SCHLUMBERGER LTD /NV/
Form 10-Q
July 23, 2014
UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended: June 30, 2014

Commission file No.: 1-4601

SCHLUMBERGER N.V.

(SCHLUMBERGER LIMITED)

(Exact name of registrant as specified in its charter)

CURAÇAO (State or other jurisdiction of incorporation or organization)	52-0684746 (I.R.S. Employer Identification No.)
42 RUE SAINT-DOMINIQUE PARIS, FRANCE	75007
5599 SAN FELIPE, 17th FLOOR HOUSTON, TEXAS, U.S.A.	77056
62 BUCKINGHAM GATE LONDON, UNITED KINGDOM	SW1E 6AJ
PARKSTRAAT 83 THE HAGUE, THE NETHERLANDS	2514 JG

(Addresses of principal executive offices) (Zip Codes)

Registrant's telephone number: (713) 375-3400

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 x 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 during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x 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 x	Accelerated filer ¨
Non-accelerated filer ¨ (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 x

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class	Outstanding at June 30, 2014
COMMON STOCK, $0.01 PAR VALUE PER SHARE	1,296,436,308

SCHLUMBERGER LIMITED

Second Quarter 2014 Form 10-Q

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements.

SCHLUMBERGER LIMITED AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF INCOME

(Unaudited)

(Stated in millions, except per share amounts)

	Second Quarter		Six Months	
	2014	2013	2014	2013
Revenue	$12,054	$11,182	$23,294	$21,752
Interest & other income	64	30	141	63
Gain on formation of OneSubsea	—	1,028	—	1,028
Expenses				
Cost of revenue	9,269	8,712	18,018	17,118
Research & engineering	309	293	593	585
General & administrative	123	100	228	196
Impairment & other	—	364	—	456
Interest	90	98	193	197
Income from continuing operations before taxes	2,327	2,673	4,403	4,291
Taxes on income	506	449	974	855
Income from continuing operations	1,821	2,224	3,429	3,436
Loss from discontinued operations	(205)	(124)	(205)	(69)
Net income	1,616	2,100	3,224	3,367
Net income attributable to noncontrolling interests	21	5	37	13
Net income attributable to Schlumberger	$1,595	$2,095	$3,187	$3,354
Schlumberger amounts attributable to:				
Income from continuing operations	$1,800	$2,219	$3,392	$3,423
Loss from discontinued operations	(205)	(124)	(205)	(69)
Net income	$1,595	$2,095	$3,187	$3,354
Basic earnings per share of Schlumberger:				
Income from continuing operations	$1.38	$1.67	$2.60	$2.58
Loss from discontinued operations	(0.16)	(0.09)	(0.16)	(0.05)
Net income [(1)]	$1.23	$1.58	$2.45	$2.52
Diluted earnings per share of Schlumberger:				
Income from continuing operations	$1.37	$1.66	$2.58	$2.56
Loss from discontinued operations	(0.16)	(0.09)	(0.16)	(0.05)
Net income [(1)]	$1.21	$1.57	$2.42	$2.51
Average shares outstanding:				
Basic	1,300	1,327	1,303	1,329
Assuming dilution	1,315	1,336	1,316	1,339

[(1)] Amounts may not add due to rounding.

See Notes to Consolidated Financial Statements

SCHLUMBERGER LIMITED AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(Unaudited)

	(Stated in millions)			
	Second Quarter		Six Months	
	2014	2013	2014	2013
Net income	$1,616	$2,100	$3,224	$3,367
Currency translation adjustments				
Unrealized net change arising during the period	58	(157)	(30)	(234)
Marketable securities				
Unrealized gain arising during the period	19	11	30	83
Derivatives				
Net derivatives gain (loss) on hedge transactions	(3)	49	13	(104)
Reclassification to net income of net realized (gain) loss (see Note 11)	9	(34)	6	45
Pension and other postretirement benefit plans				
Actuarial loss				
Actuarial loss arising during the period	—	(6)	—	(6)
Amortization to net income of net actuarial loss (see Note 15)	59	76	100	152
Prior service cost				
Amortization to net income of net prior service cost (see Note 15)	24	31	56	63
Income taxes on pension and other postretirement benefit plans	(10)	(15)	(20)	(31)
Comprehensive income	1,772	2,055	3,379	3,335
Comprehensive income attributable to noncontrolling interests	21	5	37	13
Comprehensive income attributable to Schlumberger	$1,751	$2,050	$3,342	$3,322

See Notes to Consolidated Financial Statements

SCHLUMBERGER LIMITED AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET

	(Stated in millions) Jun. 30, 2014 (Unaudited)	Dec. 31, 2013
ASSETS		
Current Assets		
Cash	$2,267	$3,472
Short-term investments	4,432	4,898
Receivables less allowance for doubtful accounts (2014 - $407; 2013 - $384)	12,251	11,497
Inventories	4,770	4,603
Deferred taxes	235	288
Other current assets	1,459	1,467
	25,414	26,225
Fixed Income Investments, held to maturity	480	363
Investments in Affiliated Companies	3,342	3,317
Fixed Assets less accumulated depreciation	15,743	15,096
Multiclient Seismic Data	727	667
Goodwill	15,220	14,706
Intangible Assets	4,738	4,709
Other Assets	2,422	2,017
	$68,086	$67,100
LIABILITIES AND EQUITY		
Current Liabilities		
Accounts payable and accrued liabilities	$8,692	$8,837
Estimated liability for taxes on income	1,529	1,490
Long-term debt - current portion	837	1,819
Short-term borrowings	668	964
Dividends payable	525	415
	12,251	13,525
Long-term Debt	11,740	10,393
Postretirement Benefits	699	670
Deferred Taxes	1,656	1,708
Other Liabilities	1,038	1,169
	27,384	27,465
Equity		
Common stock	12,338	12,192
Treasury stock	(9,514)	(8,135)
Retained earnings	40,111	37,966
Accumulated other comprehensive loss	(2,399)	(2,554)
Schlumberger stockholders' equity	40,536	39,469
Noncontrolling interests	166	166
	40,702	39,635
	$68,086	$67,100

See Notes to Consolidated Financial Statements

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SCHLUMBERGER LIMITED AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOWS

(Unaudited)

	(Stated in millions) Six Months Ended Jun. 30,	
	2014	2013
Cash flows from operating activities:		
Net income	$3,224	$3,367
Add: Loss from discontinued operations	205	69
Adjustments to reconcile net income to cash provided by operating activities:		
Gain on formation of OneSubsea	—	(1,028)
Impairment of equity method investments and currency devaluation loss in Venezuela	—	456
Depreciation and amortization [1]	1,997	1,903
Pension and other postretirement benefits expense	190	255
Stock-based compensation expense	162	168
Pension and other postretirement benefits funding	(127)	(231)
Earnings of companies carried at equity, less dividends received	(90)	(26)
Change in assets and liabilities: [2]		
Increase in receivables	(590)	(511)
Increase in inventories	(90)	(237)
Decrease in other current assets	82	20
Increase in other assets	(60)	(75)
Decrease in accounts payable and accrued liabilities	(515)	(389)
Increase (decrease) in liability for taxes on income	23	(96)
(Decrease) increase in other liabilities	(204)	19
Other	12	131
NET CASH PROVIDED BY OPERATING ACTIVITIES	4,219	3,795
Cash flows from investing activities:		
Capital expenditures	(1,786)	(1,800)
SPM investments	(377)	(367)
Multiclient seismic data capitalized	(154)	(222)
Business acquisitions and investments, net of cash acquired	(471)	(717)
Sale of investments, net	349	850
Other	3	91
NET CASH USED IN INVESTING ACTIVITIES	(2,436)	(2,165)
Cash flows from financing activities:		
Dividends paid	(932)	(781)
Proceeds from employee stock purchase plan	134	126
Proceeds from exercise of stock options	358	63
Stock repurchase program	(2,074)	(692)
Proceeds from issuance of long-term debt	1,979	1,013
Repayment of long-term debt	(2,104)	(453)
Net decrease in short-term borrowings	(302)	(152)
Other	(32)	—

NET CASH USED IN FINANCING ACTIVITIES	(2,973)	(876)
Cash flows used in discontinued operations - operating activities	—	(33)
Cash flows used in discontinued operations - investing activities	—	(28)
Cash flows used in discontinued operations	—	(61)
Net (decrease) increase in cash before translation effect	(1,190)	693
Translation effect on cash	(15)	(12)
Cash, beginning of period	3,472	1,905
Cash, end of period	$2,267	$2,586

(1) Includes depreciation of property, plant and equipment and amortization of intangible assets, multiclient seismic data costs and SPM investments.
(2) Net of the effect of business acquisitions and divestitures.
See Notes to Consolidated Financial Statements

SCHLUMBERGER LIMITED AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF EQUITY

(Unaudited)

(Stated in millions)

