months ended September 30,		For the nine months ended September 30,	
	2016	2015	2016	2015
	(in millions)			
Service cost	$ 3	$ 4	$ 9	$ 12
Interest cost	1	1	4	4
Expected return on plan assets	(2)	(2)	(5)	(6)
Amortization of prior service cost	–	–	–	–
Amortization of net loss	–	1	1	2
Curtailment loss	–	–	1	–
Settlement loss	2	–	10	–
Net periodic benefit cost	$ 4	$ 4	$ 20	$ 12

In January 2016, the Company initiated a reduction in workforce that was effectively completed by the end of the first quarter. As a result of the workforce reduction, the Company recognized a $1 million non-cash curtailment loss related to its pension plan for both the curtailment-related decrease to the benefit obligation and the recognition of the proportionate share of unrecognized prior service cost and net loss from other comprehensive income (loss) in the second quarter of 2016. Additionally, the Company recognized a non-cash settlement loss of $2 million and $10 million for the three and nine months ended September 30, 2016, respectively, related to a total of $35 million of lump sum payments from the pension plan during the second and third quarters of 2016.

The Company's other postretirement benefit plan had a net periodic benefit cost (gain) of $1, $1, ($4) and $3 million for the three months ended September 30, 2016 and 2015 and nine months ended September 30, 2016 and 2015, respectively. Included in the net periodic benefit cost for the nine months ended September 30, 2016 is a curtailment gain of $6 million, which more than offset the other components of net periodic benefit cost.

As of September 30, 2016, the Company has contributed $8 million to the pension and other postretirement benefit plans in 2016. The Company expects to contribute an additional $3 million during the remainder of 2016. The Company recognized a liability of $40 million and $12 million related to its pension and other postretirement benefits, respectively, as of September 30, 2016, compared to a liability of $31 million and $20 million as of December 31, 2015. The Company updated the discount rate used in the measurement of the benefit obligation of the pension plan and other postretirement benefits plan to 4.20% in the second quarter of 2016. The Company used an assumption of 4.60% from January 1, 2016 to March 31, 2016 for both the pension and other postretirement benefit plans.

The Company maintains a non-qualified deferred compensation supplemental retirement savings plan ("Non-Qualified Plan") for certain key employees who may elect to defer and contribute a portion of their compensation, as permitted by the plan. Shares of the Company's common stock purchased under the terms of the Non-Qualified Plan are presented as treasury stock and totaled 31,269 shares at September 30, 2016, compared to 47,149 shares at December 31, 2015.

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(13) STOCK-BASED COMPENSATION

The Company recognized the following amounts in employee stock-based compensation costs for the three and nine months ended September 30, 2016 and 2015:

	For the three months ended September 30,		For the nine months ended September 30,	
	2016	2015	2016	2015
	(in millions)			
Stock-based compensation cost – expensed (1)	$ 6	$ 6	$ 43	$ 18
Stock-based compensation cost – capitalized	$ 2	$ 6	$ 7	$ 17

(1) Includes $16 million and $3 million related to the reduction in workforce and executive management restructuring, respectively, for the nine months ended September 30, 2016.

In January 2016, the Company announced a 40% workforce reduction that was substantially concluded by the end of March 2016. In April 2016, the Company also partially restructured executive management, which was substantially completed in the second quarter of 2016. Affected employees were offered a severance package that included, if applicable, amendments to outstanding equity awards that modified forfeiture provisions on separation from the Company. As a result, unvested stock-based equity awards became fully vested at the time of separation. These shares were revalued and recognized immediately as a component of restructuring charges on the Company's unaudited condensed consolidated statements of operations.

As of September 30, 2016, there was $55 million of total unrecognized compensation cost related to the Company's unvested stock option grants, restricted stock grants and performance units. This cost is expected to be recognized over a weighted-average period of 2 years.