January 1, 2014 - June 30, 2014	Common Stock Issued	Common Stock In Treasury	Retained Earnings	Accumulated Other Comprehensive Loss	Noncontrolling Interests	Total
Balance, January 1, 2014	$12,192	$ (8,135)	$37,966	$ (2,554)	$ 166	$39,635
Net income			3,187		37	3,224
Currency translation adjustments				(30)		(30)
Changes in unrealized gain on marketable securities				30		30
Changes in fair value of derivatives				19		19
Pension and other postretirement benefit plans				136		136
Shares sold to optionees, less shares exchanged	(12)	370				358
Vesting of restricted stock	(54)	54				—
Shares issued under employee stock purchase plan	6	128				134
Stock repurchase program		(2,074)				(2,074)
Stock-based compensation expense	162					162
Dividends declared ($0.80 per share)			(1,042)			(1,042)
Shares issued for acquisition	72	141				213
Other	(28)	2			(37)	(63)
Balance, June 30, 2014	$12,338	$ (9,514)	$40,111	$ (2,399)	$ 166	$40,702

(Stated in millions)

January 1, 2013 - June 30, 2013	Common Stock Issued	Common Stock In Treasury	Retained Earnings	Accumulated Other Comprehensive Loss	Noncontrolling Interests	Total
Balance, January 1, 2013	$11,912	$ (6,160)	$32,887	$ (3,888)	$ 107	$34,858
Net income			3,354		13	3,367
Currency translation adjustments				(234)		(234)
Changes in unrealized gain on marketable securities				83		83
Changes in fair value of derivatives.				(59)		(59)
Pension and other postretirement benefit plans				178		178
Shares sold to optionees, less shares exchanged	(18)	81				63
Vesting of restricted stock	(43)	43				—

Shares issued under employee stock purchase plan	5	122				127
Stock repurchase program		(692)				(692)
Stock-based compensation expense	168					168
Dividends declared ($0.625 per share)			(832)			(832)
Other	1	1			19	21
Balance, June 30, 2013	$12,025	$(6,605)	$35,409	$(3,920)	$139	$37,048

SHARES OF COMMON STOCK

(Unaudited)

(Stated in millions)

		Shares	
	Issued	In Treasury	Outstanding
Balance, January 1, 2014	1,434	(127)	1,307
Shares sold to optionees, less shares exchanged	—	6	6
Vesting of restricted stock	—	1	1
Shares issued under employee stock purchase plan	—	2	2
Shares issued for acquisition	—	2	2
Stock repurchase program	—	(22)	(22)
Balance, June 30, 2014	1,434	(138)	1,296

See Notes to Consolidated Financial Statements

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SCHLUMBERGER LIMITED AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. Basis of Presentation

The accompanying unaudited consolidated financial statements of Schlumberger Limited and its subsidiaries ("Schlumberger") have been prepared in accordance with generally accepted accounting principles in the United States of America for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of Schlumberger management, all adjustments considered necessary for a fair statement have been included in the accompanying unaudited financial statements. All intercompany transactions and balances have been eliminated in consolidation. Operating results for the six-month period ended June 30, 2014 are not necessarily indicative of the results that may be expected for the full year ending December 31, 2014. The December 31, 2013 balance sheet information has been derived from the Schlumberger 2013 financial statements. For further information, refer to the Consolidated Financial Statements and notes thereto included in the Schlumberger Annual Report on Form 10-K for the year ended December 31, 2013, filed with the Securities and Exchange Commission on January 31, 2014.

Certain prior year items have been reclassified to conform to the current year presentation. During the second quarter of 2014, Schlumberger revised its Consolidated Statement of Cash Flows to present certain cash outflows relating to Schlumberger Production Management ("SPM") activities as a separate line item within investing activities, referred to as "SPM investments." Schlumberger historically presented such cash outflows as an operating activity. This change is not considered material to prior periods.

New Accounting Pronouncement

In May 2014, the Financial Accounting Standards Board issued Accounting Standards Update ("ASU") 2014-09, Revenue from Contracts with Customers. This ASU amends the existing accounting standards for revenue recognition and is based on the principle that revenue should be recognized to depict the transfer of goods or services to a customer at an amount that reflects the consideration a company expects to receive in exchange for those goods or services. Schlumberger is required to adopt this ASU on January 1, 2017. Schlumberger does not expect this ASU to have a material impact on its consolidated financial statements.

2. Charges and Credits

Schlumberger recorded the following charges and credits in continuing operations during the first six months of 2013:

Second quarter 2013:

- Schlumberger recorded a pretax and after-tax gain of $1.028 billion as a result of the deconsolidation of its subsea business in connection with the formation of the OneSubsea joint venture with Cameron International Corporation ("Cameron"). Refer to Note 4 – Acquisitions for further details.

- Schlumberger recorded a $222 million pretax ($203 million after-tax) impairment charge relating to an investment in a company involved in developing drilling-related technology and a $142 million pretax and after-tax impairment charge relating to an investment in a contract drilling business.

First quarter 2013:

- Although the functional currency of Schlumberger's operations in Venezuela is the US dollar, a portion of the transactions are denominated in local currency. In February 2013, Venezuela's currency was devalued from the prior exchange rate of 4.3 Bolivar Fuertes per US dollar to 6.3 Bolivar Fuertes per US dollar. As a result of this devaluation, Schlumberger recorded a pretax and after-tax foreign currency loss of $92 million during the first quarter of 2013.

The following is a summary of the charges recorded during the first six months of 2013:

	(Stated in millions)			
	Pretax	Tax	Net	Classification
Gain on formation of OneSubsea joint venture	$(1,028)	$—	$(1,028)	Gain on formation of OneSubsea
Impairment of equity-method investments	364	19	345	Impairment & other
Currency devaluation loss in Venezuela	92	$—	92	Impairment & other
	$(572)	$19	$(591)	

There were no charges or credits recorded in continuing operations during the first six months of 2014.

3. Earnings Per Share

The following is a reconciliation from basic earnings per share of Schlumberger to diluted earnings per share from continuing operations of Schlumberger:

	(Stated in millions, except per share amounts)					
	2014			2013		
	Schlumberger Income from Continuing Operations	Average Shares Outstanding	Earnings per Share from Continuing Operations	Schlumberger Income from Continuing Operations	Average Shares Outstanding	Earnings per Share from Continuing Operations
Second Quarter						
Basic	$1,800	1,300	$ 1.38	$2,219	1,327	$ 1.67
Assumed exercise of stock options	—	11		—	5	
Unvested restricted stock	—	4		—	4	
Diluted	$1,800	1,315	$ 1.37	$2,219	1,336	$ 1.66

	Schlumberger Income from Continuing Operations	Average Shares Outstanding	Earnings per Share from Continuing Operations	Schlumberger Income from Continuing Operations	Average Shares Outstanding	Earnings per Share from Continuing Operations
Six Months						
Basic	$ 3,392	1,303	$ 2.60	$ 3,423	1,329	$ 2.58
Assumed exercise of stock options	—	9		—	6	
Unvested restricted stock	—	4		—	4	
Diluted	$ 3,392	1,316	$ 2.58	$ 3,423	1,339	$ 2.56

The number of outstanding options to purchase shares of Schlumberger common stock which were not included in the computation of diluted earnings per share, because to do so would have had an antidilutive effect, was as follows:

	(Stated in millions)	
	2014	2013
Second Quarter	—	13
Six Months	5	13

4. Acquisitions

On June 30, 2013, Schlumberger and Cameron completed the formation of OneSubsea, a joint venture to manufacture and develop products, systems and services for the subsea oil and gas market. Schlumberger and Cameron each contributed all of their respective subsea businesses to the joint venture and Schlumberger made a $600 million cash payment to Cameron. Schlumberger owns 40% of OneSubsea and accounts for this investment under the equity method. Schlumberger recognized a pretax and after-tax gain of $1.028 billion, which is classified as Gain on formation of OneSubsea in the Consolidated Statement of Income, as a result of the deconsolidation of its subsea business. This gain is equal to the difference between the fair value of the Schlumberger subsea business, which was determined based on the present value of its estimated future cash flows, and its carrying value at the time of closing.

During the first six months of 2014 and 2013, Schlumberger made certain other acquisitions and investments, none of which were significant on an individual basis, for cash payments, net of cash acquired, of $471 million and $117 million, respectively. Additionally, during the first six months of 2014, Schlumberger issued 2.1 million shares of its common stock, valued at $213 million, in connection with an acquisition.

5. Inventories

A summary of inventories follows:

	(Stated in millions) Jun. 30, 2014	Dec. 31, 2013
Raw materials & field materials	$2,696	$ 2,539
Work in process	314	261
Finished goods	1,760	1,803
	$4,770	$ 4,603

6. Fixed Assets

A summary of fixed assets follows:

	(Stated in millions) Jun. 30, 2014	Dec. 31, 2013
Property, plant & equipment	$36,906	$35,164
Less: Accumulated depreciation	21,163	20,068
	$15,743	$15,096

Depreciation expense relating to fixed assets was as follows:

	(Stated in millions) 2014	2013
Second Quarter	$800	$776
Six Months	$1,593	$1,537

7. Multiclient Seismic Data

The change in the carrying amount of multiclient seismic data for the six months ended June 30, 2014 was as follows:

(Stated in millions)	
Balance at December 31, 2013	$667
Capitalized in period	154
Charged to expense	(94)
Balance at June 30, 2014	$727

8. Goodwill

The changes in the carrying amount of goodwill by reporting unit for the six months ended June 30, 2014 were as follows:

	(Stated in millions)			
	Reservoir Characterization	Drilling	Production	Total
Balance at December 31, 2013	$3,737	$8,315	$ 2,654	$14,706
Acquisitions	17	223	275	515
Reallocation	83	(83)	—	—
Impact of changes in exchange rates	(1)	—	—	(1)
Balance at June 30, 2014	$3,836	$8,455	$ 2,929	$15,220

9. Intangible Assets

The gross book value, accumulated amortization and net book value of intangible assets were as follows:

	(Stated in millions)					
	Jun. 30, 2014			Dec. 31, 2013		
	Gross Book Value	Accumulated Amortization	Net Book Value	Gross Book Value	Accumulated Amortization	Net Book Value
Technology/Technical Know-How	$1,960	$ 650	$1,310	$1,960	$ 597	$1,363
Tradenames	1,646	290	1,356	1,647	257	1,390
Customer Relationships	2,441	464	1,977	2,263	407	1,856
Other	430	335	95	435	335	100
	$6,477	$ 1,739	$4,738	$6,305	$ 1,596	$4,709

Amortization expense charged to income was as follows:

	(Stated in millions)	
	2014	2013
Second Quarter	$86	$81
Six Months	$169	$163

The weighted average amortization period for all intangible assets is approximately 20 years.

Based on the net book value of intangible assets at June 30, 2014, amortization charged to income for the subsequent five years is estimated to be: remainder of 2014—$178 million; 2015—$355 million; 2016—$344 million; 2017—$337 million; 2018—$329 million; and 2019—$318 million.

10. Long-term Debt

A summary of Long-term Debt follows:

	(Stated in millions)	
	Jun. 30, 2014	Dec. 31, 2013
3.30% Senior Notes due 2021	$1,596	$1,596

3.65% Senior Notes due 2023	1,495	1,495
2.75% Guaranteed Notes due 2015	1,359	1,373
1.95% Senior Notes due 2016	1,099	1,099
4.20% Senior Notes due 2021	1,100	1,099
1.25% Senior Notes due 2017	1,000	999
2.40% Senior Notes due 2022	999	999
1.50% Guaranteed Notes due 2019	694	697
2.65% Senior Notes due 2016	500	500
Commercial paper borrowings	1,472	—
Other	426	536
	$11,740	$10,393

The estimated fair value of Schlumberger's Long-term Debt at June 30, 2014 and December 31, 2013, based on quoted market prices, was $12.0 billion and $10.4 billion, respectively.

Borrowings under the commercial paper program at June 30, 2014 were $2.0 billion, of which $0.5 billion was classified within Long-term debt – current portion in the Consolidated Balance Sheet. At December 31, 2013, borrowings under the commercial paper program were $95 million, all of which was classified within Long-term debt – current portion in the Consolidated Balance Sheet.

11. Derivative Instruments and Hedging Activities

Schlumberger is exposed to market risks related to fluctuations in foreign currency exchange rates and interest rates. To mitigate these risks, Schlumberger utilizes derivative instruments. Schlumberger does not enter into derivative transactions for speculative purposes.

Foreign Currency Exchange Rate Risk

As a multinational company, Schlumberger conducts business in more than 85 countries. Schlumberger's functional currency is primarily the US dollar, which is consistent with the oil and gas industry. However, outside the United States, a significant portion of Schlumberger's expenses is incurred in foreign currencies. Therefore, when the US dollar weakens (strengthens) in relation to the foreign currencies of the countries in which Schlumberger conducts business, the US dollar–reported expenses will increase (decrease).

Schlumberger is exposed to risks on future cash flows to the extent that local currency expenses exceed revenues denominated in local currency that are other than the functional currency. In addition, Schlumberger is also exposed to risks on future cash flows relating to certain of its long-term debt which is denominated in currencies other than the functional currency. Schlumberger uses foreign currency forward contracts and foreign currency options to provide a hedge against a portion of these cash flow risks. These contracts are accounted for as cash flow hedges, with the effective portion of changes in the fair value of the hedge recorded on the Consolidated Balance Sheet and in Accumulated Other Comprehensive Loss. Amounts recorded in Accumulated Other Comprehensive Loss are reclassified into earnings in the same period or periods that the hedged item is recognized in earnings. The ineffective portion of changes in the fair value of hedging instruments, if any, is recorded directly to earnings.

At June 30, 2014, Schlumberger recognized a cumulative net $48 million gain in Equity relating to revaluation of foreign currency forward contracts and foreign currency options designated as cash flow hedges, the majority of which is expected to be reclassified into earnings within the next 12 months.

Schlumberger is also exposed to changes in the fair value of assets and liabilities which are denominated in currencies other than the functional currency. Schlumberger uses foreign currency forward contracts and foreign currency options to hedge this exposure as it relates to certain currencies. These contracts are accounted for as fair value hedges with the fair value of the contracts recorded on the Consolidated Balance Sheet and changes in the fair value recognized in the Consolidated Statement of Income along with the change in fair value of the hedged item.

At June 30, 2014, contracts were outstanding for the US dollar equivalent of $5.8 billion in various foreign currencies, of which $2.5 billion related to hedges of debt denominated in currencies other than the functional currency.

Interest Rate Risk

Schlumberger is subject to interest rate risk on its debt and its investment portfolio. Schlumberger maintains an interest rate risk management strategy that uses a mix of variable and fixed rate debt combined with its investment portfolio and occasionally interest rate swaps to mitigate the exposure to changes in interest rates.

During the fourth quarter of 2013, Schlumberger entered into a cross currency swap for a notional amount of €0.5 billion in order to hedge changes in the fair value of Schlumberger's €0.5 billion 1.50% Guaranteed Notes due 2019. Under the terms of this swap, Schlumberger will receive interest at a fixed rate of 1.50% on the euro notional amount and will pay interest at a floating rate of three-month LIBOR plus approximately 64 basis points on the US dollar notional amount.

This cross currency swap is designated as a fair value hedge of the underlying debt. This derivative instrument is marked to market with gains and losses recognized currently in income to largely offset the respective gains and losses recognized on changes in the fair value of the hedged debt.

At June 30, 2014, Schlumberger had fixed rate debt aggregating $9.1 billion and variable rate debt aggregating $4.1 billion, after taking into account the effect of the swap.

Short-term investments and Fixed income investments, held to maturity, totaled $4.9 billion at June 30, 2014, and were comprised primarily of money market funds, eurodollar time deposits, certificates of deposit, commercial paper, euro notes and Eurobonds, and were substantially all denominated in US dollars. The carrying value of these investments approximated fair value, which was estimated using quoted market prices for those or similar investments.

The fair values of outstanding derivative instruments are as follows:

	(Stated in millions) Fair Value of Derivatives		Consolidated Balance Sheet Classification
	Jun. 30, 2014	Dec. 31, 2013	
Derivative Assets			
Derivatives designated as hedges:			
Foreign exchange contracts	$ 17	$ 98	Other current assets
Foreign exchange contracts	11	24	Other Assets
Interest rate swap	23	27	Other Assets
	$ 51	$ 149	
Derivatives not designated as hedges:			
Foreign exchange contracts	$ 5	$ 10	Other current assets
Foreign exchange contracts	3	4	Other Assets
	$ 8	$ 14	
	$ 59	$ 163	
Derivative Liabilities			
Derivatives designated as hedges:			
Foreign exchange contracts	$ 6	$ 14	Accounts payable and accrued liabilities
Foreign exchange contracts	1	1	Other Liabilities
	$ 7	$ 15	
Derivatives not designated as hedges:			
Foreign exchange contracts	$ 10	$ 2	Accounts payable and accrued liabilities
	$ 17	$ 17	

The fair value of all outstanding derivatives was determined using a model with inputs that are observable in the market or can be derived from or corroborated by observable data.

The effect of derivative instruments designated as fair value hedges and those not designated as hedges on the Consolidated Statement of Income was as follows:

	(Stated in millions) Gain (Loss) Recognized in Income				
	Second Quarter		Six Months		
	2014	2013	2014	2013	Consolidated Statement of Income Classification
Derivatives designated as fair value hedges:					
Interest rate swaps	$ (8)	$ —	$ (9)	$ (2)	Interest expense
Derivatives not designated as hedges:					
Foreign exchange contracts	$ (8)	$ (1)	$ 5	$ (23)	Cost of revenue

The effect of derivative instruments in cash flow hedging relationships on income and Accumulated other Comprehensive Loss (AOCL) was as follows:

	(Stated in millions) Gain (Loss) Reclassified from AOCL into Income				
	Second Quarter		Six Months		
	2014	2013	2014	2013	Consolidated Statement of Income Classification
Foreign exchange contracts	$ (11)	$ 38	$ (8)	$ (41)	Cost of revenue
Foreign exchange contracts	2	(4)	2	(4)	Research & engineering
	$ (9)	$ 34	$ (6)	$ (45)	

	(Stated in millions) Gain (Loss) Recognized in AOCL			
	Second Quarter		Six Months	
	2014	2013	2014	2013
Foreign exchange contracts	$(3)	$ 49	$13	$(104)

12. Income Tax

Income from continuing operations before taxes which were subject to US and non-US income taxes was as follows:

	(Stated in millions)			
	Second Quarter		Six Months	
	2014	2013	2014	2013
United States	$625	$510	$1,149	$931
Outside United States	1,702	2,163	3,254	3,360
	$2,327	$2,673	$4,403	$4,291

Schlumberger recorded net pretax credits of $664 million during the second quarter of 2013 ($53 million of charges in the US and $717 million of net credits outside the US). These charges are included in the table above and are more fully described in Note 2 — Charges and Credits.

Schlumberger recorded net pretax credits of $572 million during the six months ended June 30, 2013 ($53 million of charges in the US and $625 million of net credits outside the US).

The components of net deferred tax assets (liabilities) were as follows:

	(Stated in millions)	
	Jun. 30, 2014	Dec. 31, 2013
Postretirement benefits	$242	$236
Intangible assets	(1,486)	(1,502)
Investments in non-US subsidiaries	(278)	(282)
Other, net	101	128
	$(1,421)	$(1,420)

The above deferred tax balances at both June 30, 2014 and December 31, 2013 were net of valuation allowances relating to net operating losses in certain countries of $246 million and $238 million, respectively.

The components of consolidated Taxes on income were as follows:

	(Stated in millions)			
	Second Quarter		Six Months	
	2014	2013	2014	2013
Current:				
United States — Federal	$131	$203	$277	$319
United States — State	12	20	19	35
Outside United States	355	298	691	546
	$498	$521	$987	$900
Deferred:				
United States — Federal	$4	$(42)	$11	$(24)
United States — State	3	(3)	2	(3)
Outside United States	1	(7)	(26)	2
Valuation allowance	—	(20)	—	(20)
	$8	$(72)	$(13)	$(45)
	$506	$449	$974	$855

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A reconciliation of the US statutory federal tax rate of 35% to the consolidated effective income tax rate follows:

	Second Quarter		Six Months	
	2014	2013	2014	2013
US federal statutory rate	35 %	35 %	35 %	35 %
US state income taxes	—	—	—	1
Non-US income taxed at different rates	(11)	(12)	(11)	(12)
Charges and credits (See Note 2)	—	(6)	—	(4)
Other	(2)	—	(2)	—
	22 %	17 %	22 %	20 %

13. Contingencies

In 2009, United States officials began a grand jury investigation and an associated regulatory inquiry, both related to certain historical Schlumberger operations in specified countries that are subject to United States trade and economic sanctions. Governmental agencies and authorities have a broad range of civil and criminal penalties that they may seek to impose for violations of trade and economic sanction laws including, but not limited to, disgorgement, fines, penalties and modifications to business practices. In recent years, these agencies and authorities have obtained a wide range of penalties in settlements with companies arising from trade and economic sanction investigations, including in some cases fines and other penalties in the tens and hundreds of millions of dollars. Schlumberger continues to cooperate and has been discussing the resolution of this matter with the governmental authorities. During the latter part of the second quarter of 2014, these discussions progressed to a point whereby Schlumberger determined that it was appropriate to increase its liability for this contingency. Accordingly, Schlumberger recorded a $205 million charge during the second quarter of 2014 within Loss from discontinued operations in the Consolidated Statement of Income. However, no certainty exists that a settlement will be reached or if so, the amount of any such settlement. Therefore, the ultimate loss could be greater or less than the amount accrued.

Schlumberger and its subsidiaries are party to various other legal proceedings from time to time. A liability is accrued when a loss is both probable and can be reasonably estimated. Management believes that the probability of a material loss with respect to these other legal proceedings is remote. However, litigation is inherently uncertain and it is not possible to predict the ultimate disposition of any of these proceedings.

14. Segment Information

(Stated in millions)

Second Quarter 2014	Second Quarter 2013

	Revenue	Income before taxes	Revenue	Income before taxes
Reservoir Characterization	$3,095	$918	$3,067	$912
Drilling	4,653	981	4,239	800
Production	4,344	725	3,926	625
Eliminations & other	(38)	(3)	(50)	(59)
Pretax operating income		2,621		2,278
Corporate & other [(1)]		(216)		(181)
Interest income [(2)]		8		4
Interest expense [(3)]		(86)		(92)
Charges and credits [(4)]		—		664
	$12,054	$2,327	$11,182	$2,673

(1) Comprised principally of certain corporate expenses not allocated to the segments, interest on postretirement medical benefits, stock-based compensation costs, amortization expense associated with certain intangible assets and other nonoperating items.

(2) Interest income excludes amounts which are included in the segments' income ($5 million in 2014; $2 million in 2013).
(3) Interest expense excludes amounts which are included in the segments' income ($4 million in 2014; $6 million in 2013).

(4) See Note 2 – Charges and Credits.

(Stated in millions)

	Six Months 2014		Six Months 2013	
	Revenue	Income before taxes	Revenue	Income before taxes
Reservoir Characterization	$5,947	$1,698	$5,868	$1,641
Drilling	8,984	1,861	8,301	1,525
Production	8,460	1,462	7,684	1,181
Eliminations & other	(97)	(32)	(101)	(104)
Pretax operating income		4,989		4,243
Corporate & other [1]		(418)		(348)
Interest income [2]		15		9
Interest expense [3]		(183)		(185)
Charges and credits [4]		—		572
	$23,294	$4,403	$21,752	$4,291

[1] Comprised principally of certain corporate expenses not allocated to the segments, interest on postretirement medical benefits, stock-based compensation costs, amortization expense associated with certain intangible assets and other nonoperating items.

[2] Interest income excludes amounts which are included in the segments' income ($10 million in 2014; $2 million in 2013).

[3] Interest expense excludes amounts which are included in the segments' income ($10 million in 2014; $12 million in 2013).

[4] See Note 2 – Charges and Credits.

15. Pension and Other Postretirement Benefits

Net pension cost for the Schlumberger pension plans included the following components:

(Stated in millions)

	Second Quarter					Six Months			
	2014		2013			2014		2013	
	US	Int'l	US	Int'l		US	Int'l	US	Int'l
Service cost — benefits earned during period	$16	$29	$21	$	34	$35	$60	$41	$67
Interest cost on projected benefit obligation	35	56	38	Fair value of options granted (in thousands)	$2,506	$1,324	$1,444		

(1) The estimated future forfeiture rate is based on the Company's historical forfeiture rate.
(2) The Company does not pay dividends on its common stock.

The Company grants options to its officers, directors, and other employees under various stock option and incentive plans.

The Company's 2005 Employee Long-Term Equity Incentive Plan has authorized the grant of up to 5.2 million awards to management and employees, including options. Options have a term not to exceed 10 years. Options issued under this plan vest according to a vesting schedule as determined by the compensation committee of the Company's board of directors. Vesting may occur upon (1) the attainment of one or more performance goals or targets established by the committee, (2) the optionee's continued employment or service for a specified period of time, (3) the occurrence of any event or the satisfaction of any other condition specified by the committee, or (4) a combination of any of the foregoing.

The following table is a summary of the Company's stock option activity for the three years ended December 31:

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	Options (000s)	Weighted average exercise price	Weighted average remaining life	Intrinsic value per share
Options outstanding December 31, 2010	4,820	$2.23		
Granted	807	4.37		
Exercised	(530)	1.54		
Forfeited/Expired	(341)	3.01		
Options outstanding December 31, 2011	4,756	$2.61		
Granted	610	3.01		
Exercised	(391)	1.11		
Forfeited/Expired	(214)	2.80		
Options outstanding December 31, 2012	4,761	$2.77		
Granted	836	$2.43		
Exercised	(166)	1.18		
Forfeited/Expired	(31)	2.58		
Options outstanding December 31, 2013	5,400	$2.77	6.2	$1.98
Exercisable at end of year	3,828	$1.93	5.3	$1.93

Other information pertaining to the Company's stock option activity for the three years ended December 31:

	2011	2012	2013
Weighted average grant date fair value of stock options granted (per share)	$3.11	$2.17	$1.73
Total fair value of options vested (000's)	$1,230	$1,497	$1,670
Total intrinsic value of options exercised (000's)	$1,584	$414	$275

As of December 31, 2013, the total compensation cost related to non-vested awards not yet recognized was approximately $2.2 million, which will be recognized in 2014 through 2017. For the years ended December 31, 2011, 2012 and 2013, we recognized $1.5 million, $1.6 million and $1.7 million respectively, in stock-based compensation expense relating to options.

The following table represents the range of stock option prices and the weighted average remaining life of outstanding options as of December 31:

	Options outstanding			Exercisable		
	Number outstanding	Weighted average remaining life	Weighted average exercise price	Number exercisable	Weighted average remaining life	Weighted average exercise price
0.68 – 0.99	627,450	5.21	$0.99	627,450	5.21	$0.99
1.00 – 1.99	1,114,672	6.28	$1.75	964,672	5.91	$1.71
2.00 – 2.99	1,670,025	7.66	$2.32	816,925	6.57	$2.31
3.00 – 3.99	745,563	6.73	$3.64	399,427	5.49	$3.62
4.00 – 4.99	1,168,500	4.47	$4.58	945,250	3.83	$4.55
5.00 – 6.05	74,000	2.15	$6.05	74,000	2.15	$6.05
	5,400,210			3,827,724		

Restricted Stock Awards

Restricted stock awards are awards of common stock that are subject to restrictions on transfer and to a risk of forfeiture if the awardee terminates employment with the Company prior to the lapse of the restrictions. The value of such stock is determined using the market price on the grant date. Compensation expense is recorded over the applicable restricted stock vesting periods.

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As of December 31, 2013, the total compensation cost related to non-vested awards not yet recognized was approximately $0.8 million, which will be recognized in 2014 through 2017. For the years ended December 31, 2011, 2012 and 2013, we recognized $0.5 million, $0.5 million and $0.4 million, respectively, in stock-based compensation expense related to restricted stock awards.

The following table is a summary of the Company's restricted stock activity for the three years ended December 31:

	Number of Shares	Weighted average grant date fair value
Unvested December 31, 2010	400,295	$2.02
Granted	408,676	3.67
Vested/Released	(156,890)	2.24
Forfeited	(22,310)	2.27
Unvested December 31, 2011	629,771	$3.03
Granted	89,860	2.12
Vested/Released	(229,172)	2.57
Forfeited	(8,434)	2.42
Unvested December 31, 2012	482,025	$3.09
Granted	48,222	2.69
Vested/Released	(169,700)	2.66
Forfeited	(5,307)	3.08
Unvested December 31, 2013	355,240	$3.24

Director Stock Awards

Shares Reserved and Awards. The 2005 Directors Plan (as amended) reserves 1.5 million shares of Abraxas common stock, subject to adjustment following certain events. The 2005 Directors Plan provides that each year, at the first regular meeting of the board of directors immediately following Abraxas' annual stockholder's meeting, each non-employee director shall be granted or issued awards of 12,000 shares of Abraxas common stock, for participation in board and committee meetings during the previous calendar year. The maximum annual award for any one person is 100,000 shares of Abraxas common stock or options for common stock. If options, as opposed to shares, are awarded, the exercise price shall be no less than 100% of the fair market value on the date of the award while the option terms and vesting schedules are at the discretion of the committee. In addition to the 12,000 shares or options, between April 2010 and April 2011, directors were compensated for their annual retainer fee of $26,000 in cash, which increased to $27,500 in April 2011 and to $40,000 in April 2012. The retainer fee remained at $40,000 during 2013.

At December 31, 2013, the Company had approximately 9.0 million shares reserved for future issuance for conversion of its stock options, warrants, and incentive plans for the Company's directors, employees and consultants.

7. Income Taxes

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Company's deferred tax liabilities and assets are as follows:

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	Years Ended December 31,		
	2011	2012	2013
	(In thousands)		
Deferred tax liabilities:			
Marketable securities	$36	$28	$—
Canada full cost pool	377	—	—
Investment in Blue Eagle	7,527	—	—
Hedge contracts	345	—	—
Other	—	—	3,152
Total deferred tax liabilities	8,285	28	3,152
Deferred tax assets:			
U.S. full cost pool	29,976	13,837	11,725
Canada full cost pool	—	3,720	4,081
Depletion carryforward	4,842	4,930	4,743
U.S. net operating loss carryforward	52,564	59,362	49,667
Canada net operating loss carryforward	2,151	4,196	5,736
Alternative minimum tax credit	422	422	1,369
Hedge contracts	—	2,231	1,397
Other	1,811	1,042	—
Total deferred tax assets	91,766	89,740	78,718
Valuation allowance for deferred tax assets	(83,481)	(89,712)	(75,566)
Net deferred tax assets	8,285	28	3,152
Net deferred tax	$—	$—	$—

Significant components of the provision (benefit) for income taxes are as follows:

	Years ended December 31,		
	2011	2012	2013
	(In thousands)		
Current:			
Federal	$(77)	$310	$632
State	—	—	68
Foreign	—	—	—
	$(77)	$310	$700
Deferred:			
Federal	$—	$—	$—
Foreign	—	—	—
	$—	$—	$—

At December 31, 2013, the Company had, subject to the limitation discussed below, $141.9 million of net operating loss carryforwards for U.S. tax purposes, and $20.5 million of net operating loss carryforwards for Canadian tax purposes. The U.S. loss carryforward will expire in varying amounts through 2033 and the Canadian loss carryforward will expire in 2033, if not utilized.

The use of our net operating loss carryforwards will be limited if there is an "ownership change" in our common stock, generally a cumulative ownership change exceeding 50% during a three year period, as determined under Section 382 of the Internal Revenue Code. As of December 31, 2013, we have not had an ownership change as defined by Section 382. In addition to any Section 382 limitations, uncertainties exist as to the future utilization of the operating loss carryforwards under the criteria set forth under ASC 740-10. Therefore, the Company has established a valuation allowance of $83.5 million at December 31, 2011, $89.7 million at December 31, 2012 and $75.6 million at

December 31, 2013.

The reconciliation of income tax computed at the U.S. federal statutory tax rates to income tax expense is:

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	Years ended December 31,		
	2011	2012	2013
	(In thousands)		
Tax (expense) benefit at U.S. statutory rates (35%)	$(4,809)	$6,468	$(13,771)
(Increase) decrease in deferred tax asset valuation allowance	5,408	(6,231)	14,146
Rate differential for non U.S. income	(46)	(1,533)	(574)
State income taxes	—	—	(47)
Accrual of prior year federal taxes (2009)	—	(310)	(81)
Permanent differences	(533)	(732)	(743)
Increase in asset for partnership distribution	—	1,945	—
Other	57	83	370
	$77	$(310)	$(700)

During 2013, the Company reduced deferred tax assets by $11.0 million related to the full cost pool assets and the net operating loss carryforward. The deferred tax assets were fully offset by a valuation allowance which was reduced at the same time. There were no deferred income tax expense or benefit due to losses and/or loss carryforwards and valuation allowances which have been recorded against such benefits.

The Company accounts for uncertain tax positions under provisions ASC 740-10. The Company recognizes interest and penalties related to uncertain tax positions in income tax expense. As of December 31, 2013 and 2012, the Company did not have any accrued interest or penalties related to uncertain tax positions. The tax years 2003 through 2013 remain open to examination by the tax jurisdictions to which the Company is subject. The Company and Abraxas Energy Partners, L.P., which was merged into a wholly owned subsidiary of Abraxas, have undergone audits of their 2009 Federal income tax returns. The audit of the Federal income tax return of Abraxas Energy Partners, L.P. was completed with no changes. The audit of Abraxas Petroleum Corporation resulted in a notice of a proposed adjustment of $619,000. For the year ended December 31, 2012, the Company accrued $310,000 in income tax expense related to the audit of its 2009 Federal tax return. This amount was determined by an analysis of what the amount that is greater than 50% likely to be paid upon final settlement. On July 23, 2013, we settled the assessment for $391,000 resulting in $81,000 being recognized as expense in 2013.

8. Commitments and Contingencies

Operating Leases

The Company leased office space in Calgary, Alberta. During 2011, 2012 and 2013, rent expense of $121,500 ;$112,276 and $107,619 , respectively, was incurred related to this lease. In July 2011, the Company leased office space in Dickinson, North Dakota. During 2011, 2012 and 2013, rent expense of $9,250; $23,800, and $26,073, respectively was incurred related to this lease. This lease expires on August 31, 2014. The Company leases office space in Lusk, Wyoming. For each of the years 2011, 2012 and 2013, rent expense of $9,000 was incurred on this lease. The lease expires on December 31, 2016.

Litigation and Contingencies

From time to time, the Company is involved in litigation relating to claims arising out of its operations in the normal course of business. At December 31, 2013, the Company was not engaged in any legal proceedings that are expected, individually or in the aggregate, to have a material adverse effect on the Company.

9. Earnings per Share

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The following table sets forth the computation of basic and diluted earnings per share:

	Years ended December 31:		
	2011	2012	2013
	(In thousands, except per share data)		
Numerator:			
Net income (loss)	$13,743	$(18,791)	$38,647
Denominator:			
Denominator for basic earnings per share – weighted-average common shares outstanding	90,151	91,914	92,451
Effect of dilutive securities: Stock options, restricted shares and warrants	2,093	—	1,087
Denominator for diluted earnings per share – adjusted weighted-average shares and assumed exercise of options, restricted shares and warrants	92,244	91,914	93,538
Net income (loss) per common share – basic	$0.15	$(0.20)	$0.42
Net income (loss) per common share – diluted	$0.15	$(0.20)	$0.41

Basic earnings per share, excluding any dilutive effects of stock options, warrants and unvested restricted stock, is computed by dividing net income (loss) available to common stockholders by the weighted average number of common shares outstanding for the period. Diluted income (loss) per share is computed similar to basic; however diluted income (loss) per share reflects the assumed conversion of all potentially dilutive securities. For the year ended December 31, 2012, 1,349 potential shares relating to stock options and unvested restricted shares were excluded from the calculation of diluted income (loss) per share since their inclusion would have been anti-dilutive due to the loss incurred in the period. None of the dilutive shares were excluded for the years ended December 31, 2011 and 2013.

10. Quarterly Results of Operations (Unaudited)

Selected results of operations for each of the fiscal quarters during the years ended December 31, 2012 and 2013 are as follows:

	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
	(In thousands, except per share data)			
Year Ended December 31, 2012				
Net revenue	$16,396	$15,938	$17,170	$19,069
Operating income	$2,224	$(23)	$(11,359)	$(7,190)
Net (loss) income	$817	$10,903	$(18,644)	$(11,867)
Net (loss) income per common share – basic	$0.01	$0.12	$(0.20)	$(0.13)
Net (loss) income per common share – diluted	$0.01	$0.12	$(0.20)	$(0.13)
Year Ended December 31, 2013				
Net revenue	$21,196	$21,494	$29,095	$22,546
Operating income (loss)	$3,768	$2,867	$11,161	$(2,869)
Net income (loss) income	$595	$7,866	$3,190	$26,996
Net income (loss) per common share – basic	$0.01	$0.09	$0.03	$0.29
Net income (loss) per common share – diluted	$0.01	$0.08	$0.03	$0.29

11. Benefit Plans

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The Company has a defined contribution plan (401(k) plan) covering all eligible employees. In 2011, 2012 and 2013, in accordance with the safe harbor provisions of the plan, the Company contributed $226,377, $267,289 and $284,865, respectively, to the plan. The Company adopted the safe harbor provisions for its 401(k) plan which requires us to contribute a fixed match to each participating employee's contribution to the plan. The fixed match is set at the rate of dollar for dollar on the first 1% of eligible pay contributed, then 50 cents on the dollar for each additional percentage point of eligible pay contributed, up to 5%. Employee's eligible pay with respect to calculating the fixed match is limited by IRS regulations. In addition, the Board of Directors, at its sole discretion, may authorize the Company to make additional contributions to each participating employee's plan. The employee contribution limit for 2011 was $16,500 for employees under the age of 50 and $22,000 for employees 50 years of age or older and 2012 was $17,000 for employees under the age of 50 and $22,500 for employees 50 years of age or older. For 2013 the employee contribution limit was $17,500 for employees under the age of 50 and $23,000 for employees 50 years of age or older.

12. Business Segments

The Company has operations in only one industry segment, the oil and gas exploration and production industry; however, beginning in 2010, the Company was organizationally structured along geographic operating segments or regions. The Company has reportable operations in the United States and Canada.

In 2011, three customers accounted for approximately 28% of our consolidated oil and gas revenue. Two customers accounted for approximately 26% of United States revenue and one customer accounted for 100% of revenue in Canada. In 2012, four customers accounted for approximately 31% of our consolidated oil and gas revenue. Three customers accounted for approximately 28% of United States revenue and one customer accounted for 100% of revenue in Canada. In 2013, three customers accounted for approximately 50% of our consolidated oil and gas revenue. Two customers accounted for approximately 49% of United States revenue and one customer accounted for 100% of revenue in Canada.

The following tables provide the Company's geographic operating segment data as of and for the year ended December 31, 2011, 2012 and 2013:

	Year Ended December 31, 2011			
	U.S.	Canada	Corporate	Total
	(In thousands)			
Revenues:				
Oil and gas production	$63,105	$1,510	$—	$64,615
Other	—	—	7	7
	63,105	1,510	7	64,622
Costs and expenses:				
Lease operating	20,788	793	—	21,581
Production taxes	5,764	2	—	5,766
Depreciation, depletion and amortization	15,236	709	249	16,194
Impairment	—	—	—	—
General and administrative	1,698	654	7,081	9,433
Net interest	448	4	4,439	4,891
Amortization of deferred financing fees	—	—	1,762	1,762
Loss on derivative contracts - realized	—	—	676	676
Gain on derivative contracts - unrealized	—	—	(7,476)	(7,476)
Earnings from equity method investment	—	—	(2,187)	(2,187)
Other	—	—	316	316

Income tax	—	—	(77)	(77)
Income (loss)	$19,171	$(652)	$(4,776)	$13,743

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	Year Ended December 31, 2012			
	U.S.	Canada	Corporate	Total
	(In thousands)			
Revenues:				
Oil and gas production	$65,590	$2,909	$—	$68,499
Other	—	—	74	74
	65,590	2,909	74	68,573
Costs and expenses:				
Lease operating	22,578	2,228	—	24,806
Production taxes	6,588	25	—	6,613
Depreciation, depletion and amortization	20,704	2,063	249	23,016
Impairment	—	19,774	—	19,774
General and administrative	1,980	699	8,033	10,712
Net interest	457	17	5,042	5,516
Amortization of deferred financing fees	—	—	937	937
Loss on derivative contracts - realized	—	—	459	459
Gain on derivative contracts - unrealized	—	—	(2,669)	(2,669)
Earnings from equity method investment	—	—	(2,207)	(2,207)
Income tax expense	—	—	310	310
Other	—	—	97	97
Income (loss)	$13,283	$(21,897)	$(10,177)	$(18,791)

	Year Ended December 31, 2013			
	U.S.	Canada	Corporate	Total
	(In thousands)			
Revenues:				
Oil and gas production	$92,268	$2,007	$—	$94,275
Other	—	—	56	56
	92,268	2,007	56	94,331
Costs and expenses:				
Lease operating	23,205	2,156	—	25,361
Production taxes	8,437	73	—	8,510
Depreciation, depletion and amortization	25,338	1,045	249	26,632
Impairment	—	6,025	—	6,025
General and administrative	2,471	879	9,526	12,876
Net interest	615	23	3,939	4,577
Amortization of deferred financing fees	—	—	1,367	1,367
Gain on sale of properties	—	—	(33,377)	(33,377)
Loss on derivative contracts - realized	—	—	5,035	5,035
Gain on derivative contracts - unrealized	—	—	(2,561)	(2,561)
Income tax	—	—	700	700
Other	—	—	539	539
Income (loss)	$32,202	$(8,194)	$14,639	$38,647

The following table provides the Company’s geographic asset data as of December 31, 2012 and December 31, 2013:

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Segment Assets:	December 31, 2012	December 31, 2013
	(In thousands)	
United States	$223,253	$213,212
Canada	7,053	1,640
Corporate	10,301	8,798
	$240,607	$223,650

13. Hedging Program and Derivatives

The derivative instruments we utilize are based on index prices that may and often do differ from the actual oil and gas prices realized in our operations. Our derivative contracts do not qualify for hedge accounting as prescribed by ASC 815; therefore, fluctuations in the market value of the derivative contracts are recognized in earnings during the current period.

The following table sets forth the summary position of our derivative contracts as of December 31, 2013:

	Oil - WTI		Oil - Brent		Oil - LLS	
Contract Periods	Daily Volume (Bbl)	Swap Price (per Bbl)	Daily Volume (Bbl)	Swap Price (per Bbl)	Daily Volume (Bbl)	Swap Price (per Bbl)
2014	687	$94.16	505	$100.56	100	$101.26
2015	560	$83.03	500	$97.04	—	$—
2016	963	$84.10	—	$—	—	$—
2017	500	$84.18	—	$—	—	$—

Subsequent to December 31, 2013 we entered into the following derivative contracts:

	Natural Gas - NYMEX	
Contract Periods	Daily Volume (Mcf)	Swap Price (Per Mcf)
2014	1,597	$4.10
2015	1,450	$4.22

The following table illustrates the impact of derivative contracts on the Company's balance sheet:

Fair Value of Derivative Instruments as of December 31, 2012

	Asset Derivatives		Liability Derivatives	
Derivatives not designated as hedging instruments	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Commodity price derivatives	Derivatives – current	$41	Derivatives – current	$3,462
Commodity price derivatives	Derivatives – long-term	594	Derivatives – long-term	3,568
		$635		$7,030

Fair Value of Derivative Instruments as of December 31, 2013

	Asset Derivatives		Liability Derivatives	
Derivatives not designated as hedging instruments	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Commodity price derivatives	Derivatives – current	$85	Derivatives – current	$2,728
Commodity price derivatives	Derivatives – long-term	925	Derivatives – long-term	2,274
		$1,010		$5,002

Gains and losses from derivative activities are reflected as “Loss (gain) on derivative contracts” in the accompanying Consolidated Statements of Operations.

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14. Financial Instruments

The Company applies ASC 820-10 which defines fair value, establishes a framework for measuring fair value, establishes a fair value hierarchy based on the quality of inputs used to measure fair value and enhances disclosure requirements for fair value measurements.

Fair Value Hierarchy—ASC 820-10 establishes a three-level valuation hierarchy for disclosure of fair value measurements. The valuation hierarchy categorizes assets and liabilities measured at fair value into one of three different levels depending on the observability of the inputs employed in the measurement. The three levels are defined as follows:

- Level 1 – inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.
- Level 2 - inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.
- Level 3 - inputs to the valuation methodology are unobservable and significant to the fair value measurement.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. The Company's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the asset or liability. The Company is further required to assess the creditworthiness of the counter-party to the derivative contract. The results of the assessment of non-performance risk, based on the counter-party's credit risk, could result in an adjustment of the carrying value of the derivative instrument. The following tables sets forth information about the Company's assets and liabilities measured at fair value on a recurring basis as of December 31, 2012 and 2013, and indicate the fair value hierarchy of the valuation techniques utilized by the Company to determine such fair value (in thousands):

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance as of December 31, 2012
Assets:				
Investment in common stock	$78	$—	$—	$78
NYMEX Fixed Price Derivative contracts	—	635	—	635
Total Assets	$78	$635	$—	$713
Liabilities:				
NYMEX Fixed Price Derivative contracts	$—	$7,030	$—	$7,030
Total Liabilities	$—	$7,030	$—	$7,030

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance as of December 31, 2013
Assets:				
NYMEX Fixed Price Derivative contracts	$—	$1,010	$—	$1,010
Total Assets	$—	$1,010	$—	$1,010

Liabilities:				
NYMEX Fixed Price Derivative contracts	$—	$5,002	$—	$5,002
Total Liabilities	$—	$5,002	$—	$5,002

The Company had an investment in Insignia Energy Ltd, the surviving entity in the merger with a former subsidiary, consisting of shares of common stock. The stock was actively traded on the Toronto Stock Exchange. This investment was valued at its quoted price as of December 31, 2012 in U.S. dollars. Accordingly, this investment is characterized as Level 1. On May 6, 2013, Insignia Energy Ltd, announced plans to privatize the company whereby all shareholders would receive C$1.35 per share. On July 19, 2013

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Insignia announced that it had completed the plan. On August 12, 2013 the Company received $133,592 cash consideration for its shares.

The Company's derivative contracts consist of NYMEX-based fixed price commodity swaps. The NYMEX-based fixed price derivative contracts are indexed to NYMEX futures contracts, which are actively traded, for the underlying commodity and are commonly used in the energy industry. A number of financial institutions and large energy companies act as counter-parties to these type of derivative contracts. As the fair value of these derivative contracts is based on a number of inputs, including contractual volumes and prices stated in each derivative contract, current and future NYMEX commodity prices, and quantitative models that are based upon readily observable market parameters that are actively quoted and can be validated through external sources, we have characterized these derivative contracts as Level 2. In order to verify the third party valuation, we enter the various inputs into a model and compare our results to the third party for reasonableness.

Other Financial Instruments

The carrying amounts of our cash, cash equivalents, restricted cash, accounts receivable, accounts payable, and accrued liabilities approximate fair value because of the short-term maturities and/or liquid nature of these assets and liabilities. The carrying value of our debt approximates fair value as the interest rates are market rates and this debt is considered Level 2.

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15. Supplemental Oil and Gas Disclosures (Unaudited)

The accompanying table presents information concerning the Company's oil and gas producing activities as required by ASC 932-235, "Disclosures about Oil and Gas Producing Activities." Capitalized costs relating to oil and gas producing activities are as follows:

	Years Ended December 31					
	2012			2013		
	Total	U.S.	Canada	Total	U.S.	Canada
	(In thousands)					
Proved oil and gas properties	$563,317	$531,971	$31,346	$564,755	$530,996	$33,759
Unproved properties	2,089	—	2,089	—	—	—
Total	565,406	531,971	33,435	564,755	530,996	33,759
Accumulated depreciation, depletion, amortization and impairment	(383,469)	(356,255)	(27,214)	(413,704)	(381,283)	(32,421)
Net capitalized costs	$181,937	$175,716	$6,221	$151,051	$149,713	$1,338

Cost incurred in oil and gas property acquisition and development activities are as follows:

	Years Ended December 31								
	2011			2012			2013		
	Total	U.S.	Canada	Total	U.S.	Canada	Total	U.S.	Canada
	(In thousands)								
Development costs	$46,735	$32,471	$14,264	$56,318	$48,283	$8,035	$93,878	$91,325	$2,553
Exploration costs	8,410	8,410	—	—	—	—	—	—	—
Property acquisition costs	—	—	—	7,200	7,200	—	—	—	—
Unproved	1,100	—	1,100	989	—	989	—	—	—
	$56,245	$40,881	$15,364	$64,507	$55,483	$9,024	$93,878	$91,325	$2,553

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The results of operations for oil and gas producing activities for the three years ended December 31, 2011, 2012 and 2013 are as follows:

	Years Ended December 31,								
	2011			2012			2013		
	Total	U.S.	Canada	Total	U.S.	Canada	Total	U.S.	Canada
	(In thousands)								
Revenues	$64,615	$63,105	$1,510	$68,499	$65,590	$2,909	$94,275	$92,268	$2,007
Production costs	(27,347)	(26,552)	(795)	(31,419)	(29,166)	(2,253)	(33,871)	(31,642)	(2,229)
Depreciation, depletion, and amortization	(15,595)	(14,914)	(681)	(22,767)	(20,704)	(2,063)	(26,072)	(25,028)	(1,044)
Proved property impairment	—	—	—	(19,774)	—	(19,774)	(6,025)	—	(6,025)
General and administrative	(2,352)	(1,698)	(654)	(2,679)	(1,980)	(699)	(3,350)	(2,471)	(879)
Results of operations from oil and gas producing activities (excluding corporate overhead and interest costs)	$19,321	$19,941	$(620)	$(8,140)	$13,740	$(21,880)	$24,957	$33,127	$(8,170)
Depletion rate per barrel of oil equivalent	$12.26	$11.96	$27.58	$15.59	$14.74	$37.48	$16.59	$16.32	$27.37

Estimated Quantities of Proved Oil and Gas Reserves

The following table presents the Company’s estimate of its net proved oil and gas reserves as of December 31, 2011, 2012, and 2013. The Company’s management emphasizes that reserve estimates are inherently imprecise and that estimates of new discoveries are more imprecise than those of producing oil and gas properties. Accordingly, the estimates are expected to change as future information becomes available. The estimates have been predominately prepared by independent petroleum reserve engineers. Proved oil and gas reserves are the estimated quantities of oil and gas that geological and engineering data demonstrate with reasonable certainty to be recoverable in future years from known reservoirs under existing economic and operating conditions. Proved developed oil and gas reserves are those expected to be recovered through existing wells with existing equipment and operating methods. All of the Company’s proved reserves are located in the continental United States and Canada.

Proved reserves were estimated in accordance with guidelines established by the SEC and the FASB, which require that reserve estimates be prepared under existing economic and operating conditions with no provision for price and cost escalations except by contractual arrangements; therefore, the average prior 12-month-first-day-of-the-month commodity prices and year-end costs were used in estimating reserve volumes and future net cash flows for the periods presented.

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	Total			United States			Canada		
	Oil/NGL (MBbl)	Gas (MMcf)	Oil Equivalents (MBoe)	Oil/NGL (MBbl)	Gas (MMcf)	Oil Equivalents (MBoe)	Oil/NGL (MBbl)	Gas (MMcf)	Oil Equivalents (MBoe)
	(In thousands)								
Proved developed and undeveloped reserves:									
Balance at December 31, 2010	9,794	84,913	23,947	9,718	84,523	23,806	76	390	141
Revisions of previous estimates	2,290	(13,009)	122	2,290	(13,009)	122	—	—	—
Extensions and discoveries	2,703	4,393	3,435	2,326	1,837	2,632	377	2,556	803
Sales of minerals in place	—	—	—	—	—	—	—	—	—
Production	(568)	(4,222)	(1,272)	(554)	(4,160)	(1,247)	(14)	(62)	(25)
Balance at December 31, 2011	14,219	72,075	26,232	13,780	69,191	25,313	439	2,884	919
Revisions of previous estimates	1,574	(7,470)	328	1,774	(5,786)	809	(200)	(1,684)	(481)
Extensions and discoveries	5,809	6,983	6,973	5,809	6,983	6,973	—	—	—
Purchases of minerals in place	1	69	13	1	69	13	—	—	—
Sales of minerals in place	(850)	(6,376)	(1,913)	(850)	(6,376)	(1,913)	—	—	—
Production	(797)	(4,097)	(1,481)	(763)	(3,982)	(1,427)	(34)	(115)	(54)
Balance at December 31, 2012	19,956	61,184	30,152	19,751	60,099	29,768	205	1,085	384
Revisions of previous estimates	999	(5,123)	145	1,073	(4,804)	270	(74)	(319)	(125)
Extensions and discoveries	10,746	3,610	11,348	10,746	3,610	11,348	—	—	—
Purchases of minerals in place	—	—	—	—	—	—	—	—	—
Sales of minerals in place	(7,748)	(8,141)	(9,105)	(7,748)	(8,141)	(9,105)	—	—	—
Production	(1,000)	(3,421)	(1,570)	(976)	(3,343)	(1,533)	(24)	(78)	(37)
Balance at December 31, 2013	22,953	48,109	30,970	22,846	47,421	30,748	107	688	222

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	Total			United States			Canada		
	Oil/NGL	Gas	Oil Equivalents	Oil/NGL	Gas	Oil Equivalents	Oil/NGL	Gas	Oil Equivalents
	(MBbl)	(MMcf)	(MBoe)	(MBbl)	(MMcf)	(MBoe)	(MBbl)	(MMcf)	(MBoe)
	(In thousands)								
Proved Developed Reserves:									
December 31, 2011	7,761	42,582	14,858	7,433	40,451	14,175	328	2,131	683
December 31, 2012	8,650	41,220	15,520	8,531	40,723	15,318	119	497	202
December 31, 2013	8,310	31,572	13,572	8,284	31,424	13,521	26	148	51
Proved Undeveloped Reserves:									
December 31, 2011	6,460	29,493	11,376	6,348	28,740	11,138	112	753	238
December 31, 2012	11,306	19,964	14,634	11,220	19,376	14,450	86	588	184
December 31, 2013	14,640	16,537	17,397	14,560	15,996	17,226	80	541	171

Standardized Measure of Discounted Future Net Cash Flows Relating to Proved Oil and Gas Reserves

The Company's proved oil and gas reserves have been estimated by the Company with the assistance of an independent petroleum engineering firm (DeGolyer & MacNaughton) as of December 31, 2011, 2012 and 2013. The following information has been prepared in accordance with SEC rules and accounting standards based on the 12-month first-day-of-the-month average prices in accordance with provisions of the FASB's Accounting Standards Update No. 2010-03, "Extractive Activities—Oil and Gas (Topic 932)." Future cash inflows were reduced by estimated future production and development costs based on year-end costs to determine pre-tax cash inflows. Future net cash flows have not been adjusted for commodity derivative contracts outstanding at the end of each year. Future income taxes were computed by applying the statutory tax rate to the excess of pre-tax cash inflows over the tax basis and net operating losses associated with the properties. Since prices used in the calculation are average prices for 2013, the standardized measure could vary significantly from year to year based on the market conditions that occurred during a given year.

The technical personnel responsible for preparing the reserve estimates at DeGolyer and MacNaughton meet the requirements regarding qualifications, independence, objectivity, and confidentiality set forth in the Standards Pertaining to the Estimating and Auditing of Oil and Gas Reserves Information promulgated by the Society of Petroleum Engineers. DeGolyer and MacNaughton is an independent firm of petroleum engineers, geologists, geophysicists, and petrophysicists; they do not own an interest in our properties and are not employed on a contingent fee basis. All reports by DeGolyer and MacNaughton were developed utilizing studies performed by DeGolyer and MacNaughton and assisted by the Engineering and Operations departments of Abraxas. Reserves are estimated by independent petroleum engineers. The report of DeGolyer and MacNaughton dated February 13, 2014, which contains further discussions of the reserve estimates and evaluations prepared by DeGolyer and MacNaughton as well as the qualifications of DeGolyer and MacNaughton's technical personnel responsible for overseeing such estimates and evaluations is attached as Exhibit 99.1 to this report.

Estimates of proved reserves at December 31, 2011, 2012 and 2013 were based on studies performed by our independent petroleum engineers assisted by the Engineering and Operations departments of Abraxas. The Engineering department is directly responsible for Abraxas' reserve evaluation process. The Vice President of Engineering is the manager of this department and is the primary technical person responsible for this process. The Vice President of Engineering holds a Bachelor of Science degree in Petroleum Engineering and has 35 years of experience in reserve evaluations. The Vice President of Engineering is a Registered Professional Engineer in the State of Texas. The operations department of Abraxas assisted in the process, and consists of four petroleum engineers with Bachelor degrees in Petroleum Engineering, and various other technical professionals.

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The projections should not be viewed as realistic estimates of future cash flows, nor should the "standardized measure" be interpreted to represent the fair market value of the Company's proved oil and gas reserves. An estimate of fair market value would also take into account, among other factors, the recovery of reserves not classified as proved, anticipated future changes in prices and costs, and a discount factor more representative of the time value of money and the risks inherent in reserve estimates.

Future net cash inflows after income taxes were discounted using a 10% annual discount rate to arrive at the Standardized Measure. The table below sets forth the Standardized Measure of our proved oil and gas reserves for the three years ended December 31, 2011, 2012 and 2013:

	Years Ended December 31,								
	2011			2012			2013		
	Total	U.S.	Canada	Total	U.S.	Canada	Total	U.S.	Canada
	(In thousands)								
Future cash inflows	$1,471,352	$1,420,013	$51,339	$1,784,920	$1,766,515	$18,405	$2,244,846	$2,234,632	$10,214
Future production costs	(544,970)	(532,056)	(12,914)	(642,706)	(634,903)	(7,803)	(754,722)	(751,058)	(3,664)
Future development costs	(228,804)	(224,254)	(4,550)	(328,554)	(324,704)	(3,850)	(467,206)	(463,456)	(3,750)
Future income tax expense	(106,839)	(104,279)	(2,560)	(149,625)	(149,625)	—	(244,394)	(244,394)	—
Future net cash flows	590,739	559,424	31,315	664,035	657,283	6,752	778,524	775,724	2,800
Discount	(321,657)	(310,516)	(11,141)	(385,890)	(383,271)	(2,619)	(437,539)	(436,077)	(1,462)
Standardized Measure of discounted future net cash relating to proved reserves	$269,082	$248,908	$20,174	$278,145	$274,012	$4,133	$340,985	$339,647	$1,338

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Changes in Standardized Measure of Discounted Future Net Cash Flows Relating to Proved Oil and Gas Reserves

The following is an analysis of the changes in the Standardized Measure:

	Year Ended December 31,		
	2011	2012	2013
	(In thousands)		
Standardized Measure, beginning of year	$196,993	$269,082	$278,145
Sales and transfers of oil and gas produced, net of production costs	(37,171)	(37,080)	(60,403)
Net change in prices and development and production costs from prior year	92,886	60,710	169,969
Extensions, discoveries, and improved recovery, less related costs	47,765	73,236	156,456
Sales of minerals in place	—	(20,089)	(125,533)
Purchased of minerals in place	—	131	—
Revisions of previous quantity estimates	1,329	3,355	2,930
Change in timing and other	(23,501)	(88,309)	(62,861)
Change in future income tax expense	(28,918)	(9,799)	(45,532)
Accretion of discount	19,699	26,908	27,814
Standardized Measure, end of year	$269,082	$278,145	$340,985

The standardized measure is based on the following oil and gas prices over the life of the properties as of the following dates:

	Year Ended December 31,		
	2011	2012	2013
Oil (per Bbl) (1)	$96.19	$95.14	$97.33
Gas (per MMbtu) (2)	$4.16	$2.86	$3.67
Oil (per Bbl) (3)	$88.58	$88.26	$95.90
Gas (per MMBtu) (4)	$3.73	$2.61	$3.65
NGL’s (per Bbl) (5)	$50.21	$36.76	$31.98

(1) The quoted oil price for the year ended December 31, 2011, 2012 and 2013 is the 12-month average first-day-of-the-month West Texas Intermediate spot price for each month of 2011, 2012 and 2013.

(2) The quoted gas price for the year ended December 31, 2011, 2012 and 2013 is the 12-month average first-day-of-the-month Henry Hub spot price for each month of 2011, 2012 and 2013.

(3) The oil price is the realized price at the wellhead as of December 31 of each year after the appropriate differentials have been applied.

(4) The gas price is the realized price at the wellhead as of December 31 of each year after the appropriate differentials have been applied.

(5) The NGL price is the realized price as of December 31 of each year after the appropriate differentials have been applied.

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Exhibit Index

23.1	Consent of BDO USA, LLP. (Filed herewith).
23.2	Consent of DeGolyer & MacNaughton. (Filed herewith).
31.1	Certification – Chief Executive Officer. (Filed herewith).
31.2	Certification – Chief Financial Officer. (Filed herewith).
32.1	Certification by Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. (Filed herewith).
32.2	Certification by Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. (Filed herewith).
99.1	Report of DeGolyer and MacNaughton with respect to oil and reserves of Abraxas Petroleum. (Filed herewith).