Stock Options

The following table summarizes stock option activity for the nine months ended September 30, 2016 and provides information for options outstanding and options exercisable as of September 30, 2016:

	Number of Options (in thousands)	Weighted Average Exercise Price (per share)
Outstanding at December 31, 2015	5,623	$ 24.57
Granted	156	8.60
Exercised	–	–
Forfeited or expired	(63)	27.81
Outstanding at September 30, 2016	5,716	24.10
Exercisable at September 30, 2016	2,627	$ 35.80

Restricted Stock

The following table summarizes restricted stock activity for the nine months ended September 30, 2016 and provides information for unvested shares as of September 30, 2016:

	Number of Shares (in thousands)	Weighted Average Fair Value (per share)
Unvested shares at December 31, 2015	7,222	$ 13.24
Granted	79	8.41
Vested (1)	(2,525)	9.24
Forfeited	(138)	12.20
Unvested shares at September 30, 2016	4,638	$ 12.86

(1) Includes 2,041,877 shares related to the reduction in workforce and 151,575 shares related to the executive management restructuring for the nine months ended September 30, 2016.

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Equity-Classified Performance Units

The following table summarizes performance unit activity for the nine months ended September 30, 2016 to be paid out in Company stock and provides information for unvested units as of September 30, 2016. The performance units awarded in 2013 and 2014 included a market condition based on relative Total Shareholder Return ("TSR") and a performance condition based on the Company's Present Value Index ("PVI"), collectively the "Performance Measures." The fair value of the TSR market condition of the performance units is based on a Monte Carlo model and is amortized to compensation expense on a straight-line basis over the vesting period of the award. The fair value of the PVI performance condition of the performance units is based on economic analysis for each investment opportunity based upon the expected present value added for each dollar to be invested and amortized to compensation expense on a straight-line basis over the vesting period of the award. The performance units awarded in 2016 and 2015 are based exclusively on TSR. The grant date fair value is calculated using the applicable Performance Measures and the closing price of the Company's common stock at the grant date.

	Number of Units (1) (in thousands)	Weighted Average Fair Value (per share)
Unvested units at December 31, 2015	407	$ 36.65
Granted	1,502	8.60
Vested (2)	(414)	7.62
Forfeited (3)	(290)	11.32
Unvested units at September 30, 2016	1,205	$ 13.70

(1) These amounts reflect the number of performance units granted in thousands. The actual payout of shares may range from a minimum of zero shares to a maximum of two shares contingent upon the actual performance against the applicable Performance Measures.
(2) Includes 15,632 units and 37,590 units related to the reduction in workforce and executive management restructuring, respectively, for the nine months ended September 30, 2016.
(3) Includes 76,281 units and 195,834 units related to the reduction in workforce and executive management restructuring, respectively, for the nine months ended September 30, 2016.

Liability-Classified Performance Units

Prior to 2013, certain employees were provided performance units vesting equally over three years, payable in cash. The payout of these units was based on certain metrics, such as total shareholder return and reserve replacement

efficiency, compared to a predetermined group of peer companies and Company goals. At the end of each performance period, the value of the vested performance units, if any, would be paid in cash. In the first quarter of 2016, the Company completed the final payout under these performance unit agreements.

(14) SEGMENT INFORMATION

The Company's reportable business segments have been identified based on the differences in products or services provided. Revenues for the E&P segment are derived from the production and sale of natural gas and liquids. The Midstream segment generates revenue through the marketing of both Company and third-party produced natural gas and liquids volumes and through gathering fees associated with the transportation of natural gas to market.

Summarized financial information for the Company's reportable segments is shown in the following table. The accounting policies of the segments are the same as those described in Note 1 of the Notes to Consolidated Financial Statements included in Item 8 of the 2015 Annual Report. Management evaluates the performance of its segments based on operating income, defined as operating revenues less operating costs. Income before income taxes, for the purpose of reconciling the operating income amount shown below to consolidated income before income taxes, is the sum of operating income, interest expense, gain (loss) on derivatives, loss on early extinguishment of debt and other income (loss). The "Other" column includes items not related to the Company's reportable segments including real estate and corporate items.

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	Exploration and Production (in millions)		Midstream	Other		Total
Three months ended September 30, 2016:						
Revenues from external customers	$ 381		$ 270	$ –		$ 651
Intersegment revenues	(3)		412	–		409
Depreciation, depletion and amortization expense	83		16	–		99
Impairment of natural gas and oil properties	817		–	–		817
Operating income (loss)	(777)	(1)	52	–		(725)
Interest expense (3)	26		–	–		26
Gain on derivatives	71		–	–		71
Loss on early extinguishment of debt	–		–	(51)		(51)
Other income, net	2		1	–		3
Benefit for income taxes (3)	(20)		–	–		(20)
Assets	4,015		1,253	1,622	(4)	6,890
Capital investments (5)	179		1	–		180

Three months ended September 30, 2015: